First State Investments

FIRST STATE GLOBAL LISTED INFRASTRUCTURE FUND

Monthly Update

June 2019

Market review

Global Listed Infrastructure gained in June, supported by increasingly dovish central bank rhetoric and persistently low bond yields. The FTSE Global Core Infrastructure 50/50 index rose +3.2%, while global equities^ ended the month +5.6% higher.

The best performing infrastructure sector was Airports (+8%). Malaysia Airports (+16%, not held), Airports of Thailand (+15%, not held), and Flughafen Zuerich (+9%, not held) received positive regulatory and duty-free revenue sharing outcomes; while European and Australian operators reported robust passenger volumes. The benign interest rate environment, along with the prospect of growth opportunities in Brazil from additional concession auctions, proved supportive of Toll Roads (+6%).

The worst performing sector was Towers (flat), which paused following a sustained period of significant outperformance on the back of exponential demand growth for mobile data. Pipelines (+1%) also delivered relatively muted gains following strong year to date (YTD) performance.

The best performing infrastructure region was Australia / New Zealand (+9%), where airports, toll roads and ports were buoyed by the Reserve Bank of Australia's decision to cut interest rates for the first time in three years. The worst performing region was Japan (-2%), where low beta passenger rail and utilities stocks were out of favour in rising markets.

Fund performance

The Fund returned +3.0% after fees in June[1], 19bps behind its benchmark index.

Annual Performance (% in GBP) to 30 June 2019

Period	12 mths to 30/06/2019	12 mths to 30/06/2018	12 mths to 30/06/2017	12 mths to 30/06/2016	12 mths to 30/06/2015
First State Global Listed Infrastructure Fund B GBP Acc	18.2	-0.7	16.9	28.7	7.2
FTSE Global Core Infrastructure 50/50 Index Net TR GBP*	19.8	1.1	13.1	28.1	4.7
MSCI World Net Total Return Index GBP	10.3	9.3	21.6	14.4	10.3

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.

The best performing stock in the portfolio was Chinese gas utility ENN Energy (+10%) which remains well positioned to benefit from the Chinese government's efforts to adjust the country's energy mix away from coal and towards cleaner fuels such as natural gas. The company earns a fee for each new household that it connects to the gas supply and for each unit of gas sold; while improvements to China's energy infrastructure are expected to support healthy volume and margin growth over the medium term.

[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.

The portfolio's geographically diversified toll road holdings performed well. Australian-listed Transurban (+8%) pushed higher owing to lower interest rates and a robust earnings growth outlook. Jiangsu Expressway (+7%) gained on the winning of a new US$840 million, 5km bridge project across the Yangtze River, as well as continuing to report solid traffic growth. Spanish-listed peer Ferrovial (+5%) rallied as investors welcomed the sale of its 65% stake in southern Spain's Autopista del Sol toll road for €447 million at the remarkable price of ~21x forward EV/EBITDA*.

UK utilities Severn Trent (+6%), National Grid (+5%) and SSE (+4%) gained as softer polling numbers for the opposition Labour Party saw renationalisation concerns recede somewhat, allowing investors to focus on the sector's attractive valuation multiples. Severn Trent remains confident in its ability to improve efficiency and exceed its Outcome Delivery Incentives (operational metrics set by the regulator, which give the company the potential to earn additional returns). Severn Trent's share price was further buoyed by news that Qatar's sovereign wealth fund had built a 4.2% stake in the company. SSE reiterated that its dividend policy, rising in line with RPI inflation until 2023, remains in place. The stock currently yields over 7%.

The worst performing stock in the portfolio was Japanese gas utility Tokyo Gas (-6%), which fell alongside Osaka Gas (-3%). These defensive, cash generative utilities lagged as investors rotated towards higher beta assets. Both stocks face lingering concerns that mounting competitive pressure, following the de-regulation of domestic energy markets, could weigh on medium term earnings growth.

Japanese passenger rail operator East Japan Railway (-2%) also underperformed in this environment, as investors overlooked its stable, commuter-driven earnings and undemanding valuation multiples. Smaller peer West Japan Railway (+3%) fared better, helped by a higher (albeit still small) exposure to inbound tourism growth, and the prospect of continued development along its rail network and property corridor.

Fund activity

Large cap Canadian pipeline operator Enbridge Inc. was added to the portfolio. The company's assets include the world's longest crude oil and liquids transportation system; Canada's largest natural gas distribution company; and substantial US natural gas gathering, transportation, processing and storage facilities. Regulatory delays to one of the company's growth projects - the Line 3 Replacement Project - resulted in material share price underperformance, providing an opportunity to gain exposure to the company's portfolio of unique, long life infrastructure assets at an appealing price.

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

The Fund is positioned with toll roads as its largest sector overweight. Transurban, Atlantia and Vinci have high barriers to entry, strong free cash flow and inflation linked pricing. We are attracted to their reasonable valuation multiples and well-supported dividend yields of between 3% and 6%, although this cannot be guaranteed. Growing urbanisation and worsening traffic congestion are likely to underpin long term demand. Emerging Market peers operate high growth toll roads with well-established concession agreements, providing an essential service to some of the most densely populated regions in the world.

The Fund is also overweight energy pipelines including TC Energy (TransCanada) and Williams. These companies own assets connecting North American oil and gas fields with processing facilities and export terminals, positioning them to benefit from rising production levels and US energy exports.

The Fund is underweight multi/electric utilities. A number of high quality US names continue to trade at valuations that we find difficult to justify based on company fundamentals. The Fund has also maintained its underweight exposure to Airports, with exposure limited to leading European and Mexican operators. Notwithstanding this month's positive developments, we believe the sector faces medium term headwinds following a long period of above-average growth.

* Enterprise Value/Earnings Before Interest, Taxes, Depreciation and Amortization
All stock and sector performance data expressed in local currency terms. Source: Bloomberg.

For further institutional enquiries contact institutionalenquiries@firststate.co.uk
For wholesale enquiries contact enquiries@firststate.co.uk