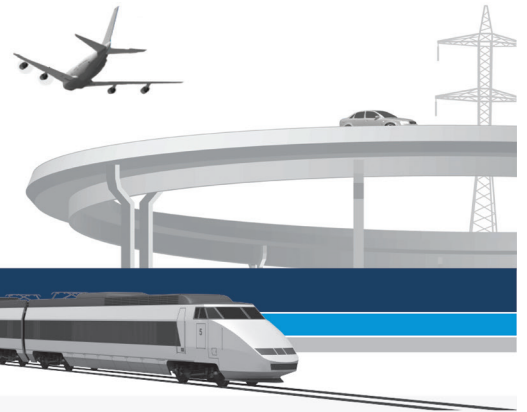


First State Global Infrastructure

Monthly Review and Outlook

July 2020



Market Review

Global Listed Infrastructure resumed its upward trajectory in July, aided by better than expected earnings for much of the asset class. The best performing infrastructure sectors were Multi-, Water and Electric Utilities (+5% to +7%) as solid earnings results highlighted the ability of these companies to weather a slowing economic environment. US electric utilities led the gains, after the release of an updated climate plan sparked hopes that already-substantial measures to roll out renewables may be accelerated under a Biden presidency.

The worst performing infrastructure sector was Airports (-9%), as the complications of reopening international travel while coronavirus cases remain widespread became increasingly apparent. Toll Roads (-3%) also lagged, despite steady traffic recovery in those cities that are successfully navigating coronavirus impacts.

The best performing infrastructure region was USA (+6%), reflecting strong demand for its substantial utilities sector. The worst performing infrastructure region was Japan (-13%) where a deteriorating coronavirus situation weighed on the country's passenger rail and airport stocks.

Fund Performance

The Fund gained +2.2% after fees in July¹, 102 basis points ahead of the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was NextEra Energy (+17%), which operates a regulated utility in Florida, and is also the largest developer and operator of wind, solar and battery plants in North America. Better than expected earnings numbers (11% Earnings Per Share growth compared to the same period a year earlier) and a surge of enthusiasm for the substantial investment opportunities presented by the buildout of renewable generation across the US propelled its share price higher.

Other utilities with a growing renewables focus also performed well. Alliant Energy (+13%) announced plans to eliminate all coal-powered generation by 2040 – a decade earlier than the company's previous target – and announced a Net Zero by 2050 target. Positive weather conditions, better than expected sales and a disciplined cost approach enabled Xcel

Energy (+10%) to achieve June quarter EPS growth of 18%. The company has identified US\$3 billion-worth of solar, wind and energy efficiency-focused projects that it could roll out across its Minnesota service territory. In contrast, Dominion Energy (flat) lagged after selling its natural gas transmission business to US conglomerate Berkshire Hathaway for a lower than expected price; cancelling the Atlantic Coast Pipeline project, and reducing its dividend. The moves mark a material shift towards cleaner energy, giving scope for Dominion's valuation multiples to match its renewables-focused peers over time.

North American east coast freight rail operator Norfolk Southern (+9%) announced June quarter earnings that exceeded the market's (bearish) expectations, accompanied by optimistic outlook comments. Quarterly earnings for Union Pacific (+3%) were in line with market expectations, with a disciplined approach to costs offsetting softer pricing. While freight volumes have fallen sharply and the outlook for haulage volumes remains uncertain, both companies have the potential to improve operating efficiency as they continue to implement Precision Scheduled Railroading across their networks – a process that their peers have already benefitted from.

The worst performing stocks in the portfolio were West Japan Railway (-25%) and East Japan Railway (-19%). Coronavirus cases in Japan continued to increase, stalling passenger recovery. A substantial ¥1.35trillion (US\$12.5bn) government subsidy for domestic tourism did little to improve sentiment. June quarter earnings numbers for both companies were disappointing, and neither provided full year earnings guidance. East Japan Railway fared slightly better, reflecting its higher conventional railway lines vs longer haul, high speed shinkansen routes.

Toll road operators also underperformed. Vinci (-11%) reported steep volume declines at its French motorways concessions business and global airports network for the first half of 2020, and announced that it will not pay an interim dividend this year. The company expects activity levels to improve at both business segments during the second half of 2020. Traffic forecasts for Eiffage (-9%) also look set to improve in the second half of the year, after reduced volumes in the June quarter. Both companies' share prices recovered ground in early August. Australia's Transurban (-2%) held up better after announcing the opening of the M8 project early in the month – the second major underground stage of Sydney's WestConnex motorway network.

Fund Activity

No new stocks were added to the portfolio during the month, and positions in existing holdings were generally maintained at existing levels.

Market Outlook and Portfolio Positioning

The Fund invests in a range of global listed infrastructure assets including toll roads, airports, 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 strong capital growth over the medium-term.

The portfolio remains positioned with toll roads as its largest sector overweight. Valuation multiples still imply multi-year traffic declines, in contrast to the improvements that toll road companies referenced in recent quarterly earnings updates. While increased flexibility to work-from-home may result in adjustments to traffic, we see mounting evidence that people prefer to travel by private car than by public transport in order to maintain social distancing.

We remain cautious on the Airports sector. A sustained recovery in airline passenger numbers appears a remote prospect, given to traveller wariness and resurgent coronavirus case numbers in many regions. A staggered re-opening of airports may start with domestic or regional flights, which are less valuable than international flights.

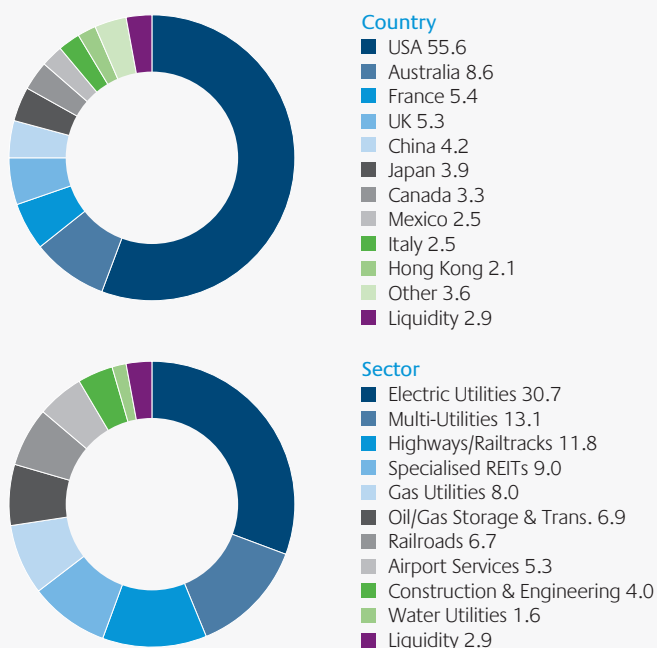
A prudent approach has also been maintained towards North American freight rail stocks. We admire these high quality, well managed infrastructure businesses, but remain conscious of their sensitivity to the economy. Despite a clouded outlook for freight volumes, they continue to trade at historic high multiples. Earnings forecasts reflect expectations of a sharp recovery, which our analysis suggests is an overly optimistic scenario.

The Fund has a small overweight exposure to Multi/Electric utilities. Many good quality utilities are trading at relatively appealing levels, having underperformed in recent rising markets. Regulated utility earnings should be materially more resilient than those of the broader market in the event of an extended economic slowdown or recession. Lower interest rates will be supportive of valuation multiples. Share price gains this month appeared to reflect renewed investor recognition of the longer term structural growth drivers (build-out of renewables, replacement of aged networks) for this sector.

	Annualised Performance in SGD (%) ²				
	1yr	3yrs	5yrs	10yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	-3.6	2.2	5.3	7.4	4.1
Class A (SGD - H Dist) (Inc initial charges)	-8.5	0.5	4.2	6.8	3.7
Benchmark*	-4.1	4.2	6.5	8.5	4.5

	Cumulative Performance in SGD (%) ²				
	3 mths	1yr	3yrs	5yrs	Since inception
Class A (SGD - H Dist) (Ex initial charges)	2.0	-3.6	6.7	29.2	65.6
Class A (SGD - H Dist) (Inc initial charges)	-3.1	-8.5	1.4	22.7	57.3
Benchmark*	2.5	-4.1	13.0	37.2	73.6

Asset Allocation (%)²



Top 10 holdings (%)²

Stock name	Sector	%
Transurban	(Highways/Railtracks)	7.1
Nextera Energy Inc	(Electric Utilities)	6.6
Dominion Energy Inc COM	(Multi-Utilities)	5.4
Eversource Energy	(Electric Utilities)	4.1
American Tower Corporation	(Specialised REITs)	3.7
SBA Communications Corp Class A	(Specialised REITs)	3.5
American Electric Power Company, Inc.	(Electric Utilities)	2.9
Xcel Energy Inc.	(Electric Utilities)	2.7
NiSource Inc.	(Multi-Utilities)	2.6
Emera Inc	(Electric Utilities)	2.4

² Source: Lipper & First State Investments. Single pricing basis with net income reinvested. Data as at 31 July 2020. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%. The First State Global Infrastructure inception date: 3 March 2008. * From inception - 31 May 08 : S&P Global Infrastructure Index; From 1 Jun 08 - 31 Mar 15 : UBS Global Infrastructure and Utilities 50-50 Index; From 1 Apr 15 : FTSE Global Core Infrastructure 50/50 Index

Source : Company data, First State Investments, as of end of July 2020.

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