

First State Infrastructure Managers (International) Limited

Form ADV Part 2A - Brochure

A Guide to Our Services

September 2017

This brochure provides information about the qualifications and business practices of First State Infrastructure Managers (International) Limited. If you have any questions about the contents of this brochure, please contact us on +61 2 9303 6167 or (joe.flex@cba.com.au). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about First State Infrastructure Managers (International) Limited is also available on the SEC's website www.adviserinfo.sec.gov.

First State Infrastructure Managers (International) Limited
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www.cfsgam.com.au

First State Infrastructure Managers (International) Limited is registered as an investment adviser with the SEC. Please note, registration as an investment adviser with the SEC does not imply a certain level of skill or training.

2. Material changes

There have been no material changes to our disclosures since our first filing last year.

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4. Advisory business

First State Infrastructure Managers (International) Limited ("FSIMIL") Cayman company no. 298444 is part of Colonial First State Global Asset Management ("CFSGAM"), the consolidated asset management business of the Commonwealth Bank of Australia ("CBA Group") (ABN 48 123 123 124). FSIMIL is ultimately 100% owned by the CBA Group which is listed on the Australian Securities Exchange and is one of Australia's largest financial institutions.

CFSGAM is one of the largest investment managers in Australia with US\$168.3bn funds under management as at 30 June 2017 and over 248 investment focussed employees located in offices in Sydney, New York, Louisville, London, Edinburgh, Paris, Singapore, Jakarta, Frankfurt, Tokyo and Hong Kong.

FSIMIL will offer investment advice primarily to institutions with respect to unlisted infrastructure assets focussing on utility, transport and energy assets. FSIMIL will principally target investments in mature, income-generating economic infrastructure where the application of specialist skills in investment origination, evaluation and active asset management can add value.

FSIMIL will act as the investment manager to investment vehicles with U.S. and non-U.S. institutional investors ("Private Funds"). FSIMIL does not anticipate registering such investment vehicles under the U.S. Investment Company Act of 1940 and their shares or interests, as applicable, will not be registered under the U.S. Securities Act of 1933. Accordingly, the Private Funds will not be publicly offered in the United States.

As of 30 June 2017, FSIMIL assets under management were as follows:

Discretionary:	US\$671,300,000
<u>Non-Discretionary:</u>	<u>Nil</u>
Total:	US\$671,300,000

5. Fees and compensation

For management of the Private Funds, FSIMIL will receive an investment advisory fee as a percentage of funds under management paid quarterly in arrears. FSIMIL will also be entitled to a performance fee on the terms described in the constituent documents of the fund and the private placement memorandum.

FSIMIL will pay out of the assets of the Private Fund (and accordingly, the investors will bear) all of the ordinary and extraordinary expenses, which include, but are not limited to:

- expenses associated with the holding of existing Investments, for example valuation fees;
- expenses associated with the acquisition or disposal of investments, for example due diligence costs;
- administrative costs, for example registry and custodial charges;
- costs incurred in obtaining financial accommodation for the Private Fund;
- interest charges on financial accommodation;
- costs incurred in connection with professional consultants or advisors (eg legal, tax, accounting, audit or valuation) whether or not members of the CBA Group
- communication and reporting expenses (including costs incurred to convene meetings, etc.); and
- other costs including bank fees and printing and postage costs.

6. Performance based fees and side by side management

With respect to the Private Funds, FSIMIL, or its Affiliate, will share a proportion of the Private Fund's investment outperformance over an agreed hurdle rate.

7. Types of clients

FSIMIL provides investment advice to Private Funds. FSIMIL does not anticipate registering such investment vehicles under the U.S. Investment Company Act of 1940 and their shares or interests, as applicable, will not be registered under the U.S. Securities Act of 1933. Accordingly, the Private Funds will not be publicly offered in the United States.

8. Methods of analysis, investment strategies and risk of loss

Methods of Analysis

CFAGAM has a 20 year history of managing infrastructure investments in a variety of sectors and through all stages of an economic cycle and an asset lifecycle. Each investment opportunity will be analyzed with respect to key investment criteria, including:

- Portfolio suitability (sector, country, etc);
- Country, legal and political risk;
- Industry/regulatory environment;
- Environmental and social and governance issues;
- Competitive position; and
- Expected return/risk.

Based on this preliminary investment review, a presentation will be made to the Investment Committee and a decision will be made on whether to progress the opportunity to the due diligence phase.

The objective of the due diligence phase is to undertake a detailed assessment of the investment opportunity in order to understand the overall risk and return profile of the investment and its suitability for the client and to develop a strategy to minimise execution risk and improve the probability of securing the investment on attractive terms. The due diligence process typically involves:

- Appointing appropriate due diligence advisors to undertake independent assessments of financial and operating information. A concerted effort is made to appoint advisors in a timely manner, so as to ensure the best possible advisory team can be retained for the transaction;
- Developing a detailed understanding of both the asset profile and investment profile;
- Meeting with existing management teams and current owners of the asset if possible;
- Identifying quantifiable and non-quantifiable risk factors and mitigants;
- Identifying growth potential and any other opportunities to optimise the asset profile and investment profile;
- Developing a financial model with long-term cash flow projections to support an investment case and stress test the investment profile.

The due diligence process involves developing a detailed understanding of the impact of multiple factors relating to the investment opportunity including macro factors (such as industry/sector specific variables, country and political risk and general market condition) and micro factors (including strength of management team, competitive position with industry, cost and capital structures and demand).

Investment strategies

Our investment strategy is based on the proposition that a diversified portfolio of income-generating and growth oriented unlisted infrastructure assets has the ability to generate attractive risk-adjusted returns over the long term.

We expect to generate value for our clients by applying the following strategies:

- Undertaking dedicated industry research to identify market trends and position our strategy to leverage those market changes
- Focussing on middle-market deals where we forecast greater opportunities with less competition;
- Utilising our networks and relationships to proactively source proprietary investment opportunities;
- Using a disciplined investment focus on maximising risk-adjusted returns with a stable and predictable cash yield
- Developing close working relationships with management teams and investment partners to ensure that the assets are managed on a long term sustainable basis including active stakeholder management;
- Focussing on ESG matters and applying the United Nations Principles for Responsible Investment;
- Typically targeting investment grade credit ratings that will facilitate accessing capital markets and mitigating debt refinancing and liquidity risk; and
- Constructing a diversified portfolio of investments that seeks to deliver attractive risk-adjusted returns at an individual asset level and that are also complimentary from a portfolio perspective.

The target sectors include gas, water and electricity networks, ports, rail and toll roads, renewables, transportation and telecommunication network infrastructure. Operating businesses are preferred and exposure to development assets is limited.

Risk Factors

General investment risk

Direct investment in infrastructure is speculative and involves substantial risk, including the risk of loss of an investor's entire investment. The Private Funds are subject to those market risks common to investing in all types of financial instruments. In addition, infrastructure investments are subject to some of the following material risks.

Patronage/demand risk

The level of demand for the service provided by an infrastructure asset can be below expectations.

Regulatory and political risk

Investments may be made in assets that are subject to industry-specific regulation including price and environmental regulation. An underlying asset may breach the regulatory regime it is subject to. There is also the risk that changes to existing laws or the introduction of new legislation may adversely affect the value of investments.

Contractual/credit risk

A counterparty may fail to honor its obligations under a contract, leading to reduced income or increased cost to the business.

Operational risk

Investments will be exposed to the operating business risks of the underlying assets.

Construction risk

There are a number of risks connected with the development of a project. The project may not be completed within budget, within the agreed time frame or to the agreed specification.

Reputation and environmental risk

Reputation risk arises from the public's adverse perception of the performance of an asset. This may involve issues such as impacts on public health or safety, environmental damage or social justice, for example. The broader issue associated with reputation risk is that once a particular asset is tainted in the public eye, this brand damage may extend across the portfolio of assets within a Private Fund or separate account.

Liquidity risk

Investments in infrastructure assets should be viewed as illiquid. There is no secondary market for such assets and although an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the initial investment.

Control risk

In most cases FSIMIL will own a large enough position to secure the right to appoint at least one director to the board of the asset. Significant ownership interests and serving on the board of directors exposes the Private Fund and FSIMIL to potential liability.

Economic and market risk

Portfolio companies and assets may be sensitive to general downward swings in the overall economy or in the sectors in which such companies operate. Factors affecting economic conditions, including, for example, the availability of credit, inflation rates, industry conditions, competition, technological developments, domestic and worldwide political, military and diplomatic events and trends, tax laws and innumerable other factors, none of which will be within the control of FSIMIL.

Unforeseen events risk

There are a number of events that are beyond the control of FSIMIL that may affect the use of infrastructure assets. These include, but are not limited to: natural disasters (for example, floods, earthquakes, and typhoons); man-made disasters (for example, terrorism); problems in design and construction; fuel prices; general economic conditions; labor disputes; and environmental legislation. Events such as these may cause an interruption in the use of the asset, reduced public confidence in the asset, and a decrease in the value of the investment.

Valuation

The assets held by the Private Funds are not publicly traded and are required to be fair valued by FSIMIL on at least an annual basis. When estimating fair value, FSIMIL will normally appoint independent valuers who generally use a long-term discounted cash flow methodology. Valuations are subject to multiple levels of review for approval.

9. Disciplinary information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our company or the integrity of our management. At the present time, FSIMIL does not have any material legal, financial or other disciplinary items to report to you.

10. Other financial industry activities and affiliations

FSIMIL is part of the CBA Group which is one of Australia's leading providers of integrated financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services. In some cases, FSIMIL has business arrangements with related persons/companies. In some cases, these business arrangements create potential conflicts of interest, or the appearance of a conflict of interest between FSIMIL and a client. Recognized conflicts of interest are discussed in Item 11 (Code of Ethics, Participation or Interest in Client Transactions and Personal Trading) of this Brochure.

Affiliated broker dealer

FSIMIL is associated with a broker dealer, Commonwealth Australia Securities LLC ("CAS") a wholly-owned subsidiary of CBA. CAS is a broker dealer registered under the US Securities Exchange Act of 1934 and a member of FINRA. FSIMIL has entered into a services agreement with CAS whose registered representatives will, through "chaperoning", facilitate the distribution of Private Funds managed by FSIMIL.

11. Code of ethics

FSIMIL has adopted a Code of Ethics (the “Code”) that requires all Supervised Persons to:

- Act with integrity, competence and in an ethical and professional manner;
- Always act in the best interests of our clients;
- Comply with all applicable US federal securities laws, as well as all other applicable laws and regulations; and
- Promptly report any violation of the Code of Ethics.

Definitions:

Supervised Person: is any partner, officer, director (or other person occupying a similar status or performing similar functions), or employee of an investment adviser, or other person who provides investment advice on behalf of the investment adviser and is subject to the supervision and control of the investment adviser.

Access Person: is a Supervised Person who has access to non-public information regarding clients’ purchase or sale of securities, is involved in making securities recommendations to clients or who has access to such recommendations that are non-public.

All Supervised Persons have received a copy of the Code and are required on an annual basis to confirm that they have read and understood the content.

The Code includes policies which will ensure the standards detailed above are adhered to and include:

Protection of Material Non-public Information

It is a crime in the U.S. and many other countries to transact in a company’s securities while in possession of material non-public information about the company. Supervised Persons are responsible for safeguarding non-public information relating to securities recommendations, fund and client holdings. As such, Supervised Persons should not trade based on FSIMIL’s confidential and proprietary investment information. Other types of information (e.g., marketing plans, employment issues, client identities, etc.) may also be confidential and should not be shared with individuals outside FSIMIL (except those retained to provide services for FSIMIL).

Personal Securities Trading

The Code of Ethics governs personal trading by all Supervised Persons and members of their household. Supervised Persons are permitted to maintain personal securities accounts provided that such accounts are disclosed to FSIMIL and that any personal trading is consistent with applicable law and the Code of Ethics.

In summary, pre-approval is required for all transactions in listed securities and all positions must be held for 60 days. Portfolio managers and research analysts cannot invest in any security that is or may be held by a Private Fund or other portfolio for which he or she has responsibility.

Gifts and Gratuities

The purpose of business entertainment and gifts in a commercial setting is to create good will and sound working relationships; not to gain unfair advantage with clients or vendors. No gift or entertainment should ever be offered, given, provided or accepted by any FSIMIL Supervised Person unless it: (i) is unsolicited, (ii) is not a cash gift, (iii) is consistent with customary business practices, (iv) is not excessive in value, (v) cannot be construed as a bribe or payoff and is given or accepted without obligation, and (vi) does not violate applicable laws or regulations.

Conflicts of Interest

In the discharge of its fiduciary duties FSIMIL has in place policies and procedures to manage actual or perceived conflicts of interest. In summary this involves:

- Putting in place controls to ensure the impact of the actual or potential conflict is reduced to an acceptable level; and/or
- Disclosing all material facts concerning any actual or potential conflict that may arise; or
- If an actual or potential conflict cannot be effectively managed by either disclosure or control then the situation must be avoided.

Outside business interests and affiliations

FSIMIL's fiduciary duties to clients dictate that FSIMIL and its Supervised Persons devote their professional attention to client interests above their own and those of other organisations.

You may request a copy of our Code of Ethics by writing to the Chief Compliance Officer, First State Infrastructure Managers (International) Limited, Level 3, Darling Park Tower 1, 201 Sussex St., Sydney NSW 2000 AUSTRALIA.

12. Brokerage practices

Typically, FSIMIL transactions do not involve the use of a financial intermediary such as a broker-dealer because they are made on a negotiated basis.

Investment allocation

FSIMIL seeks to allocate investments in a manner that is consistent with its duty to: (1) treat all clients fairly and equitably over time; and (2) not to systematically advantage or disadvantage any single client or group of clients.

FSIMIL and its affiliates has adopted an allocation protocol which governs the way in which investment opportunities are allocated between Private Funds and separate mandates.

Although allocating orders among FSIMIL clients creates potential conflicts of interest because FSIMIL could receive greater fees or overall compensation from some clients than received from other clients, allocation decisions will not be made based on such greater fees or compensation.

13. Review of accounts

FSIMIL regularly reviews client accounts. The frequency of that review is determined by the requirements of the client and includes periodic reviews of performance, investment activity and outlook. Normally these reviews would be carried out by the named portfolio managers, other qualified members of the investment team, together with the relationship manager, or in some cases, by the relationship manager directly. The named portfolio manager or senior member of the investment team and the primary relationship manager will normally discuss with the client on at least an annual basis.

Periodic written data, including valuations and transaction information, will be provided on a quarterly (or as otherwise agreed) basis and may be supplied to the client or the client's custodian for accounting or reconciliation purposes. In addition, clients will receive quarterly reports, either following a standard template, or tailored to suit the individual client requirements.

Clients are also invited to participate in a webcast or conference call where the investment team reviews the performance or discusses a topic relevant to the clients, and clients also receive a replay link by email after the webcast has taken place.

FSIMIL regularly reviews performance, counterparty risk and associated issues, breaches of investment guidelines and any general dealing or operational factors which may affect the Private Funds.

In the event of a major market dislocation, or similar event, client accounts would be reviewed and appropriate action and communication undertaken promptly.

14. Client referrals and other compensation

FSIMIL does not enter into agreements with third parties for the referral of new clients in the US.

FSIMIL does not receive any economic benefit from anyone who is not a client for providing investment advice.

15. Custody

FSIMIL generally does not maintain custody of the assets of the Private Funds, however, self-custody can be performed in limited circumstances by an affiliate. Instructions to facilitate portfolio management trading, payment of fees and any related issues are generally instructed through the client's or Private Fund's custodian.

All clients should receive account statements directly from the banks, trustees, or other qualified custodians with whom they have accounts. FSIMIL strongly urges all clients to compare the reports they receive from FSIMIL to the statements they receive from their broker-dealers, banks, trustees or custodians. Any issues or discrepancies should be communicated to FSIMIL promptly for investigation.

16. Investment discretion

We have authority to manage the Private Funds in accordance with the relevant offering documentation and management agreements which sets out the investment objectives and any limits which may be imposed on them.

17. Voting rights

Voting rights in infrastructure assets are managed through equity holders' agreements applying to the securities held in special purpose vehicles established to hold the relevant infrastructure assets.

The investment adviser will, to the extent of its delegated authority under the relevant governing document of the Private Fund, exercise the Private Fund's voting rights under the relevant equity holder's agreement.

18. Financial information

FSIMIL does not require prepayment of any advisory fees. Presently, FSIMIL has no financial commitments or obligations that would interfere with its obligations to its clients. FSIMIL has never filed for bankruptcy protection.