First State Investments
首域投資

Global Listed Infrastructure

Monthly Review and Outlook

May 2017

- First State Global Listed Infrastructure Fund invests in global listed infrastructure and infrastructure-related securities.
- Investing in shares in a single sector may expose the Fund to greater volatility than investing in multiple sectors. The value of the Fund may be impacted by risks associated with listed infrastructure including changes in environmental regulations. It is possible that the entire value of your investment could be lost.
- All or part of the Fund's fees and expenses may be paid out of capital resulting in an increase in distributable income and effectively a distribution out of capital. Similarly in certain circumstances dividends may be paid out of capital. This amounts to a partial return of an investor's original investment, or from any capital gains attributable to that original investment, and may result in an immediate decrease of the Net Asset Value per share.
- You should not base your investment decision solely on this document. You should not invest unless the intermediary who sells it to you has advised you that the Fund is suitable for you and explained how it is consistent with your investment objectives.

Market review

Global listed infrastructure increased in May as higher traffic volumes, robust earnings numbers and secure market positions underpinned stock price increases for a broad range of sectors.

The best performing sector was Airports, which continued to benefit from positive momentum in passenger volume growth. Gains were led by European and Asian operators, which rallied on airline capacity additions and duty-free sales growth.

Pipelines underperformed as the oil price continued its recent downward trend. Despite this dip, the US$7.1 billion acquisition by Canada's Pembina Pipeline Corp (flat, not held) of peer Veresen Inc (+21%, not held) highlighted the value being ascribed to these high quality, long life assets.

The best performing region was Europe, which gained as Macron's comfortable defeat of Le Pen in the French Presidential election added to the sense of a stabilising political backdrop. Latin America was led lower by Brazilian infrastructure stocks, which sank following revelations that President Temer had been recorded, allegedly, endorsing the payment of bribes. The controversy sparked concerns that government reforms aimed at overhauling Brazil's finances and labour markets may be derailed.

Fund review

The Fund rose 3.7% in May[1], 28 basis points ahead of the FTSE Global Core Infrastructure 50/50 Index (USD, Net TR).

The best performing stock in the portfolio was Spanish airport operator AENA. Passenger numbers climbed by a better than expected 17% in April; while new route launches and airlines' planned capacity expansions imply further growth to come.

Other strong performers in the European transport infrastructure space included Atlantia, on investor enthusiasm for the potential acquisition of Spanish peer Abertis; and Eurotunnel which achieved substantial (~€60m pa) savings on its financing costs, owing to a successful debt refinancing operation.

Growing volumes also provided a tailwind to the portfolio's port stocks. Japan's Kamigumi rallied after an uplift in March quarter volumes enabled full year earnings to beat market consensus. Cosco Shipping Ports, the world's fifth largest port operator, announced robust 5% organic volume growth for its China-focused port assets in April, consistent with broader signs of an improving Chinese economy.

The worst performing portfolio holding was Kinder Morgan, which IPO-ed a ~30% stake of its Canadian assets to help fund the C$7.4 billion expansion of its existing Trans Mountain pipeline. However a recent alliance between British Columbia's New Democratic Party and the Green Party – both of whom have expressed their opposition to the project - sparked concerns that it could face delays.

CCR, Brazil's largest toll road operator by revenue and the Fund's only Brazilian holding, was affected by domestic political turmoil. Despite a 2.8% decline in traffic volumes compared to the same period a year ago, the company announced a 3.9% increase in first quarter earnings.

The Fund added to its utilities exposure, buying shares in Hydro One and Osaka Gas. Canadian electric utility Hydro One owns high quality electric transmission and distribution assets; and operates in a constructive regulatory environment. Until recently owned by the Ontarian government, the company's privatized status is likely to present its management team with substantial cost-out opportunities over the longer term.

A position was initiated in Osaka Gas following a period of significant underperformance compared to local peers and to the broader regulated utility opportunity set. The company has lagged on concerns that intensifying gas market competition may affect its

[1] Source: First State Investments as at 31 May, 2017. Performance is based on First State Global Listed Infrastructure Fund Class I (USD - H Dist).
All stock and sector performance data expressed in local currency terms. Source: Bloomberg.
The Fund's calendar year performance: 11.7% (2016); -5.7% (2015); 12.3% (2014); 17.3% (2013); 10.4% (2012).

growth prospects. In our view the market has now priced in an overly negative outlook for the stock, creating an appealing buying opportunity.

Holdings in Spanish electric utility Iberdrola and French airport operator Aeroports de Paris were sold following pleasing share price gains during the Fund's respective holding periods.

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 portfolio's largest sector overweight is to the toll roads sector. We are attracted to its undemanding valuation multiples and well-supported dividend yields of between 4% and 6%. The portfolio is also overweight the port sector, which continues to trade at undemanding valuation multiples and significant discounts to book value, despite signs of an improving outlook for global trade volumes, including robust export orders and container shipping volumes so far in 2017.

The Fund's largest underweight exposure remains the airport sector. Strong passenger growth stimulated by the growing middle class in China, and investor demand for yield, has caused some operators to trade up to 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.