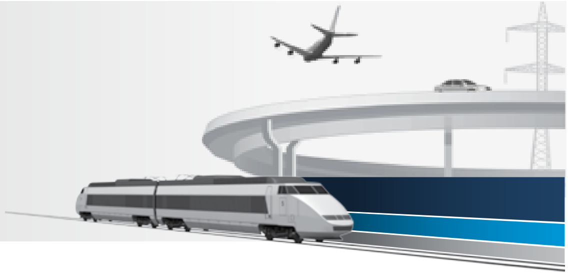
First State Investments

Monthly update | Global Listed Infrastructure

First State Global Listed Infrastructure



August 2018

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.

Market review

Global Listed Infrastructure delivered mixed returns as above-trend US GDP growth contrasted with EM volatility. The FTSE Global Core Infrastructure 50/50 index fell by -0.3%, while global equities^ gained +2.2%.

The best performing infrastructure sector was Satellites (+3%), which continued its run of upward momentum. Full year earnings results from French operator Eutelsat (+11%, not held) showed year-over-year declines for every business segment. However no further reduction in guidance, coupled with a dividend increase, saw the stock outperform. Airports (+2%) also gained, led by Mexican operators, which rallied on consistently strong passenger growth rates and reports that a US - Mexico trade deal had been agreed.

The worst performing sector was Toll Roads (-6%); Italy's Atlantia (-29%, held) sold off sharply following the Morandi bridge tragedy. Pipelines (-3%) paused for breath after several months of positive returns.

The best performing region was Australia / New Zealand (+3%), as the market looked past this month's change of Prime Minister to focus on the generally favourable economic backdrop, including resilient household consumption levels and modest wages growth. The worst performing region was Europe ex UK (-6%), where infrastructure stocks were affected by Italy's insecure fiscal position and ongoing Brexit negotiations.

Fund performance and activity

The Fund returned +0.1% in August[1], 44bps ahead of its benchmark index. The worst performing stock in the portfolio was Italian tollroad operator Atlantia (-29%). The motorway bridge that collapsed in Genoa, Italy on August 14th, claiming 43 lives, was under concession with Autostrade per l'Italia (ASPI), which is majority owned by Atlantia. The Italian government and the company are now seeking to determine the cause of the disaster and the most appropriate course of action. Whilst a tragic event, the operational and financial impacts of the bridge outage itself are minimal in the context of Atlantia as a whole. The key issues are the reputational impact if maintenance is found lacking, and the precedent if ASPI's concession is revoked.

[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 2018

Period	12 mths to 31/08/18	12 mths to 31/08/17	12 mths to 31/08/16	12 mths to 31/08/15	12 mths to 31/08/14
First State Global Listed Infrastructure Fund B GBP Acc	**-3.5**	**18.8**	**32.9**	**3.5**	**16.6**
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	-1.9	17.8	31.0	1.5	16.4
MSCI World Net Total Return Index	12.13	18.09	25.28	3.52	12.80

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.

Political and economic headwinds weighed on Brazilian peer CCR (-11%). June quarter earnings numbers included lower volumes and margins, reflecting June's trucker strike and a weaker domestic economy. More positively, the company's stable balance sheet (net debt / EBITDA[2] is low at around 2x) should enable the company to bid for new transportation infrastructure concessions that are expected to become available in Brazil. In Australia, a consortium led by Transurban (+3%) successfully bid A$9.3 billion for a 51% stake in Sydney's WestConnex motorway network. While a full price has been paid, key construction risks remain with the government and the cost of debt for the deal is lower than expected. Transurban shares were briefly suspended while it conducted a rights issue to help fund the acquisition.

The best performing stock in the portfolio was COSCO Shipping Ports (+13%), which reported exceptional June quarter earnings numbers, underpinned by pleasing volume growth across its expanding China-Europe ports network. North American freight rail stocks maintained their upward trajectory. Robust haulage volumes for Canadian Pacific (+6%), CSX (+5%) and Norfolk Southern (+3%) are underpinned by the strong US economy. The current shortage of truck drivers - reflecting the low US unemployment rate - has reduced competition, reinforcing freight rail's already-strong pricing power.

In the utilities space PG&E (+7%) outperformed as legislation was introduced providing scope for Californian utilities to recover wildfire-related costs from ratepayers. The move could help mitigate the company's liabilities for wildfires that hit its Northern California service territory in late 2017. In contrast Southern Co (-9%) fell as construction cost overruns at its Vogtle nuclear plant overshadowed otherwise positive June quarter earnings results.

North American pipeline stocks also delivered mixed returns. Better than expected June quarter earnings and new growth projects buoyed Gibson Energy (+6%), which owns strategically located storage terminals and processing facilities in the Canadian energy hubs of Hardisty and Edmonton. Plains All American Pipeline (+5%) announced pleasing June quarter earnings and raised guidance. However Canadian peer TransCanada (-5%) lagged after being ordered to carry out an environmental assessment of the Nebraska leg of the proposed route for its Keystone XL pipeline expansion. Peer Enbridge Inc (-2%) also underperformed, after a revision to an earlier Federal Energy Regulatory Council ruling on income tax caused the firm to raise the amount it will pay to acquire the outstanding shares in its Master Limited Partnership entity, Spectra Energy Partners, by almost 10%. The transaction will streamline Enbridge's complex corporate structure.

The Fund established a position in Emera, a regulated Canadian-listed electric and gas utility which derives most its earnings from business-friendly regulatory jurisdictions in the United States. Recent underperformance, owing to concerns about the strength of the company's balance sheet following its US$10 billion acquisition of Florida-based TECO Energy in 2016, presented an appealing entry point to the stock. The company's current focus on organic rate base growth, along with the expected sale of non-core assets, should strengthen its balance sheet and enable Emera to re-rate to a valuation that better reflects the quality of its business.

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 mobile towers. These sectors share common characteristics, like barriers to entry and pricing power, which can provide investors with inflation-protected income and the potential for strong capital growth over the medium-term.

Tollroads remain the Fund's largest sector overweight, owing to the appeal of their high operating margins, stable cash flows and effective barriers to entry. Notwithstanding this month's tragic event in Italy, European operators are positioned to benefit from resilient traffic volumes over long time frames. Transurban's successful bid for WestConnex adds a substantial and high quality asset to the listed infrastructure opportunity set. Peers in China and Latin America operate high growth tollroads with well-established concession agreements, providing an essential service to some of the most densely populated regions in the world.

Energy pipelines are the portfolio's second largest sector overweight. Investor concerns about earnings growth have presented the Fund with opportunities to build positions in several companies with unique and long life energy infrastructure networks, at appealing valuation multiples. Sentiment towards the sector is now improving, helped by simpler corporate structures and clarity for substantial growth projects; while surging North American production growth is providing a favourable operating environment.

On a more cautious note, the Fund remains underweight airports and some US utilities. Despite strong growth prospects and some high quality assets, these sectors continue to trade at valuations that we find difficult to justify based on company fundamentals.

The best/worst performing stocks are referred to solely to illustrate the investment process (and should not be construed as a recommendation to buy or sell any of these companies), are not representative of the performance of the Fund as a whole and should not be taken into account in any decision as to whether to invest in the Fund. Furthermore, these figures refer to the past and past performance is not a reliable indicator of future results.

[2] Earnings before interest, taxes, debt and amortization.

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