Argo Global Listed Infrastructure

COHEN & STEERS

# Quarterly Investment Report / 31 March 2016

*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 shareholders with a mix of long-term capital growth and dividend income.*

## Investment review from the portfolio manager

*The following commentary from the portfolio manager covers the global listed infrastructure universe for the March 2016 quarter.*

Global listed infrastructure generated strong returns in a volatile first quarter for equities worldwide. The year got off to a rough start, with stock markets coming under intense selling pressure as China reported weak factory data, raising concerns that the country was headed for a so-called "hard landing." Disappointing U.S. job creation and a fourth-quarter GDP report that showed the economy grew by just 0.7% (later revised upward) added to investors' concerns.

Markets went on to stage impressive rallies beginning in February, aided by favorable policies adopted by several central banks and improved economic data from China and the U.S. The People's Bank of China cut its reserve requirement, adding funds to its banking system. The European Central Bank, meanwhile, increased its plans for asset purchases substantially and lowered its key lending rate further into negative territory. Also responding to global risks, the U.S. Federal Reserve held its benchmark interest rate steady and signaled that a slow pace for additional rate hikes could be expected in 2016.

The rebound in equities left the broad market down just 0.4% at quarter's end, as measured by the MSCI World Index. Listed infrastructure, with relatively predictable cash flows, distinguished itself amid the broader market volatility by generating considerably better returns in the period. The more defensive subsectors - electric utilities, water utilities and gas distribution - were notable performers. In addition to producing well-defined cash flows even in sub-optimal economic conditions, the shares advanced on the prospect of sustained low interest rates, which are generally good for capital-intensive businesses.

Midstream energy gained on a rally in oil prices. After declining to a 13-year low in February, oil rebounded roughly 40% on hopes that members of the Organization of Petroleum Exporting Countries and other key exporters would curtail output, a move that would help alleviate the current supply glut. Also positive for oil prices, North American production is beginning to decline, as exploration and production capital expenditure cuts have accelerated in 2016.

Transportation subsectors, including airports and toll roads, advanced at a healthy pace. Although China-based airport operators largely struggled, most other companies gained on the back of healthy earnings. Toll road operator OHL Mexico climbed more than 50% on continued strong results and the favorable conclusion of a regulatory investigation of illegal practices relating to its Mexican concession assets. And Brazil's CCR was buoyed by expectations of an improving economy, with the country's political scandals now moving toward denouement.

The railways subsector was sharply divided between freight and passenger service companies. Freight rails recovered following a decline in January, aided by better-than-expected year-over-year volume comparisons. In contrast, passenger railways, which are all non-U.S. companies in the index, declined on concerns about passenger volume growth in the face of sluggish economic data and weakening tourism trends in Japan.

In the communications subsector, towers benefited from gains in Crown Castle International and American Tower, two U.S.-based companies. For satellites, the decline of Inmarsat, which is faced with increased competition, overwhelmed gains in other stocks.

Marine ports were largely weighed down by concerns of slowing global trade, particularly in Asia. However, the rally in the second part of the quarter erased much of the subsector's early losses.

## Portfolio performance

The biggest detractor from relative performance was stock selection in gas distribution. Two factors included a modest decline in Snam Rete Gas, which is a substantial overweight position, and not owning Questar, which jumped 23% following Dominion Resources' proposed merger.

Our overweight allocation to towers also detracted from relative performance, including out-of-index positions in EI Towers and Cellnex Telecom, two European companies dragged down by weakness in their respective stock markets. Additionally, relative performance was hampered by stock selection and an overweight allocation to passenger rails. Groupe Eurotunnel, in particular, declined materially on Brexit concerns as well as potentially increased competition from ferries due to low fuel prices.

The largest contributor to relative performance during the month was stock selection in airports. Auckland International Airport was a leader, having reported strong first-half results and increased passenger volumes. Investors were also encouraged by the company's potential real estate development opportunities. Flughafen Zuerich also reported solid passenger volume growth.

Stock selection in regulated electric utilities was another contributor, with Edison International gaining more than 10% after providing better-than-expected earnings and year-ahead guidance. Stock selection in integrated electric utilities, however, largely negated our relative gain in regulated utilities. One reason was our out-of-benchmark position in Pattern Energy, a yieldco that investors speculated may have difficulties in meeting its growth target. Yet despite those concerns, we believe the company can fund its expected asset dropdowns for another year without seeking additional financing.

## Investment outlook

We anticipate economic activity to remain lacklustre. As a result, U.S. interest rates are forecasted to rise only gradually while monetary easing will continue in Europe and Japan. We therefore believe investors will continue to favor many infrastructure subsectors, drawn to the stocks' relatively predictable cash flows, attractive valuations and dividend yields. Continued stock market volatility, we believe, would further bolster infrastructure's appeal for investors.

We are overweight several of the less-economically sensitive subsectors, including regulated gas distribution companies and water utilities. We are also overweight communications, particularly in towers, which should continue to enjoy strong demand growth and are relatively shielded from changes in economic conditions; although the industry's long-term favorable tailwinds have diminished somewhat in recent months.

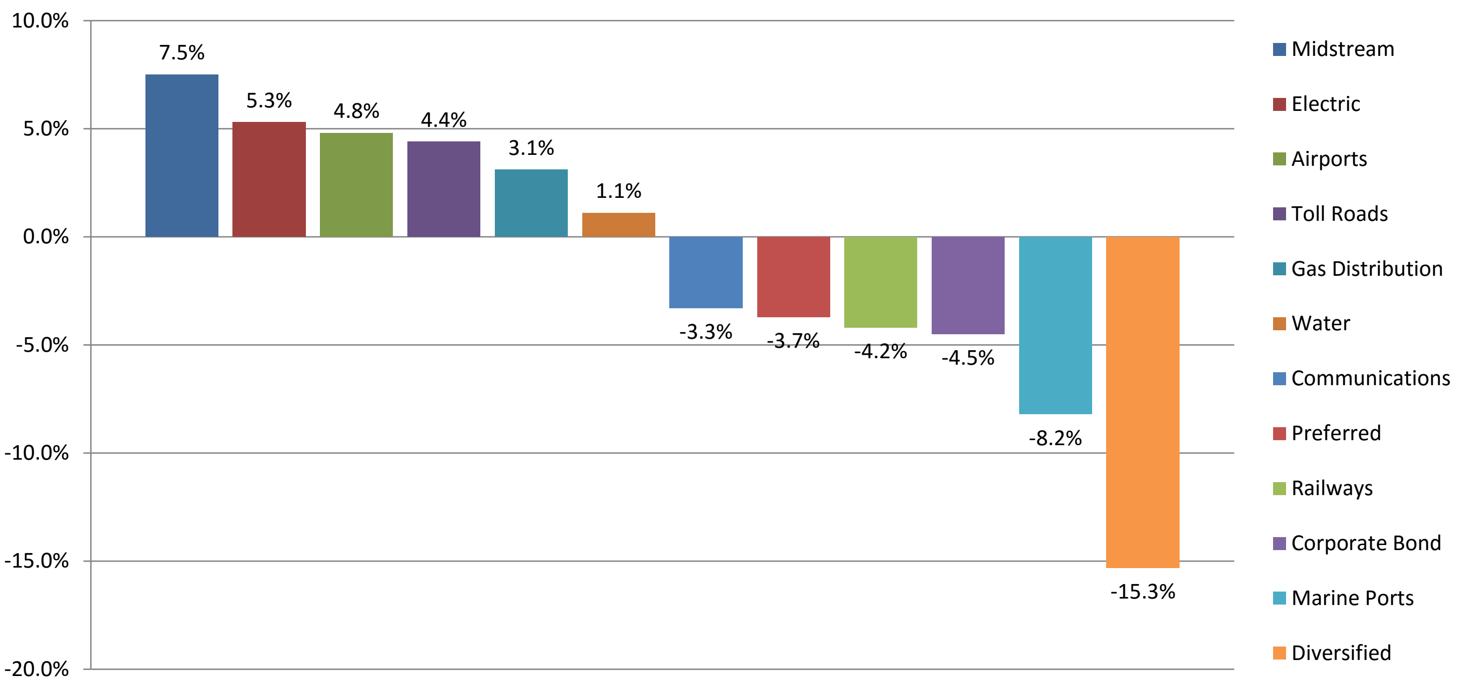
We remain underweight electric utilities, notably outside of the U.S., due to more challenging regulatory environments as well as some companies' exposure to energy prices. We are also underweight airports and marine ports due to expected continued slow economic growth, as well as for company-specific valuation reasons. In addition, we are underweight pipelines based on a tepid near-term outlook on oil prices. However, we believe a turnaround in the energy market is developing, with supply likely to decline this year thanks to massive cuts in capital spending and with demand picking up as a result of low fuel prices.

## Infrastructure subsector classification changes

Cohen & Steers has revised its classification scheme to better reflect the business characteristics of infrastructure companies, particularly as it relates to midstream energy companies. Accordingly, the Pipelines subsector has been renamed the Midstream subsector, and select companies in the Shipping subsector have been reclassified as Midstream. Subsector classifications are based on our determinations, as we, along with many other infrastructure asset managers, believe that existing global classification standards do not appropriately reflect the characteristics of infrastructure companies.

## Index performance by subsector (A$)

for the quarter ended 31 March 2016




Index: Blended Benchmark: 90% FTSE Global Core Infrastructure 50/50 Net + 10% BofA ML Fixed Rate Preferred Index

Source: BI-SAM Technologies, Inc. This analysis is to provide insight into the various factors contributing to the total return of the benchmark. These are not the official results of the benchmark. The index performance shown does not reflect the withholding of taxes on dividend payments. Past performance is no guarantee of future results. An investor cannot invest directly in an index.

Sector returns are in local currencies. Sector classification of securities are determined by the investment advisor. The investment advisor has revised its classification scheme to better reflect the business characteristics of infrastructure companies. Accordingly, the Pipelines subsector has been renamed the Midstream subsector, and select Shipping companies have been reclassified as Midstream companies.

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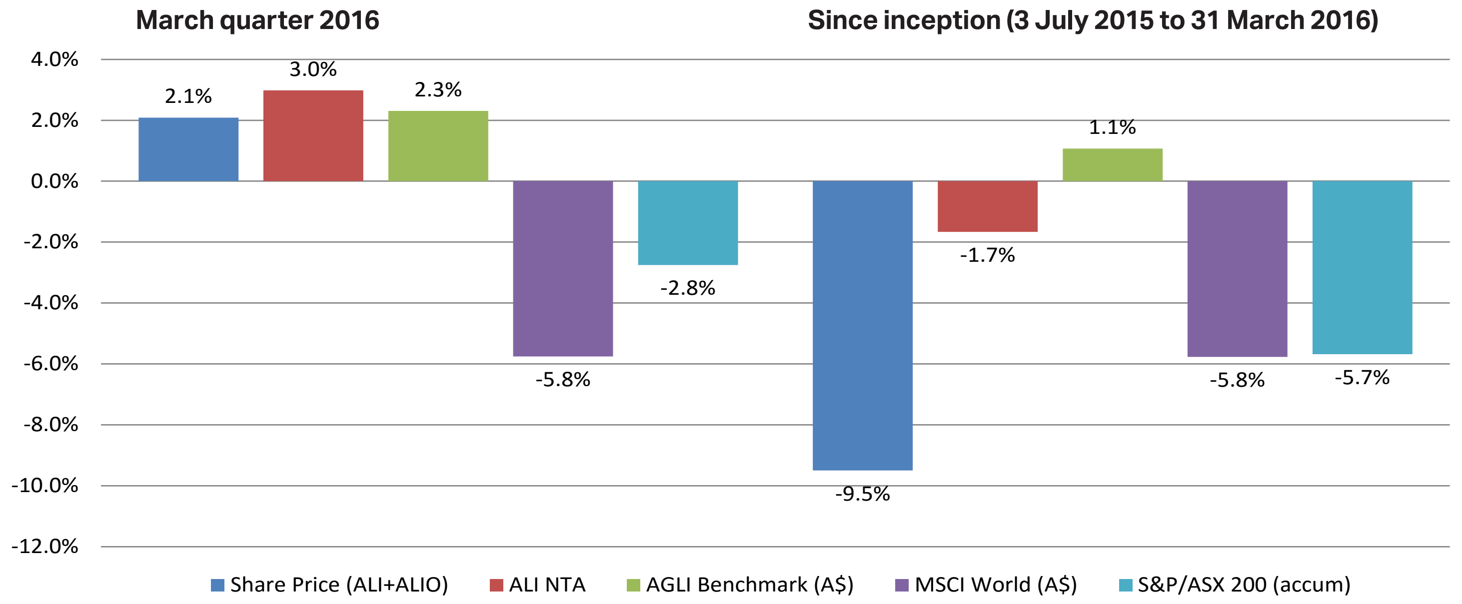
## Investment performance

Over the March 2016 quarter, AGLI's net tangible asset backing rose 3.0%, slightly ahead of the 2.3% return of its benchmark index (the A$ blended benchmark of 90% of the FTSE Global Core Infrastructure 50/50 Index and 10% of the Merrill Lynch Fixed Rate Preferred Securities Index). The Australian Dollar (A$) rallied over 5% in the March quarter, which negatively impacted the value of the portfolio. The A$ has rallied a surprising 13.6% from its low in mid-January to the time of writing. Despite this headwind, the performance of the asset class has been strong and the NTA of AGLI increased over this period.

There was significant variability in the returns within the infrastructure sub-sectors for the quarter, overlaid with volatile global equity markets. Pleasingly, the share price of AGLI stabilised during the quarter, reducing the discount to the underlying NTA.

In accordance with prospectus intentions, the initial investment of the portfolio was made progressively over the month of July, resulting in higher than normal cash allocation for most of that month. This negatively impacted the relative performance since listing date, as the benchmark index performed strongly in July.




## Top 10 portfolio holdings

as at 31 March 2016

| Security Name | Country of listing | Sector | Portfolio % | Index % |
|---|---|---|---|---|
| NextEra Energy Inc. | US | Integrated Electric | 4.3 | 2.3 |
| Transurban Group | AU | Toll Roads | 4.0 | 3.1 |
| Crown Castle International Corp. | US | Tower | 3.5 | 1.9 |
| TransCanada Corp. | CAN | Midstream- C Corp | 3.4 | 1.8 |
| PG&E Corporation | US | Regulated Electric | 3.2 | 1.3 |
| American Tower Corporation | US | Tower | 3.1 | 2.8 |
| Sempra Energy | US | Gas Distribution | 2.9 | 1.1 |
| Snam Rete Gas | ITALY | Gas Distribution | 2.8 | 0.7 |
| Edison International | US | Regulated Electric | 2.6 | 1.0 |
| Alliant Energy Corporation | US | Regulated Electric | 2.6 | 0.4 |
| | | | **32.4** | **16.4** |

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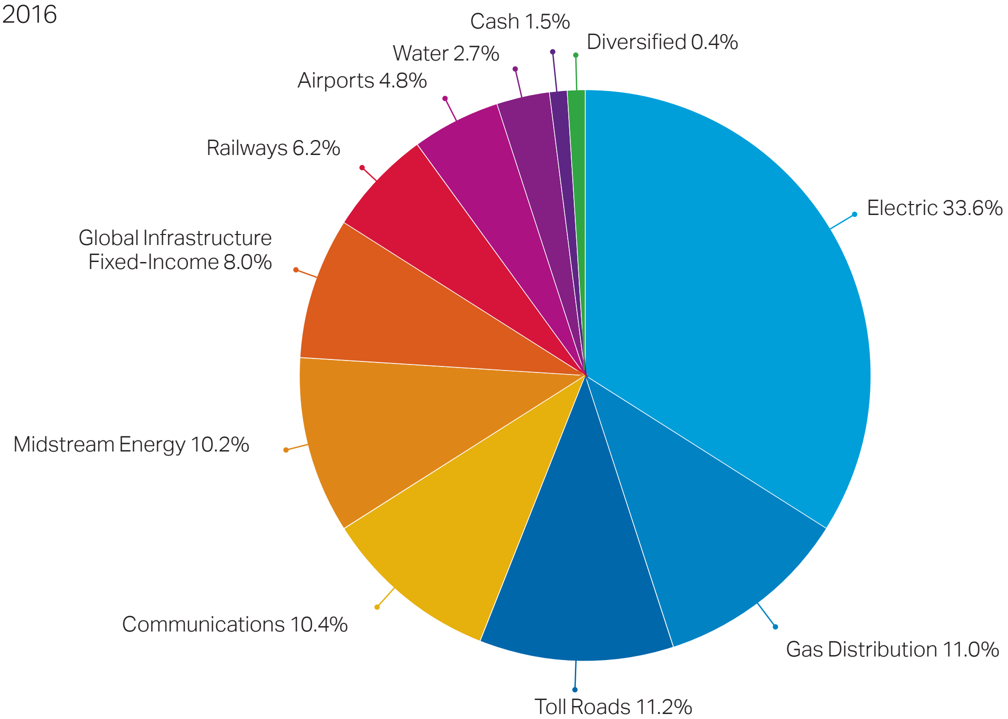
## Subsector diversification

as at 31 March 2016




## Geographic diversification by country of listing

as at 31 March 2016