IPIF Management Pty Ltd
Level 31, 120 Collins Street
Melbourne VIC 3000, Australia

T +61 3 9225 5216
F +61 3 9225 5050
www.ipif.com.au

25 October 2018

Media Release

Unlisted infrastructure takes flight; airports one of the most defensive assets for Australian investors, says IPIF

Mounting uncertainty surrounding the outlook for the global economy and investment markets is highlighting the benefits of holding defensive assets, such as infrastructure – especially unlisted airports - in a portfolio, according to Infrastructure Partners Investment Fund Management Pty Ltd (IPIFM).

While typically thought of as an investment for large superannuation funds, more and more private investors are adding unlisted infrastructure to their portfolios, notes Nicole Connolly, Executive Director of IPIFM.

“Infrastructure assets provide essential services such as gas, water, electricity transmission and distribution networks, as well as transport infrastructure including airports, rail and toll roads.

“These assets are considered to be defensive as they provide reliable income as the prices they charge are often regulated by governments and their cash flows are predictable.”

The airport attraction

According to Ms Connolly, airports are one of the most attractive assets for Australian investors. “Airports provide numerous sources of revenue from a diversity of stakeholders such as airlines, passengers, visitors, retail tenants and government agencies.

“In fact, airports should be considered as two separate businesses – airside and landside. The airside operations include the management of the runways of the airport. Revenue is generated by either a charge levied per passenger or a charge levied on the weight of the plane or a combination of both. This side of the operations therefore behaves much like a regulated utility,” she says. “The landside operations involve the non-air aspects of the airport such as retail shops, car parking and property development and maintenance.”

Airports have been a strong driver of returns for unlisted infrastructure portfolios. The sector in Australia has a strong track record of long-term growth, with only one year of negative passenger growth over the last 25 years. This compares to four years of negative growth for Australian equities over the same period. The airport sector performed relatively well through the global financial crisis, with airlines managing the down cycle through a range of initiatives including discounted ticket prices and reduced services for example.

In FY 2017, Melbourne Airport generated a return of 25%, Perth Airport returned 13.2%, Brisbane Airport returned 14% and Adelaide generated 23.2% for investors.

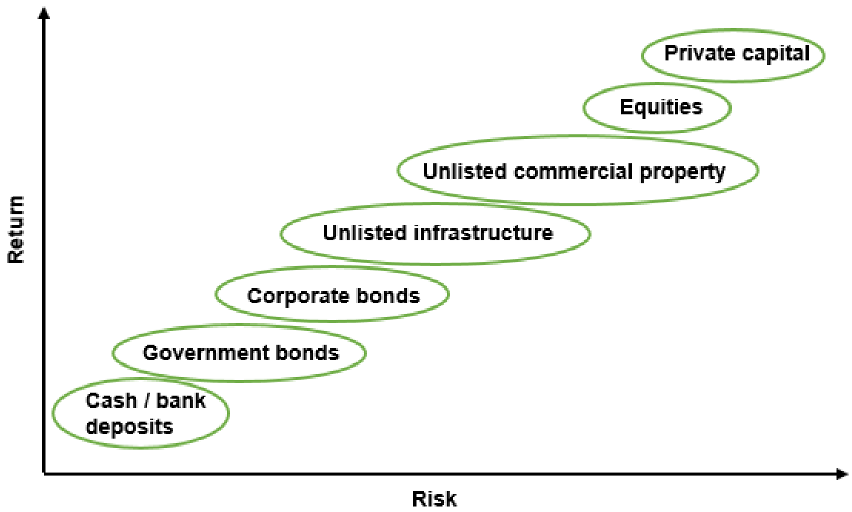
The value of unlisted infrastructure in a portfolio

Ms Connolly suggests that unlisted infrastructure in a portfolio sits between government bonds and equities in terms of risk return, making it an excellent portfolio diversifier (see chart below).

“Infrastructure’s potential for stable, reliable income and capital growth is derived from long-term, stable and predictable cash flows, typically underpinned by long-term contracts or a regulated asset base; with high visibility of income and revenues often linked to inflation,” she says.

Unlisted infrastructure investments accounts for between 7- 12% of major institutional investor portfolios, with the Future Fund having some 7% allocated to infrastructure and Australian Super 12%, as at the end of 2017.

Risk return profile of unlisted infrastructure



Source: IPIF August 2018

Ms Connolly adds: “The key is to determine which assets and projects will provide the greatest, and most consistent, returns.”

IPIF Core’s investment strategy focuses on providing exposure to a diversified portfolio of mature, stable and cash-generating infrastructure assets. This includes exposure to transport assets including Perth, Adelaide, Melbourne and Brisbane Airports and Interlink Roads, and a number of energy and utilities assets including TransGrid, the UK’s South East Water and PowerCo and First Gas in New Zealand.[1]

IPIFM and its IPIF Core Fund were created in early 2015 in response to initial demand from smaller investors - high-net-worth individuals, self-managed super funds (SMSFs) and smaller institutional investors - to benefit from the attractive mix of income, capital growth and stability that infrastructure assets can provide, in a low-cost structure.

[1] These asset exposures are via IPIF Core’s investment in Utilities Trust of Australia (UTA), a Morrison & Co managed vehicle (from 1 July) and the Global Diversified Infrastructure Fund (GDIF), a Colonial managed entity.

 ABN 22 166 819 898 AFSL 353001 (as authorised representative)

As at 30 September, 2018, IPIF Core has delivered performance of 9% per annum since inception in January 2016. It has more than $118 million in funds under management.

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Media contact

Guy McKanna

Honner

8248 3740 or 0430 355 985

Guy@honner.com.au

About IPIF

Infrastructure Partners Investment Fund is an independent funds management group. Its IPIF Core offering provides investors with access to a portfolio of sought-after unlisted assets that are typically inaccessible to small wholesale investors.

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