First State Investments

FIRST STATE GLOBAL LISTED INFRASTRUCTURE FUND

Monthly Update

February 2020

Market review

Global Listed Infrastructure fell in February on concerns that the spread of COVID-19 could weigh more heavily on economic activity levels than initially anticipated. The FTSE Global Core Infrastructure 50/50 index returned -6.0% over the course of the month, while the MSCI World Index^ fell -5.5%.

The best performing infrastructure sector was Towers (-1%), which were supported by the prospect of robust capex spending on tower services by US mobile carriers into the medium term, as the proposed T-Mobile / Sprint merger drew a step closer. The worst performing infrastructure sector was Airports (-12%), which saw sharp near term falls in passenger volumes. Sydney Airport (-7%, not held) noted that passenger traffic was trending down in-line with the SARS experience of 2003, with falls of between -15% and -20% for International passengers; and declines of between -5% and -10% for domestic passengers.

Utilities (-7% to -9%) fell during the month, despite their defensive earnings and a backdrop of falling bond yields. This provides a reminder that utility stocks, as listed assets, can be affected by short periods of elevated market volatility. It also illustrates the indiscriminate nature of the recent sell-off. We anticipate that their essential service nature and domestic focus could enable utilities to hold up better than most sectors in the event of an economic slowdown over coming months.

The best performing infrastructure region was the UK (-4%), where utilities were supported by relatively modest valuation multiples. Over the longer term, the UK's "net zero by 2050" carbon emission target is expected to present the country's utilities with significant investment opportunities in the build-out of renewables and transmission & distribution network upgrades. The worst performing infrastructure regions were Europe ex UK (-11%) and Japan (-10%) as confirmed virus cases increased outside China, with Italy and Japan seemingly amongst the countries hardest hit. Transport infrastructure stocks in both regions underperformed.

Fund performance

The Fund returned -6.0%[1] after fees in February, 3bps ahead of the FTSE Global Core Infrastructure 50/50 Index (GBP, Net TR).

Annual Performance (% in GBP) to 29 February 2020

Period	12 mths to 29/02/2020	12 mths to 28/02/2019	12 mths to 28/02/2018	12 mths to 28/02/2017	12 mths to 29/02/2016
First State Global Listed Infrastructure Fund B GBP Acc	11.0	13.8	-4.8	32.0	4.9
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	10.0	15.8	-4.1	30.1	1.9
MSCI World Net Total Return Index GBP	9.0	4.0	6.0	35.8	-1.3

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.

[1] Performance is based on OEIC B Acc share class, net of fees, expressed in GBP.
^ MSCI World Net Total Return Index, GBP.
All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

RISK FACTORS

This document is a financial promotion for First State Global Listed Infrastructure Fund 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.

Reference to specific securities or companies (if any) are included to explain the investment strategy and should not be construed as investment advice, or a recommendation to invest in any of those companies.

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

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

The best performing stock in the portfolio was tower operator SBA Communications (+6%), which rallied after a legal challenge to the proposed merger between US mobile carriers T-Mobile and Sprint was dismissed by the federal court. The decision has positive implications for future investment within the US tower sector. Following the proposed transaction, T-Mobile is expected to consolidate and upgrade its new network; new entrant to the market Dish will need to build out its capabilities; and incumbents AT&T and Verizon are likely to invest to keep up with T-Mobile's network offering. Other beneficiaries of this decision included American Tower (-2%) and Crown Castle (-4%), which also held up relatively well during the month.

Hong Kong-listed CLP Holdings (+1%) ended the month higher. Earnings for its core Hong Kong electric utility franchise are fully regulated and expected to grow at between 3% and 4% per annum, driven by higher capex from the HK government's policy to reduce carbon emissions.

UK utilities also delivered relatively stable returns. SSE (+1%) released a statement reaffirming its earnings target for the 2020 fiscal year and emphasizing its continued focus on offshore wind projects within its low carbon strategy, in support of the UK's transition to net zero emissions. The company, which currently yields over 5%, also stated its commitment to its current five year dividend plan. National Grid (-2%), whose assets include the UK's electricity transmission grid, is expected to be a key beneficiary of the need to spend capex to connect renewables to the grid over coming years; as well as strengthening and upgrading the country's transmission networks. Severn Trent (-4%) outperformed on greater regulatory certainty, following its acceptance of the UK water sector's 2020 – 2025 regulatory framework.

The worst performing stocks in the portfolio were Japanese passenger rail operators Central Japan Railway (-18%) and East Japan Railway (-14%). Concerns about Japan's December quarter GDP contraction (attributed to a combination of October's consumption tax increase, Typhoon Hagibis, and weak global demand) were exacerbated by mounting fears about the impact of COVID-19 on passenger volumes. Shinkansen bullet train passenger volumes were down by between -6% and -10% for the month of February, reversing the positive growth experienced in recent years.

US utilities sold off as the month drew to a close, perhaps providing a source of liquidity for generalist investors. December quarter earnings for American Electric Power (-14%) were in line with consensus. However investors were disappointed by weaker than expected load growth for its industrial customer segment, as the US-China trade war weighed on chemicals and manufacturing companies. Gas utility UGI Corp (-13%) announced better than expected December quarter earnings, but lagged on indications of a weak start to the March quarter. A warmer than usual start to the year in Europe and North America is expected to adversely affect March quarter earnings for its propane businesses; while soft pipeline capacity pricing could weigh on revenues at the company's Energy Services business segment. Eversource Energy (-5%) and NextEra Energy (-6%) fared better, helped by the long term visibility of their renewables-driven capex programs.

In the energy infrastructure space, Cheniere (-13%) delivered strong December quarter earnings, underpinned by higher Liquefied Natural Gas (LNG) export volumes. However the company announced it was trending towards the lower end of previous guidance, and noted that two customers had recently chosen to cancel LNG shipments. Under the company's long-term contracts, the company still receives the liquefaction fee (majority of LNG profits) and will have the opportunity to re-market the cargoes to another buyer. French-listed energy supply and storage business Rubis (-13%) also underperformed as an uncertain outlook overshadowed healthy revenue growth in the December quarter. Its Energie business segment, which specializes in the distribution of petroleum products and accounts for over 70% of operating earnings, grew volumes by 3% while maintaining firm margins.

Fund activity

Spanish airport operator AENA was sold in early February, having produced strong returns since the Fund participated in its IPO in 2015. The company has delivered margin improvements and benefited from a boom in tourism, but now faces the risk of less favourable regulatory terms for the 2022 – 2026 period.

Canadian energy infrastructure company Enbridge Inc. was sold during the month after outperformance vs peers moved it to a lower position within the Value/Quality rankings of our investment process.

Market outlook and Fund 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 the potential for inflation-protected income and strong capital growth over the medium-term.

COVID-19 developments overshadowed financial markets for a second consecutive month in February. Our expectation remains that infrastructure's essential service provision and contracted or regulated business models will insulate the asset class from the worst of its effects.

Transport is likely to be the most impacted infrastructure sub-sector, with airports and passenger rail the most vulnerable. For quality airports, regulated aeronautical revenues, retail minimum guarantees and property leases should help mitigate the impact.

Pipelines are typically contracted or regulated assets, so cash flows are unlikely to be impacted in the near term. That said, pipeline stocks may underperform reflecting the impact of reduced commodity prices on growth outlook and rising counter-party risks.

Utilities should be least impacted by COVID-19, particularly those with regulated networks where revenues are de-coupled from volumes. There is a minor risk for some growth utilities that supply chains are disrupted – for example solar panels. Wireless towers may also see some supply chain disruption for 5G equipment. In the medium term the Coronavirus probably highlights the need for improved wireless / remote / VC capabilities which should be supportive of tower growth.

As long-term investors we have only made minor changes to the portfolio in recent weeks, for example reducing our underweight in airports.

All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

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