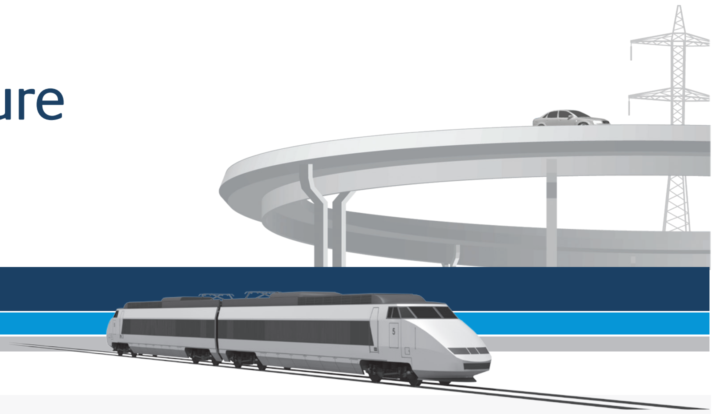
First State Investments

First State Global Infrastructure

Monthly Review and Outlook

September 2017



Market Review

Global listed infrastructure fell in September as investors favoured equities more exposed to an improving economic environment.

The best performing sector was Railroads as US freight railroads responded to strong manufacturing surveys and the prospect of reduced corporate taxes.

The worst performing sector was Towers as strong underlying earnings growth was offset by concerns of pending consolidation of tower customers. Airports were also weak as strong passenger growth rolled over and airlines announced a number of capacity cuts.

The worst performing region was United Kingdom as utilities were impacted by ongoing political and regulatory tension and comments from the Bank of England that interest rates may rise in the coming months.

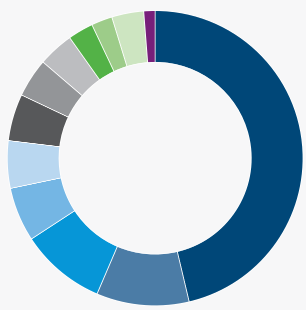
Performance Review

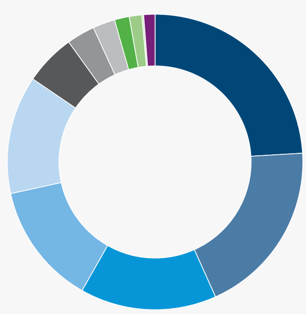
The Fund ended the month -0.3% lower[1], 143 basis points ahead of the FTSE Global Core Infrastructure 50/50 TR Index (SGD). The strong alpha reflected overweight positions in railroads and tollroads plus underweight positions in towers and airports.

Annualised Performance in SGD (%) [1]	1yr	3yrs	5yrs	Since inception
Fund (Ex initial charges)	12.2	10.4	12.1	4.8
Fund (Inc initial charges)	6.5	8.5	11.0	4.2
Benchmark*	12.5	10.5	13.4	4.6

Cumulative Performance in SGD (%) [1]	3 mths	1yr	3yrs	5yrs	Since inception
Fund (Ex initial charges)	1.9	12.2	34.4	77.0	56.4
Fund (Inc initial charges)	-3.2	6.5	27.7	68.1	48.6
Benchmark*	1.8	12.5	35.0	87.1	54.2

Asset Allocation (%) [1]





[1] Source: Lipper & First State Investments. Single pricing basis with net income reinvested. Data as at 30 September 2017. Fund since inception date: 3 March 2008. *Inception - 31 May 2008: S&P Global Infrastructure Index. 1 June 2008 – 31 March 2015: UBS Global Infrastructure and Utilities 50-50 Index. From 1 April 2015: FTSE Global Core Infrastructure 50/50 Index.

Top 10 holdings (%) [2]

Stock name	Sector	%
National Grid plc	(Multi-Utilities)	7.8
Transurban Group Ltd.	(Highways & Railtracks)	5.2
American Tower Corporation	(Specialised REITs)	5.0
Atlantia S.p.A	(Highways & Railtracks)	4.9
PG&E Corporation	(Electric Utilities)	4.6
East Japan Railway Co	(Railroads)	4.5
Enbridge Inc.	(Oil/Gas Storage & Trans.)	4.5
Kinder Morgan Inc Class P	(Oil/Gas Storage & Trans.)	4.2
NextEra Energy, Inc.	(Electric Utilities)	4.0
Dominion Resources, Inc.	(Multi-Utilities)	4.0

The best performing stocks in the portfolio were US freight railroads Union Pacific, Norfolk Southern and CSX. Improved economic conditions were highlighted by the ISM Manufacturing survey result of 60.8, one of the highest readings in the last 30 years. These conditions are expected to translate into stronger volume growth and improved pricing over the coming quarters. US railroads are typically full tax payers with large capital investment needs and low leverage, making them key beneficiaries of the Trump administration's proposed changes to corporate tax.

Japanese passenger railroads Central Japan Railway and East Japan Railway performed well on the back of robust shinkansen volume growth, buoyed by strong employment and tourism. Rental growth and low vacancy rates also underpinned earnings growth in their high quality commercial property assets.

European highways & railtracks including Vinci , Eurotunnel and Abertis continued to deliver positive returns. Vinci and Eurotunnel continue to benefit from a recovery in passenger and truck traffic in France, and political intent to stimulate the economy through large-scale infrastructure investment. Abertis was supported by the proposed takeover bid from Atlantia and ongoing speculation of an alternative bid from Spain conglomerate ACS, in consortium with private infrastructure funds.

Energy stocks were mixed with Enbridge Inc and Vopak contrasting with Kinder Morgan and Plains All American Pipeline . Enbridge bounced on news of Federal Energy Regulatory Commission (FERC) regulatory approval to start construction on the $2 billion Nexus project, a 255-mile gas transmission pipeline linking Appalachian shale gas through Ohio to Michigan and beyond. Vopak recovered on news it had sold a majority stake in a refined product terminal to a private infrastructure fund. The Eemshaven terminal in the Netherlands is contracted for strategic reserves. We estimate it was sold at a 20-30% premium to Vopak's current trading multiple.

The worst performing stock in the portfolio was American Tower . Underlying earnings growth has been supported by strong demand for mobile data, the deployment of new spectrum and the new FirstNet first responder network. However, the market became concerned by pending consolidation of tower customers. T-Mobile and Sprint, the third and fourth largest US telecom operators, are speculated to be close to a merger deal. The overlap of sites may reduce the growth outlook for tower operators, though the impact would be limited to 4-5% of total revenue and spread over a number of years as contracts roll off.

Utilities including National Grid , American Electric Power , NextEra Energy and Dominion Energy were generally weak on concerns for rising interest rates. National Grid was affected by weak currency translation of its US dollar earnings and concerns that large-scale projects may face competitive tendering. American Electric Power continued to make regulatory progress on its proposed $4.5 billion Wind Catcher project. The 2,000 MW wind farm and transmission project will be the largest in America and continues the trend of utilities adding renewable generation to their rate base.

During the month the fund divested its holding in Xcel Energy following a period of strong outperformance. The market is now pricing in earnings growth above the upper-end of company guidance and assuming all announced wind projects are approved and added to the rate base.

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 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 the toll road sector, which contains high quality companies with inflation-linked pricing and high barriers to entry. We are attracted to their reasonable valuation multiples and well-supported dividend yields of between 3% and 5%. Long term, structural factors such as urbanisation and traffic congestion are likely to underpin growing demand.

Railroads are the Fund's second largest overweight position. Japan's stable, low beta passenger rail stocks including East Japan Railway and Central Japan Railway are trading at appealing valuations, and operating against an improving economic backdrop. US freight rail operators such as Union Pacific, Norfolk Southern and CSX are unique and valuable franchises with strong pricing power, and the ability to grow earnings over time by improving operational efficiency.

The Fund has an underweight exposure to utilities, where share price gains in recent months have made it more difficult to find clearly mispriced stocks. The Fund's utility exposure is focussed on companies such as NextEra Energy and PG&E, which are deriving low risk earnings growth by investing in transmission network enhancements and growth in renewables.

The Fund's largest underweight exposure remains the airport sector which continues to trade at valuation multiples that we find difficult to justify on fundamentals. The Fund has retained some exposure to European and Mexican airports, where valuations are more reasonable.

[2] Source: First State Investments. Data as at 30 September 2017.