

RARE Infrastructure Summary of Top 10 Stocks as at 31 December**1. ITC Holdings (ITC): Market Capitalisation US\$2.7bn**

ITC is extremely well placed to benefit from the need to invest in the US electricity transmission network. In order to incentivise investment, the regulator (FERC) allows the highest regulated returns in the US electrical sector.

The reasons we like ITC Holdings, and why it has defensive characteristics are:

- ITC is the only listed pure play on electricity transmission in the US
- Historic underinvestment and new demand from renewable energy projects has led to a huge need for transmission investment - over \$10bn per year
- Revenue and returns are guaranteed by the regulator - so risk is minimal
- The company does not generate or take ownership of electricity - no commodity or volume risk
- All operations are in the US, therefore there is no currency risk
- All interest costs and construction costs are recovered automatically through the regulatory agreement
- Extremely low risk, high return pure play on growth in US electrical Transmission spending

2. Abertis Infraestructuras SA (ABE): Market Capitalisation US\$15.8b

Abertis is a Spanish infrastructure conglomerate with significant exposure to the transport and telecommunications space. In a difficult domestic market Abertis has held up relatively well partially a result of its geographic diversification

The reasons we like Abertis, and why it has defensive characteristics are:

- Diversified infrastructure conglomerate with exposure to
 - i. Toll roads
 - ii. Telecommunications & satellites
 - iii. Airports
 - iv. Car Parks
 - v. Logistics
- Diversified geographical exposure to Europe, LatAm & USA
- Relatively strong balance sheet (within infrastructure space) with a near term strategic focus on consolidating existing assets, preserving balance sheet strength while awaiting strategic long term opportunities
- Strong corner stone shareholders in ACS and Criteria Caixa

3. SES : Market Capitalisation \$9.4b

SES Global owns and operates a fleet of geostationary satellites providing transmission services to television broadcasters, communication companies and government clients. In the EMEA region SES serves over 125m households either directly or through cable. In North America SES provides transmission services to the largest direct to home broadcaster as well as the major cable networks.

The reasons we like SES Global, and why it has defensive characteristics are:

- The geostationary satellite business has natural monopoly characteristics with large barriers to entry (access to orbital slots and capital)
- Customer switching barriers are also very high with satellite receiving dishes 'locked' to an orbital spot without physical adjustment
- Returns on investment are high with IRRs of 15%+ on individual satellite investments
- Operating and cashflow margins are very high with EBITDA margins of nearly 80%
- The company has relatively conservative gearing at less than 3x EBITDA
- Satellite transmission costs represent a low percentage of broadcasters total cost base. This allows SES to charge premium prices in return for providing quality and continuity of service guarantees

4. National Grid PLC (NG/ LN): Market Capitalisation US\$15.8b

Grid owns regulated energy networks in the United Kingdom and the northeast United States. As the UK incumbent the company has deep experience in operating electricity and gas networks, in both transmission and distribution.

The reasons we like National Grid, and why it has defensive characteristics are:

- Robust, well understood and transparent regulatory frameworks
- Regulatory reviews are spaced over time, reducing the risk of materially surprising the market
- Investment plans agreed with their regulators incorporate £18b of growth to the Regulated Asset Base over the six years to March 2012
- Significant additional capital expenditure is also required in both the UK and US to expand and reinforce energy networks, this includes increasing renewable energy capacity, additional gas transmission and potential new nuclear builds
- Underutilised workforce and depots that have already been paid for with regulated revenues
- Solid and highly regarded operational management teams

5. Shenzhen Intl Holdings (152 HK): Market Capitalisation US\$1.1bn

Shenzhen International is an evolving infrastructure conglomerate – nearing the end of a restructure whereby it has sold/is selling down its non-infrastructure assets and increasing its exposure to the attractive infrastructure sectors across China. Once complete it will have 2 core sectors

- Toll roads in Southern China – a mix of mature and developing roads
- Ports and logistics – in demographically strategic locations

The reasons we like Shenzhen International are:

- Increasing positions in key logistics/infrastructure sectors
- Strong cash flows and a solid balance sheet to fund growth profile while still providing a yield to investors
- Strong management team who have navigated the global crisis very well
- Significant value being unlocked via disposal of non-core assets
- Under-brokered

6. Vinci SA (DG): Market Capitalisation US\$30.8b

Vinci operates five major segments, Concessions, Energy, Road works, Construction and real estate. Concessions and Road group constitutes approximately 70% of Vinci's EBITDA. This Group is involved in designing, structuring, engineering and financing to build and operate transport infrastructure such as motorways, bridges, car parks and airports. Under Road works, the Group builds, renovates and maintains road and motorways. The Group operates mainly in Europe, North America and the United Kingdom.

The reason we like Vinci, and why it has defensive characteristics are:

- Integrated concession/construction player with complimentary divisional fundamentals
- Second largest toll road operator in Europe with a strategic focus to increase investment in this area
- Concessions make up over 75% of value
- Significant pipeline of new opportunities across divisions (order book help up well to date) – partly a result of domestic protectionism from the French government
- Solid balance sheet
- Resilient earnings to date across the Group facilitating investment in strategic long term assets (concessions)
- Geographic and asset maturity diversification

7. TransCanada(TRP): Market Capitalisation US\$22.5b

TransCanada operates natural gas and oil pipelines in Canada and the US. It also has interests in several power stations in the US and Canada. The company is investing in its pipelines from the oil sands in Alberta to the refineries in the US.

- Regulated pipelines offering stable long term take or pay contracts
- Opportunities to leverage off its size and expertise to build extra pipelines
- Is in pole position to build the Alaska gas pipeline- projected cost circa \$30bn
- Exposed to attractive power markets with declining reserve margins
- Has low cost nuclear exposure through the Bruce nuclear facility in Canada

8. Northeast Utilities (NU): Market Capitalisation US\$4.6bn

Northeast primarily operates electricity distribution businesses in the North-Eastern US states of Connecticut, Massachusetts and New Hampshire. In addition, Northeast has a growing FERC regulated electricity Transmission business.

- Market does not recognise value in growing FERC regulated transmission business
- Transmission returns are low risk with returns guaranteed by the regulator, regardless of volumes
- Distribution business are under-earning their regulated returns – this creates upside risk as regulators allow price increases to improve returns
- Lots of Transmission projects within New England (New England East West projects)
- Beneficiary of push for renewable power – proposed \$700m project to bring hydro power down into New England from Canada

9. Red Eléctrica Corporacion S.A. (REE SM): Market Capitalisation US\$7.4b

Red Eléctrica is a regulated utility in Spain. The company owns and operates the electricity transmission network, and has a virtual monopoly of the mainland network as well as some of the Spanish islands. Over time the company has been aggregating the remaining transmission networks that it didn't own, and has been a disciplined acquirer. The shares have significantly outperformed broader equity markets and peers over many time periods up until present.

The reasons we like Red Eléctrica, and why it has defensive characteristics are:

- The company has agreed to long-term investment plans with the regulator and the government, they have planned €4.0b of investments from 2009-2013 (out of €8.5b in the National Infrastructure Plan from 2008-2016)
- Management has demonstrated significant increases in operating margins since listing, and particularly strong cost control (EBITDA margin has increased in each of the last six years)
- The company is well run and highly-regarded as a sector leader
- Through building a 100 person capacity to plan capital expenditures and get planning approvals from governments, they have delivered on expected investments in the past

- A vast majority of revenues are linked to inflation and to investments made in their networks, not to electricity volumes
- Operations are focused on only their core business, with little diversification or foreign assets
- The regulation allows double digit earnings growth, and the company has committed to growing dividends in line with earnings

10. Spectra Energy (SE): Market Capitalisation US\$13.6b

The Group's principal activity is to transport and store natural gas for customers in various regions of the East and South East United States, and also Canada. In addition, Spectra has an interest in a gas collecting and processing business as well as owning a Gas distribution business in Ontario.

- Was spun off from Duke Energy at the end of 2007
- Excellent geographic exposure to benefit from increased use of Natural Gas in the US
- Large expansion plan in areas with high returns
- Beneficiary of the increased demand for natural gas in the US
- Secure Long-term take or pay contracts with a light handed regulatory environment
- Share price has fallen on overdone concerns of exposure to the oil price