First State Investments 首域投資

Global Listed Infrastructure

Monthly Review and Outlook

April 2017

- First State Global Listed Infrastructure Fund invests in global listed infrastructure and infrastructure-related securities.
- Investing in shares in a single sector may expose the Fund to greater volatility than investing in multiple sectors. The value of the Fund may be impacted by risks associated with listed infrastructure including changes in environmental regulations. It is possible that the entire value of your investment could be lost.
- All or part of the Fund's fees and expenses may be paid out of capital resulting in an increase in distributable income and effectively a distribution out of capital. Similarly in certain circumstances dividends may be paid out of capital. This amounts to a partial return of an investor's original investment, or from any capital gains attributable to that original investment, and may result in an immediate decrease of the Net Asset Value per share.
- You should not base your investment decision solely on this document. You should not invest unless the intermediary who sells it to you has advised you that the Fund is suitable for you and explained how it is consistent with your investment objectives.

Market review

Global listed infrastructure increased in April as robust corporate earnings and M&A prospects in the toll road sector drew investor interest.

The best performing sector was Airports, which rose on healthy passenger growth and well-received earnings numbers from European and Latin American airport operators. Railroads climbed as higher volumes and firm pricing drove solid earnings results for US Class I freight rail stocks, and Japanese shinkansen (bullet train) operators recovered ground. The exception to this growth rally was Ports, which consolidated strong ytd returns.

The best performing region, Europe, was buoyed by consistently improving economic data and optimism over centrist Emmanuel Macron's victory in the first round of the French presidential election.

The UK lagged after the announcement of a June general election was followed by proposals from the incumbent Conservative Party to cap domestic energy prices.

Fund review

The Fund rose 2.6% in April[1], 102 basis points ahead of the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was Spanish toll road operator Abertis which gained on news that Italian peer Atlantia was considering a ~€16 billion takeover bid. The deal would create one of the world's largest infrastructure groups and achieve several positive aims for both companies, including better diversification of earnings and reduced re-investment risk.

Airports climbed on well-received 1Q earnings numbers. Spain's AENA announced higher than expected earnings growth of 16.3%, driven by higher commercial revenues and disciplined cost control. GAP reported a 24% increase in earnings as it continues to benefit from the US economic recovery and the expansion of airline routes to destinations in Mexico.

In the US freight rail sector, news of a far better than expected 40% year-over-year increase in EPS, delivered during a confident 1Q earnings call from newly appointed CEO Hunter Harrison, bolstered East Coast operator CSX. The increase was underpinned by strong coal haulage volumes, consistent with the recent rise in coal exports from the US East Coast. Kansas City Southern, whose rail network straddles the US/Mexico border, rallied after the Trump administration opted to re-negotiate rather than abandon NAFTA.

The worst performing portfolio holding was UK electric utility SSE, which fell on concerns that a government proposal to put a price cap on "standard variable tariffs" may curtail earnings at its energy retail business (which accounts for 18% EBITDA). The portfolio's other UK-listed utility holdings United Utilities and National Grid – as well as Spain's Iberdrola whose global utility portfolio includes regulated UK assets – also underperformed.

In the ports sector, China Merchants Port Holdings and COSCO Shipping Ports declined, despite announcing substantial organic volume growth of around 6% for March as improving global demand continues to provide a tailwind for exports from Asia. Japanese operator Kamigumi fared better over the month on the appeal of its undemanding valuation multiples and defensive balance sheet.

No stocks were divested, and no new stocks were added to the Fund during April.

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

[1] Source: First State Investments as at 30 April, 2017. Performance is based on First State Global Listed Infrastructure Fund Class I (USD - H Dist).
All stock and sector performance data expressed in local currency terms. Source: Bloomberg.
The Fund's calendar year performance: 11.7% (2016); -5.7% (2015); 12.3% (2014); 17.3% (2013); 10.4% (2012).

barriers to entry and pricing power, which can provide investors with inflation-protected income and strong capital growth over the medium-term.

The Fund has maintained its overweight exposure to toll roads, which trade at undemanding valuation multiples and offer well-supported dividend yields of between 4% and 6%. Consistent volume growth and (in many cases) inflation-linked pricing are supportive of stable and growing cash flows. The scope to negotiate to secure new projects or concession life extensions in exchange for additional capex spending commitments further supports the thesis of strong medium term earnings growth.

An overweight position has also been maintained in railroads. Japan's stable, large-cap passenger rail operators are trading at appealing valuations. US Class I freight railroads are unique and valuable franchises. They typically operate under duopoly market conditions, with significant numbers of captive customers such as grain, chemical and auto producers giving them strong pricing power over long haul routes. Their wholly-owned track networks are high quality infrastructure assets which can never be replicated.

The Fund's largest underweight exposure is to the airports sector. Strong passenger growth stimulated by the growing middle class in China, and investor demand for yield, has caused some operators to trade up to valuation multiples that we find difficult to justify on fundamentals. The Fund has retained some exposure to European and Mexican airports, where valuations appear more reasonable.