GLOBAL LISTED INFRASTRUCTURE

Sustainable capital growth and inflation protected income.
RISK FACTORS
This document is a financial promotion for The First State Global Listed Infrastructure Strategy. This information is 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 for each Fund. If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice.

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.

Our company's 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 cyclicality and lack of commodity price exposure.

**Sustainable growth**

Infrastructure assets generally have a growth profile supported by long-term 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.
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 Environmental, Social and Governance (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 trillion2, 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 risks

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 risks

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.
2 Source: Bloomberg as at 31 December 2018
First State Global Listed Infrastructure Strategy

Investment process

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 fundamental 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.

Rebecca Sherlock (17)
Portfolio Manager
Utilities

Trent Koch (20)
Portfolio Manager
Railroads; Utilities

Edmund Leung (13)
Portfolio Manager
Towers; Satellites; Utilities

Jessica Johnson (9)
Senior Analyst
Railroads; Utilities

James Lewandowski (8)
Analyst
Airports; Utilities

Pablo Kohen (16)
Senior Analyst
Pipelines

Andrew Greenup (22)
Deputy Head Senior PM
Coverage: Tollroads, Ports, Utilities

Peter Meany (23)
Head of Listed Infrastructure

George Thornely (19)
Investment Manager

Important Information

This document has been prepared for informational purposes only and is only intended to provide a summary of the subject matter covered. It is directed at persons who are professional / institutional clients only and has not been prepared for and is not intended for persons who are retail clients. It does not purport to be comprehensive. The views expressed are the views of the writer at the time of issue and may change over time. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs and should not be used as the basis of any investment decision. This document is not an offer document and does not constitute an offer or invitation or investment recommendation to distribute or purchase securities, shares, units or other interests or to enter into an investment agreement. No person should rely on the content and/or act on the basis of any material contained in this document.

This document is confidential and must not be copied, reproduced, circulated or transmitted, in whole or in part, and in any form or by any means without our prior written consent. The information contained within this document has been obtained from sources that we believe to be reliable and accurate at the time of issue but no representation or warranty, express or implied, is made as to the fairness, accuracy, or completeness of the information. We do not accept any liability whatsoever for any loss arising directly or indirectly from any use of this information.

References to “we” or “us” are references to Colonial First State Global Asset Management (“CFSGAM”) which is the consolidated asset management division of the Commonwealth Bank of Australia ABN 48 123 123 124 (“Bank”).

In the UK, issued by First State Investments (UK) Limited (“FSI UK”) which is authorised and regulated by the Financial Conduct Authority (registration number 143359). Registered office Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB number 2294743. Outside the UK within the EEA, this document is issued by First State Investments International Limited (“FSIII”) which is authorised and regulated in the UK by the Financial Conduct Authority [registered number 122512]. Registered office: 23 St. Andrew Square, Edinburgh, EH2 2BB number SC079063. In Australia, this document is issued by Colonial First State Asset Management (Australia) Limited (ABN 69 114 194 311, AFSL 289017) (“CFSAMA”).

Certain funds referred to in this document are identified as sub-funds of First State Investments ICVC, an open ended investment company registered in England and Wales (“OEIC”) or of First State Global Umbrella Fund, an umbrella investment company registered in Ireland (“VCC”). Further information is contained in the Prospectus and Key Investor Information Documents of the OEIC and VCC which are available free of charge by writing to: Client Services, First State Investments (UK) Limited, Finsbury Circus House, 15 Finsbury Circus, London, EC2M 7EB or by telephoning 0800 587 4141 between 9am and 5pm Monday to Friday or by visiting www.firststateinvestments.com. Telephone calls may be recorded. The distribution or purchase of shares in the funds, or the provision of services may be restricted in certain jurisdictions.

Representative and Paying Agent in Switzerland: The representative and paying agent in Switzerland is BNP Paribas Securities Services, 8002 Zurich, Switzerland. Place where the relevant documentation may be obtained: The prospectus, key investor information documents (KIID), the instrument of incorporation as well as the annual and semi-annual reports may be obtained free of charge from the representative in Switzerland.

The Bank and its subsidiaries do not guarantee the performance of any investment or entity referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of the Bank or its subsidiaries, and are subject to investment risk including loss of income and capital invested.

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