

RADAR ALERT – FIRST STATE, GLOBAL LISTED INFRASTRUCTURE

Meany's Global Listed Infrastructure offering has benefited from industry-wide flight to more defensive assets amid growing market volatility

Infrastructure fund balloons in tumultuous markets



PETER MEANY

- Joined Colonial First State Global Asset Management in January 2007 as head of global listed infrastructure securities.
- Previously worked at Credit Suisse Equities in Australia and was responsible for research coverage in these sectors.
- Was an analyst at Macquarie Equities when the infrastructure sector was in its infancy.

By Renee Jones

Six months since launch, the First State Global Listed Infrastructure fund has ballooned as investors turn towards more diversified and defensive investments.

The fund, headed up by Peter Meany, has increased by almost £30m this year and is up 8% since launch.

"Infrastructure is one of the few sectors where we are seeing earnings upgrades rather than downgrades," said Meany.

"It is still performing better than equities and property because we are more defensive."

In recent months, there has also been a slight tilt in the portfolio towards more defensive positions in utility and gas and electricity companies.

Meany believes these will do very well if this environment continues for another six months.

He pointed to the US and energy infrastructure as the key bolsters behind performance.

"The reality is that although the US is heading into a recession, that is exactly why we want to own American utilities and pipelines because they are rotating towards more defensive positions," he said.

"US utilities and energy infrastructure has also enjoyed a boost from the rise in oil prices and that has been the best performing country in the last six months. Growth is coming via large capital expenditure programmes to address decades of underinvestment in infrastructure."

The team believes this is a long-term trend that will underpin strong, low-risk earnings growth,"

Meany uses a bottom-up stock-picking approach, investing globally in areas including highways and railtracks, airport services, storage and transportation, gas utilities and water utilities.

He favours stocks with high barriers to entry and looks for natural monopolies, guaranteed inflation protection, predictable cashflows and sustainable growth.

"The most important is sustainable growth when looking for businesses that will weather the storm through the economic cycle," he added.

"If the US goes into a deeper recession, we want businesses that have shown they can continue to expand."

On individual stocks, he said Vienna Airport has performed

well because that is tapping into the growth in Eastern European markets.

There is a slowdown in Western Europe and the US but no such issue in Eastern Europe, according to Meany.

He said holdings such as Suez and Dominican Resources have not been impacted by rising energy and oil prices and have benefited from using Nuclear and hydro fleets.

On the negative side, the manager pointed to Australian holdings that have detracted from performance.

"Australasia and Japan lagged on concerns about high financial gearing," he said.

"Stocks in Australia in general have been pushed down significantly but we have tended to avoid highly geared infrastructure stocks and that has helped relative performance."

Meany said he will continue to hold Macquarie Infrastructure.

"We are comfortable there is no near-term refinancing," he added.

"We recently bought a bit more as this stock has been down 30% in the last six months and is now up 15%."

Elsewhere, the fund has benefited from not taking any direct exposure to emerging markets.

It has capacity to invest in the booming regions but has struggled to find quality companies.

"We have the option to invest 20% in emerging markets but this portfolio aims to find quality assets and has struggled to do so in these regions," he added.

Despite this, Meany has tapped into the theme in other ways.

He pointed to various companies listed in Norway that provides exposure to the Middle East for example.

"We are not missing out on emerging markets but just playing it in a more cautious way," he added.

He highlighted Vopak as a stock benefiting from the emerging market theme, with the company providing bulk liquid storage terminals in 30 countries.

"It is listed in the Netherlands but 40% of its income comes from the Middle East and Asia," he added.

Elsewhere, Meany added the fund is underweight toll roads and overweight airports.

"We feel that while they are good assets, they are not cheap as a group and there is quite a bit of acquisition and credit risk in the group," he said.

"I am still confident for the total return of 10% to 12% in this asset class and the fact it has delivered 6% in the first six months sets us up quite well for that," he said.

"The sector has delivered earnings at or above expectations and the rise in energy costs adds value to our portfolio.

"The performance is helpful and I think the reality check going on in the markets show that having an alternative, defensive vehicle that is inflation protected and less correlated with the overall market make a lot of sense.

GRAHAM LEGG

Heritage Financial Services



If you are looking for portfolio diversification in the specialist sector, investing in utilities and transport seem sensible options. Like commodities, it would be difficult to find a sector more fundamental to modern society than infrastructure (and as non-correlating). Meany's small selection of stocks in his Global Listed Infrastructure fund has outperformed the S&P Global Infrastructure Index by around 9% since the fund's inception last October of last year. Although we would not yet

recommend the fund as we do not have the necessary past performance data, Meany's record to date suggests good stockpicking skills and a manager to watch in an increasingly appealing sector of the specialist market.

ROBERT PEMBERTON

HFM Columbus

If ever a fund was designed to weather the credit crunch it is this one, as performance since launch demonstrates. It has a utilities/industrials mix with no financials exposure and underlying stocks with consistent and predictable earnings streams and typically large dividends. My concern is that the fundamentals of the underlying stocks are so compelling in the current environment that valuations will become overstretched, increasing the volatility this type of fund should, in theory, avoid.

This fund works well as a portfolio diversifier but is likely to lag other equity vehicles once markets begin to regain confidence.

