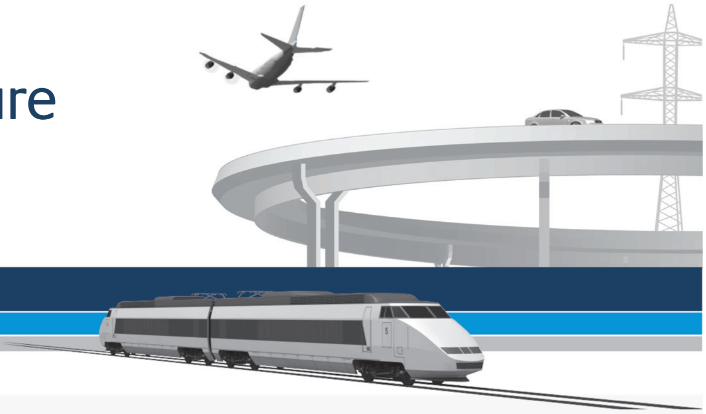
First State Investments

First State Global Infrastructure



Monthly Review and Outlook

March 2020

Market Review

Global Listed Infrastructure fell in March as lockdown measures and rising unemployment rates triggered market volatility. In this environment, the best performing infrastructure sector was Towers (-2%). The sector is expected to benefit from increased demand on telecom networks, owing to a rise in video conferencing, HD streaming and gaming. Utilities (-3% to -9%) endured a volatile month, perhaps reflecting heightened uncertainty and an indiscriminate rush for liquidity. However the stable nature of their regulated business models, and inelastic demand for their services, enabled them to outperform the broader market.

The worst performing infrastructure sector was Airports (-28%), as the rapid spread of coronavirus and the resulting traffic restrictions saw passenger numbers plunge. Pipelines (-24%) were impacted by both demand and supply shocks. Reduced economic activity impacted demand for energy while the breakdown of cooperation between oil producers Russia and Saudi Arabia added a supply shock. The resulting collapse in oil prices placed North American E&P companies under pressure, raising questions around future growth and counter-party risks for pipelines.

The best performing infrastructure region was Japan (+7%), traditionally viewed as a haven in times of crisis. A high utilities weighting helped to limit UK (-6%) losses. The worst performing infrastructure region was Europe ex-UK (-23%), which became the epicentre of the virus after Asian countries slowly appeared to gain the upper hand.

Fund Performance

The Fund returned -11.7% in March[1], 209 basis points ahead of the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The worst performing stock in the portfolio was Italian toll road operator Atlantia (-41%) which faced a countrywide shutdown as the Italian government fought to control the virus spread. French peers Eiffage (-33%) and Vinci (-17%) fell sharply on expectations that France would implement similar measures. While the decline in traffic has been dramatic, roads are still being used to carry essential goods and will be vital infrastructure again as commuters return to work. Base case scenarios imply volume declines of between 15% and 20% for European toll roads over the full year, with sharp near-term falls normalising quickly once restrictions are reduced. Supporting this view, Chinese peer Jiangsu Expressway (-4%) held up better during the month on indications that China had contained the spread of the virus, and that business conditions there were beginning to improve.

Energy infrastructure stocks sank on fears that lower North American production levels would reduce demand for their services. Enterprise Products Partners (-39%) grappled with concerns that lower prices could curtail oil and gas production levels in Texas' Permian basin, where its operations are centred. Liquefied Natural Gas (LNG) exporter Cheniere (-35%) lagged as volatile corporate debt markets cast doubts (in our view exaggerated) on the ability of its counterparties to honour the long term delivery contracts that have been agreed in recent years. Williams (-23%) fared slightly better on the view that natural gas producers in the Northeast US Marcellus basin, where many of its assets are focused, were less vulnerable than those in the oil-rich Permian.

More positive segments of the portfolio included mobile towers, utilities and Japan. The best performing stock in the portfolio was Tokyo Gas (+18%), a conservatively managed, cash generative gas utility with a strong balance sheet, which supplies retail, commercial and industrial customers in the greater Tokyo region. Japanese gas utilities have reported limited falls in gas volumes in recent weeks. Lower input costs will provide a substantial near-term boost to margins, albeit one that would be given back, were oil prices to rise again. Passenger rail companies East Japan Railway (-1%) and Central Japan Railway (-2%) reported materially lower passenger volumes for much of March but were supported by Japan's reputation as a safe harbour during turbulent markets.

Mobile tower operators represented another area of stability, as investors deduced that enforced social isolation would further buoy demand for their services. US telecom company Verizon – a significant tower customer – announced a US$500 million increase to its 2020 capex plans, in marked contrast to cuts elsewhere across the corporate world. Crown Castle (+2%) and SBA Communications (+2%) ended the month higher. American Tower (-4%) lagged peers, reflecting its higher exposure to Emerging Markets.

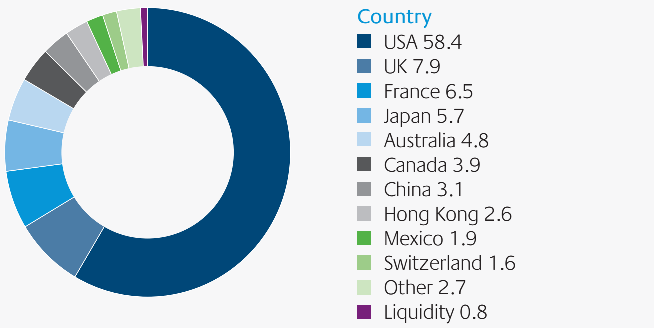
Strong performers in the utilities space included Canadian-listed Emera (-2%). This regulated electric and gas utility with a predominantly US-based portfolio of assets, announced the

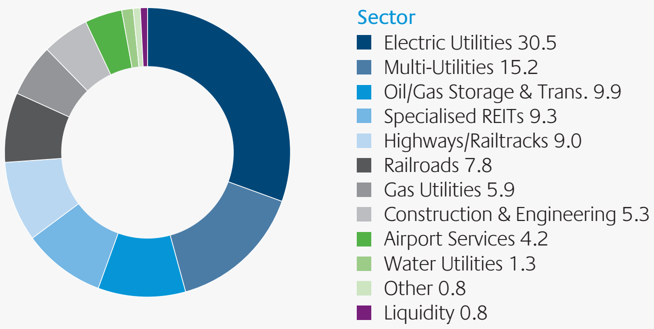
All stock and sector performance data expressed in local currency terms. Source: Bloomberg. [1] The First State Global Infrastructure's cumulative return over one month. The performance of the fund is based on the Singapore unit trust, net of fees, expressed in SGD terms.

	Annualised Performance in SGD (%) [2]				
	1yr	3yrs	5yrs	10yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	-6.1	0.6	3.1	6.1	3.5
Class A (SGD - H Dist) (Inc initial charges)	-10.8	-1.1	2.1	5.6	3.0
Benchmark*	-7.8	2.6	4.5	7.0	3.9

	Cumulative Performance in SGD (%) [2]				
	3 mths	1yr	3yrs	5yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	-14.4	-6.1	1.8	16.6	51.3
Class A (SGD - H Dist) (Inc initial charges)	-18.7	-10.8	-3.3	10.8	43.7
Benchmark*	-16.6	-7.8	8.0	24.8	58.5

Asset Allocation (%) [2]





Top 10 holdings (%) [2]

Stock name	Sector	%
Nextera Energy Inc	(Electric Utilities)	7.3
Dominion Energy Inc COM	(Multi-Utilities)	6.2
Crown Castle International Corp	(Specialised REITs)	4.7
Transurban	(Highways/Railtracks)	4.3
National Grid plc	(Multi-Utilities)	4.1
American Tower Corporation	(Specialised REITs)	3.9
American Electric Power Company, Inc.	(Electric Utilities)	3.4
Enterprise Products Partners L.P.	(Oil/Gas Storage & Trans.)	3.2
Emera Inc	(Electric Utilities)	2.8
CLP Holdings Limited	(Electric Utilities)	2.6

completion of its US$959 million sale of Emera Maine. The move will enable the firm to continue to focus on transitioning its regulated utility businesses towards lower carbon power generation. UK-listed electricity and gas utility National Grid (-4%) was shielded from volatile markets by the defensive nature of its regulated UK transmission network business; and the relatively modest value ascribed to its US electric and gas utility operations. In contrast, American Electric Power (-10%) and Evergy (-15%) faced concerns of falling demand due to their higher exposure to commercial and industrial customer segments.

Fund Activity

During the month the Fund began to build positions in several stocks as lower share prices presented appealing entry points. The Fund bought shares in Xcel Energy, a US-listed regulated utility whose businesses serve 3.5 million electric and 2 million gas customers in mainly constructive regulatory jurisdictions across eight states, primarily Colorado and Minnesota. Robust rate base growth and steady, low risk EPS growth of between 5% and 7% per annum are being driven by the replacement of coal-fired generation assets with renewables. Share price volatility during the month presented an opportunity to invest in this high quality, defensive business at a good price.

Pembina Pipeline, the dominant Natural Gas Liquids (NGLs) service provider in Western Canada, was added to the Fund. The region currently produces more hydrocarbons than can be either consumed domestically or exported by pipeline, underpinning strong demand for Pembina's strategically positioned energy infrastructure networks. The build-out of additional facilities (for example LNG liquefaction and propane export systems) is expected to drive medium term growth. Current share price levels imply an overly pessimistic view of the Canadian hydrocarbon industry's long term prospects.

Aurizon, Australia's largest freight rail operator, has two main business segments – Network (the operation and maintenance of the Central Queensland Coal Network, under a regulated return framework) and Coal (haulage). The company has a healthy balance sheet with low refinancing requirements. Network earnings are regulated until 2027, giving certainty for 60% of the business until then; and haulage volumes have remained robust through the shutdown period in China. The stock was added to the portfolio having traded down to compelling valuation levels (12x 2021 Price / Earnings, 7% dividend yield) despite these robust fundamentals.

Hydro One, a regulated transmission and distribution focused utility based in Toronto, was sold. The company held up well during volatile markets, reducing mispricing vs peers; while the catalyst of improving its relationship with Ontario's provincial government has played out over the past year.

[2] Source: Lipper & First State Investments. Single pricing basis with net income reinvested. Data as at 31 March 2020. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. The First State Global Infrastructure inception date: 3 March 2008. * From inception - 31 May 08 : S&P Global Infrastructure Index; From 1 Jun 08 – 31 Mar 15 : UBS Global Infrastructure and Utilities 50-50 Index; From 1 Apr 15 : FTSE Global Core Infrastructure 50/50 Index

Market Outlook and Portfolio Positioning

The Fund invests in a range of global listed infrastructure assets including toll roads, airports, railroads, utilities, pipelines, and wireless towers. These sectors share common characteristics, like barriers to entry and pricing power, which can provide investors with inflation-protected income and strong capital growth over the medium-term.

The portfolio remains positioned with toll roads as its largest sector overweight. Toll roads are trading at levels that offer deep value opportunities for patient investors. Traffic has reduced significantly but these assets are still providing a reliable service to essential parts of the economy. We note that heavy vehicles (which pay much higher tolls) have been less affected than light vehicle volumes. We are encouraged by signs that demand can quickly recover as conditions begin to normalize. Indications from China also suggest that as movement restrictions are lifted, people are returning to work via cars rather than buses or subways. This should be positive for a rebound in toll road volumes.

The portfolio is also overweight the Pipelines sector. Share price falls have moved several stocks to higher rankings within our Value / Quality investment process. Within this space we have focused our exposure on companies with healthier balance sheets and stronger counterparties, which own and operate high quality infrastructure networks playing crucial roles within the North American energy market.

We have begun to slowly reduce the scale of the Fund's underweight exposure to Airports. However, we are conscious that any recovery in airport passenger numbers may be slow due to traveller caution, making it difficult to predict when volumes will recover to pre-COVID 19 levels. Better entry points may become available - for example in the event of bankruptcies within the airline space.

The Fund's long-standing underweight exposure to Multi/ Electric utilities has moved to a small overweight. Many good quality utilities are now trading at relatively appealing levels. Lower interest rates will be supportive of valuation multiples. Utility earnings should be materially more resilient than those of the broader market in the event of an extended economic slowdown or recession.