

## RARE Infrastructure Value Fund

30 Sep 2009

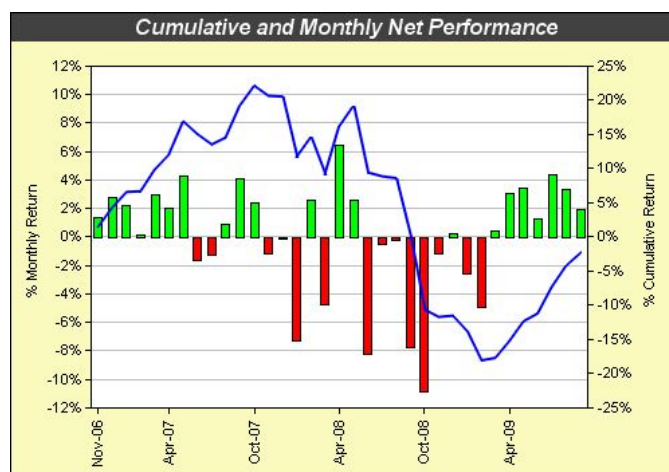
The RARE Infrastructure Value Fund (the Fund) is a high quality offering, providing investor's access to a diversified range of global listed infrastructure securities. The Fund aims to deliver a total return of 10%-11% per annum, over a medium to long term investment time frame (5+ years). The Fund will employ a bottom-up research approach in order to identify quality infrastructure securities, possessing high quality assets and management that operate in a monopolistic environment, which can deliver a resilient and predictable cashflow.

The RARE investment team is well resourced and highly experienced, consisting of 8 investment professionals. All members are based in Sydney and the team is led by Richard Elmslie and Nick Langley. Elmslie has over 19 years of global infrastructure experience and prior to co-founding RARE in 2006 held positions as Head of Power and joint Head of Infrastructure at ABN AMRO. Langley has over 11 years experience, which included 4 years with AMP Capital's infrastructure funds management team. Langley also worked alongside Richard Elmslie at UBS Investment Bank between 1998 and 2000. In Zenith's view Elmslie and Langley are highly regarded investment professionals. Together Elmslie and Langley form a 2-member investment committee that drives the portfolio construction process. Each member of the investment team has specific stock research responsibilities (excluding Elmslie and Langley), with responsibilities divided along sub-sector and regional lines. Zenith has met with the majority of RARE's investment team and have been impressed by the depth, experience and structure of the team. The team's high level of experience ensures adequate coverage of the investible universe and the collegiate approach promotes a healthy internal debate regarding investment ideas.

RARE Infrastructure limited specialises exclusively in global listed infrastructure investments covering no other asset classes nor having any other business operations. The manager focuses on specific subsectors of the infrastructure universe, specifically regulated Assets (e.g. Gas/Electric Transmission & Distribution) and User Pays Assets (e.g. Airports, Toll Roads, Ports) sub-categories of the infrastructure investment universe. There are essentially 3 broad components to the RARE investment process: initial screening; fundamental research including financial modelling; and portfolio construction. RARE employs a series of quantitative and qualitative screens (liquidity, gearing, coverage ratios, predictability of cashflows, attractive yield, low volatility of earnings) to reduce its initial investment universe of 1,200 stocks down to a 'RARE 200 universe' before arriving at a Focus List of 80-120 securities. From here, intensive fundamental research is employed, culminating in a detailed research report for each company, which includes various sections of qualitative analysis and a discounted cash flow valuation. Portfolio construction is benchmark unaware in nature and portfolio weights are therefore expected to deviate significantly from those of the standard infrastructure sector benchmarks at a stock, sub-sector and regional level. The portfolio will generally contain around 30-60 stocks. In Zenith's view, RARE's portfolio construction process embodies an appropriate blend of fundamental research by the analyst team and portfolio manager discretion. Risk management is an integral component of the investment process employed by RARE, which is predominantly driven by the extensive bottom-up research applied. The Manager aims to identify high quality Regulated and User Demand securities with solid and recurring cashflow, while operating in a low demand elasticity type environment. The Portfolio is constructed along broad constraints surrounding region, sector and stock type exposure, while maintaining a benchmark unaware styled approach. Zenith is comfortable with the research process applied and the portfolio constraints in place to ensure a best of breed portfolio of infrastructure securities.

In Zenith's view the Fund is well structured and managed by a high calibre investment team. We believe there are significant diversification benefits to be gained by adding a global listed infrastructure fund (such as the RARE Infrastructure Value Fund) to an investor's portfolio and, depending on the individual investor's risk profile, an allocation of 15-20% of the international share component could potentially enhance the risk/return profile of the overall portfolio. Zenith has assigned a HIGHLY RECOMMENDED rating to this Fund.

Key Features	Description
APIR Code	TGP0008AU
Asset Class	International Shares
Sub-Asset Class	Infrastructure
Investment Style	Listed Securities
Benchmark	S&P Global Infrastructure Index Hedged A\$
Investment Director, Senior Portfolio Manager	Richard Elmslie
Investment Director, Senior Portfolio Manager	Nick Langley



### Performance Analysis

Performance Statistics	2 Yrs (% p.a.)	1 Yr (% p.a.)	6 Mths (%)
Performance - Fund	-9.51	-2.55	18.69
Performance - Benchmark	-12.93	-5.18	29.70

Zenith benchmarks all Global Listed Infrastructure Securities Funds to the S&P Global Infrastructure Index (Hedged \$A) to provide a common mark, although we do acknowledge that it is not the ideal benchmark to some funds in this sector based on the benchmarks high weighting to Utilities. Zenith prefers to concentrate predominantly on individual fund performance, return consistency and risk/return output, in comparison to peer group statistics.

The Fund's track record is currently too short to draw a meaningful conclusion, however it has been able to deliver a strong level of outperformance above benchmark, since inception (November 2006) and ranks 1st in comparison to its global peers.

RARE employs a benchmark unaware investment approach, with its performance objectives and performance fee structure based on the Fund's internal index, the OECD G7 Inflation Index (which returned 4.6% for the 12 months to 30 September 2009) plus 5.5% p.a.

### Consistency Analysis

Consistency Statistics	2 Yrs	1 Yr
History of Monthly Excess Return (%)	45.83	41.67
History of Monthly Excess Return (Rising Mkts %)	23.08	12.50
History of Monthly Excess Return (Falling Mkts %)	72.73	100.00

The Fund has generate a consistent level of outperformance above benchmark through falling market conditions and has achieved a moderate level of outperformance through all market conditions over the medium term (2+ years).

Zenith expects the Fund to generate a positive level of outperformance through all market conditions over the investment timeframe prescribed.

### Risk / Return Analysis

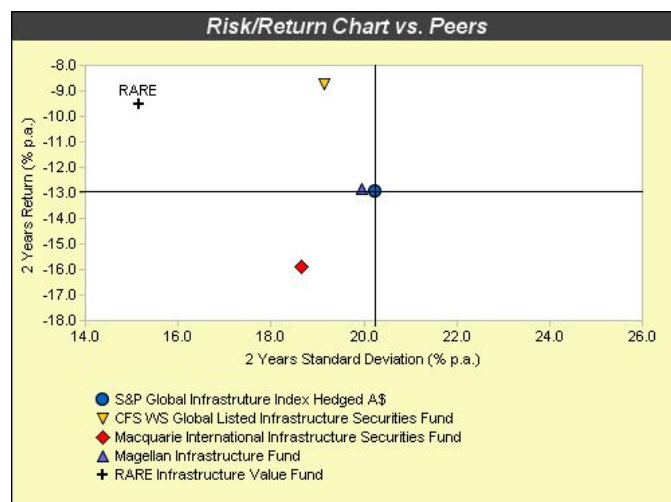
Risk / Return Statistics	2 Yrs	1 Yr
Information Ratio - Fund	0.39	0.24
Sharpe Ratio - Fund	-1.02	-0.48
Standard Deviation (% p.a.) - Fund	15.16	14.38
Tracking Error (% p.a.) - Fund	8.74	11.00

Zenith views the Fund's two year track record as being too short to make a meaningful conclusion.

Risk of the Fund, as measured by standard deviation (dispersion of monthly returns from the benchmark), is below that of the peer group average (avg. 18.50%), over a 2 year time period. Future return dispersion from the benchmark prescribed are expected, based on the Benchmarks underlying

sector weights (higher weighting to Utilities) and the 'benchmark unaware' approach employed by the Manager.

The risk/return chart below graphically illustrates the Fund's strong performance over the short term in comparison to its global peers.



### Investment Personnel

Name	Title	Time with Manager
Richard Elmslie	Investment Director, Senior Portfolio Manager	3 Yr(s)
Nick Langley	Investment Director, Senior Portfolio Manager	3 Yr(s)
David Maywald	Senior Investment Analyst	3 Yr(s)
Sarah Shaw	Senior Investment Analyst & Portfolio Manager - EM	3 Yr(s)
Rod Chisholm	Senior Investment Analyst	3 Yr(s)
Tim Humphreys	Senior Investment Analyst	2 Yr(s)
Jonathan Reyes	Analyst	1 Yr(s)
Tim Snelgrove	Analyst / Trader	7 Mth(s)

### Organisation:

RARE Infrastructure Limited is a boutique investment management company that specialise exclusively in the asset class of global infrastructure in both developed countries and emerging markets. The RARE business is owned 60% by staff (majority by Elmslie and Langley) and 40% by ASX-listed Treasury Group. Treasury provide RARE with back office support which includes compliance, risk management, and HR. This structure enables the investment team to entirely focus on investment management functions. RARE has grown significantly since inception in 2006, with approximately AUD\$1.2 billion in funds under management (FUM).

### Investment Team

The RARE investment team is small but considered by Zenith to be adequately resourced consisting of 8 investment professionals with an average of 8 years investment experience. The team is centrally located in Sydney and operate an open plan to facilitate healthy internal debate regarding investment ideas.

The investment team is led by Richard Elmslie and Nick Langley. Elmslie has over 19 years of global infrastructure experience. Prior to co-founding RARE in 2006, his roles included Head of Power and joint Head of Infrastructure at UBS Investment Bank. Langley has over 11 years experience in the infrastructure sector, which included 4 years with AMP Capital's infrastructure funds management team. Langley also worked alongside Richard Elmslie at ABN AMRO between 1998 and 2000. In Zenith's view Elmslie and Langley are highly regarded investment professionals in comparison to their peers and possess extensive knowledge of global infrastructure and its various sub-sectors.

The six remaining investment professionals include Sarah Shaw (Analyst, Emerging Market Portfolio Manager, 10 years investment experience), Rod Chisholm (Analyst, 10 years), Tim Humphreys (Analyst, 13 years), Jonathan Reyes (Analyst, 7 years), David Maywald (Analyst, 9 years) and Tim Snelgrove (Dealer and Analyst, 2 years). In Zenith's view the team possess a strong mix of investment and regional experience.

There has been one departure over the past 12 months with George Raftopoulos (Trader) departing in March 2009. Tim Snelgrove has been appointed to cover trade execution and equity research which is aligned to his investment experience. RARE have also made two external appointments Mark Burgess (Managing Director of Treasury Group Limited) and David Bowers Managing Director/Absolute Strategy Research - ASR) to form part of the RARE Investment Advisory Board.

RARE recently launched the RARE Series Emerging Market Fund, managed by Sarah Shaw which has attained a Recommended rating from Zenith. Based on Shaw's commitment to managing the Emerging Market Fund, her secondary stock responsibilities which include Logistics and European region have been re-allocated to Tim Humphreys.

All team members (except for Elmslie and Langley) have stock responsibilities divided into both primary and secondary sectors and regions. Portfolio management is driven by a 2-member Investment Committee that is comprised of Elmslie and Langley with investment ideas based on stock ideas from the team.

The remuneration structure for the investment team includes a highly competitive base salary plus a bonus structure tied to the profitability of the business. RARE are currently in the process of implementing an investment team share plan to selected members. In Zenith's view, RARE's current remuneration policy, ownership structure and future share based plans should assist with staff retention.

Zenith has met with all senior members of the RARE investment team, including Elmslie, Langley and Shaw. While the team has a limited track record in managing portfolios, with the bulk of Elmslie and Langley's previous experience having been in unlisted infrastructure, we are impressed with the Fund's performance to date (launched in Nov 2006) and by the depth, level of experience and structure of the team.

## Investment Process

RARE specialises in global listed infrastructure investments. The manager focuses on the Regulated Assets (e.g. Gas/Electric Transmission & Distribution) and User Pays Assets (e.g. Airports, Toll Roads, Ports) sub-categories of the infrastructure investment universe, and generally avoids or has a minimal exposure to the higher risk/return sub-category of Competitive Assets (e.g. Energy Retail, Telecom Services) and the lower risk/return sub-category of Community & Social Assets (e.g. Housing, Public Health, Education).

RARE believes that significant and attractive investment opportunities exist in the listed infrastructure sector and the manager employs a benchmark unaware approach when constructing its portfolio.

## Security Selection

There are essentially 2 broad components to the RARE security selection process:

### 1. Initial Screening

The Fund's investment universe includes only those stocks from the global universe of listed securities that meet the definition of Transport (excluding airlines & marine) and Utilities plus a number of hand-picked stocks that display infrastructure characteristics but are classified in different sectors (e.g. many communications infrastructure businesses are not listed within the standard infrastructure classifications). This leaves a remaining universe of approximately 1,200 stocks.

From here, RARE screens out the majority of stocks with a market capitalisation of less than USD\$500 million, on a maximum 25% of daily volume turnover, and on a number of basic financial parameters including gearing (i.e. Net Debt / Enterprise Value, and Earnings Before Interest and Tax / Interest), cash flow (i.e. Free Cash flow / Dividend) and valuation measures (i.e. Enterprise Value to EBITDA and Price/Earnings Multiples). Small/micro cap stocks below the USD\$500 million threshold may be considered from time-to-time, if the stock is likely to exceed US\$500 million market cap within a relatively short time frame. The resultant investible universe includes around 200-250 stocks.

The remaining 200-250 stocks are ranked based on the above-mentioned financial parameters and the investment team chooses those stocks from each industry sub-sector that it considers to be the most attractive opportunities for further qualitative & quantitative analysis. Generally around 80-120 stocks, called the "Focus List", will proceed to the full fundamental research stage.

RARE's initial screening stage ensures that, whilst a broad range of stocks are given a preliminary consideration, the final focus list is sufficiently small enough for the team to conduct intensive analysis on each remaining stock. The financial parameters considered by the team at this early stage appear sound and should help the team to identify attractive potential investment opportunities.

### 2. Fundamental Research

The fundamental research process begins with extensive information gathering in regards to each company on the focus list and the market. Primary information sources include: information releases from the company; economic and industry statistics and market data; regulatory or other statutory body

reports; and information obtained from company visits. Secondary information sources include: external databases (e.g. Thomson Financial and Bloomberg); credit analysis and reports; broker analysis; and broker/industry sponsored conferences. Company visits in particular are a critical component of the RARE process, with the investment team undertaking a minimum of 10 international trips per annum of 2 to 3 weeks duration to visit companies (generally 2 team members travel per quarter). Commensurate with this level of travel, the travel budget is large (AUD\$500k p.a.), being the second largest expense after wages. In addition, frequent company contact via telephone calls, conference calls, email and webcast are used as a supplement.

RARE uses this information to build an in-depth understanding of the markets, sectors and/or regions in which a company operates. Also, a standard research report is prepared for each company, which includes analysis of various quantitative and qualitative attributes of the company. Specific components of the report include: divisional analysis; meeting notes; peer analysis; SWAT analysis; industry information; and valuation.

Detailed financial models are maintained for each company, with the forecast cash flows from these models used by RARE in constructing its DCF (Discounted Cash Flow) valuations. RARE spends considerable effort in determining an appropriate discount rate for each company for use in the DCF models. This is an area where RARE believes it can use its insight to add considerable rigour to the valuation process. It considers both stock specific risks (e.g. quality of management and corporate governance, structural complexity, acquisition strategy, refinancing upside) and risks relative to the company's peer group (e.g. level of maintenance capex, earnings volatility, monopoly characteristics). These factors are weighted to arrive at cost of debt and equity which are combined to produce the discount rate. The output of the DCF model is an Internal Rate of Return (IRR) and target entry/exit prices for each company on the Focus List, which is used in the portfolio construction stage.

Following its analysis, RARE will discuss its findings with management of the target company and other industry participants (including competitors and regulators), which can help generate new ideas or clarify existing assumptions.

RARE has recently enhanced its investment process by establishing an Investment Advisory Board consisting of Elmslie, Langley, Mark Burgess (Managing Director of Treasury Group Limited), and David Bowers (Absolute Strategy Research, based in London). The Board meets every two months to evaluate high level global macroeconomic issues on a sector and regional basis, with output filtering into RARE's investment process. In Zenith view the Investment Advisory Board complements the existing process by providing a pure top-down global macroeconomic assessment.

RARE's approach to fundamental research appears comprehensive and very well structured. The high level of experience across the investment team ensures that a significant number of companies can be analysed at an in-depth level.

### Portfolio Construction

The portfolio construction process is undertaken by the 2 member Investment Committee, which first considers the IRR of each stock on the Focus List, where a ranking system is

used to set maximum stock limits relative to expected IRRs. Limits are as follows:

- Rank 1: 13%+ IRR = maximum 6% weight;
- Rank 2: 11-13% IRR = maximum 5% weight;
- Rank 3: 10-11% IRR = maximum 4% weight; and
- Rank 4: 9-10% IRR = maximum 3% weight.

The portfolio will consist of predominately Rank 1 and 2 stocks but stock weights are permitted to drift via market movement up to an additional 1/3rd of the above-mentioned maximum weights.

The Investment Committee uses the above-mentioned matrix as a guide and determines weightings within these bands. RARE estimates that weightings within the portfolio are 80% based on the stocks IRR and 20% based on subjective intervention by the Investment Committee. The additional factors considered include the overall portfolio allocation across infrastructure sub-sectors and regions as well as macro-economic inputs. These macro inputs are guided by quarterly broker panels where a panel of 5 brokers are asked for their 3-5 year outlooks which are subsequently fed into the models as well as used in portfolio decisions.

The Manager believes approximately 20% of its value-add is derived from top down influences with the remaining 80% coming from bottom-up stock selection.

The portfolio construction process is benchmark unaware and portfolio weights are therefore expected to deviate significantly from those of the standard infrastructure sector benchmarks at a stock, sub-sector and regional level. The portfolio will generally contain around 30-60 stocks, each typically with a minimum 1% weight. Portfolio turnover is expected to average 35% p.a. over the long term. Where the Fund composition does differ significantly from some of its peers is its exposure to Utilities, which average 65% of the portfolio. The Fund can allocate up to 25% to emerging market opportunities (by asset allocation not listing). Emerging market opportunities are primarily the best stock's present within the RARE Series Emerging Market Fund. Over the past 12 months the Manager has established a sizeable weighting to emerging markets, circa 18% as at 31st July 2009, which has positively contributed to Fund performance.

RARE has a strong focus on liquidity, aiming to ensure that its buy/sell decisions can be executed in a timely manner. The Investment Committee uses the target entry/exit prices (determined by the analyst as part of the valuation) when trading the portfolio. Each week an IRR stock ranking list is printed and any changes in rank are examined. In addition to this change in IRR ranking a number of trigger events will also prompt a stock valuation review. These include: fundamental changes to the business model that impact RARE's view on the stock's prospects; a significant market price decline or a stock is excluded from the "investment universe" during a screening process. Where a stock price declines, RARE will reassess the company's fundamentals to determine if the stock should be sold or the holding increased.

In summary, the portfolio construction process is an intuitive extension of RARE's bottom-up security selection process. In Zenith's view, RARE has achieved an appropriate blend of fundamental research by the analyst team and portfolio manager intuition.

## Risk Management

Portfolio Constraints	Description
Sector Constraint - Transport (%)	25% to 45%
Regional Constraint - Developing Markets (%)	10% to 25%
Sector Constraint - Community & Social (%)	0% to 10%
Sector Constraint - Communications (%)	5% to 15%
Sector Constraint - Essential Services (%)	45% to 70%
Regional Constraint - Asia/Pacific (%)	10% to 25%
Regional Constraint - UK/Europe (%)	30% to 40%
Regional Constraint - North America (%)	30% to 40%
Asset Maturity Constraint - Green Field (%)	0% to 20%
Asset Maturity Constraint - Mature (%)	70% to 90%
Asset Maturity Constraint - Developing (%)	0% to 20%
Stock Numbers	30 to 60 guide only

Risk management at an individual security and overall portfolio level is an integral part of the RARE process, however, risk relative to benchmark (i.e. tracking error risk) is not considered. Zenith is comfortable with RARE's benchmark unaware approach and we believe that RARE has a firm grasp of the stock specific risks and the overall exposures within the portfolio.

While not "hard limits", guidelines (as displayed in the above table) are placed around individual stock exposures, infrastructure sub-sector exposures, regional exposures and asset maturity exposures. All guidelines are of an absolute nature, not relative to an index. RARE measures exposure to region and sub-sector based on the location/sector of the assets the company owns, not the stock listing location or GICS classification. Zenith believes this "look through" analysis undertaken by RARE helps provide a more realistic and accurate measure of the risk exposures in the portfolio.

Zenith has a high degree of comfort in RARE's approach to risk management which we consider to be extremely thorough and imbedded into all stages of the investment process.

### Risks of the Fund

The broad risks of a fund investing in listed infrastructure, such as the RARE Infrastructure Value Fund, are comparable to those of global equities funds. The underlying investments of the Fund are companies listed on global stock exchanges and therefore there is exposure to equity market fluctuations. Earnings streams from listed infrastructure companies are potentially more predictable than the broader equities market as a whole, which has historically resulted in lower performance volatility across the infrastructure sector. It should also be noted that the infrastructure sector is still significantly more volatile than defensive asset classes such as fixed interest. Concerns with regard to gearing in this tight credit market have impacted infrastructure stocks, which typically

employs high amounts of leverage due to the significant borrowing requirements needed to fund large infrastructure projects.

While Zenith believes there are inherent defensive characteristics in the listed infrastructure sector, including a modest correlation with the broader equities market and high predictability of earnings, it is still an asset class at the "growth end" of the efficient frontier and should be treated as such when used in an investor's portfolio. Zenith recommends that investors adopt a medium to long-term (5+ years) investment time frame when investing in the Fund.

With RARE's total funds under management (FUM) of A\$1.2 billion (as at 31 August 2009), and the market capitalisation of the global listed infrastructure sector exceeding A\$2 trillion, Zenith does not currently consider FUM a hindrance to performance of this Fund.

In regards to key person risk, Zenith considers Richard Elmslie and Nick Langley to be the key personnel responsible for the Fund and the departure of either member would be considered a material loss for RARE. However, Zenith currently considers this risk to be low as both maintain a significant equity stake in the business. In addition, we acknowledge that the high level of experience across the team (particularly in regards to Sarah Shaw) reduces the reliance on a single individual.

### Applications of the Fund

The Fund maintains an absolute return focus built on a bottom-up driven investment process that aims to identify infrastructure securities with portfolio bias towards regulated and user demand assets. The Fund endeavours to provide regular and predictable returns to investors comprising of dividend and capital growth, with an investment objective to generate an absolute return (before tax), over the long term, of the G7 inflation plus 5.5%.

Zenith believes there are significant diversification benefits to be gained in adding a global listed infrastructure fund (such as the RARE Infrastructure Value Fund) to an investor's portfolio. Infrastructure securities provide a long-term reliable income stream, which are resilient to changing economic conditions, are largely protected from inflation (based on income indexed to inflation), and provide less volatility with a limited correlation to other asset classes (i.e. International Equities), over the medium to long term. In summary, where used appropriately, Zenith believes the inclusion of listed infrastructure has the potential to improve the risk/return profile of an investor's portfolio.

Zenith believes the allocation to listed infrastructure of the international share component depends on an investor's individual risk profile and, while we believe 15-20% of the international share component may be an appropriate allocation for the typical "growth" profile investor, the allocation may be slightly higher for more conservative investors.

### Currency Hedging

In late 2008 (September - October) a high level of volatility in the AUD (declining over 30%) generated realised losses (categorised as "Income" losses by the Australian Tax Office) on Foreign Exchange hedging contracts in place. The other side of the ledger resulted in an unrealised capital gain on the underlying securities. The realised income losses from the hedging contracts could not be offset by the unrealised capital gains on the underlying securities. RARE and a majority of its

peers were affected by this occurrence, which ultimately affected the level of, if any, income distributed during this period. The level income generated by the underlying securities (i.e. dividend distributions) during the fourth quarter was insufficient to cover the income loss generated from the hedging contracts in place. RARE decided (based on unit holder consensus) to distribute capital (funded from cash held in the Fund) in order to meet its quarterly income distribution. As of the 30 September 2009, the Fund maintained an Income loss, with future income distributions dependent on the performance of equity markets and the movement of the AUD. Overall the decision is not optimal, by reducing the capital base, however Zenith recognise the decision was made based on unit holder consensus.

### **Fees**

The Fund charges a 1.0% management fee (+GST) and a 10% performance fee relative to benchmark, subject to a high water mark. This is only paid on positive performance, carry forward of losses and daily accrued in the net-asset-value.

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