

RARE Infrastructure

RARE Infrastructure Limited
AFSL: 307727
ABN: 84 119 339 052

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Russell OpenWorld



Overview

- 1** ➤ RARE Business Overview
- 2** ➤ Genesis of the Investment Strategy
 - Listed compared to Direct infrastructure
 - Listed Infrastructure Opportunity
 - What is Infrastructure?
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 - RARE Team & Points of Differentiation
- 3** ➤ Investment Process
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RARE Business Overview

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Who is RARE?

- Established in 2006, RARE is a fund manager focussed only on global infrastructure
- RARE's current FUM, with commitments, is circa USD1.2 billion
- Owned 40% by Treasury Group (TRG) & 60% by staff
- TRG is listed on the ASX & it invests in fund managers. As at 30 June 2009 it had AUD10.93b in FUM through 6 managers
- TRG provides non-investment services to RARE
 - compliance & risk management
 - operations
 - accounting & administration
 - marketing
- The RARE team
 - is one of the most experienced global infrastructure teams - over 70 years combined global infrastructure experience.
 - comprises of eight professionals located in Sydney



RARE Investment Team

Richard Emslie,
Investment Director
Senior Portfolio Manager



- 19 years global infrastructure experience
- Gas, electricity, water, telecoms, airports & communications
- Australia, UK, New Zealand, USA, Canada, Asia, Japan
- Previously Head of Power & Joint Head of Infrastructure at UBS Investment Bank.

Sarah Shaw,
Research
Emerging Markets Portfolio Manager

- 10 years infrastructure experience, including 7 years with Dresdner Kleinwort Wasserstein, based in London covering telecom utilities.
- Head analyst for Asia Pacific (ex Japan) region, USRECOs, Latin America & cross regional theme analysis in global sector

Rod Chisholm,
Research

- 10 years infrastructure experience, including 6 years with HSBC based in London covering research on telecom utilities & previously in investment banking covering telecom, utilities & communications
- Head analyst for top ranked Pan European fixed line telecom team

Tim Humphreys,
Research

- 13 years funds management experience, including Insight Investment (FUM in excess of £100b) & Rothschild
- Asset Management Researched European transport (airports, road & rail & logistics) for 11 years
- Member, performance analyst team (attribution analysis, risk analysis, other techniques)

Nick Langley,
Investment Director
Senior Portfolio Manager



- 11 years global infrastructure experience
- Gas, electricity, telecoms networks, rail, airports, toll roads & social infrastructure
- 4 years with AMP Capital's infrastructure funds management team
- CFO of DUET, a AUD6.5b enterprise value, ASX listed trust owning gas & electric networks
- Worked with Richard Emslie 1998 - 2000

Jonathan Reyes,
Research/ Trading


- 7 years of industry experience, including 6 years with Bear Stearns & Co, based in New York
- Generalist Equity Analyst for the long-only Large Cap Value strategy
- Responsible for creating & maintaining models as well as providing investment recommendations
- Primarily focused on emerging markets at RARE

David Maywald,
Research

- 9 years funds management experience, including Bankers Trust Fund Management & Constellation Capital
- Researched domestic & international stocks
- Undertaken currency strategy & dealing
- Covered a variety of infrastructure sectors including gas, electricity, ports, road, airports & communications

Tim Shelgrove,
Trading/ Research

- Worked on the hedge fund desk at Merrill Lynch prior to RARE, where he managed and executed orders for 20 global clients
- Manages and executes orders for RARE Investment Committee
- Member of the RARE research team

5 Over 70yrs global infra & 40yrs funds management experience 

RARE Points of Differentiation

- **Focus:** RARE's only focus is global infrastructure, we have no other business
- **Team:** Extensive experience in valuing long-dated assets
 - combination of skills, all from value-based backgrounds
 - extensive track record of understanding these entities
- **Investment Process:** Disciplined, consistent process, comparable results
 - transferred direct investment experience to listed market
 - understanding impact of macro-economic drivers on valuations
- **Portfolio Management:** Our focus is on reducing risk of loss
 - understanding risks of individual stocks
 - independent valuation, bottom up approach to stock selection
 - portfolio construction parameters to ensure balanced portfolio

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Genesis of the Strategy

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Genesis of the Investment Strategy

Strategy

- Developed as a proxy for taking unlisted exposures, but
 - greater liquidity (offset by a greater level of volatility)
 - greater diversity (portfolio of 30-40 companies)
 - time to invest not an issue
 - listed greater focus on organic growth less acquisition risk
- Maintain thought leadership in the infrastructure sector

Investment Process

- Developed based on knowledge of the unlisted and listed sector
- Long dated valuation approach to long dated assets
- Focus on underlying macro economic valuation drivers, coupled with -
 - detailed analysis and understanding of entities cash flows
 - detailed assessment of underlying risks associated with the cash flows

R.A.R.E. means Risk Adjusted Returns to Equity



Global Opportunities

Listed vs unlisted

Listed

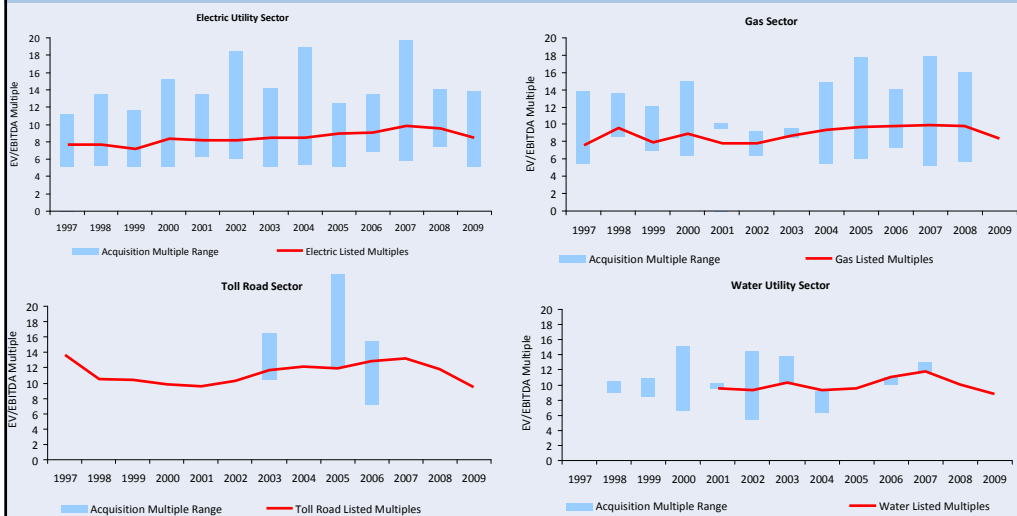
- Greater liquidity
- Greater volatility
- Generally lower fees
- Listed greater diversity (portfolio of 30-40 companies)
- Time to invest not an issue
- Listed greater focus on organic growth less acquisition risk

Unlisted

- Less liquidity
- Less volatility
- Generally higher fees
- Less diversity. Generally higher risk initially while assets acquired: greater portfolio concentration risk
- Can take considerable time to invest funds
- Greater acquisition risk

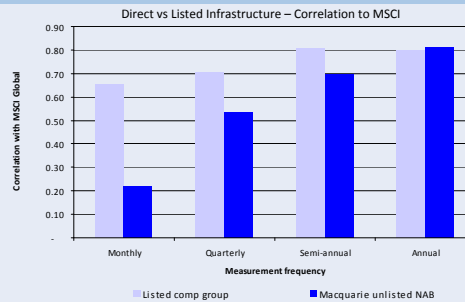
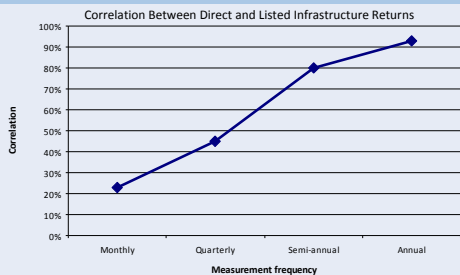
Global Opportunities

Listed vs unlisted



Global Opportunities

Listed vs unlisted



- Measured monthly, direct infrastructure and listed infrastructure look like different investment with a, 25% correlation .
- However this is largely a result of measurement intervals, moving to annual return yields a correlation of 95%.
- This supports the RARE thesis that direct and listed are simply different options for accessing the same returns.

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Listed Infrastructure Opportunity

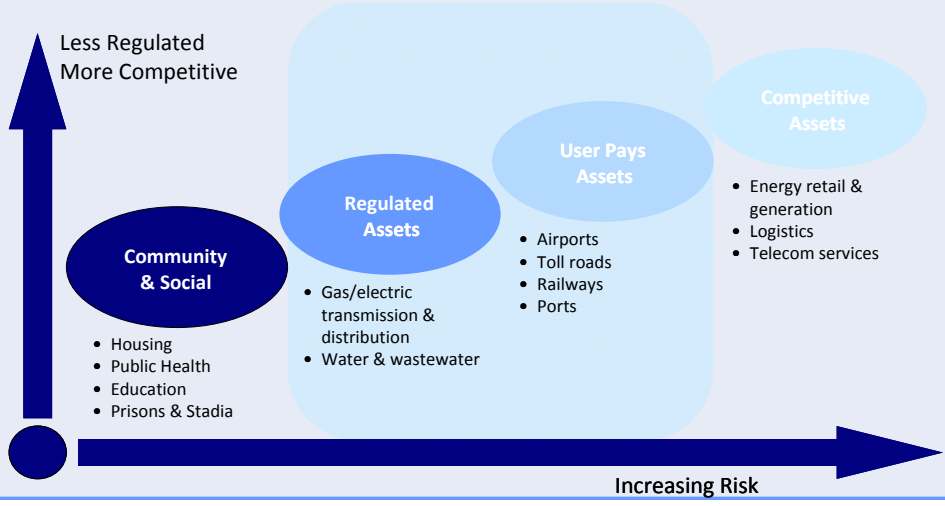
Opportunity to invest in an asset class where:

- Underlying assets exhibit stable dividends and capital returns over the long term
- Stability of returns is underpinned by regulated or long term contracted revenues
- There has been and will continue to be significant growth
 - To ensure economies remain competitive and prosper
 - As governments struggle to balance budgets and include the private sector in developing domestic infrastructure
 - To maintain operational efficiency of existing essential services, much of which is in a poor state of repair

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What is an Infrastructure Asset?

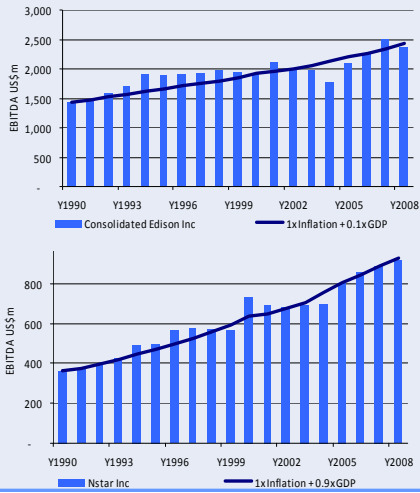


Macro Risk Exposure, Range in Sector

Very defensive - strong Downside protection	Defensive with some macro exposure	Less defensive with macro exposure
National Grid, Northumbrian Water, Snam Rete, Red Electrica	ITC, Northeast Utilities, EDP, Spectra	Abertis, Union Pacific, SES
<ul style="list-style-type: none"> Return on investment underwritten by regulatory regime Most macro risks are passed through (inflation, interest rates, GDP growth etc) Limited excess returns 	<ul style="list-style-type: none"> Returns are either partially regulated or regulated by contract Financial returns partially correlate with demand for underlying assets Some excess returns 	<ul style="list-style-type: none"> Financial returns highly correlated with demand for underlying assets Potential exposure to business cycle Potential for excess returns

Macro Risk Exposure, Key Driver of Value

Regulated Assets – CPI Linked, Low Growth

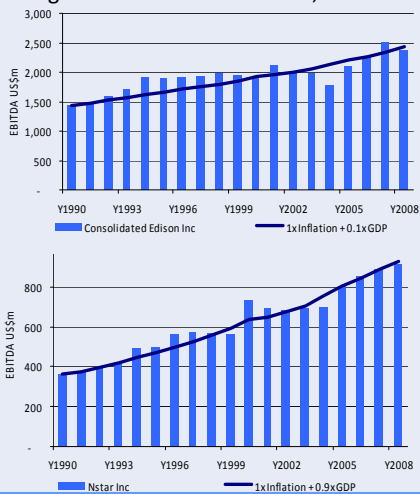


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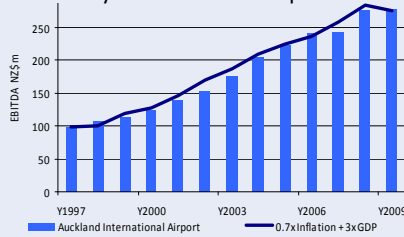


Macro Risk Exposure, Key Driver of Value

Regulated Assets – CPI Linked, Low Growth



Users Pays – Grows at Multiples of GDP

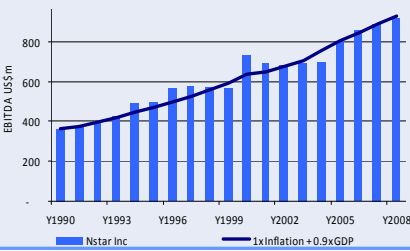
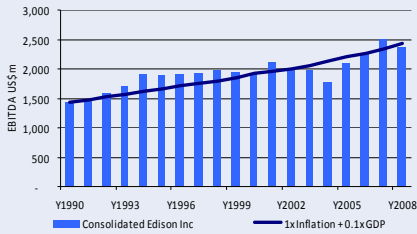


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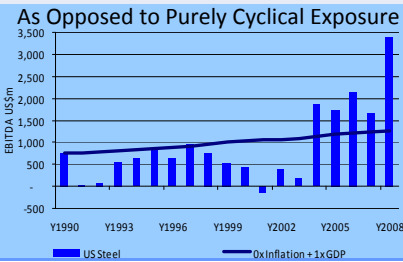
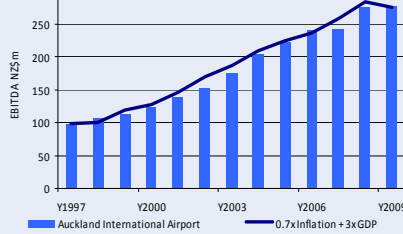


Macro Risk Exposure, Key Driver of Value

Regulated Assets – CPI Linked, Low Growth



Users Pays – Grows at Multiples of GDP



Inflation Risk Exposure, Range in Sector

Strong inflation protection (Pass through)

Northumbrian Water, Snam Rete, Red Electrica, Some Toll Roads, National Grid UK

- Regulated revenues are indexed to inflation
- Regulated asset values also often indexed to inflation
- Regulated returns are set in real terms

Medium inflation protection (Regulation, re-pricing)

National Grid US, ITC, Northeast Utilities, Spectra, EDP, Union Pacific, EDP, SES

- Not all revenues directly linked to inflation
- May have material 'lag' on inflation pass through
- Asset values not indexed
- Regulated returns are set in nominal terms

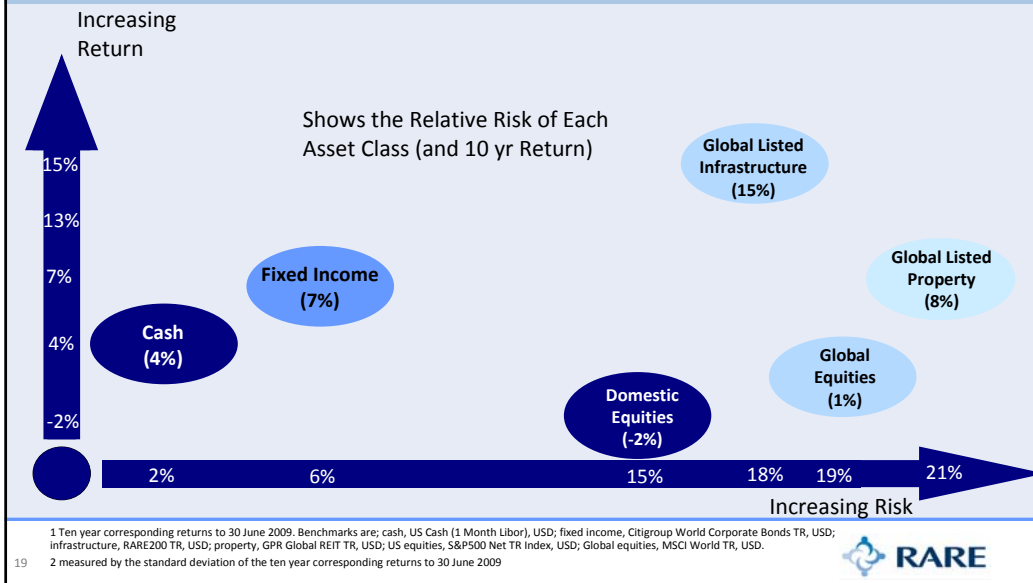
Weak inflation protection (long term nominal contracts)

Some parts of; Spectra, ITC, EDP and SES

- Infrastructure revenues are based on long term contracts
- No inflation adjustments
- Exposed to high inflation adjustment



Relative Trading of the Sector

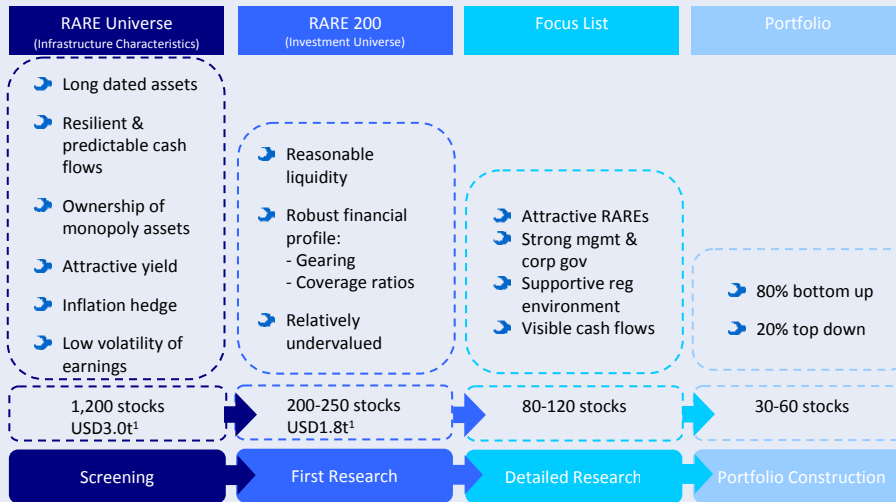


Investment Process

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Objectives & Process



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¹ As at 30 June 2009



Investment Process Summary

Stock Selection

- 80% fundamental bottom up analysis
 - Risk Adjusted Returns to Equity (RAREs)
 - Tail risk
 - Event risk
- Scenario and sensitivity analysis
- Peer review and team discussion

Portfolio Construction

- Portfolio guidelines
 - Sector
 - Region
 - Maturity
- Stock limit constraint
- Liquidity
- Portfolio macro risk assessment
- Buy/sell decision discipline

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Portfolio as at 31 October 2009

Top Stocks

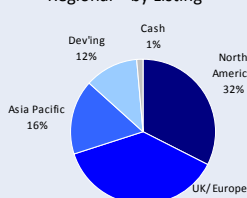
Name	Weight
ITC HOLDINGS CORPORATION	5.5%
NATIONAL GRID PLC	5.0%
SHENZEN INTERNATIONAL HOLDINGS LIMITED	5.0%
ABERTIS INFRAESTRUCTURAS SA	4.9%
SES	4.6%
VINCI SA	4.5%
TRANSCANADA CORPORATION	4.4%
NORTHEAST UTILITIES	4.3%
RED ELECTRICA CORPORATION SA	4.0%
SPECTRA ENERGY CORP	3.5%

Portfolio Statistics

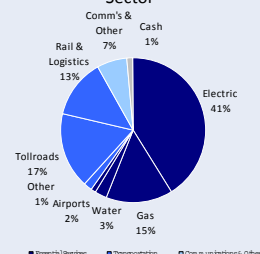
Key statistics of the current portfolio are as follows¹:

Dividend Yield	5.3%
EV/ EBITDA	8.6x
Interest cover	4.9x
Gearing (Debt/ EV)	43.2%

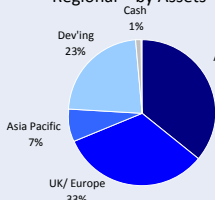
Regional – by Listing



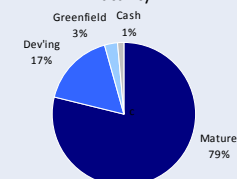
Sector



Regional – by Assets



Maturity



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¹Based on weighted averages



Portfolio Review Performance

Performance, USD Unhedged, Net of fees	3 months to 31 Oct 2009	1 Year to 31 Oct 2009	2 years to 31 Oct 2009	3 years to 31 Oct 2009	Since Inception (Aug 2006)
RARE Infrastructure ^{1,2,3}	6.1%	20.6%	-13.0%	6.3%	6.3%
Benchmark: G7 inflation + 5.5% ⁴	1.9%	4.0%	7.1%	7.2%	7.2%
MSCI World Index (USD) ⁵	6.8%	23.4%	-16.3%	-4.4%	-2.7%
S&P Global Infrastructure Index (USD) ⁶	5.6%	16.9%	-17.0%	-1.7%	-0.1%
Performance, USD Unhedged, Net					Since Inception (7 Apr 09)
OpenWorld USD, Net ⁷	5.6%	na	na	na	26.3%
S&P Global Infrastructure Index ⁸	5.4%	na	na	na	34.5%

¹ Sourced from RBC Dexia, GIPS methodology

² The RARE performance results reflect the deduction of investment management fees (assumed at 0.8% annual, calculated as 0.067% per month), brokerage and any other expense (excluding custodial fees) that was paid out of the investment portfolio. The RARE performance results reflect the reinvestment of dividends.

³ The investment strategy is to invest in global listed infrastructure securities with the objective of providing investors with regular and predictable income comprising of dividends plus capital growth from a portfolio of global infrastructure securities

⁴ Calculated by RARE reviewed by RBC Dexia

⁵ MSCI AC World Daily TR Gross USD, sourced from Bloomberg (GDUEACWF Index). The MSCI AC World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of both the developed and the emerging markets. The MSCI AC World Index includes 48 markets. RARE infrastructure performance reflects investments made by RARE in only global listed infrastructure securities and therefore is a narrower universe than the MSCI AC World Index. In addition RARE's regional exposure is likely to be significantly different to the MSCI AC World Index. The MSCI returns are gross index returns for the period.

⁶ S&P Global Infrastructure Index, TR USD, sourced from Bloomberg (SPGTINTR Index). The S&P Global Infrastructure index provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation and Energy.

⁷ Sourced from Bloomberg

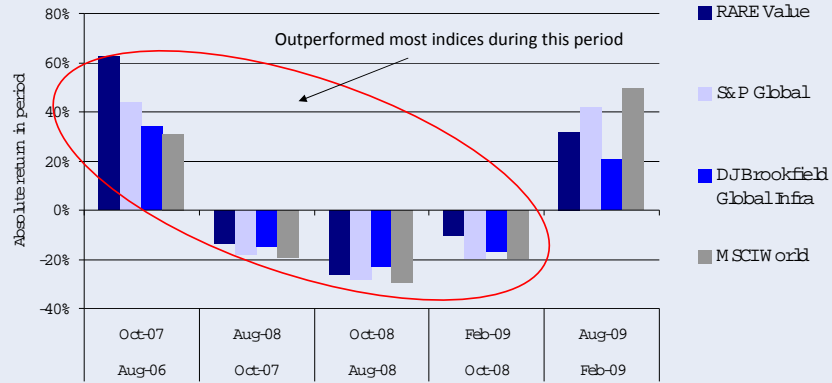
⁸ S&P Global Infrastructure Index Net TR, USD, sourced from Bloomberg (SPGTINNT Index)

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Infrastructure Relative Trading Over Time

USD Gross, Unhedged (note inconsistent time periods)



Period	1	2	3	4	5
RARE vs M SCI	+ 23.9%	+ 6.5%	+ 5.1%	+ 12.2%	-11.9%

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Market Outlook & Infra Trading

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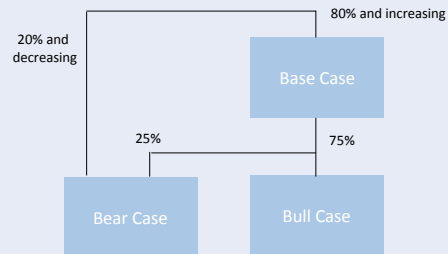


Current Market Outlook

Base case

- Predicated on GFC being a corporate credit crunch, giving rise to massive inventory cycle
- Requires continued (and rapid) improvement in the labour market
 - give comfort to consumers
 - indicates corporate confidence (reduced job shedding, increased capex)
- Expect inflation concerns to pick up (not necessarily core inflation itself), bonds will react to inflation uncertainty
- 2 year bond yield is an important signal, yield curve flattening out

Scenario Analyses Critical



- Structural deleveraging environment
- Deflation takes hold
- Signposts are employment rising, yield curve bear steepening
- Govt stimulus and central bank liquidity result in new bubble
- Signposts are improving labour markets, restart of credit cycle, flattening of yield curve

Conclusion

- Focus & alignment of interests
- Team
 - significant depth of global infrastructure industry experience
- Investment Process
 - robust & consistently applied
- 100% Focussed on Infrastructure Investments
 - Treasury Group manages all non-investment services

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Appendices

- Notes on Trading Performance over time

Infrastructure Relative Trading Over Time

- Period 1 – Inception to market peak (Aug-06 to Oct-07)
 - RARE outperforms MSCI and infrastructure indices
 - Largely driven by revaluation of Emerging markets and European infrastructure assets
- Period 2 – Recession bear market part I (Oct-07 to Aug-08)
 - Somewhat defensive – outperforms global equities and slightly outperforms Infrastructure indices
- Period 3 – Credit crunch / Lehman (Aug-08 to Oct-08)
 - Very high correlation between all indices and asset classes
 - Indiscriminate selling of assets driven by liquidity needs
- Period 4 – Recession bear market part II (Oct-08 to Feb-09)
 - Very defensive, strong outperformance of global equities
- Period 5 – Bear market rally / start of next bull market (Feb-09 to Aug-09)
 - Value fund underperforms market rally as financials and leveraged names rally

This slide is to be read in conjunction with Slide 25, “Infrastructure Relative Trading Over Time”

Definitions and Notes

Important Information:

Terms & Definitions:

A defensive asset class. When economies experience periods of weakness, unlike many industrial companies, the revenues of listed infrastructure stocks tend to be resilient because consumers continue to use electricity and gas for heating, cooling and lighting, and water, drive their cars on tollroads and use other essential infrastructure.

Attractive income distribution yields, particularly for mature stage assets where the company earnings are more certain and sustainable

Access to growing markets. There has been rapid growth of listed infrastructure assets over the last 12 years. As at June 30, 2009, the aggregate market capitalization of infrastructure stocks was approximately \$1.8 trillion spread across approximately 210 companies (RARE 200). This is only a small fraction of the global stock of infrastructure assets, with the majority of assets still owned by governments. However, there has been a growing trend by governments to transfer these assets to private ownership.

De-leveraging. A company's attempt to decrease its financial leverage. Companies will often take on excessive amounts of debt to initiate growth. However, using leverage substantially increases the riskiness of the firm. If leverage does not further growth as planned, the risk can become too much for the company to bear. In these situations, all the firm can do is “de-lever” by paying off debt.

EV (Enterprise Value) is defined as (market capitalization + preferred equity, if any + net debt)

EBITDA is defined as earnings before interest, tax, depreciation & amortization.

Hard assets. Hard assets are the tangible property of a company or partnership, such as the buildings, furniture, real estate, and other equipment it owns.

Inflation hedge. A natural hedge against inflation exists for many infrastructure assets (such as utilities and toll roads) through tariff movements or toll increases being explicitly linked to inflation.

Infrastructure assets are generally defined as long term capital intensive investments serving the community. RARE defines them as assets that societies expect to exist to provide the basic services that are essential for communities to function and for economies to prosper and grow.

Long term stable returns. RARE's research shows that over the last 10 years, global infrastructure generally has had lower volatility and higher returns than both global equities and global property and is less likely than global equities to result in negative returns over rolling 2 year periods. RARE highlights this by showing the distribution of average monthly returns versus the volatility of returns over the last 10 years for the RARE200 investment universe compared with global equities (as measured by the MSCI AC World Daily TR Gross in local currency) and global property (as measured by the GPR REIT World Index).

ADDITIONAL NOTES:

RARE's research and analysis indicates that many infrastructure assets or investments possess common investment features, including:

Long Dated Assets

Usually requiring a significant initial capital commitment, infrastructure assets are often long dated, exhibiting a lifecycle starting as a green field investment, followed by a developing period, leading to a mature phase. Each of the lifecycle stages may have different risk/return characteristics.

Resilient and Predictable Cash Flows

Demand or volume growth is usually inelastic with a large degree of resilience to economic conditions. Demand is usually more dependent on demographic factors. As such, volumes are largely predictable, translating into considerable certainty of underlying cash flows, earnings and dividend sustainability.

Attractive Yield

Particularly for mature stage assets, a key attraction for RARE is the relatively high distribution yield generally expected from infrastructure investments. Due to the earnings certainty provided, distributions are in many cases sustainable.

Inflation Hedge

RARE considers that a natural hedge against inflation exists for many infrastructure assets, through tariff movements or toll increases often being explicitly linked to inflation.

Low Maintenance Capital Expenditure

The assets tend to require low maintenance capital expenditure relative to operating cash flows

Largely Fixed Operating Cost Base

The operating cost base of the assets is largely fixed.

Monopoly Power, may be Regulated

RARE's analysis indicates that legal or economic monopoly assets generate the bulk of earnings for many utility and infrastructure investments, reducing the impact of competitive market forces upon returns.

High Leverage

Given the relative size of the assets and what RARE assesses as resilient and predictable cash flows, RARE's research shows that infrastructure assets often carry significant leverage, particularly in the later stages of an asset's lifecycle.

Low volatility and correlation to other asset sectors

Given the nature of the assets and the anticipation by investors of certainty of income streams, infrastructure assets are often characterised as offering both low volatility and limited correlation to other asset sectors

Important Information

Important information

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Treasury Group Investment Services Limited is the responsible entity for the RARE Infrastructure Value Fund ("RIVAF"), the RARE Series Value Fund and the RARE Series Emerging Markets Fund ("RARE Series Funds"). Applications can only be made on the form in the current product disclosure statement for the fund dated 8 September 2008 for RIVAF and 15 August 2008 for the RARE Series Funds. The product disclosure statements can be obtained by contacting RARE Infrastructure Limited or on www.rareinfrastructure.com. Potential investors should consider the product disclosure statement before deciding whether to invest, or continue to invest in the Funds.

The fact that shares in a particular company may have been mentioned should not be interpreted as a recommendation to buy, sell or hold that stock.

Any prospective PE ratios and dividend yields or forecasts referred to in this presentation constitute estimates which have been calculated by the RARE Infrastructure investment team based on RARE's investment processes and research.

Additional important information for potential or existing investors in United Kingdom

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