# FIRST STATE GLOBAL LISTED INFRASTRUCTURE FUND

## Monthly Update

January 2020

## Market review

Global Listed Infrastructure delivered steady gains through January as investors sought defensive assets. The FTSE Global Core Infrastructure 50/50 index returned +2.7% over the course of the month, while the MSCI World Index^ fell -0.1%.

The best performing infrastructure sector was Electric Utilities (+7%) which rallied as bond yields fell sharply. The US 10-year Treasury yield declined from 1.9% to 1.5% over the course of the month. Growing awareness of the growth opportunities arising as power generation shifts from fossil fuels towards renewables aided sentiment towards the sector. Water Utilities (+6%) and Multi-Utilities (+5%) also outperformed in this environment. Airports (-3%) and Ports (-2%) were the worst performing sectors, on the view that global economic activity levels and trade volumes could be affected by coronavirus. Chinese passengers are an increasingly important part of Airport retail earnings, spending on average three times as much as passengers from other countries.

The best performing infrastructure region was the US (+6%), reflecting strong gains from its utility and tower stocks. The UK (+5%) outperformed as investors welcomed the country's reduced political risk, and anticipated future offshore wind and transmission investment opportunities for its utilities. The worst performing infrastructure regions were Japan (-4%) and Asia ex-Japan (-3%), as the region's airports, ports and toll roads bore the brunt of concerns for economic growth rates and regional tourist volumes.

## Fund performance

The Fund returned +3.1% after fees in January[1], 43bps ahead of the FTSE Global Core Infrastructure 50/50 Index (GBP, Net TR)

### Annual Performance (% in GBP) to 31 January 2020

| Period | 12 mths to 31/01/2020 | 12 mths to 31/01/2019 | 12 mths to 31/01/2018 | 12 mths to 31/01/2017 | 12 mths to 31/01/2016 |
|---|---|---|---|---|---|
| First State Global Listed Infrastructure Fund B GBP Acc | 20.0 | 7.9 | 3.6 | 34.4 | -3.7 |
| FTSE Global Core Infrastructure 50/50 Index Net TR GBP* | 18.3 | 11.7 | 3.0 | 27.8 | -3.4 |
| MSCI World Net Total Return Index GBP | 17.5 | 1.0 | 11.3 | 32.0 | 0.5 |

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.

**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 stocks in the portfolio were US regulated utilities. Gains were led by Evergy (+11%) as activist investor Elliott Management disclosed that it had established a 5% economic interest in the company, urging management to improve its performance or consider a merger. Elliott has a successful track record of working with US utilities, including FirstEnergy and Sempra Energy in 2018. Pleasing share price gains were also achieved by other utility holdings including NextEra Energy (+11%), American Electric Power (+10%) and Eversource Energy (+9%).

The portfolio's toll road holdings rose during the month. Italy's Atlantia (+7%) benefitted from a more constructive political environment, and hopes that a government agreement on compensation for the 2018 collapse of Genoa's Morandi Bridge was within reach. Such a move would remove the lingering risk of concession revocation. Spanish-listed Ferrovial (+6%) announced an upbeat business plan. Its high quality infrastructure concessions are set to become a more important part of the overall company. Toronto's 407 Express Toll Route (a 43% stake is Ferrovial's largest asset) announced a higher than expected toll increase for 2020. Pinfra (+5%) continued its recent rally as investor confidence grew that Mexican concessions were unlikely to be subject to unfair interference. The exception to these positive toll road returns was Jiangsu Expressway (-10%) which was affected by concerns that traffic volumes would reflect lower levels of economic activity within China.

East coast US freight rail operator Norfolk Southern (+7%) announced resilient December quarter earnings in difficult operating conditions. Earnings Per Share were around 10% higher than the market had been expecting, as a disciplined approach to cost control (headcount, fuel costs) and firm pricing levels outweighed weak volumes. West coast peer Union Pacific (-1%) lagged, given its higher exposure to China via the ports of Los Angeles and Long Beach. The measures being taken by both companies to improve efficiency and operational performance are expected to provide a foundation for future earnings growth as volumes stabilize.

Energy pipelines faced market concerns that lower economic growth rates could affect global energy demand. Pipeline operators with assets in the Northeast US including Williams (-13%) were particularly affected by concerns that weaker natural gas prices may lessen the viability of their upstream customers in that region. Current valuation multiples appear to be disregarding Williams' healthier balance sheet and planned cuts to growth capex, which have the potential to deliver higher free cash flow and support a share buyback in 2021. Enterprise Products Partners (-7%) shipped the first cargo of ethylene from its Morgan's Point marine terminal in Texas, illustrating the current rise in US energy exports. Despite achieving record earnings, and its management team buying units in the company, investors were disappointed by the announcement of conservative capital management plans, including lower than expected dividend growth and a slow paced share buyback program.

Other underperformers included Japanese gas utility Tokyo Gas (-9%), which cut its full-year sales forecast for city gas by ~1.6% owing to warmer weather in late 2019. Broader Japanese equity weakness provided an additional headwind. UGI Corp (-8%) was similarly affected by warm weather and reduced gas demand in the US and Europe.

## Fund activity

The portfolio initiated a position in PNM Resources, a New Mexico and Texas-based regulated electric utility run by an experienced and well-regarded management team. The company's high 9.6% rate base growth is underpinned by the transition from coal-fired power stations to renewables in New Mexico; and economic development in Texas. Although the company's relationship with its New Mexico regulator has proved challenging, the incumbent commissioners are due to be replaced later this year. Plentiful solar and wind resources in its service territory should smooth its ongoing transition to renewables.

Airport operator Flughafen Zurich was also added to the portfolio. The company owns and operates Switzerland's main airport through a concession that runs until 2051, and is developing The Circle, a strategically located property development project adding commercial and retail space to the airport. A combination of longer term headwinds (slowing growth outlook for the airports sector, an unfavourable regulatory review in 2018) and near term issues (underwhelming market reaction to a decision to build a new major airport in India, coronavirus) combined to create mispricing in this high quality, long life infrastructure asset.

Pipeline operator TC Energy was sold after a strengthened balance sheet and growing investor confidence in its ability to execute on future growth projects saw the stock outperform. Mexican peer IEnova was sold after its share price responded positively to easing Mexico regulatory risk. Brazilian toll road operator CCR was divested after growing investor awareness of opportunities for future growth prospects, along with Brazil's political stabilisation and economic recovery, drove strong share price gains. A small position in Osaka Gas was also sold and the proceeds invested into Tokyo Gas – a higher quality operator trading at similar valuation multiples.

## 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 historical dividend yields of between 3% and 6%. Healthy fundamentals, including high operating margins and traffic growth rates that we believe can match or exceed GDP growth over the long term, have the potential to underpin robust future earnings growth. 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. The Fund has built positions in several companies with unique and long life energy infrastructure networks trading at appealing valuations, and paying generous distribution yields. Although general sentiment towards pipelines remains cautious, our exposure to the sector is consistent with our contrarian investment approach. We remain confident that stronger balance sheets, lower commodity exposure and simpler corporate structures will in time reflect in higher valuation multiples, although of course this cannot be guaranteed.

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 holdings limited to leading European and Mexican operators. The airport sector faces medium term headwinds following a long period of above-average growth, with January's events providing a reminder of their potential vulnerability to external factors.

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

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