FIRST STATE GLOBAL LISTED INFRASTRUCTURE FUND

Monthly Update

August 2019

Market review

Global Listed Infrastructure added value to portfolios in August as investors sought more defensive exposure. Geopolitical uncertainty persisted while an inverted bond yield curve indicated a rising risk of recession. The FTSE Global Core Infrastructure 50/50 index* ended the month up 1.4% while the MSCI World index^ fell -1.5%.

The best performing infrastructure sector was Towers (+8%) which continues to benefit from structural growth in demand for mobile data. Vodafone confirmed its intention to unlock the value of its 60,000 wireless towers across Europe. The process highlights there are still a significant number of infrastructure assets trapped in conglomerate structures, with the potential to expand the listed infrastructure opportunity set over time. Water / Multi / Electric Utilities (+4-6%) gained on the appeal of their regulated income and steady growth. This growth is largely driven by replacement capex and should not change materially during a period of low economic growth or recession.

The best performing infrastructure regions were United States (+4%) and Canada (+4%) as government bond yields neared all-time lows, stimulating demand for income generating assets like towers, utilities and pipelines.

The worst performing sectors were Ports (-4%) and Railroads (-4%) on increasing trade and political tensions between the US and China. During the month the US announced tariffs on $300bn of Chinese imports and accused China of manipulating its currency. China retaliated with new tariffs on $75bn of US products. Further tensions with Iran and North Korea and between Japan and South Korea were not helpful for sentiment towards global trade. Trade wars are not positive for equities overall but infrastructure should be relatively immune. With less than 10% of the Fund in ports, freight railroads and energy exports, any impact from trade wars should be more than offset by a “flight to safety” into domestic plays like utilities and towers.

Unrelenting protests in Hong Kong spilled over to markets this month with a number of key stocks impacted – Hong Kong & China Gas -13%, China Light & Power -5%, Power Asset Holdings -6%, Cheung Kong Infrastructure -12%, MTR Corp -12%, Hutchison Ports -29% – none were owned by the Fund. The negative drivers outlined above were reflected in the performance of Asia ex Japan (-3%) and Japan (-2%).

Fund performance

The Fund ended the month +1.0%[1] higher, underperforming its benchmark index by 45bps. Positioning within the Toll Road and Tower sectors aided relative performance, offset by underweight positioning in US utilities.

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 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.

Annual Performance (% in GBP) to 31 August 2019

Period	12 mths to 31/08/19	12 mths to 31/08/18	12 mths to 31/08/17	12 mths to 31/08/16	12 mths to 31/08/15
First State Global Listed Infrastructure Fund B GBP Acc	23.1	-3.5	18.8	32.9	3.5
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	22.6	-1.9	17.8	31.0	1.5
MSCI World Net Total Return Index GBP	7.0	12.1	18.1	25.3	3.5

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.

Toll roads delivered mixed performance in the month. Ferrovial (+10%) gained as the market started to fully reflect the value of its concessions business. The company added a fourth Managed Lanes project in Dallas-Fort Worth, Texas and also opened new lanes in Charlotte, North Carolina. Meanwhile it appears to be close to finalising the sale of non-core assets. CCR (+9%) continues to participate in new growth projects and privatisations that will be required to enable Brazil to meet its infrastructure needs. Vinci (+7%) performed well as margins in the construction business (now less than 10% of operating earnings) were not as low as feared while the dominant concessions business continues to generate strong cash flows from its portfolio of world-class toll roads and airports. In contrast, Transurban (-4%) fell after announcing an A$800m equity issue to buy-out minority interests in the M5 West toll road in Sydney. The deal is cash flow accretive and will provide management with synergies and operating flexibility in the future. Atlantia (-5%) gave back some of its recent gains as the formation of a coalition government from the Democratic Party (centre-left) and 5-Star Movement (anti-establishment) increased the risk of changes to concession agreements.

US utilities were driven higher as falling US bond yields increased the attraction of defensive income. The market continued to favour high quality utilities such as NextEra Energy (+6%) and Eversource (+6%) that have strong management teams and significant growth coming from grid modernisation and/or renewables. The market also found support for Dominion Energy (5%) as the discount for single project risk – delays in the Atlantic Coast Pipeline – became overdone. Evergy (+8%) also outperformed due to its defensive characteristics supported by its buyback program.

US freight railroads Union Pacific (-9%) and Norfolk Southern (-8%) were negative contributors to returns. Carloads continued to deteriorate, down -6-7% so far this quarter, pressured by ongoing trade tensions, a sharp decline in demand for coal and weather-related delays in grain harvests. There is increasing concern that core price increases, cost reductions and share buybacks will not be sufficient to offset these volume declines. The silver lining to reduced volumes is that UNP and NSC will be able to implement Precision Scheduled Railroading (PSR) with limited to no impact on customer service, establishing a more efficient and lower cost base for the future.

Ongoing trade tensions and low gas prices impacted the outlook for energy pipeline companies. Cheniere Energy (-8%) and Enterprise Products (-5%) were impacted by market concerns that the US trade dispute with China would reduce demand for energy exports like Liquefied Natural Gas and Liquefied Petroleum Gas. Both companies are making significant investments in Texas and Louisiana to transport, process, store and export US hydrocarbons to the world. Williams (-4%) fell as very low natural gas prices, resulting from an abundance of volumes, forced a number of north-east US gas producers to moderate their growth outlook. Lower production volumes reduce demand for Williams gathering and processing services.

Fund activity

This month the Fund sold its holdings in Aurizon and Kinder Morgan after expected catalysts played out and value was realised. Freight rail operator Aurizon delivered positive commercial agreements with customers that will substantially reduce regulatory risk. The company also confirmed the outcome of its vertical integration and capital structure reviews that will unleash borrowing capacity of up to A$1.2 billion that may be used to fund further buybacks. Pipeline operator Kinder Morgan was divested following recent strong performance, underpinned by execution of its divestment of non-core assets that resulted in a healthier balance sheet and a return to dividend growth.

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 Fund is positioned with Toll Roads as its largest sector overweight. Transurban, Atlantia and Vinci have high barriers to entry, strong free cash flow and inflation linked pricing. We are attracted to their reasonable valuation multiples and well-supported dividend yields of between 3% and 6%, although this cannot be guaranteed. Growing urbanisation and worsening traffic congestion are likely to underpin long term demand. Emerging Markets peers operate high growth toll roads with well-established concession agreements, providing an essential service to some of the most densely populated regions in the world.

The Fund is also overweight energy Pipelines including TC Energy, Williams and Enterprise Products. These companies own assets connecting North American oil and gas fields with processing facilities and export terminals, positioning them to benefit from rising production levels and energy exports.

The Fund is underweight Multi/Electric Utilities. A number of high quality US names continue to trade at valuations that we find difficult to justify based on company fundamentals. The Fund has also maintained its underweight exposure to Airports, with exposure limited to leading European and Mexican operators. The airport sector faces medium term headwinds following a long period of above-average growth.

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

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