

# Global Listed Infrastructure

Safe harbour in a storm

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## Infrastructure may be a safe harbour in a financial storm

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Investors reviewing the latest super fund returns must be wondering where they can hide in the current financial storm. In the past year, the Australian share market has fallen 13%; property markets, once viewed as a safe investment are down 35%; and credit markets are in crisis. Cash is still offering a decent return against the turmoil, but inflation has cut real returns and cash will get left behind when markets rebound.

One area that has provided a safe harbour and more consistent returns for investors is the global listed infrastructure sector. Our diversified portfolio of global infrastructure securities was only down 4% in the past year, outperforming key global indices.<sup>1</sup> Comparing monthly returns of listed infrastructure to world equities over the last 10 years, on average infrastructure delivers 80% of the upside in world "up-markets" but only 50% of the downside in "down-markets". The overall average return has been above 10% per annum to 30 August 2008.<sup>2</sup>

Globally the universe of infrastructure stocks is estimated at over \$1.2 trillion in market capitalisation. In its purest form this includes assets providing essential services, including toll roads, airports, ports, pipelines and utilities.

Australia has traditionally been at the forefront of developing private infrastructure markets. The nation's first toll roads and utilities were privatised over 10 years ago and these companies soon started acquiring infrastructure assets offshore. We have developed free flowing toll roads, taken airport retailing to new heights and led the way in innovative financing.

<sup>1</sup> Colonial First State Wholesale Global Listed Infrastructure Securities Fund (AUD hedged) returned -3.6% in the year to 31 August 2008.

<sup>2</sup> MSCI World and UBS Global Infrastructure & Utilities 50/50 Index

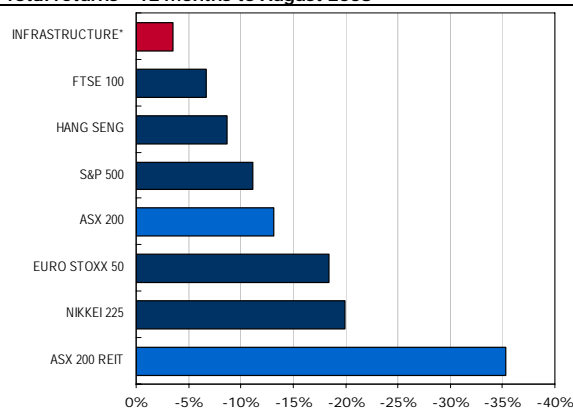
However in the past year Australia has been the worst performing infrastructure market in the world. The local sector has dropped over 20%, compared with 4% growth delivered by the North American infrastructure market over the same period. The result has been impacted by a mix of cheap credit and poor alignment of interests. High levels of gearing turned defensive assets into financial stocks and some companies focused too heavily on growth by acquisition rather than delivering operating improvements. Asset quality was compromised to execute the next deal and deliver the next fee.

The simple attraction of infrastructure assets – a road where traffic grows at GDP and tolls at inflation, costs are maintained and capex limited to deliver shareholders a steady income – has been compromised.

The good news is much of the world is 10 years behind Australia (or ahead for the cynics) in developing private infrastructure markets. There are many infrastructure companies in Europe and North America delivering organic growth over acquisitions, holding more equity than debt, paying distributions less than profit, with management remunerated on total shareholder return and seeking to improve return on capital.

Value is re-emerging in the Australian infrastructure market, but many companies still need to get back to the basics. In the meantime, there is a wealth of listed infrastructure opportunities for investors to explore beyond our shores.

Total returns - 12 months to August 2008



Source: Bloomberg

\*CFS Global Listed Infrastructure Fund

## For further information

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