



PETER MEANY

**MANAGER, FIRST
STATE INVESTMENTS
GLOBAL LISTED
INFRASTRUCTURE
FUND**

Peter joined Australia's Colonial First State Global Asset Management in January 2007 as head of global infrastructure securities. He has more than 10 years experience in the infrastructure and utilities sector.

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Q & A

Geordie Clarke talks to Peter Meany about infrastructure funds, his investment strategy and the benefit that these products provide to investors

Q: Can you give details about your infrastructure fund and where it invests?

PM: We offer a global listed infrastructure fund, so we're looking to invest in listed companies around the world that are involved in or own infrastructure assets. These include toll roads, airports, sea ports, gas and electric water utilities, and oil and gas pipelines.

What we're looking for is a diversified portfolio, mainly in developed markets. Some of the characteristics that we are looking for are markets where the companies are regulated and are near monopolies, which means that there are only one or two providers in their space. We are also looking for good pricing power, which you find in a regulated environment.

Q: What is the significance of choosing companies that are near monopolies or are highly regulated?

PM: This is to give a predictable, inflation protected income stream as well as the ability to grow as needs increase in the company's marketplace. For example, a lot of the assets that we invest in are regulated, so when toll roads, airports and water companies experience pressures from inflation they are automatically putting this into their pricing schedule.

Q: What role would an infrastructure fund play in an investment portfolio?

PM: Infrastructure funds are for investors who are looking for something a little more defensive in this time of market volatility. This has certainly been a sector that's been more defensive and has held up well, remaining fairly flat in a market that's down somewhere between 10-15% in the past six months.

It is also for those who are concerned about inflation over the longer term, or those who see the great investment need around the world in infrastructure. As governments call on the private sector to build infrastructure, a lot of investment opportunities will arise.

Q: Can you describe your investment style?

PM: Our approach is pragmatic insofar as we try to look for a balance between value and quality.

We want to find securities that are undervalued in terms of, say, their kind of cash flow valuation. But at the same time we are looking for high quality companies, so it is not just the asset quality we look at, but also the level of financial gearing in the company and its view on management and environmental issues.

Roughly speaking half the fund is invested in more defensive income generating utilities, with the other half invested on the growth side, which represents the transport sector. This would be, for example, toll roads, airports and sea ports. This overall mix should give us about a 4% yield and we believe about 8% dividend or earning growth going forward.

Q: Can you explain the screening process you use for the fund and what you are trying to eliminate from the fund?

PM: The first part of the process is to screen for asset quality. In a broad universe of infrastructure companies we have stripped out low quality assets like shipping companies that might sit in the port sector and merchant power generators that might sit in the utilities sector. We have also removed some of the higher risk markets, such as South East Asia and Latin America, where there have been cases of governments reneging on contracts and taking away the predictability of these businesses.

We then build up a detailed discounted cash flow valuation of each company we are looking at. Overall, we're looking for companies that offer a better upside to the discounted cash valuation. Then we go through a qualitative ranking where we judge every company on 20 criteria that cover everything from the management team, their views on strategy, regulation and sustainability issues. This gives us a bias towards higher quality companies. **M**