First State Investments

# FIRST STATE GLOBAL LISTED INFRASTRUCTURE FUND

## Monthly Update

December 2018

## Market review

Global Listed Infrastructure held up better than global equities during December's turbulent market conditions. The FTSE Global Core Infrastructure 50/50 index fell -3.4%, while global equities^ dropped by -7.4%.

The best performing infrastructure sector was Ports (+3%), on hopes that the US and China could begin to resolve their trade differences. Toll Roads (+2%) gained as investors identified value in the wake of a challenging year. The worst performing sector was Railroads (-8%), as concerns about slowing economic growth rates weighed on North American freight rail stocks.

The best performing region was Asia ex-Japan (+3%), where softening economic indicators buoyed demand for defensive assets. The worst performing regions included Canada (-6%) and the US (-5%), where pipelines and railroads lagged, and the US federal government shutdown affected sentiment.

The UK (-6%) also underperformed after the energy regulator, Ofgem, proposed lower-than-expected price levels for the country's electric and gas transmission and distribution networks. The appeal of UK infrastructure assets was highlighted by French-listed tollroad and airport operator Vinci (-7%, held by the Fund) buying a majority stake in Britain's second busiest airport, Gatwick, for £2.9 billion.

## Fund performance

### Annual Performance (% in GBP) 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 GBP Acc | -1.6 | 8.2 | 35.9 | 0.2 | 19.5 |
| FTSE Global Core Infrastructure 50/50 Index Net TR GBP* | 2.0 | 8.1 | 32.2 | -1.3 | 19.8 |
| MSCI World Net Total Return Index | -3.0 | 11.8 | 28.2 | 4.9 | 11.5 |

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.

The Fund fell -4.2% in December[1], 76bps behind its benchmark index. The best performing stock in the portfolio was Australian toll road operator Transurban (+5%) as investors became increasingly comfortable with the terms of the company's substantial WestConnex deal. The falling interest rate environment provided additional support. A healthy pipeline of growth projects, with five projects to be delivered over the next two years and two more to be delivered in the two years after that, is likely to underpin nearer term earnings growth.

**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.

Most of the portfolio's other toll road holdings also outperformed. Pinfra (+4%) , which operates a road network in Mexico City, rallied along with the wider Mexican market after socialist President Andrés Manuel López Obrador proposed a more fiscally responsible budget than markets had been expecting. China's Jiangsu Expressway (+4%) rose on the view that easing trade tensions could enable investors to refocus on the stock's stable, cash generative fundamentals. Channel Tunnel operator Getlink (+2%) climbed after French construction and concession company Eiffage (-13%, not held) disclosed it had built a ~5% stake in the company. The move highlights the attractiveness of the company's unique, long concession-life asset. Already undemanding valuation multiples helped Italy's Atlantia (flat) to withstand December's volatile markets.

Other steady performers in the Fund included Canadian electric utility Hydro One (+4%), and Australian freight rail operator Aurizon (+2%). Hydro One rallied after the Washington State regulator blocked its proposed takeover of Northwest US multi-utility Avista (-18%, not held). The decision will strengthen Hydro One's balance sheet and enable it to focus on its core Ontario franchise. Aurizon benefitted from a favourable regulatory decision on the amount it will be allowed to charge customers on its monopoly Queensland rail network.

The worst performing stock in the portfolio was Brazil toll road operator CCR (-14%). The stock gave up some of its very strong gains from the prior two month period, as traffic volumes remained subdued in November. North American pipeline operators Plains All American Pipeline (-13%), Williams (-12%), Kinder Morgan (-10%) and TransCanada (-9%) all came under pressure as energy prices declined.

US freight rail stocks Norfolk Southern (-12%) and Union Pacific (-10%) also decreased. Having enjoyed meaningful share price gains earlier in the year, underpinned by corporate tax cuts and a healthy US economy, concerns mounted that they may be affected by slowing economic growth rates. In our view, the ability to improve customer service, reduce costs and improve asset returns by implementing Precision Scheduled Railroading could still drive material value-add for both companies.

Defensive, income-generative utilities also declined, highlighting the broad-based nature of the market sell-off. National Grid (-8%) was affected by regulatory proposals to implement lower-than-expected price levels for the UK's electric and gas utilities. US peer Alliant Energy (-7%) fell after announcing a US$326m equity raising to partly fund next year's capital expenditure (capex) needs. Virginia-based Dominion Energy (-3%) fared relatively well as its acquisition of South Carolina's SCANA (+3%, not held) neared completion.

## Fund activity

No new stocks were added to the Fund in December, and positions in existing holdings were generally maintained at current levels.

## 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 inflation-protected income and potential for strong capital growth over the medium-term.

We anticipate slower global economic growth in 2019 as the robust US economy comes down from its tax cut-driven sugar high. This, combined with reduced monetary stimulus in Europe and Japan as well as continued high levels of geopolitical risk likely keeping business investment restrained, implies a less positive economic growth environment in the year ahead.

Global listed infrastructure is well positioned to navigate a likely slower growth world in 2019 owing to its essential services having the ability to price at or above inflation without destroying demand. Therefore while we expect lower earnings growth from GDP sensitive infrastructure assets like freight railways, airports and sea ports; this is likely to be offset by a robust pipeline of capital expenditure driven earnings growth from utilities and energy pipelines, as well as robust price rises from mobile towers, freight railways and toll roads.

The Fund remains focused on bottom-up stock picking, seeking good quality companies that are trading at attractive relative valuations.

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

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