Argo Global Listed Infrastructure

COHEN & STEERS

Quarterly Investment Report / 30 June 2018

Argo Global Listed Infrastructure Limited (AGLI) is a listed investment company which was established in 2015 to provide investors with exposure to a diversified portfolio of securities in the global listed infrastructure sector, contained within the simple and easily tradeable structure of an ASX-listed investment company. The investment objective is to provide a total return for long-term investors, consisting of capital growth and dividend income, and to provide important diversification benefits for Australian investors.

Overview

The June quarter was positive for global infrastructure stocks, which outperformed global equities. Markets were generally choppy as trade tensions escalated between the US and China, while economic growth remained relatively strong globally, although Europe showed some signs of deceleration. The yield on the benchmark 10-year US Treasury bond reached a high of 3.1% mid-quarter as markets anticipated additional Federal Reserve tightening due to a strong economy and falling unemployment, which reached its lowest level in two decades.

The AGLI portfolio also recorded a strong return in the June quarter, in excess of the benchmark. The best-performing stocks included Enbridge of Canada and APA Group in Australia.

Enbridge rallied after regulatory approval for a replacement pipeline and a first quarter profit number that beat analyst estimates. APA soared 28% after Hong Kong's CK group of companies bid A$13 billion for the gas pipeline operator. The bid was a 30% premium to its last share price and this is a recent and local example of what has been happening elsewhere in the world, with private funds acquiring these unique infrastructure assets held within listed infrastructure companies at price multiples well above what the listed markets are currently prepared to pay for them.

Midstream energy stocks had a strong recovery in the June quarter, as earnings generally beat expectations and fundamentals continued to improve sector wide due to high, stable energy prices and rising production volumes. The portfolio's overweight position and stock selection in midstream energy, as well as its non-allocation to marine ports, contributed favourably to relative performance.

AGLI was established to allow diversification for Australian retail investors who predominantly hold domestic equities, in a relatively conservative sector with a strong long-term growth thematic, via an easily traded, administratively simple ASX-listed stock.

Outlook comments

We believe the landscape remains generally favourable for infrastructure securities and the global economy as a whole. Tight labour markets and early signs of wage growth could cause the market to adjust its inflation expectations higher through the year, potentially leading to a faster pace of rate hikes and further market volatility in 2018. Historically, infrastructure has tended to outperform both general equities and bonds during periods of unexpected inflation.

However, we note the increasing uncertainty around trade and tariff policies, which has the potential to negatively impact capital expenditures and confidence. In our view, the longer the uncertainty persists around trade, the greater the concern around the sustainability of our economic outlook.

AGLI continues to have good exposure to the US listed infrastructure sector, which we believe has many positive attributes, with world leading assets managed and owned by large globally recognised companies. The US economy is strong and infrastructure investment across a number of sub-sectors is increasing, including energy infrastructure and renewable energy.

US water utilities also offer the potential for accelerating growth. We believe critical pipeline replacement projects across the US should drive significant growth for water utilities, with the consolidation of the largely municipally-owned sector a further tailwind.

We continue to see secular tailwinds for communications towers. US and European tower owners, in our view, are well-positioned to benefit from strong long-term demand growth for wireless data services and the adoption of 5G, small cells and other technologies to handle the increasing data usage. The sector's valuations remain attractive relative to our growth expectations.

The outlook for railways is strong, but sensitive to economic conditions. Freight railways in particular look attractive, as stronger than anticipated year-on-year freight volumes are driving upward revenue guidance. This, combined with the companies' significant improvements in operational efficiency, and declining capital investments, could significantly increase free cash flow generation over the coming years.

Performance

The chart below shows that AGLI's NTA returned +6.0% over the June quarter and +6.7% for the 2018 financial year.

It should be remembered that listed investment companies (LICs) are corporate entities, and as such, a number of factors dilute shareholder returns from the portfolio return. There are certain costs required to run a listed company, such as ASX fees and share registry costs, and most have a management fee, some have performance fees (AGLI does not) and if the manager is successfully investing, the company will be paying tax when it realises profits from selling investments. These expenses ultimately reduce the returns to shareholders.

AGLI prioritises clear disclosure of its costs and the impact of tax by announcing its NTA returns after all fees, costs and realised tax. Our conservative approach to disclosure should be borne in mind when comparing AGLI to many other LICs and unlisted funds which do not include these costs in their published performance figures.

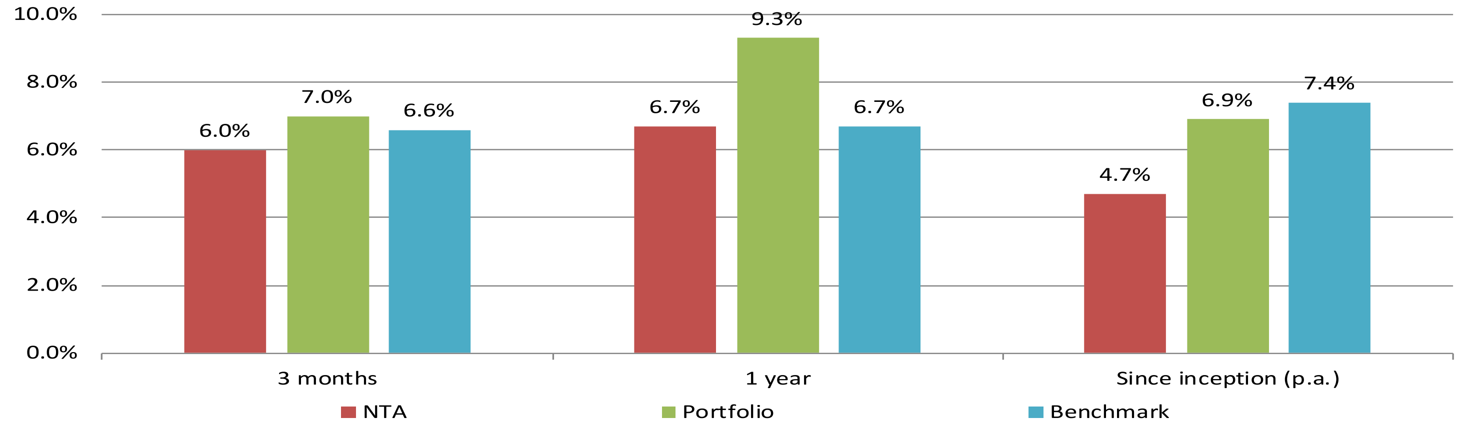
Ultimately it is the portfolio's performance that is the driver of the returns of the investment and a good manager needs the portfolio to outperform to justify the costs and the value they are providing to shareholders. Cohen & Steers, AGLI's portfolio manager, is performing very well on this metric, with the portfolio returning 9.3% for the financial year, 2.6% above the benchmark.

We are pleased that AGLI's NTA continues to increase, however we are disappointed with the discount of the share price to NTA. We will continue to progressively increase communication with the market about what we believe is a very attractive long-term investment proposition, through regular reporting and updates. Alongside this we continue to meet with larger existing shareholders and are increasing our efforts to engage with new potential shareholders. We also began buying back AGLI shares on-market through the June quarter at a discount to NTA, which is accretive for the company and remaining shareholders, although the buy-back will not be active again until after the release of the full year result in August, in accordance with the Company's Securities Trading Policy.

The profitability of the Company has been strong for the year and AGLI's investment performance is updated as part of the monthly NTA release to the ASX and on the website www.argoinfrastructure.com.au, which remains the best source for up to date information on the Company.

Total Returns

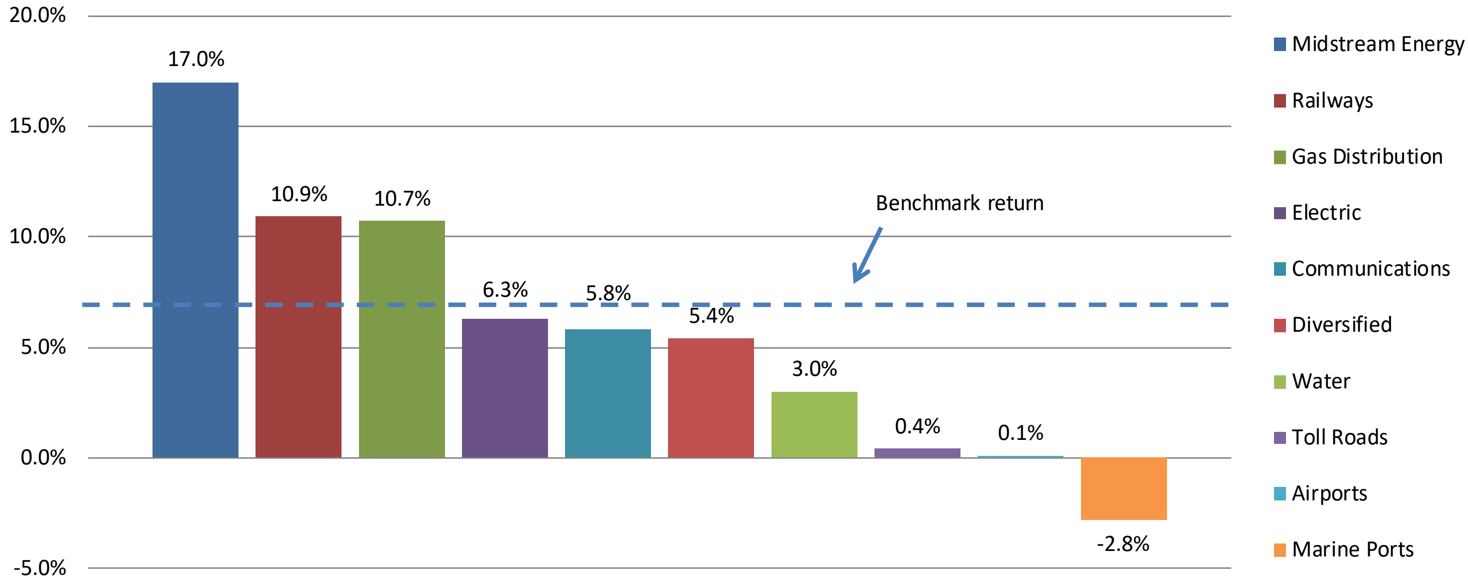
for periods to 30 June 2018



AGLI Benchmark - the FTSE Global Core Infrastructure 50/50 Index. Inception date is 3 July 2015.

Index performance by subsector (A$)

for the quarter ended 30 June 2018



Index: The FTSE Global Core Infrastructure 50/50 (net total return AUD)

Source: BI-SAM Technologies, Inc. This analysis is to provide insight into the various factors contributing to the total return against results of the index. These are not the official results of the index. The information presented above does not represent the performance of any fund or other account managed or serviced by Cohen & Steers, and there is no guarantee that investors will experience the type of performance listed above. An investor cannot invest directly in an index, and index performance does not reflect the deduction of fees, expenses or taxes. Data quoted represents past performance, which is no guarantee of future results.

Top 10 portfolio holdings

as at 30 June 2018

Security Name	Country of listing	Subsector	Portfolio %	Index %
NextEra Energy	US	Integrated Electric	5.6	4.0
Crown Castle	US	Communication Towers	5.3	2.5
Enbridge	CAN	Midstream- C Corp	4.5	3.5
American Tower	US	Communication Towers	4.3	3.6
Union Pacific	US	Freight Rails	3.9	2.0
Oneok	US	Midstream- C Corp	3.6	1.6
Kinder Morgan	US	Midstream- C Corp	3.1	1.9
Xcel Energy	US	Regulated Electric	2.9	1.2
Wisconsin Energy	US	Regulated Electric	2.5	1.0
Pembina Pipeline	CAN	Midstream-C Corp	2.5	0.9
			38.2	**22.2**

Portfolio commentary

AGLI currently has a $300m portfolio with approximately 60 stocks across 16 countries. The portfolio is spread across 4 basic areas of infrastructure – Utilities, Transport, Telecommunications and Energy.

While these assets are very different, they often have similar characteristics such as:

- Stable cash flows - generally inflation linked or regulated
- Long duration assets - allows a long-term investment horizon
- Inelastic demand – assets often provide essential services that tend to be resilient to the economic cycle
- High barriers to entry – assets often monopolistic in nature

Energy - Midstream infrastructure

The "midstream" energy sector includes energy transportation (eg pipelines), as well as collection, storage and processing of energy.

The growth in North American energy production volumes is driving a positive shift in the fundamentals and underlying economics for midstream energy companies.

A combination of improved drilling techniques, lower costs and technology improvements, with higher oil and natural gas prices, has led to increasing volumes, strong pipeline demand and the need for further infrastructure developments to support this increase in oil and gas production in the US.

AGLI has a number of portfolio holdings with exposure to this thematic, recently adding a new holding to reflect our favourable view on the sector, which is based on these themes and generally attractive valuations.

Stock snapshot

ONEOK

→ One of the largest energy midstream service providers in the US – a leader in the gathering, processing, storage and transportation of natural gas.

→ Fortune 500 company which is also included in the Standard & Poor's (S&P) 500 index.

→ Owns and operates one of the nation's premier natural gas liquids (NGL) systems, including a 38,000-mile integrated network of NGL and natural gas pipelines, processing plants, fractionators and storage facilities in the US Mid-Continent, Williston, Permian and Rocky Mountain regions.

→ Completed more than $9 billion in growth projects from 2006-2016 that will leverage the increase in energy production volumes and has a further $2 billion of primarily fee-based (take or pay contracts) growth projects under development.

→ At the 2017 final result earlier this year, the company guided to 9% - 11% annual dividend growth expected over the next 3 years to 2021.

→ AGLI's sixth largest portfolio holding and the strongest contributor to relative returns in the June quarter.

→ www.oneok.com