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First State Investments

FIRST STATE GLOBAL LISTED INFRASTRUCTURE FUND

Monthly Update

February 2019

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 gained +1.1%, while the MSCI World index rose +1.9%^.

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 expected 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 / New Zealand (+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.

Fund performance

The Fund returned +1.7% in February[1], 57bps ahead of its benchmark index. 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.

Annual Performance (% in GBP) to 28 February 2019

Period	12 mths to 28/02/2019	12 mths to 28/02/2018	12 mths to 28/02/2017	12 mths to 29/02/2016	12 mths to 28/02/2015
First State Global Listed Infrastructure Fund B GBP Acc	13.8	-4.8	32.0	4.9	18.5
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	15.8	-4.1	30.1	1.9	19.5
MSCI World Net Total Return Index GBP	4.0	6.0	35.8	-1.3	17.0

These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than the share class currency, the return may increase or decrease as a result of currency fluctuations.

Performance figures have been calculated since the launch date. Performance data is calculated on a net basis by deducting fees incurred at fund level (e.g. the management and administration fee) and other costs charged to the fund (e.g. transaction and custody costs), save that it does not take account of initial charges or switching fees (if any). Income reinvested is included on a net of tax basis. Source: Lipper IM / First State Investments (UK) Limited.

*The benchmark changed from the UBS Global Infrastructure & Utilities 50-50 Index on 01/04/2015.

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

[1] Performance is based on OEIC B share class, net of fees, expressed in GBP.

^ MSCI World Net Total Return Index, GBP.

All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

RISK FACTORS

This document is a financial promotion for First State Global Listed Infrastructure Fund for professional clients only in the EEA and elsewhere where lawful. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back significantly less than the original amount invested.**
- **Currency risk:** changes in exchange rates will affect the value of assets which are denominated in other currencies.
- **Single sector risk:** investing in a single sector may be riskier than investing in a number of different sectors. Investing in a larger number of sectors helps spread risk.
- **Charges to capital risk:** the fees and expenses may be charged against the capital property. Deducting expenses from capital reduces the potential for capital growth.
- **Listed infrastructure risk:** investments in infrastructure may be vulnerable to factors that particularly affect the infrastructure sector, for example natural disasters, operational disruption and national and local environmental laws.

Reference to specific securities or companies (if any) are included to explain the investment strategy and should not be construed as investment advice, or a recommendation to invest in any of those companies.

For a full description of the terms of investment and the risks please see the Prospectus and Key Investor Information Document.

If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

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 Emerging Market 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).

Defensive Japanese stocks lagged as confidence returned to the market. West Japan Railway (+2%) announced solid December quarter operating profit growth of 4%. Healthy passenger volumes indicate that the company has now recovered from the floods and earthquakes that affected its service area in mid-2018. East Japan Railway (+4%) announced December quarter operating profit growth of 2%, in line with consensus expectations, and appears on track to beat full year guidance.

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, although of course this cannot be guaranteed. 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.

As well as sound fundamentals, we expect a number of additional factors to be supportive of returns. 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.

All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

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