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Exposure to infrastructure projects through funds

# Investing in infrastructure

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Last year, in order to try and encourage economic growth, the US government set aside a considerable amount of its $787 billion fiscal package for infrastructure-based projects. President Barack Obama announced $7.5 billion would be ploughed into highway construction, while a further $20 billion invested in air, rail and public transport.

Such massive injections of cash into infrastructure weren't confined to the US either. Other developed nations invested enormous amounts of money to revamp rundown infrastructures in a bid to remain competitive, while emerging markets too invested heavily in infrastructure projects in order to promote industrialisation and urbanisation, in an effort to maintain economic momentum.

## An attractive investment

For governments, as with investors, investing in infrastructure is a long-term process. Capital is usually raised via debt markets before being put to work in construction projects which it is hoped will eventually return a profit. With governments around the world filtering billions of dollars into roads, rail, sea ports, gas, electric and water utilities, the businesses involved in such strategic assets have become increasingly attractive for investment.

Take Warren Buffet, one of the world's most successful investors and chairman of Berkshire Hathaway. In February 2010, Berkshire Hathaway acquired the US railway company Burlington Northern Santa Fe for approximately $26.3 billion, significantly increasing Buffet's allocation to infrastructure investments. Closer to home, Northumbrian Water (NWG) has also been attracting interest. The Canadian Ontario Teachers' Pension Plan, which has a 27% stake in the utility has recently been in talks with banks in order to acquire the remainder of the business.

## Myriad opportunities

Recently, however, government investment in infrastructure projects has been overshadowed by private funding which has opened up myriad opportunities for private investors. Indicative of this trend is increased interest in infrastructure funds, which invest in businesses involved in strategic assets. Such companies are recognised as being defensive and mature, suggesting reasonable levels of dividends and dividend growth.

One fund investing in companies at the forefront of the emerging markets infrastructure boom is J.P Morgan Asset Management's JPM Emerging Markets Infrastructure fund. It invests across seven sectors including energy, materials, capital goods, transportation, real estate, telecommunications services and utilities – a diverse opportunity set which is growing faster than the broader market.

In order to transform emerging market opportunities into profit more efficiently, the fund adopts a bottom-up quantitative process to make meaningful comparisons across markets and identify those companies with market-leading characteristics. The fund is managed by Leon Eidelman, who draws on the experience of J.P. Morgan's 52-strong team of emerging markets experts. The team, based in local markets around the world, provides the fundamental validation to ensure the portfolio stocks represent the best value for investors.

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## Long-term capital growth

The First State Global Listed Infrastructure fund holds a similar attraction to investors by investing in a diversified portfolio of listed infrastructure and infrastructure-related securities from around the world. With 31.3% of its asset weightings in North America and 42.1% in Europe, it aims to achieve a total investment return consistent with income and long-term capital growth.

The fund is suitable for investors looking for global equity exposure while retaining a defensive and more balanced return. However, it's worth bearing in mind that, due to the nature of the underlying companies the fund invests in and the time it takes to complete infrastructure projects, investors should be comfortable with a minimum five-year time horizon. The fund clearly demonstrated its defensive capabilities in 2008, by limiting downside losses to 13.6%, while in 2009 it reported a positive return of 13.3%. While it currently yields 3.3%, inflation protection isn't guaranteed. Such a yield is indicative of the very nature of infrastructure projects, in that the underlying investments are in a sector with predictable cashflows.

For investors comfortable with investing in overseas markets, and who are seeking to add a defensive quality to their portfolio with a balanced return, the First State Global Listed Infrastructure fund could prove to be the perfect choice.

Whether you choose to invest in funds exposed to infrastructure projects in emerging markets or in more mature economies really depends on your attitude to risk. Due to their inherent instability, emerging markets naturally tend to represent a greater risk than developed countries. Whichever you choose, because building roads, rail links and sea ports, and investing in utilities is important for maintaining economic momentum however developed a country might be, infrastructure represents a solid area for investment and, right now, a potentially lucrative one. ■