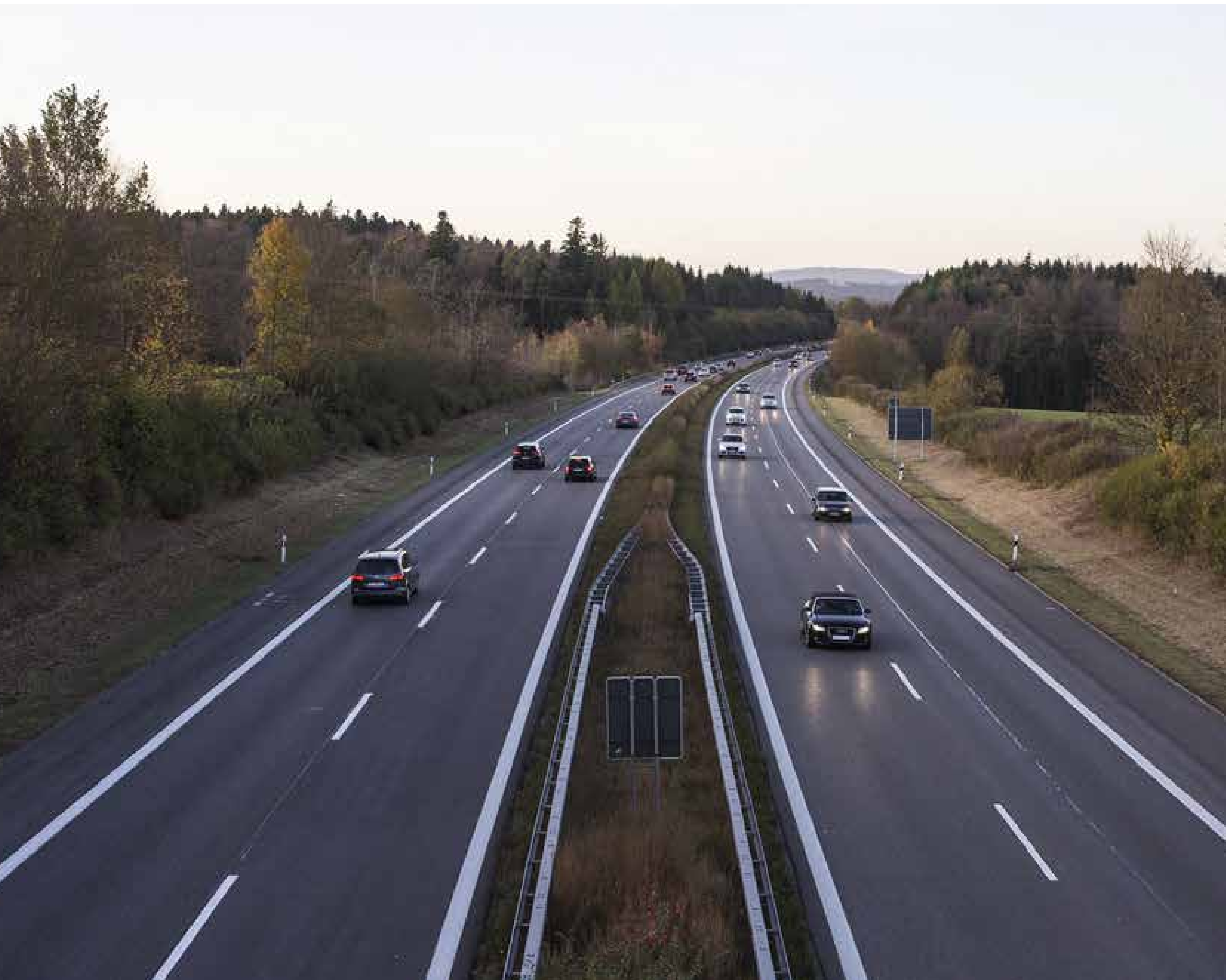
logical
financial management

Infrastructure Assets

Infrastructure assets can be broadly described as facilities, services and networks which provide essential economic and social services to the public.



Types of Infrastructure

Social Infrastructure

1) Schools and education facilities
2) Health care such as hospitals
3) Age care
4) Government housing
5) Prisons

Economic Infrastructure

1) Transport - Toll roads, Bridges, Tunnels, Airports, Shipping ports and Railways
2) Utilities - Gas distribution, Electricity and Water treatment and distribution
3) Telecommunication

Infrastructure assets can be further broken down into user-pay and regulated assets. With user-pay assets, a company's revenue is dependent on how many people use their asset. These physical assets, namely rail, airports, roads move people, goods and services throughout an economy. With regulated assets, the regulator determines the revenue that a company should earn on the asset. This results in a relatively stable cash flow profile over time and a good hedge against inflation.

What are the benefits of investing in Infrastructure?

1. Monopolistic assets

Some of the infrastructure stocks tend to be monopolistic or near monopolistic in nature (that is, the assets have limited competition from other assets). This provides these stocks with a strategic competitive advantage. Eg. Sydney Airports (SYD).

2. Income generation and inflation hedge

Reliable long-term index cash flows which can provide a good match for long-term inflation link liabilities (linked to the contracts and pricing) and stable long-term yields.

3. Diversification

Infrastructure assets have favourable (low) correlation benefits with a number of traditional assets and therefore inclusion in a portfolio should reduce the risks in a portfolio without adversely affecting the portfolio returns, or may conversely increase the overall return from the portfolio for the same degree of risk.

4. Long dated assets

Some assets tend to have long economically useful lives and operate under long term concessions/agreements.

What are the risks of investing in Infrastructure?

1. Market exposure

The performance of listed infrastructure can be impacted negatively by deteriorating market conditions and by any negative company or sector specific event.

2. Regulatory risk

Some infrastructure assets are regulated by the government and may be adversely affected by any changes to the regulatory approach by the government.

3. Interest rate sensitivity

Infrastructure assets tend to be financed with higher levels of debt and therefore increases in interest rates will adversely affect the asset performance.

Quick Facts

Fact #1

A typical Australian balanced fund will have around 0-5% exposure to Infrastructure assets (globally and Australian) and is generally accessed through listed and unlisted infrastructure funds or a combination.

Fact #2

Infrastructure sits within the growth component of a portfolio and exhibit higher levels of volatility (risk) than cash and fixed interest but lower volatility than shares and private equity.

Fact #3

Social and community infrastructure assets such as housing, public health, education and prisons are considered the least risky and competitive infrastructure assets. While energy, logistics and telecom services are the most competitive and risky infrastructure assets.

Fact #4

Regulated assets such as gas/electric transmission and distribution and water and wastewater are considered defensive assets and their revenues are relatively stable across economic cycles .

Fact #5

User pay assets such as airports, toll roads, railways, ports and communica-tions are considered growth assets and leveraged to the economic cycle.

Looking for Financial Advice?

In an ever increasingly complex financial and legislative world, our mission is to provide you with clear, concise and tailored strategic advice.

We pride ourselves on working in the very best interest of our clients by tailoring solutions to meet their needs. We provide high quality investment and financial planning advice, driven by strategy – not product – at a reasonable cost.

t 02 9328 3322
f 02 9328 3323
e team@lfma.com.au
w www.logicalfinancial.com.au

Suite 21, Level 2, 8 Hill Street,
Surry Hills NSW 2010
PO Box 103
DARLINGHURST NSW 1300

Get in touch

DISCLAIMER
The purpose of this document is solely to provide factual information and it is not intended to imply any recommendation or opinion about a financial product.

The information contained is given by Logical Financial Management Australia Pty Ltd in good faith and has been derived from sources believed to be accurate as at the time of publication. Changes in circumstances, including the unlawful interference and unauthorised tampering, after the date of publication may impact on the accuracy of the information. Subject to relevant law, neither Logical Financial Management Australia Pty Ltd or any of the company directors or employees give any warranty nor representation as to the accuracy, reliability or completeness of the information.