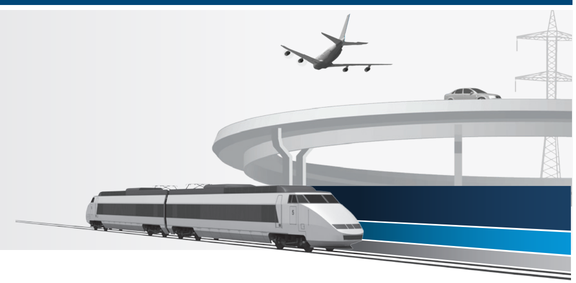
# First State Global Listed Infrastructure Strategy



Q4 2017

## Market insights

The global listed infrastructure index[1] gained in the December quarter. A backdrop of positive sentiment and upbeat economic conditions helped more volatile sectors to outperform. Political and regulatory news was also a factor, lending support to US freight rail but weighing on UK utilities and Chinese ports.

The strategy ended 0.7% higher over this period, compared to a return of 1.7% from its benchmark index[1].

**Performance (% in USD) to 31 December 2017**

| Performance (% before fees and expenses) | 3 months | 1 year | 3 years p.a. | 5 years p.a. | 7 years p.a. | 10 years p.a. | Since inception p.a. |
|---|---|---|---|---|---|---|---|
| Composite* | 0.7 | 19.7 | 9.5 | 12.0 | 10.8 | 6.3 | 6.1 |
| Benchmark** | 1.7 | 18.4 | 7.0 | 10.1 | 8.7 | 3.3 | 3.0 |
| Active performance | -1.0 | 1.3 | 2.5 | 1.9 | 2.1 | 3.0 | 3.1 |

Returns are in USD to Dec 31, 2017. Composite returns are gross of fees. Composite inception date: November 1, 2007.

* First State Investments Global Listed Infrastructure – Global Unhedged Composite ^MSCI World USD (Net TR)

** Benchmark from inception was the S&P Global Infrastructure Index , from 01-Jun-2008 the UBS Global Infrastructure & Utilities 50-50 Net Index, from 01-Apr-2015 the FTSE Global Core Infrastructure 50-50 Net Index. Composite performance figures do not reflect the deduction of investment advisory fees. A client's return will be reduced by the investment fees. If a client placed $100,000 under management and a hypothetical gross return of 10% were achieved, the investment assets before fees would have grown to $259,374 in 10 years. However, if an advisory fee of 1% were charged, investment assets would have grown to $234,573, or an annual compounded rate of 8.9%.

Source: First State Investments. Past performance is not an indication of future performance.

## Sector and region performance

The best performing infrastructure sector was Towers, which announced strong quarterly earnings and upbeat outlook statements. The breakdown of merger talks between telcos Sprint and T-Mobile[2] removed a perceived headwind to Towers' growth rates.

Airports and Tollroads rallied on airline capacity increases, better-than-expected volume growth and a new takeover bid for Spanish operator Abertis. US Railroads climbed as US September quarter GDP was revised up to a three-year high of 3.3% and tax cut proposals passed both houses of Congress.

Satellites lagged as disappointing earnings re-emphasized structural weakness in the sector's pricing power. Concerns for project delays and balance sheet stability weighed on Pipelines early in the period, before they recovered some ground as the quarter drew to a close.

The best performing region was Australia / New Zealand, where utilities, toll roads and airports were lifted by a robust domestic economy and lower local bond yields. A precarious political situation continued to affect UK infrastructure stocks.

1 FTSE Global Core Infrastructure 50/50 Index.

2 For illustrative purposes only. Reference to companies mentioned in this document is merely for explaining the investment strategy and should not construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of First State Investments.

## Portfolio activity

The strategy bought shares in a freight rail operator. The company owns and operates a 12,400 mile rail network which connects business centers across Canada and extends into the US Midwest and Northeast regions; as well as accessing key ports on the continent's east and west coasts. It operates alongside larger peer Canadian National Railway as an effective duopoly in many markets. The company's market share had been under pressure as the company focused on operational improvements, resulting in stock price under-performance. The company's relatively appealing valuation multiple today, combined with indications that it may now have scope to recover market share (slipping customer service metrics at Canadian National) led us to buy.

A position in a Tower company was sold. Substantial outperformance this year, driven by investor enthusiasm for the Tower sector's structural growth and improving earnings outlook, reduced mispricing and moved the stock lower within our value and quality stock ranking process.

## Market outlook[3]

The strategy 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 of strong capital growth over the medium-term.

The strategy offers a high conviction portfolio of quality infrastructure companies. Our team takes a long-term view and focuses on fundamental mispricing with sector and regional exposures that tend to be an outcome of bottom-up stock calls, and are often contrarian in style.

Financial markets enter 2018 highly optimistic with global economic growth looking robust in our view and US tax cuts boosting corporate earnings. We would caution that political developments may lead to volatility with general elections scheduled in Italy (March), Mexico (July) and Brazil (October); along with ongoing instability in the UK and Germany; and an unpredictable Trump-led US.

With the gradual reduction in central bank stimulus and potential for higher inflation (tighter labor markets and higher energy prices), we would expect to see interest rates rise through the year, which may act as a headwind for investment returns across all asset classes.

Within the global listed infrastructure asset class; earnings growth remains solid, balance sheets look robust, and dividends should grow faster than earnings. We believe that global listed infrastructure remains well positioned to protect and grow capital through economic cycles owing to its potential for defensive earnings growth and inflation pass-through characteristics.

3. Certain statements, estimates, and projections in this document may be forward-looking statements. These forward-looking statements are based upon First State Investments' current assumptions and beliefs, in light of currently available information, but involve known and unknown risks and uncertainties. Actual actions or results may differ materially from those discussed. Readers are cautioned not to place undue reliance on these forward-looking statements. There is no certainty that current conditions will last, and First State Investments undertakes no obligation to publicly update any forward-looking statement.