For professional clients only

First State Global Listed Infrastructure Fund

Fund update

May 2013

Welcome to the latest monthly update on the First State Global Listed Infrastructure Fund, providing a review of the Fund and latest outlook for the sector.

Market review

Global listed infrastructure declined in May after five straight months of positive returns. This performance was driven by the impact of rising bond yields on valuations of infrastructure stocks in the US and Japan. The UBS Global Infrastructure & Utilities 50-50 Index declined 3.2% for the month, in sharp contrast to the MSCI World Index which rose by 2.7%.

The best performing infrastructure sectors this month were Toll roads, Energy storage and Airports. Toll roads increased due to a better-than-expected profit outlook for Vinci and hope for improved regulation of Chinese expressways. Airports increased on resilient passenger traffic and the potential for strategic interest in Aeroports de Paris as the French government looks to sell a 10% holding.

The worst performing sectors were Towers & Satellites, Electric & Gas utilities and Energy pipelines. These three sectors tend to be more bond yield sensitive. The satellite sector was impacted by significant budget cuts at the US Department of Defence, which will reduce demand for bandwidth from UAVs or drones. May saw the successful IPO of Intelsat, a US-based global fixed satellite company, which finished the month up 21%. Electric utilities were also impacted by a poor outcome for generation capacity auctions in the largest US power market.

The best performing regions for infrastructure this month were Europe and South America, while the worst performing were North America and Japan.

Fund review

The fund fell by 2.1% over the month, 113 basis points ahead of the benchmark.

Airports delivered some of the best performances for the fund this month. **BBA Aviation** performed well after confirming a solid start to the year. The operator of 110 business jet facilities under long-term leases provides customers with an alternative to the poor state of government-owned airport infrastructure. The company offers investors exposure to an improving US economy and the potential for further industry consolidation with sensible management and a lean balance sheet. **Aeroports de Paris** increased after the French government initiated a 10% sell down to a number of strategic investors. The market speculated that this move may support a premium valuation and an improved regulatory environment.

Toll roads owned by the fund highlighted the optionality to be found within their respective portfolios of assets. **Vinci** increased on hopes of improved concession terms for French motorways in exchange for additional capital investment, which is part of the government's plan to stimulate economic growth and employment. The company also confirmed a robust forward order book for its infrastructure construction activities. **Transurban** announced the next stage of its negotiations with the state government to develop a toll road in Sydney linking the F3 and the M2. The company has taken a smart approach to this greenfield development by entering into exclusive negotiations, sourcing public funding, adding equity partners (QIC and CPPIB) and spreading revenue risk across existing roads.

This month we were again reminded of the poor state of some US roads with the collapse of a bridge on the I-5 crossing the Skagit River near Seattle. Thankfully no one was killed. The private sector has the ability and funds to increase investment in US roads, if state governments are prepared to embrace public-private partnerships which are common throughout many parts of the world.

Other growth stocks contributed to performance this month from oil & chemicals storage company **Vopak** to marine ports operator **China Merchants** to railroad owner **Union Pacific**. Increased confidence about the sustainability of the US economic recovery provides positive volume, utilisation and pricing power to these growth oriented infrastructure companies.

US utilities were impacted by the sell-off in bond yields and by a poor outcome for generation capacity auctions. The combination of weak power demand and new gas-fired supply impacted stocks such as **Exelon** based in Illinois, **PPL Corp** in Pennsylvania and **Public Service Enterprise Group** in New Jersey.

The aggressive run in Japanese stocks reversed in May as investors questioned the sustainability of printing money. Stocks including shinkansen railway operators **Central Japan Railway** and **East Japan Railway** and port operator **Kamigumi** were impacted. In our view, a sustained rally in Japan will require the implementation of significant micro-economic reform after the July elections.

Transaction activity

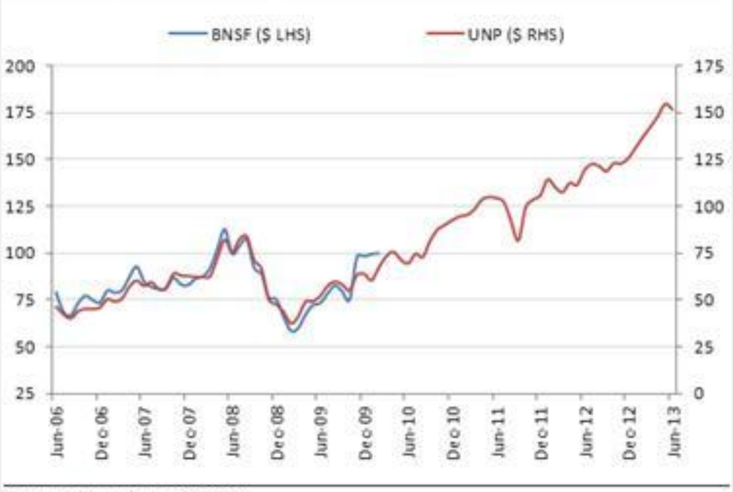
We sold US railroad company **CSX Corporation** as value was realised and we became increasingly concerned about coal haulage contract negotiations in the second half of 2013.

Infrastructure award of the month – Warren Buffet

Warren Buffett's Berkshire Hathaway continues to build an impressive infrastructure portfolio. This month MidAmerican, Berkshire Hathaway's utility and energy business, launched a $5.6 billion takeover for NV Energy, a regulated electric utility based in Nevada. The price offered was a 23% premium to market and implies a PE ratio over 17x and an earnings yield under 6%.

This is the second company-sized acquisition Berkshire Hathaway has made in the global listed infrastructure space since 2007. In November 2009, this legendary investor acquired US railroad company Burlington Northern Santa Fe (BNSF) at what turned out to be a bargain price. While not in the same league, we acquired a stake in Union Pacific (BNSF's competitor) in July 2009, which has also been an outstanding investment for our clients.

BNSF and UNP stock prices



Source: Bloomberg, CFSGAM

Outlook

The fund invests in a wide range of global listed infrastructure assets including toll roads, airports, ports, railroads, utilities (electric, gas, water & waste), oil & gas pipelines, energy storage, mobile towers and satellites. 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.

We seek to provide liquid and diversified exposure to these sectors through the cycle, but will actively tilt exposure based on relative value and quality. The sectors have different sensitivities to various stages of the economic and interest rate cycle. The 'income' sectors like regulated utilities or pipelines tend to be vulnerable to a sharp rise in real interest rates, while the 'growth' sectors like ports or railroads tend to benefit from an improved economic outlook. Despite the recent correction in bond yields, we remain underweight some of the expensive 'income' sectors awaiting a better entry point.

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