



ngs super™
The educated choice



Infrastructure

Background:

When most people think of infrastructure they think of the permanent facilities and structures that a society requires to facilitate the orderly operations of its economy. For example, roads, railways, ports, and airports.

However what gets defined as an infrastructure asset in the investment world includes a much broader range of assets.

In fact, anything from nursing homes to timber plantations can be found in infrastructure portfolios. Because the range of investments is so broad there is also a very wide possible range of risk and return outcomes. Some assets with guaranteed revenue streams, such as gas pipelines or electricity transmission lines, can be very low risk but only provide modest returns. Other assets such as airports and toll roads can be much riskier. This is where investors have made their highest returns, for example Australian airports, but have also lost substantial sums as has been the case for some toll road projects.

Why invest in infrastructure?

NGS Super has been investing in infrastructure assets for many years with approximately 7% of the Diversified Investment option exposed to Infrastructure. What we have tried to do is invest in medium risk assets with higher than median return expectations. Our main objective with these investments has been to seek to diversify away from the risk and high volatility of share market investments. While the long term returns from shares tend to be higher than for other assets, the very high variability in their short term returns is an unwanted but unavoidable side effect. Because the values of infrastructure assets tend to change more slowly and due to different factors than the share market, they help smooth out the returns of our total portfolio, a very desirable outcome.

Some of the characteristics that can make infrastructure assets attractive investments include:

- Long term contracted revenues e.g. gas pipelines
- Strong regulatory protections e.g. water supply utilities
- Monopoly market positioning e.g. most airports
- High barriers to entry for competitors e.g. rail lines

How does infrastructure compare with other asset classes?

Infrastructure shares some of the characteristics of other asset classes including fixed income (long-term cash yield) and real estate (investing in physical assets). However, because infrastructure assets usually have much higher barriers to entry and supply essential services they tend to be less exposed to economic cycles than these other asset types.



Risks

Like all investments, infrastructure investing is not without risk. Those risks include:

- **patronage and demand risk**, for example, a reduction in the number of cars using a toll road
- **regulatory and sovereign risk**, for example, the introduction of a new tax
- **contractual risk**, for example, the failure of a business contracted to provide maintenance services for an asset at a known fixed cost
- **credit risk**, for example, the financial failure of a party contracted to buy the services provided by the asset
- **operational and construction risk**, for example major unbudgeted cost overruns in construction of an asset or the failure of an asset to operate in accordance with its design specifications

- **financing risk**, for example, the inability to be able to refinance debt at a reasonable interest rate
- **Inflation risk**, for example, the cost of operating an asset increases without the ability to pass that increase on to the end user.

So how does NGS Super invest in Infrastructure?

When it comes to infrastructure the NGS Super Investment Committee has defined five key criteria that the Fund looks for in assessing investments:

- 1) Invest in those assets commonly accepted as core infrastructure (e.g. toll roads, airports, ports, rail, utility and energy infrastructure such as water, power generation, gas networks etc).
- 2) an asset based income yield significantly in excess of the bond rate.
- 3) expected growth in the income generated that is in line with both inflation and real GDP growth.
- 4) Have a degree of economic optionality, i.e. expansion capacity such as adding an additional lane on a toll road.
- 5) Have low levels of financial gearing.

Such assets are expected to offer:

- High stable returns
- Inflation protection
- High levels of income

Some of the assets held within the NGS Super infrastructure portfolio include interests in: Perth and Melbourne airports; the Port of Brisbane; gas pipelines; and wind farms with contracted guaranteed revenues.

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Visit our website www.ngssuper.com.au, or contact our Customer Service Team or your local Client Relationship Manager at any time. We're here to help you.

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