

For professional clients only

SUSTAINABLE LISTED INFRASTRUCTURE

Sustainable capital growth
and inflation protected income



RISK FACTORS

This is a financial promotion for The First State Sustainable Listed Infrastructure Strategy. This information is for professional clients only in the UK and 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.

For details of the firms issuing this information and any funds referred to, please see [Terms and Conditions](#) and [Important Information](#).

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

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

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Worldwide, billions of people rely on infrastructure to live and do business. We believe delivering these essential services sustainably creates a way to drive meaningful change benefitting the environment, people’s living standards and company profitability.

First State Investments (FSI) Sustainable Listed Infrastructure strategy is managed by a team of experienced infrastructure specialists, who have an in-depth understanding of infrastructure assets and the social license they need to operate.

The team uses proprietary research, detailed engagement and a rigorous investment process to construct a high conviction portfolio of companies that make sustainability part of their corporate culture and who are led by management teams that are accountable and focused over the long term.

Characteristics of infrastructure

High entry barriers

In most cases, infrastructure assets are government legislated or natural monopoly providers of essential services. For example, electricity and gas distribution networks, toll roads with non-compete clauses or city airports with restricted flight paths.

Pricing power

Infrastructure assets tend to have the ability to consistently increase the price of their services over time. This can be due to several factors including tolls linked to inflation, real regulated returns and assets with high barriers to entry making competition difficult.

Predictable cash flows

Infrastructure assets have an ability to generate cash flows that can be highly predictable, although this cannot be guaranteed. This predictability is underpinned by infrastructure’s essential service nature, regulated returns, long-term contracts, limited cyclicalities and lack of commodity price exposure.

Sustainable growth

Infrastructure assets generally have a growth profile supported by longterm economic and demographic trends. They historically tend to be relatively immune to economic cycles and exhibit defensive qualities in falling markets.

Why sustainability matters for infrastructure

Large environmental footprints

Infrastructure assets tend to be large scale, long life, tangible assets which can significantly affect their surroundings and the broader environment. From construction to operation, meaningful steps can be taken to reduce this impact. Examples range from site evaluation and community engagement to the reduction of emissions or levels of resource consumption.

Carbon reduction

Investment in the infrastructure sector comes with exposure, either directly or indirectly, to the two largest contributors of carbon emissions: namely transportation and electric power generation. Taking a sustainable approach to infrastructure investing provides an opportunity to engage with these companies, to understand what steps they are taking to reduce their carbon footprint, and to assess the adequacy of their approach.



Toll roads

Railroads

Airports

Ports

Water and waste utilities

Electric and gas utilities

Pipelines

Mobile towers and satellites

Essential services

Infrastructure assets provide essential services to the communities they serve, and to society in general. The non-discretionary nature of these services means that any disruption, poor service or negligence can have wide ranging implications. Paying close attention to social issues, such as the nature of an infrastructure company's relationship with the community in which it operates; the way it treats its employees; and the quality of service that it provides; supports the ongoing acceptance of a company's operations.

Captive customers

Infrastructure assets can often have monopolistic characteristics, with limited scope for customers to choose between or switch providers. We believe this puts many infrastructure companies in a privileged position. It also brings a higher level of regulation and public scrutiny, highlighting that social considerations are a crucial part of doing business in this sector.

Improving governance

We consider corporate governance issues to be important performance drivers of all infrastructure stocks. An appropriately diversified, experienced and knowledgeable board can be key to effective decision making. Remuneration structures, in our opinion, should align company management and shareholder interests; and include metrics that highlight the substantial environmental and social importance of infrastructure assets.

The investment case for sustainable listed infrastructure

A sustainability focus can potentially improve performance and reduce risk

We believe a focus on sustainability can help deliver positive risk adjusted returns. It can create opportunities for positive performance; generating ideas as well as lowering the overall risk profile of a portfolio through a better understanding of various ESG related risks.

Attractive risk-adjusted returns

Over the past 15 years global listed infrastructure has delivered higher returns than global equities, with a lower level of risk¹ as measured by standard deviation of returns.

Inflation protected income

The nature of infrastructure assets means they are typically able to increase prices in line with inflation, providing a stable and growing distribution yield over time.

Diversification, low correlation with other asset classes

Global listed infrastructure has relatively low correlations to other asset classes and provides diversification benefits within an investment portfolio. The strategy itself is well diversified by sector and country, reducing exposure to event, regulatory and political risk.

Liquid and transparent

The size of the listed infrastructure market is more than US\$2 trillion, so investors can have freedom to move in and out of positions. Listed funds provide daily pricing so investors know exactly what their portfolio is worth. Listed companies are typically more highly scrutinised by regulators, governments, unions and the media.

Risks

Regulatory and political risk

The strategy may invest in assets that are subject to industry specific regulation. There is a risk that changes to these regulations may have an adverse effect on the assets and affect the return of the strategy. There is also the risk that general changes in government/political decisions, existing laws or the introduction of new legislation may have a negative impact on the assets. We seek to minimise regulatory and political risks by favouring regions with stable regulatory environments, established legal processes and democratic political systems.

Interest rate risk

Owing to the stable nature of cash flows, many infrastructure assets are able to be relatively highly geared. Consequently, they may be exposed to movements in interest rates and to contractual repayment obligations with financiers. Movements in interest rates may also affect the discount rates used in the valuation of these long duration assets.

We seek to minimise interest rate risk by identifying assets with strong market positions, sustainable growth opportunities, inflation protected income and relatively low or hedged debt levels.

Exogenous risk

Infrastructure assets may be impacted by external events and risks. For example, the essential nature of infrastructure assets may increase the risk of terrorist attacks while the high cost of replacing assets may increase the risk stemming from natural disasters. While these events are difficult to predict, we seek to minimise exogenous risks through portfolio diversification.

Operating risk

Specialist skills are required in running an infrastructure business such as an airport or power station. An operating failure may adversely affect the profitability of the business and therefore the return of the strategy. We seek to minimise the operating risks through portfolio diversification, regular meetings with management and detailed fundamental analysis to understand industry drivers, company financials and company strategy and execution.

¹ Comparing MSCI World Index Net TR (USD) with the FTSE Global Core Infrastructure 50-50 Net TR Index (USD) to Dec 2005, and prior to that the Macquarie Global Infrastructure Index 100 Local TR (USD), over 15 years to 28 February 2019.

Investment Process



These steps can be described as follows:

1. Screening

Securities that have poor infrastructure characteristics, low yield and growth are screened out in the first step of the process.

2. Fundamental research

Valuable insights are sought into the firm's management, asset quality, financial position, strategic direction, as well as the regulatory environment and overall competitive landscape.

This includes a consideration of environmental, social and governance issues for the firm.

3. Valuation ranking

The third step in the process is to rank stocks on consistent valuation measures. Our primary valuation tool is a Discounted Cash Flow (DCF) valuation, given the long duration nature of infrastructure assets. A broad range of other valuation measures are also considered.

4. Quality ranking

Each company is evaluated on 25 criteria that we believe influence performance, including infrastructure characteristics, management, financial position, regulation, sustainability and equity flows.

5. Sustainability analysis

The team's analysis is then further considered from a sustainability perspective. This seeks to draw out those companies that make sustainability part of their corporate culture, and that are led by management teams who are accountable and focussed on delivering over the long term.

6. Security selection

Valuation and quality ranking results are combined with sustainability analysis to determine a rating on each security ranging from Sell, Buy, Strong Buy to Best Idea.

7. Macro risk management

Various geopolitical and macroeconomic scenarios are debated and their potential impact on the companies is considered in order to better manage the potential risks in an overall portfolio.

8. Portfolio construction

The portfolio is based on the team's ratings. The weighting of the security in the portfolio reflects the expected returns, the degree of the team's conviction and the correlation with other securities in the portfolio. The team seeks diversification across countries and sectors to manage regulatory and event risk.

Our approach

Specialists

The strategy is managed by a dedicated team of specialists investing in listed infrastructure. Team members have complementary skills and experience in both infrastructure and equities markets. This experience is enhanced by over 500 company visits each year. We have always believed in the importance of sustainability. ESG considerations have been embedded into our investment process since the inception of the core Global Listed Infrastructure strategy in 2007.

Sustainability focus

The strategy invests in high quality infrastructure companies that take a responsible approach to sustainability. This emphasis can give us important insights into how a company operates, and helps us to understand the long term risks and potential rewards for investors. We believe our deep understanding of the infrastructure market should make us well positioned to form views on each company's culture and management's ability to deliver sustainably over the long term.

Engaged

We believe it is vital to actively engage with companies, to encourage sustainability best practice and to lobby for change. Through this engagement, we seek to highlight areas for potential improvement, encourage disclosure on ESG issues, and commend companies that are making progress in this area. We view this approach as being an important element of our fiduciary responsibilities.

Long-term

We believe investing in long-dated assets requires a long-term perspective. We spend as much time understanding the history of a company as we do forecasting its future. Infrastructure consists of long term assets that can be matched against long-dated liabilities. Investors need to be confident that their companies are being managed for the next decade, not just the next quarter.

Disciplined

We seek to earn excess returns by integrating a rigorous stock selection process with strict portfolio management risk controls. The investment process combines direct contact with proprietary research, a consistent valuation framework, a comprehensive 25-point quality assessment, in-depth sustainability analysis and consideration of macro risks. This structured process can reduce bias and support potential repeatable outperformance.

Investment team

Our investment team is comprised of nine dedicated investment professionals. The team has more than 15 years' average investment experience. Rebecca Sherlock is the lead portfolio manager of the First State Sustainable Listed Infrastructure Fund. Peter Meany is the co-manager.



<p>Peter Meany Head of Listed Infrastructure 23*</p>	<p>Andrew Greenup Deputy Head Senior PM 22* Toll Roads Ports Utilities</p>	<p>Trent Koch Portfolio Manager 20* Utilities Railroads</p>	<p>Edmund Leung Portfolio Manager 13* Towers / Sats Utilities</p>	<p>Rebecca Sherlock Portfolio Manager 17* Utilities</p>	<p>Pablo Kohen Senior Analyst 16* Pipelines</p>	<p>Jessica Johnson Senior Analyst 9* Railroads Utilities</p>	<p>James Lewandowski Analyst 8* Airports Utilities</p>	<p>George Thornely Investment Manager 19*</p>
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*Experience refers to years in industry as at February 2019.

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

For wholesale enquiries contact enquiries@firststate.co.uk

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