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Global listed infrastructure – the investment attributes

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With a large existing universe of investment opportunities globally, and the proliferation of infrastructure IPOs over the years across global share markets, investors are now able to tap into a substantial volume of infrastructure opportunities across Australia, Asia, Europe, North America and South America listed on public share markets. But how do the sector's risk and return characteristics compare to other asset classes such as international shares?

Infrastructure is the provision of essential services such as road networks, airports, power lines and water, which are necessary to support economic and social activity. They are typically long term assets often operating under regulatory contracts or concessions for up to 99 years, and in many instances in perpetuity. These types of pricing provisions help to ensure a predictable investment return over time.

The infrastructure asset class has been favoured by large sophisticated investors globally, as they seek long-duration assets with attractive risk and return characteristics, often investing several billions of dollars in each investment. A dedicated 'listed' infrastructure strategy allows investors with modest investment portfolios to access this growing asset class. Accessing a listed infrastructure fund also provides benefits such as:

- **Scale:** Building a portfolio of listed infrastructure assets is an efficient way to gain scale and immediate access to a variety of infrastructure businesses globally.
- **Ease of diversification:** With listed investments it may be easier to achieve geographic diversification. Within each country, there is also the added diversity across industries, sectors and lifecycles.
- **Liquidity:** As listed infrastructure is publicly traded like shares and fixed interest, investors have the ability to enter or exit the investment more easily than unlisted investments.

Investment comparison

So how does listed infrastructure compare to other listed asset classes such as international shares? The following analysis revealed a number of favourable characteristics.

Low correlations with international shares

Correlation data was analysed from 31 December 2001 to the period ending 31 December 2009.¹

During the global financial crisis (January 2008 to end December 2009), listed infrastructure, like many other sectors, showed strong correlation to global shares. Figures during that period were estimated in the range of 0.71 to 0.89, with perfect correlation assumed to be 1.00.

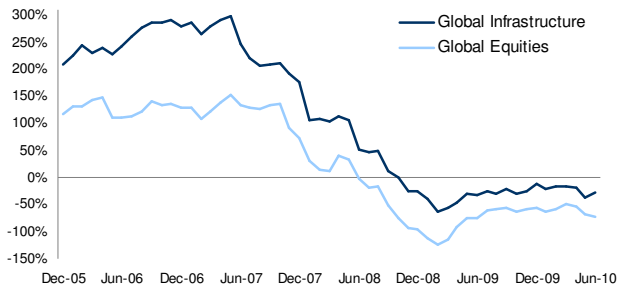
However over more 'normal' market conditions, listed infrastructure had lower correlations with global shares. Using data from 31 December 2001 to the period ending 31 December 2009, the long term correlation range is estimated to be 0.45 to 0.60, suggesting attractive diversification benefits within a portfolio

Attractive risk-adjusted returns, compared to international shares

Infrastructure securities are thought to offer attractive risk-adjusted returns over the long term, due largely to the combination of stable cash flows and long term growth. This important aspect of the thesis is measured via the Sharpe ratio, which is a common statistic used to measure the return per unit of risk.

The graph below plots the Sharpe ratios for international shares and global listed infrastructure from the period ending December 2002 to the period ending April 2010, on a three year rolling basis.

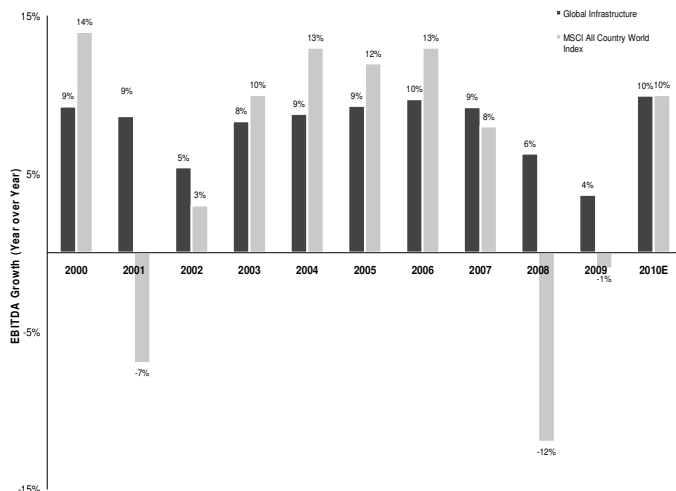
A high Sharpe ratio is attractive, as it equates to higher returns per unit of risk. Historical data, as shown below, shows that global listed infrastructure securities had a consistently higher return to risk ratio than international shares over this period.



Source: AMP Capital Investors. Data shown is from December 2002 to December 2009 on a three year rolling basis. All Index data returns are before fees and tax. Global Infrastructure and Global Equities data is calculated in local currency using the Dow Jones Brookfield Global Infrastructure Composite Index and MSCI World Index, respectively Past performance is not an indicator of future performance.

Stable cashflows

Over the past 10 years annual cash flow growth for global listed infrastructure was estimated to be between 4% and 10%.² The chart below compares global infrastructure securities with the broader international equities market and shows cash flow growth remained stable and has continued to be positive for the 10 year period to December 2009.



As of June 2010. The MSCI All Country World Index is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of developed and emerging markets. As of June 2009 the MSCI All Country World Index consisted of 45 country indices comprising 23 developed and 22 emerging market country indices.

Note: Median EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation). Source: CapitalIQ, FactSet, Dow Jones Brookfield Global Infrastructure Index, Merrill Lynch Global Quantitative Strategy, MSCI, IBES, Worldscope.

Analysing the sector's risks

- **Volatility** – Similar to international shares, infrastructure securities are listed on exchanges, which allows the prices to be reset, or marked to market, on a daily basis. This allows for daily liquidity, but also increases the degree of volatility in the short term.
- **Leverage and interest rates** – Listed infrastructure securities tend to take on prudent amounts of debt, which can be higher than international equities due to the predictable and stable nature of infrastructure cash flows. However, regardless of the degree of cash flow stability, it is prudent to ensure leverage levels are reasonable and long term assets are appropriately financed with long-term debt. Given the presence of debt, changes in interest rates can affect the cash flow profile of companies and the ability of a company to finance growth initiatives. Understanding an infrastructure company's capital structure and overall business model is therefore an important aspect of investing in the listed infrastructure asset class.
- **Regulatory changes** - Other risks relevant to infrastructure include regulatory political risk such as a change in government policy and vulnerability to external shocks. In addition, there are the standard risks that apply to most investments such as currency and liquidity risk.

Conclusion

These results highlight that global listed infrastructure's defensive asset features translate into attractive investment attributes.

In comparison to international shares over the given periods, global listed infrastructure showed more stable cashflow growth, higher return to risk ratios (Sharpe ratios) and favourable average correlation figures, which is beneficial from a diversification perspective.

While the sector does tend to have higher gearing levels than international shares, it is primarily within industries or companies that can sustain long term, stable cashflows.

¹ Source: AMP Capital Investors. Data shown is from 31 December 2001 to 31 December 2009. Past performance is not an indicator of future performance.

² Source: AMP Capital Brookfield research, FactSet, Bloomberg, Dow Jones Brookfield Global Infrastructure Index.

Contact us

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