For professional clients only

First State Investments

FIRST STATE GLOBAL LISTED INFRASTRUCTURE FUND

Monthly Update

October 2019

Market review

Global Listed Infrastructure fell in October against an uncertain economic backdrop. The FTSE Global Core Infrastructure 50/50 index ended the month -4.0% lower, while global equities^ fell -2.3%.

The best performing infrastructure sector was Airports (+3%) which announced positive earnings numbers, underpinned by healthy passenger volumes. The worst performing sector was Pipelines (-1%), on softer production forecasts and the prospect of excess takeaway capacity in some regions. Electric / multi-utilities (flat) paused after strong recent gains, despite a (widely expected) 25 basis point interest rate cut from the US Federal Reserve.

The best performing infrastructure region was Australia / New Zealand (+3%), where airports, toll roads and utilities were buoyed by a healthy economic backdrop and a 25 basis point interest rate cut by the Reserve Bank of Australia. Asia ex-Japan (+2%) rallied on positive earnings numbers and a more optimistic outlook for US/China trade talks. The worst performing regions were the United States (-1%) and Canada (-1%), reflecting their relatively high number of electric / multi-utility and pipeline stocks.

Fund performance

The Fund returned -4.9% after fees in October[1], 85bps behind its benchmark index.

Annual Performance (% in GBP) to 31 October 2019

Period	12 mths to 31/10/2019	12 mths to 31/10/2018	12 mths to 31/10/2017	12 mths to 31/10/2016	12 mths to 31/10/2015
First State Global Listed Infrastructure Fund B GBP Acc	17.9	-1.0	8.7	37.3	3.5
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	19.2	0.9	6.5	36.1	1.7
MSCI World Net Total Return Index GBP	11.3	5.1	12.9	28.0	5.4

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.

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.

[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.

The best performing stock in the portfolio was Chinese gas utility ENN Energy (+11%) which rallied as investors warmed to the company's strong growth trajectory. China's ongoing shift from coal-fired power generation to cleaner natural gas provides this sector with a structural tailwind; while access to its parent company's Liquefied Natural Gas (LNG) import terminal in Zhoushan, off China's east coast, gives ENN Energy a procurement advantage over peers. Chinese toll road Jiangsu Expressway (+5%) achieved healthy traffic volumes on its road networks, including an 8% increase in traffic volumes on its core Shanghai-Nanjing Expressway for the September quarter. Shenzhen Expressway (+3%) announced robust 14% traffic growth in September. The replacement of toll booths with electronic toll collection devices gives both companies scope to improve efficiency and reduce labour costs. Urbanisation and higher rates of car ownership within China are likely to underpin further traffic growth over the medium term.

UK utility stocks Severn Trent (+4%), SSE (+3%) and National Grid (+2%) also increased as the risk of a disorderly "hard" Brexit appeared to decline. During the month the European Commission determined that the UK capacity market (a mechanism to ensure electricity supply in periods of peak demand) met EU state aid rules. The decision improves certainty for UK utilities with power generation assets, including SSE.

Mexican energy infrastructure company IEnova (+8%) outperformed as investors focused on the company's appealing valuation multiples and future growth potential as Mexico's energy needs increase. Cancun-focused airport operator ASUR (+5%) rallied after reporting a 6% increase in commercial revenue per passenger in the September quarter; and on indications that passenger growth rates could accelerate from their current pace. Mexican toll road operator Pinfra (+1%) gained after a majority stake in its peer, RCO, was acquired by Italy's Atlantia (flat) for an implied EV/EBITDA[2] multiple of between 13x and 15x. The transaction provides a positive data point for Pinfra, which is currently trading on an EV/EBITDA multiple of around 9x.

The worst performing stock in the portfolio was Enterprise Products Partners (-7%). Although September quarter earnings beat guidance for an eighth consecutive time, investors were underwhelmed by the company's emphasis on investing in growth projects, rather than returning additional capital to shareholders. Peers Williams (-7%) and Magellan Midstream Partners (-6%) also lagged as lower commodity prices, softening upstream production forecasts and a proposal by several Democratic presidential candidates to ban fracking, clouded the pipeline sector's growth outlook. After taking action over the past two years to divest non-core assets, cut distributions, simplify corporate structures and curtail capital projects, we believe the sector should prove resilient in a more challenging operating environment. At current levels, listed pipeline company valuations appear compelling when compared to the prices being paid by private equity for equivalent assets.

In the US utilities space, NiSource (-6%) fell after a gas leak was detected in late September in the same pipeline system that suffered an explosion in 2018. The company is working to verify the service lines that were abandoned as part of last year's restoration efforts, and to rebuild trust with the community, regulator and investors. Evergy (-4%) underperformed following a decision by its regulator that it may not be entitled to the savings associated with the recent shut-down of the Sibley coal-fired power station in western Missouri. The closure is part of Evergy's strategy to move away from coal towards cleaner, cheaper sources of energy. More positively, NextEra Energy (+2%) maintained its upward trajectory after announcing healthy September quarter earnings. Key drivers of earnings growth include rate base growth through the planned rollout of 30 million new solar panels by 2030 at Florida Power & Light; the conversion of coal fired power stations to natural gas at its recently acquired northern Florida utility business Gulf Power; and a growing backlog of future projects for NextEra Energy Resources, its world-leading, large-scale renewable development business.

Fund activity

The Fund sold its position in Japanese passenger rail operator West Japan Railway. An increasing market recognition of the company's healthy balance sheet and potential to benefit from growing inbound tourism numbers to Japan's Kansai region drove share price outperformance, causing the stock to move lower within the quality / value 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, ports, 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.

The outlook for global listed infrastructure is positive. The asset class consists of stable, long life assets, and continues to deliver a reliable yield of between 3% and 5% per annum, although this cannot be guaranteed. Many infrastructure assets are insulated from inflation by regulation, concession terms or contracts that are explicitly linked to the inflation rate. Infrastructure growth drivers are often structural rather than cyclical in nature, such as urbanisation (Toll Roads) and the increasing mobility of communication (Towers).

Global listed infrastructure has performed well, aided by lower interest rates. However that in itself does not make the asset class expensive. Listed infrastructure companies are delivering strong earnings growth which, when combined with lower discount rates (from falling interest rates), means that intrinsic asset values have also increased meaningfully. Despite delivering double digit returns for the last decade, dividend yields for global listed infrastructure have remained in the 3%-4% range and remain underpinned by reasonable payout ratios (~70%) and robust company balance sheets. In addition, we continue to observe valuation discrepancies between and within sectors and regions, providing scope for active managers to add value.

[2] Earnings before interest, tax, depreciation and amortization (EBITDA) is a measure of a company's operating performance

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

For further institutional enquiries contact institutionalenquiries@firststate.co.uk
For wholesale enquiries contact enquiries@firststate.co.uk

Important Information

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