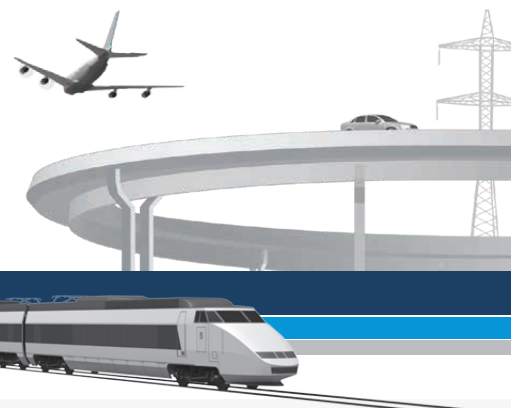# First State
Global Listed Infrastructure Fund

Monthly Review and Outlook
February 2019

- The Fund invests primarily in global listed infrastructure and infrastructure-related equity and equity related securities worldwide. Investments in infrastructure projects may involve risks including projects not being completed on time and within budget, changes in environment laws and regulations.
- The Fund's investments may be concentrated in a single and limited/specialist sector or in fast growing economies which may have higher volatility or greater loss of capital than more diversified portfolios.
- Small/ mid-capitalisation securities may have lower liquidity and their prices are more volatile to adverse economic developments.
- The Fund may use FDIs for hedging and efficient portfolio management purposes, which may subject the Fund to additional liquidity, valuation, counterparty and over the counter transaction risks
- For certain share classes, the Fund may at its discretion pay dividend out of capital or pay fees and expenses out of capital to increase distributable income and effectively a distribution out of capital. This amounts to a return or withdrawal of your original investment or from any capital gains attributable to that, and may result in an immediate decrease of NAV per share.
- It is possible that a part or entire value of your investment could be lost. You should not base your investment decision solely on this document. Please read the offering document including risk factors for details.

Market Review

Global Listed Infrastructure gained in February, supported by steady earnings growth and buoyant investor sentiment. The FTSE Global Core Infrastructure 50/50 index climbed +2.3%, while the MSCI World index rose +3.0^.

The best performing infrastructure sector was Gas Utilities (+5%). Chinese operators led the sector higher after Hunan province announced that connection fees for new customers - a key source of earnings growth - would be maintained at existing levels. Railroads (+5%) rallied on continued enthusiasm for operational improvement measures being taken by freight rail stocks, and on the view that December quarter pricing gains were likely to continue into 2019. Japanese passenger rail stocks outperformed on the appeal of their stable assets and longer-term growth potential from property development projects. The worst performing sector was Ports (-1%), as US-China trade tensions contributed to a -0.9% fall in global trade flows during the December quarter.

The best performing region was Australia / NZ (+5%), whose infrastructure stocks were buoyed by indications that the Reserve Bank of Australia expected a softer outlook for growth and interest rates. The worst performing region was Latin America (-3%) as Brazil's utilities and toll roads lagged after several months of strong gains.

	Calendar Year Performance in USD (%) [1]				
	2018	2017	2016	2015	2014
Class I (USD - H Dist)	-8.3	17.2	11.7	-5.7	12.3
Benchmark*	-4.0	18.4	11.3	-6.0	13.6

Asset Allocation (%) [1]
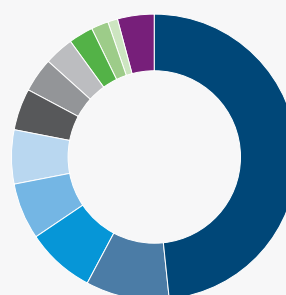
Country
- USA 48.4
- Canada 9.5
- Japan 7.7
- Australia 6.4
- UK 6.0
- Spain 4.7
- China 4.0
- Italy 3.3
- France 2.7
- Brazil 2.2
- Other 0.9
- Liquidity 4.1
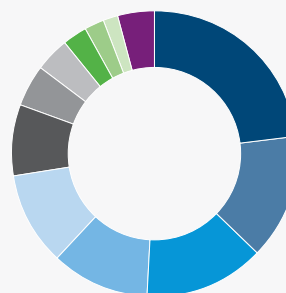
Sector
- Electric Utilities 23.2
- Highways/Railtracks 14.2
- Oil/Gas Storage &Trans. 13.7
- Multi-Utilities 11.1
- Railroads 10.5
- Specialised REITs 8.2
- Construction & Engineering 4.5
- Gas Utilities 4.1
- Airport Services 2.8
- Marine Ports & Services 2.0
- Other 1.7
- Liquidity 4.1

Fund Performance

	Cumulative Performance in USD (%) [1]					
	3 mths	YTD	1yr	3yrs	5yrs	Since inception
Class I (USD - H Dist)	5.8	10.5	7.3	31.9	34.1	72.4
Benchmark*	6.3	10.3	11.7	38.3	42.2	75.9

Top 10 holdings (%) [2]

Stock name	Sector	%
Dominion Energy Inc COM	(Multi-Utilities)	6.5
Transurban Group Stapled Deferred	(Highways/Railtracks)	5.7
Nextera Energy Inc	(Electric Utilities)	5.7
Transcanada Corp	(Oil/Gas Storage & Trans.)	5.5
Kinder Morgan Inc Class P	(Oil/Gas Storage & Trans.)	4.2
East Japan Railway Co	(Railroads)	3.7
American Electric Power Company, Inc.	(Electric Utilities)	3.5
Williams Companies, Inc.	(Oil/Gas Storage & Trans.)	3.5
Atlantia S.p.A	(Highways/Railtracks)	3.3
Crown Castle International Corp	(Specialised REITs)	3.3

The portfolio returned +3.0%[3] in February, 69 basis points ahead of the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was French-listed concession and construction company Vinci (+9%), following a positive reaction to its 2018 earnings numbers. Robust growth in its fast-growing airports division offset the disruptive effect of gilets jaunes protests on its toll road concessions. Investors were drawn to the company's undemanding valuation multiples, ~4% dividend yield and positive growth outlook.

Spanish peer Ferrovial (+4%) also gained, despite announcing a substantial €774 million write-down on its UK subsidiary Amey, which is to be sold along with the rest of Ferrovial's Services business. Our analysis suggests that Ferrovial's core infrastructure assets - including stakes in Toronto's 407ETR toll road and London's Heathrow Airport - remain undervalued by the market. The political risks facing Italian-listed toll road operator Atlantia (+4%) continued to subside. The stock was buoyed by comments from Italy's Minister of Infrastructure suggesting that no measures had been taken to revoke its Autostrade concession.

US freight rail operators Norfolk Southern (+7%) and Union Pacific (+6%) climbed as investors looked past recent signs of volume softness and focused on the potential for Precision Scheduled Railroading to materially improve margins and profits for both companies. At their analyst day this month, Norfolk Southern outlined plans to improve operational efficiency more quickly than had been expected, through a combination of productivity improvements and revenue growth.

The portfolio's Japanese infrastructure stocks also performed well. Tokyo Gas (+7%) and Osaka Gas (+6%) delivered below-consensus December quarter earnings but raised full year guidance, citing lower operating expenses and favourable energy prices. Both companies trade on undemanding multiples, as the market continues to over-estimate the threat that the 2017 de-regulation of Japan's domestic gas market could represent to their dominant market positions. East Japan Railway (+6%) and West Japan Railway (+6%) climbed on growing market recognition of the relative value on offer in these stable companies.

The worst performing holding in the portfolio was Jiangsu Expressway (-5%), which fell as concerns that lower trade flows and a slowing Chinese economy could affect truck volumes on its toll road network. Passenger traffic growth rates in the relatively affluent Jiangsu province are expected to remain robust over the long term. Other EM toll roads also lagged. Brazil's CCR (-4%) gave up ground after the Secretary of the Economy and Planning of São

Paulo made comments that ran counter to an earlier proposal from São Paulo's governor to extend existing toll road concession terms. Pinfra (-3%), which operates a network of toll roads in Mexico City, declined as robust December quarter traffic volumes and earnings were overshadowed by the perception of rising regulatory risk under the regime of Mexico's left-wing President, Andrés Manuel López Obrador (AMLO).

Fund Activity

During the month the Fund initiated a position in Magellan Midstream Partners, an Oklahoma-based energy infrastructure company run by a well-regarded and conservative management team. Magellan's assets include a 9,700-mile refined products pipeline system in Texas and the US Midwest; an expanding network of crude oil pipelines; and a marine terminals business. Its defensive balance sheet gives the company scope to grow earnings by expanding pipeline capacity to the refineries and energy export facilities on the Gulf Coast. A recent period of underperformance has moved the stock higher within the value/quality rankings of our investment process, presenting the opportunity to gain exposure to high quality assets at an appealing valuation.

Georgia-based utility Southern Company was sold as the market became more comfortable with the execution risks involved in the construction of the Vogtle power plant in Georgia, and the company's mispricing reduced. Plains All American Pipeline was also sold on concerns about rising competition and the risk of over-capacity in its Permian Basin-focused service area in West Texas.

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 inflation-protected income and strong capital growth over the medium-term.

Our 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 4% per annum. 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 (Towers).

Listed infrastructure companies are taking proactive measures to streamline operational efficiency and improve business profitability. The implementation of Precision Scheduled Railroading by US freight railways Union Pacific and Norfolk Southern is expected to improve customer service, reduce costs, and improve asset returns. Pipeline companies have also made positive moves over the past 12 months, including selling non-core assets, reducing leverage, lowering commodity sensitivity, and simplifying their corporate structures. The resulting improvements to business quality are now beginning to reflect in valuation multiples.

First State Global Listed Infrastructure Fund

As well as sound fundamentals, we expect a number of additional factors to be supportive of returns from Global Listed Infrastructure. The investment universe continues to broaden, which is likely to stimulate further interest in the asset class. The US$7 billion Initial Public Offering of mobile tower company China Tower, and the recent privatisation of Sydney's WestConnex toll road are recent examples of substantial, long life assets being added to the listed infrastructure opportunity set.

The ongoing asset allocation shift by large pension and sovereign wealth funds into real assets in general, and into infrastructure specifically, should also prove supportive of asset class valuations. This could happen directly, through allocations to listed infrastructure funds; or indirectly, through takeovers of listed companies by unlisted infrastructure funds.