For professional clients only

FIRST STATE GLOBAL LISTED INFRASTRUCTURE FUND

Monthly Update

May 2019

Market review

Global Listed Infrastructure held up well in May as geopolitical uncertainty and a deteriorating global economic outlook drew investors towards defensive assets. The FTSE Global Core Infrastructure 50/50 index rose +2.8%, while global equities^ ended the month -2.5% lower.

The best performing infrastructure sector was Towers (+6%). The sector continues to benefit from structural growth in demand for mobile data, reflecting the growing popularity of video-on-demand and media streaming. Toll Roads (+2%) gained on the appeal of their stable cash flows, high operating margins and inflation-linked pricing.

The worst performing sector was Airports (-2%). Asian operators were affected by weakening passenger growth rates; while Aeroports de Paris (-16%, not held) dropped after it was announced that the long-awaited sale of the French government's stake in the company would be subject to a referendum. Ports (-2%) fell as the China-US trade war worsened. The world's largest container shipping company, Maersk, lowered its forecast growth rates for container traffic citing ongoing trade tensions.

The best performing infrastructure region was Latin America (+5%), as investors looked past a US threat to implement a 5% tariff on Mexican goods; and focused on news that Brazil appeared increasingly likely to pass pension reform measures later in the year.

The worst performing region was Japan (-5%) as uncertainty about the timing of nuclear reactor re-starts continued to weigh on the country's electric utilities (screened out of our Focus List); and the country's economy was deemed to be "worsening" for the first time in more than six years. The United Kingdom (-2%) also underperformed as political turmoil intensified.

Fund performance

The Fund returned +3.4% after fees in May[1], 54bps ahead of its benchmark index.

Annual Performance (% in GBP) to 31 May 2019

Period	12 mths to 31/05/2019	12 mths to 31/05/2018	12 mths to 31/05/2017	12 mths to 31/05/2016	12 mths to 31/05/2015
First State Global Listed Infrastructure Fund B GBP Acc	16.7	-4.3	33.2	7.0	15.1
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	18.9	-2.3	30.1	4.8	13.5
MSCI World Net Total Return Index GBP	5.3	8.2	31.3	0.7	16.2

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 best performing stock in the portfolio was CCR (+17%), Brazil's largest toll road operator. Investors looked past the slow recovery in traffic volumes, to focus on the company's scope to participate in the new growth projects and privatisations that will be needed to meet Brazil's infrastructure needs.

[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.

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.

Australian freight rail company Aurizon (+9%) outperformed after agreeing new terms with the customers of its Queensland rail network, which generates around 50% of company earnings. If approved by the regulator, the 10-year agreement would allow Aurizon to earn higher returns from this substantial regulated asset, while avoiding a costly and time consuming regulatory tariff review every four years.

Tower companies American Tower (+7%), SBA Communications (+6%) and Crown Castle (+3%) were buoyed by reports that Amazon may be interested in buying wireless assets from Sprint, if Sprint and T-Mobile are allowed to merge. The move could see the Tower sector gain a large new customer. March quarter earnings results from American Tower highlighted robust growth rates for its US business and generally healthy leasing activity across its towers globally.

The worst performing stock in the portfolio was a small holding in China Merchants Ports (-13%) whose assets include a 26% stake in Shanghai International Port Group, the world's busiest container port. April data showed a -2% decline in shipping container volumes across China Merchants' ports, compared to the same period a year earlier. Peer COSCO Shipping Ports (flat) held up better as its volumes gained +4%, led by strong growth for its port assets in Europe and the Middle East.

US electric and gas utility CenterPoint Energy (-7%) lagged after March quarter earnings disappointed, owing to lower earnings from its small Energy Services business segment. The company reaffirmed 2018 – 2023 earnings guidance, citing strong customer growth and favourable regulatory frameworks for its utility businesses. UK utilities SSE (-6%) and National Grid (-1%) underperformed after a leaked policy document from the opposition Labour Party provided the latest reminder to investors of its plans to nationalise the UK's energy network companies, if it came to power.

US freight rail stocks Union Pacific (-5%) and Norfolk Southern (-4%) slipped as volume growth rates softened, consistent with May's weak ISM Manufacturing survey. Both companies continue to implement measures to improve operational efficiency, with Union Pacific reducing headcount faster than expected, and Norfolk Southern demonstrating material improvements in key service metrics including Train Speed (up) and Terminal Dwell times (down).

Fund activity

The Fund broadened its exposure to the energy pipelines sector by initiating a position in Enterprise Products Partners. The company has a significant presence in the US energy infrastructure space with ~50,000 miles of pipelines and 260 million barrels of storage capacity, run by a well-regarded and experienced management team. It has a strong balance sheet, pays a distribution yield of ~6% and has a robust earnings growth profile, based on exposure to US energy exports and growth in Natural Gas Liquids.

Mexican airport operator ASUR was also added to the portfolio. The company's portfolio of modern, well managed airports includes Cancun, a popular and high profile destination for US tourists. Mounting security risks in Cancun, concern over a possible Mexican recession, and political uncertainty under the country's left wing populist President Obrador have overshadowed a positive longer term outlook for passenger growth. The stock has materially underperformed other Mexican airport stocks and our broader investment universe over the past year, creating a compelling value opportunity.

The Fund sold its holding in Channel Tunnel operator Getlink after a strong period of outperformance moved the stock lower within our Value / Quality ranking process. Current valuation multiples do not adequately reflect the ongoing uncertainty associated with Brexit and market hopes for a takeover appear increasingly optimistic.

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.

In our opinion 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. Several infrastructure sectors are benefitting from structural growth drivers such as urbanisation (toll roads) and the increasing mobility of communication (mobile towers).

Many listed infrastructure companies are taking proactive measures to streamline operational efficiency and improve business profitability. We believe the implementation of Precision Scheduled Railroading by US freight railways Union Pacific and Norfolk Southern is improving customer service, reducing costs, and improving asset returns. Pipeline companies are making positive moves to sell non-core assets, reduce leverage, and lower commodity sensitivity. The resulting improvements to business quality are being reflected in improved valuation multiples.

The Fund's investment universe continues to broaden. The listing of mobile tower company China Tower and the privatisation of Sydney's WestConnex toll road in 2018 saw substantial, long life assets added to the listed infrastructure opportunity set. The auctioning of new LatAm airport and toll road concessions, and build-out of additional energy export infrastructure facilities in the US, are expected to add to this theme.

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

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