

2019 GLOBAL LISTED INFRASTRUCTURE REVIEW AND OUTLOOK

07 January 2019

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We believe Global listed infrastructure is well positioned to navigate a likely slower growth world in 2019. Its essential service nature enables infrastructure to recover inflation without destroying demand.

Over the next two years the asset class is forecast to deliver EBITDA¹, EPS² & DPS³ growth of 6%, 7% and 8% pa respectively⁴.

After many years of strong investment returns, 2018 was unfavourable for investors. The global listed infrastructure asset class⁵ declined 4.0% in US dollar terms in 2018, outperforming the 8.7% fall by global equities⁶ but lagging the 1.2% decline in global bonds⁷.

The following article looks at the global listed infrastructure asset class, reviewing 2018, providing an outlook for 2019 and concluding with key portfolio themes for the First State Global Listed Infrastructure Fund.

Year in review

Global listed infrastructure benefitted from strong underlying earnings and cashflows as well as new growth opportunities in 2018. This was driven by a large pipeline of capital expenditure opportunities across the asset class, strong public policy support for increased infrastructure investment globally, inflation plus pricing, robust volumes (aided by a strong US economy) and higher operating margins all being magnified for equity holders by sensible financial leverage.

Listed infrastructure stocks in the US enjoyed strong upwards earnings revisions during the year. Asia Pacific listed infrastructure earnings forecasts remained broadly unchanged, and Europe and Latin America suffered earnings downgrades. At a sector level, positive earnings momentum was seen in freight railways, mobile towers and energy pipelines, while the opposite was seen in airports, ports and toll roads.

The asset class faced significant challenges in 2018. The Genoa bridge collapse (Atlantia), wildfires in California (PG&E Corp and Edison International) and natural gas pipeline explosions (Atmos Energy and NiSource) saw infrastructure failures lead to a tragic loss of life. In addition, unconventional politics created public policy uncertainty for infrastructure in the United Kingdom (UK), Italy, Spain, Canada, Australia and Mexico. Thirdly, debt-funded acquisitions carried out in 2017 caused some level of Balance Sheet stress in 2018. This led to asset sales and equity raisings, mainly in North American utilities and energy infrastructure.

RISK FACTORS

This is a financial promotion for The First State Global Listed Infrastructure Strategy. This information is for professional clients only in the EEA and elsewhere where lawful. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.**
- **Currency Risk:** Changes in exchange rates will affect the value of assets which are denominated in other currencies.
- **Single Sector Risk:** Investing in a single sector may be riskier than investing in a number of different sectors. Investing in a larger number of sectors helps spread risk.
- **Charges to capital risk:** The fees and expenses may be charged against the capital property. Deducting expenses from capital reduces the potential for capital growth.
- **Listed infrastructure risk:** Investments in infrastructure may be vulnerable to factors that particularly affect the infrastructure sector, for example natural disasters, operational disruption and national and local environmental laws.

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For a full description of the terms of investment and the risks please see the Prospectus and Key Investor Information Document for each Fund.

If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

¹ Earnings before interest, debt, tax, debt and amortization

² Earnings per share

³ Dividends per share

⁴ U.S. Energy Information Administration, December 2018

⁵ FTSE Global Core Infrastructure 50/50 Index, Net TR, GBP

⁶ Barclays Global Aggregate Bond Index, TR, GBP

⁷ MSCI World Index, Net TR, GBP

The global listed infrastructure asset class continued to expand in 2018 via the US\$7 billion Initial Public Offering of mobile tower company China Tower, the privatisation of Sydney's mega toll road WestConnex to Transurban, the restructuring of Master Limited Partnerships (MLPs) into more sustainable business models, the awarding of airport and toll road concessions in Latin America, the massive US\$40 billion buildout of US Liquefied Natural Gas (LNG) export infrastructure, and Public Private Partnership (PPP) projects in the US (notably Denver Airport and the I-66 tollroad in Virginia).

WestConnex route



Source: Transurban, ACCC July 2018.

Current state of play

We believe the global listed infrastructure asset class is forecast to grow EBITDA and EPS by 6% p.a. and 7% p.a. respectively over the next two years, although this cannot be guaranteed. Furthermore, we expect dividends to again grow faster than earnings, with sector DPS growth forecast at 8% p.a. over the next two years. However we note that dividend payout ratios are now forecast to reach 70%, up from 65% only 3 years ago.

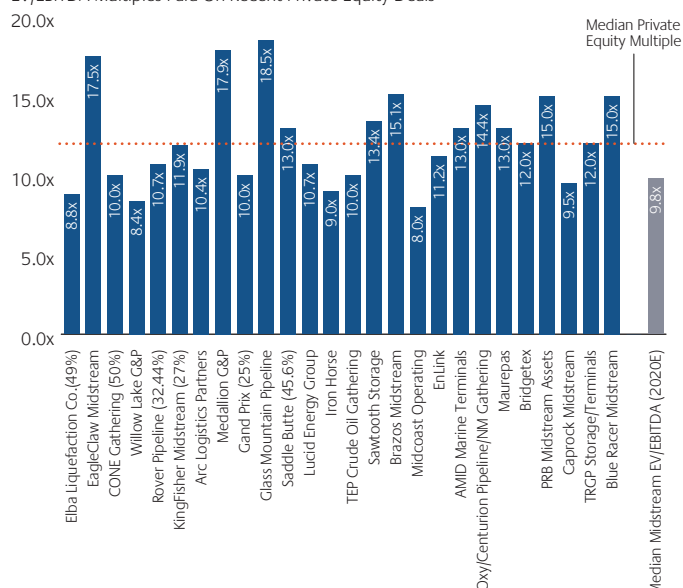
In our view, global listed infrastructure Balance Sheets are under-geared in Asia and Europe, but 'fairly' geared in North America. We note that 2018 saw some equity issuance in North America post restructuring in the energy infrastructure space; and from utilities seeking to lower their leverage after tax reform and some instances of aggressive, debt-funded merger and acquisition (M&A) activity.

Global listed infrastructure valuations remain well supported by the sale of shares or assets to private market investors at premium multiples relative to listed markets.

Examples of this include Ardian Infrastructure's purchase of a 25% stake in Italian toll road operator ASTM for €850 million at a 60% premium to the share price, First Reserve's purchase of 50% of the Blue Racer Midstream from Dominion Energy for US\$1.5 billion, at 14x-16x EV/EBITDA, ArcLight Capital Partners' US\$1.1 billion purchase of Enbridge Inc.'s natural gas gathering and processing infrastructure assets, as well as Canada Pension Plan Investment Board's C\$1.75 billion purchase of various renewable assets from Enbridge Inc.

Private vs public market disconnect

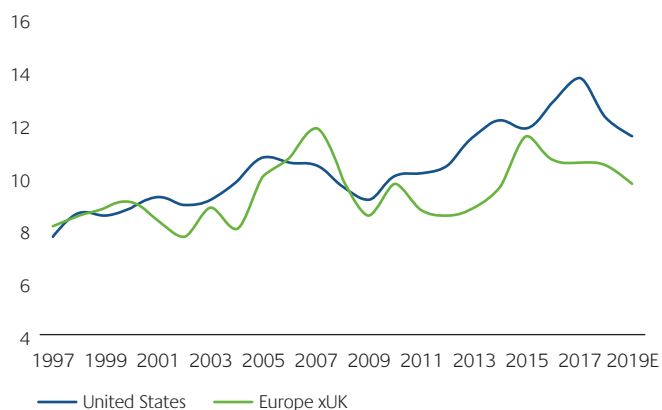
Midstream has traded in the private markets at a median multiple of ~12x EV/EBITDA Multiples Paid On Recent Private Equity Deals



Source: Wells Fargo December 2018.

First State Investments' global listed infrastructure portfolio is trading at a 12 month forward EV/EBITDA multiple of 12x, PE multiple of 16x, and dividend yield of 4.3%⁸. We would describe valuations as 'mixed' in the US (utilities fully valued and energy infrastructure undervalued) but 'undemanding-to-fair' in Europe and Asia.

US and EU infrastructure multiples EV/EBITDA x



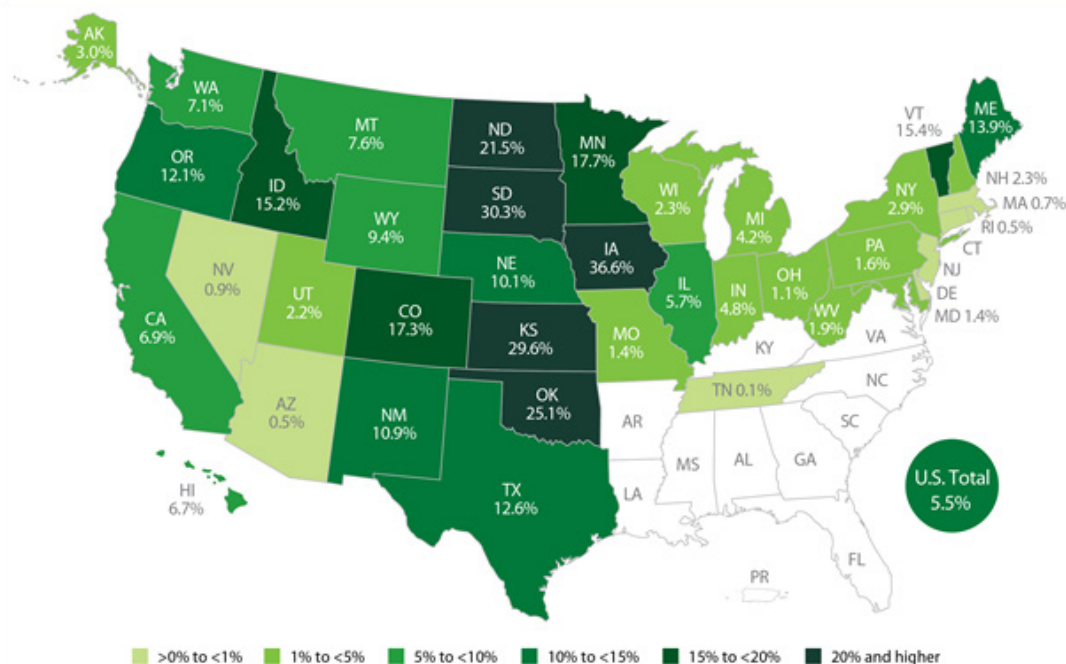
Source: Bloomberg, CFSGAM. Simple average of stocks in universe.

Outlook

We anticipate slower global economic growth in 2019 as the powerhouse US economy comes down off 2018's tax cut-driven sugar high. Reduced monetary stimulus in Europe and Japan, global trade uncertainties and continued high levels of geopolitical risk are likely to keep business investment restrained globally. This all bodes for a less positive economic growth environment in 2019. We expect bond yields to head higher in Europe and Japan as central bank stimulus is reduced, while we think the outlook for US bond yields appears more balanced.

No holding back the wind

U.S. Wind Energy Share of Electricity Generation, by State



The global listed infrastructure asset class should continue to expand in 2019 through:

1. Equity issuance from existing firms to fund new investment opportunities
2. Corporate restructurings which will see infrastructure assets separated from integrated business models (mobile towers from telecom firms, oil and gas pipelines from integrated oil firms, concessions from construction companies, ports from shipping companies)
3. Increased Public Private Partnership (PPP) opportunities in the massive US market; and
4. Privatisation of infrastructure assets in South America (airports, toll roads, passenger rail and ports), China (passenger rail, toll roads and ports) and Europe (airports, toll roads and maybe a few more utilities).

Iberdrola's electric vehicle chargers (Madrid)



Source: First State Investments November 2018.

A few listed infrastructure specific topics we are keeping a close eye on in 2019 are:

1. Replacement of high cost coal and nuclear power plants with lower cost renewable energy driving large scale new investment opportunities for utilities globally;
2. Solar becoming the lowest cost producer of electricity in many (sunny) parts of the world;
3. Figuring out whether the slowdown in retail spending at European airports is cyclical or structural;
4. The implementation of Precision Scheduled Railroading (PSR) by US freight railways Union Pacific and Norfolk Southern which improves customer service, reduces costs, improves asset returns and can drive large scale economic value-add;
5. The awarding of more PPP projects in the US including toll roads in Maryland, and an attempt to privatise St Louis airport;
6. The ability of energy infrastructure firms to deliver US\$40 billion of investment into LNG export terminals on time and on budget.

We believe that Global listed infrastructure is well positioned to navigate a likely slower growth world in 2019 due to its essential service nature having the ability to price at or above inflation without destroying demand. While we expect to see lower earnings growth from GDP sensitive infrastructure assets like freight railways, airports, sea ports, heavy vehicles on toll roads and waste; this will be offset by a strong pipeline of capital expenditure driven earnings from utilities and energy pipelines as well as robust price rises from mobile towers, freight railways and toll roads.

Portfolio themes

The first half of 2018 saw a sectoral shift away from defensive assets - including global listed infrastructure - and towards higher growth areas of the market. As a result, our investment universe today contains a number of high quality businesses with strong competitive advantages, that are trading at reasonable valuations. Examples include Transurban, NextEra Energy, Crown Castle, SBA Communications, Vinci and Eversource Energy.

Conclusion

Global listed infrastructure provides investors with exposure to essential service assets with strong pricing power, high barriers to entry, structural growth and predictable cash flows. These characteristics may become more attractive to investors in 2019 as global economic growth slows and risks become more evident.

The First State Investments Global Listed Infrastructure Fund remains focused on bottom-up stock picking, seeking mispriced, good quality companies trading at attractive relative valuations.

Ferromex's rail operations (Mexico City)



Source: First State Investments April 2018.

In several cases, stock-specific events have caused short term investor sentiment to overshadow positive longer term company fundamentals. Undervalued businesses with improving quality outlooks and the potential to reward patient investors include Kinder Morgan, Williams, Dominion Energy, CCR, Atlantia, and East Japan Railway.

We are also attracted to companies taking pro-active steps to streamline operational efficiency and improve business profitability. Self-help stories within the portfolio include Union Pacific, Norfolk Southern, Hydro One, Ferrovial, Aurizon and COSCO Shipping Ports.

A number of portfolio holdings have opportunities to sell or are already engaged in the sale of non-core assets at premium prices. As businesses simplify and improve, valuation multiples are likely to expand. TransCanada, Emera and Ferrovial are positioned to benefit from corporate restructuring strategies.

We believe it is important for companies to be in a stable financial position at this late stage of the economic cycle. Examples of portfolio holdings whose robust Balance Sheets are currently underappreciated by the market include Portland General Electric, UGI Corp, Aurizon, Pinfra, Tokyo Gas, Osaka Gas, and AENA. We believe this prudent approach will be rewarded if the broader economic backdrop deteriorates.

The final portfolio theme relates to companies with the ability to grow earnings at a faster rate than the market currently expects. Companies that we believe have underappreciated growth optionality include Transurban, CCR, Pinfra, UGI Corp, Dominion Energy, American Electric Power, Eversource Energy and Eversource Energy.

James Lewandowski inspecting Mexican rail operations



Source: First State Investments December 2018.

Annual Performance (% in USD) to 31 December 2018

Period	12 mths to 31/12/2018	12 mths to 31/12/2017	12 mths to 31/12/2016	12 mths to 31/12/2015	12 mths to 31/12/2014
First State Global Listed Infrastructure Fund B USD Acc	-3.1%	18.9%	12.8%	-4.8%	13.0%
FTSE Global Core Infrastructure 50/50 Index Net TR	-0.4%	18.4%	10.9%	-6.7%	12.8%
Bloomberg Barclays Global Aggregate Bond TR USD	-1.2%	7.4%	2.1%	-3.2%	0.6%
MSCI World Net Total Return Index USD	-8.7%	22.4%	7.5%	-0.9%	4.9%

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than the share class currency, the return may increase or decrease as a result of currency fluctuations. Performance figures have been calculated since the launch date. Performance data is calculated on a net basis by deducting fees incurred at fund level (e.g. the management and administration fee) and other costs charged to the fund (e.g. transaction and custody costs), save that it does not take account of initial charges or switching fees (if any). Income reinvested is included on a net of tax basis. Source: Lipper IM / First State Investments (UK) Limited. *The benchmark changed from the UBS Global Infrastructure & Utilities 50-50 Index on 01/04/2015.

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