THE ROLE OF GLOBAL INFRASTRUCTURE IN YOUR INVESTMENT PORTFOLIO

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OVERVIEW

Traditionally, infrastructure assets have tended to be investments for large corporate investors like super funds, rather than individual investors. However, their appeal for smaller investors is growing as they come to understand the unique characteristics of this asset class and its potential to increase diversification in their investment portfolios. This article looks at what makes infrastructure different to mainstream assets, the role it can play in a diversified portfolio, and how investing in listed infrastructure through a managed fund is an easy way for you to gain exposure to this asset class.

WHAT IS INFRASTRUCTURE?

Infrastructure is all the facilities or services that are essential for an economy or society to function efficiently.

This covers a very broad range of assets. Just some examples are:

- social infrastructure, such as schools, hospitals, and prisons
- transportation infrastructure, such as roads, bridges, ports, airports, and railways
- energy infrastructure, such as electricity transmission lines, gas and oil pipelines and water supply projects, and
- communications infrastructure, such as fixed line telephone and data networks, radio and television towers, wireless transmission towers, and transmission satellites.

Listed infrastructure companies are companies that own, operate or manage infrastructure assets and whose shares are listed on stock exchanges.

The global listed infrastructure asset class is very large, with a market value of approximately $4.75 trillion at 31 December 2014. This market is growing as demand for new and replacement infrastructure increases and governments rely more heavily on the private sector to finance, build and operate infrastructure.

WHY IS INFRASTRUCTURE AN ATTRACTIVE INVESTMENT?

Infrastructure assets provide return characteristics that are measurably different to mainstream growth asset classes such as shares and property. The risks they're exposed to, the factors that influence their revenues and the regulated nature of the assets mean they may deliver more stable returns over the business cycle. This means an allocation to listed infrastructure can increase diversification in an investment portfolio that consists largely of mainstream assets.

Features of infrastructure assets may include:

- **high barriers to entry**. Building new infrastructure or replacing existing assets typically requires massive expenditure over many years, so owners of existing infrastructure assets are often a monopoly or have limited competition. This can give them considerable pricing power in the case of 'user pays' infrastructure (such as toll roads and ports). For essential services (such as water, electricity and gas), prices are usually set by a regulator.
- **stable demand for services**. Demand for essential services doesn't tend to be affected by changes in price or the stage of the economic cycle. While demand for user-pays infrastructure may be more linked to economic conditions, high barriers to entry mean the owners of this infrastructure generally still control the price.
- **long-term contracts**. For many infrastructure companies, the revenue from their services is guaranteed by long-term contracts or government regulation.

These characteristics mean infrastructure has the potential to deliver significant benefits in an investment portfolio, including:

- **stable long-term income**. Infrastructure companies can generate cash flows for their investors that are more stable than many other listed companies, whose profits and dividends may vary across the economic cycle. This means the total returns (income and capital growth) of listed infrastructure shares are generally less volatile than the broader listed share market. As a result, infrastructure assets are usually considered 'defensive' assets.

> **potential for income growth**. Revenue of user-pays infrastructure assets such as toll roads, airports and railways may increase over the long term. As an economy grows, these assets may generate a rising income stream for investors.

> **income that rises with inflation**. The usage charges for services of many infrastructure assets are linked to the inflation rate. This means the real value of these revenue streams are less affected if the economy slows and inflation rises.

> **diversification benefits**. Because of the stable demand for their services, their relative insensitivity to economic conditions and their inflation protection, infrastructure assets deliver a pattern of returns that's largely independent of mainstream assets, which don't generally have these advantages.

HOW CAN YOU INVEST IN INFRASTRUCTURE ASSETS?

For individual investors, directly owning infrastructure assets isn't generally possible because of the very large amounts of capital required. For these investors, the most practical ways to invest in this asset class are either by buying shares in listed infrastructure companies or units in a managed fund that invests in listed infrastructure companies.

We believe investing in a global listed infrastructure fund is preferable because your money is invested in a portfolio of many companies, countries and sectors chosen by industry experts and managed by them. This gives you a widely diversified exposure to infrastructure assets that would be extremely difficult for you to select and manage on your own.

INVESTING IN THE REDPOINT GLOBAL INFRASTRUCTURE FUND

Redpoint Investment Management Pty Ltd (Redpoint) manages the Redpoint Global Infrastructure Fund (Fund). The Fund, which has been open to institutional investors since April 2012, is now available to individual investors. It's an ideal way for investors to access a well-diversified global listed infrastructure portfolio that's actively managed by an experienced team.

Redpoint believes they can capture returns from the wide range of listed infrastructure investment opportunities around the world more effectively than a market index, such as the FTSE Developed Core Infrastructure Index (Index). Redpoint:

> considers investments from a wider universe of companies than the Index

> holds companies that aren't in the Index and excludes some companies that are, and

> often holds companies at significantly different weights to the Index.

As a result, Redpoint expects the Fund will be more geographically diverse than the Index and won't be concentrated in a small number of large companies.

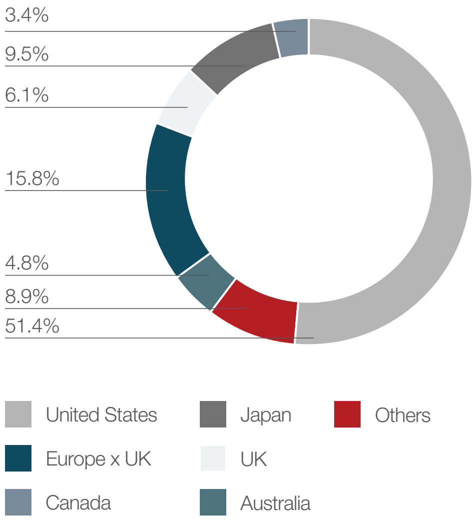
Redpoint selects high quality infrastructure companies for the Fund by assessing their financial health, dividend yields (as higher dividend yields can help boost income from the Fund's assets) and sustainability (based on a range of environment, social and corporate governance factors). The outcome is a fund that is globally diversified across 100–120 listed infrastructure companies – more than most managed funds in this asset class.

The Fund's fees are lower than most actively managed global infrastructure funds. This is due to the quantitative approach Redpoint uses to identify infrastructure assets and its efficient processes for making and implementing portfolio construction decisions.

Charts 1 and 2 show the Fund's investments by geographic and sector exposure at 31 December 2014. The Fund's 102 companies are spread across 15 countries and are within sectors defined as Core Infrastructure by the Index provider.

Chart 1 Geographic breakdown

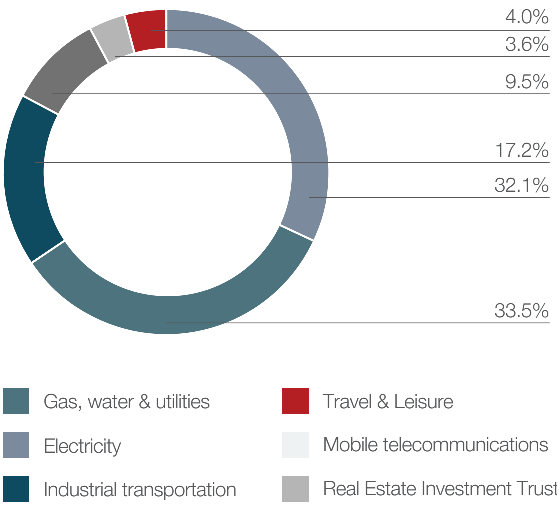
As at 31 December 2014



Source: Redpoint Investment Management Pty Ltd.

Chart 2 Sector breakdown

As at 31 December 2014



Source: Redpoint Investment Management Pty Ltd.

CONCLUSION

Listed global infrastructure assets may offer many benefits for your investment portfolio, including providing a valuable additional source of diversification. Investing through a global listed infrastructure fund, managed by specialists, is a simple way to access this unique asset class.

SOME EXAMPLES OF INFRASTRUCTURE COMPANIES

Both of these companies were investments in the Redpoint Global Infrastructure Fund at 31 December 2014.

National Grid PLC: electricity and gas transmission

National Grid is an international electricity and gas company based in the UK and north eastern US. It plays a pivotal role in connecting millions of people, businesses and communities to the energy they use.

National Grid owns and maintains the electricity transmission network in England and Wales. The network carries electricity from the generators to substations where the voltage is lowered, ready for distribution.

National Grid also owns the whole gas transmission network in the UK and all gas produced passes through its transmission system on its way to consumers.

The market capitalisation of National Grid is over AUD 54bn and its annual distributions to investors have grown consistently, averaging over 5% growth per annum over the last five years.

GDF Suez: power generation

GDF Suez is a global energy company that operates in close to 70 countries on five continents. The company was formed in 2008 by the merger of Gaz de France and Suez, creating the largest independent power producer in the world.

GDF Suez has an extremely diversified portfolio of power production assets ranging from nuclear energy, coal and fuel oil to hydropower, wind power and solar energy.

The company is also a large distributor and transporter of gas across Europe.

GDF Suez's headquarters are in France and it has a market capitalisation of over AUD 56bn.