First State Investments

First State Global Infrastructure

Monthly Review and Outlook

November 2018

Market Review

Global Listed Infrastructure climbed in November as a softening global growth outlook spurred demand for defensive assets. The FTSE Global Core Infrastructure 50/50 index gained +3.0%, while global equities^ increased by +1.1%.

The best performing infrastructure sector in this environment was Water Utilities (+6%), which rallied on the appeal of their predictable cashflows and income generation. Towers (+5%) also outperformed. Global mobile data traffic in the September quarter was 79% higher than the previous year, reflecting growing numbers of smartphone subscriptions and the ever-increasing popularity of video on these devices.

The worst performing sector was Airports (-3%). Swiss operator Flughafen Zuerich (-18%, not held) sold off after proposed revisions to regulated aviation charges triggered a negative market reaction. Mexican airports also lagged on mounting concerns that the "direct democracy" approach of the country's President-elect, Andrés Manuel López Obrador, could weaken Mexico's institutions and drag on the economy.

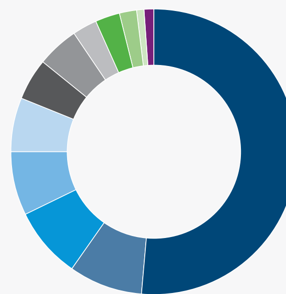
The best performing regions included Canada (+7%) and the US (+4%), where pipelines and most utilities delivered strong returns. The worst performing region was Europe ex-UK (flat) where slowing economic indicators and gilets jaunes protests in France held back transport infrastructure stocks.

Fund Performance

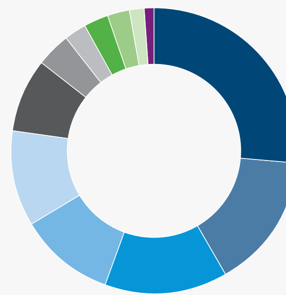
	Annualised Performance in SGD (%) [1]				
	1yr	3yrs	5yrs	10yrs	Since inception
Fund (Ex initial charges)	-3.0	6.1	7.5	8.4	3.9
Fund (Inc initial charges)	-7.8	4.3	6.4	7.9	3.4
Benchmark*	0.9	8.8	9.6	8.9	4.4

	Cumulative Performance in SGD (%) [1]				
	3 mths	1yr	3yrs	5yrs	Since inception
Fund (Ex initial charges)	-0.4	-3.0	19.6	43.8	51.5
Fund (Inc initial charges)	-5.4	-7.8	13.6	36.6	43.9
Benchmark*	0.9	0.9	28.7	58.4	59.3

Asset Allocation (%) [1]



Country
- USA 51.5
- Canada 8.3
- Japan 8.0
- Australia 7.2
- UK 6.1
- China 4.9
- Spain 4.5
- Italy 2.9
- Brazil 2.7
- France 2.0
- Other 0.8
- Liquidity 1.0



Sector
- Electric Utilities 26.4
- Highways/Railtracks 15.5
- Oil/Gas Storage & Trans. 13.9
- Railroads 10.8
- Multi-Utilities 10.8
- Specialised REITs 8.3
- Construction & Engineering 3.8
- Gas Utilities 2.7
- Airport Services 2.6
- Marine Ports & Services 2.5
- Other 1.7
- Liquidity 1.0

Top 10 holdings (%) [1]

Stock name	Sector	%
Dominion Energy Inc COM	(Multi-Utilities)	6.5
Transurban Group Stapled Deferred	(Highways/Railtracks)	6.5
NextEra Energy, Inc.	(Electric Utilities)	5.7
TransCanada Corporation	(Oil/Gas Storage & Trans.)	5.1
Kinder Morgan Inc Class P	(Oil/Gas Storage & Trans.)	4.8
East Japan Railway Co	(Railroads)	4.1
American Electric Power Company, Inc.	(Electric Utilities)	3.9
Evergy Inc Com	(Electric Utilities)	3.2
Williams Companies, Inc.	(Oil/Gas Storage & Trans.)	3.0
Crown Castle International Corp	(Specialised REITs)	3.0

All stock and sector performance data expressed in local currency terms. Source: Bloomberg. [1] Source: Lipper & First State Investments. Single pricing basis with net income reinvested. Data as at 30 November 2018. Fund since inception date: 3 March 2008. ^MSCI World Net Total Return Index, USD. *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.

The Fund ended the month +0.5% higher[2], 159 basis points behind the FTSE Global Core Infrastructure 50/50 TR Index (SGD).

The best performing stock in the portfolio was Brazil tollroad operator CCR (+18%) which announced it had agreed to settle a Sao Paulo state civil lawsuit relating to the alleged illegal transfer of funds to politicians. Under the terms of the settlement, CCR has agreed to pay BRL81.5 million (~US$21m). Although it could yet face questions in the other Brazilian states where it operates concessions, São Paulo state is the company's largest and most important market. Investors welcomed the reduction in uncertainty surrounding the stock, and the smaller than expected amount being paid (equivalent to ~0.4% of CCR's market capitalisation).

Canadian electric utility Emera (+10%) announced the sale of three New England natural gas-fired power plants to private equity firm Carlyle Group for US$590 million, as part of its strategy to sell peripheral assets and re-focus on organic rate base growth. US utilities, which earn a return on capital spent maintaining and improving their assets (rate base), highlighted ongoing opportunities for earnings growth. American Electric Power (+7%) emphasised its target EPS growth rate of between 5% and 7% pa as it upgrades and modernises its 40,000 mile electric transmission network. Dominion Energy (+4%) re-iterated a positive capex outlook for its Virginia service territory over the next five years as a result of the Grid Transformation & Security Act, which encourages investment into transmission grids and the build-out of renewable energy.

The portfolio's pipeline holdings also delivered strong returns over the month. TransCanada (+10%) recovered ground as investors became increasingly aware of its compelling valuation multiples. At its recent analyst day the company maintained its dividend growth guidance of between 8% and 10% pa through to 2021, and gave a bullish account of its future growth projects. Williams (+4%) achieved better than expected September quarter earnings from its pipeline networks connecting natural gas production regions in the North-East US and Texas with East Coast US population centres; and signalled that full year earnings were likely to be at the upper end of guidance.

The worst performing stock in the portfolio was North California utility PG&E (-44%), which was affected by a new outbreak of wildfires in its extensive service territory. The company's equipment may have been involved in starting the devastating Camp Fire, to the north of Sacramento. Owing to the extent of the fire; and the political challenge of implementing legislation in the current environment, the portfolio's position in PG&E has been reduced. We believe this decision was prudent, given the difficult circumstances.

UK electric utility SSE (-4%) underperformed as fresh obstacles to the planned merger of its electricity retail business with rival Npower emerged. Falling customer numbers and the introduction of a new price cap by the UK energy regulator Ofgem have led SSE and Npower's parent company Innogy to reconsider the merger's agreed terms.

Fund activity

During the month the Fund initiated a position in Eversource Energy, New England's largest energy company, which services 3.7 million electric and natural gas customers in Massachusetts, Connecticut and New Hampshire. The company is run by an experienced management team with a history of strong execution and acting in the best interests of all stakeholders. Its high quality transmission, distribution and water assets are a source of healthy rate base growth. At current valuation multiples, we believe that limited value is being ascribed to the company's medium-term potential growth projects. Examples include the build-out of offshore wind projects; and transmission projects linking Canadian power generation with the New England population.

The fund divested its holdings in Canadian pipeline operators Enbridge Inc. and Gibson Energy. Enbridge, owner of a substantial portfolio of energy infrastructure assets, was sold after the company simplified its corporate structure and sold assets to strengthen its balance sheet. Gibson Energy was sold following a period of material outperformance as the company successfully sold non-core assets in order to focus on its strategically located energy storage and transportation facilities in Western Canada. The company's valuation multiples expanded as this process took place, moving the stock to a lower position within our Value/Quality rankings and causing us to sell.

Market Outlook and Fund Positioning

The Fund invests in a range of global listed infrastructure assets including tollroads, 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 (Tollroads) and the increasing mobility of communication (Towers).

As well as sound fundamentals, we expect a number of additional factors to be supportive of returns from Global Listed Infrastructure. The listed infrastructure investment universe continues to broaden, which is likely to stimulate further interest in the asset class. The IPO in July of China Tower, which operates the towers of China's three state-backed telecoms providers, provides an example of the listed infrastructure market expanding through government sell-downs and conglomerates divesting non-core assets.

[2] Fund performance is based on the Singapore unit trust, net of fees, expressed in SGD terms.

Tollroad operators Ferrovial and Transurban are pursuing their Express Lane strategies in the US - a politically palatable way to involve private sector capital in US highway infrastructure. We anticipate that both companies will be major players in this space over the next three to five years, diversifying and improving our opportunity set. Further, the ongoing asset allocation shift by large pension and sovereign wealth funds into real assets in general, and into infrastructure specifically, should provide a tailwind for asset class valuations.The Fund remains underweight airports and some US utilities. Despite strong growth prospects and high quality assets, many companies in these sectors are trading at valuations that we find difficult to justify based on company fundamentals.

Overall, recent performance has been impacted by rising interest rates and political interference. With these key risks now discounted into valuations, there should be greater confidence in future returns.

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