THE Guardian

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IN FOR INFRASTRUCTURE

As global markets become increasingly correlated and consequently increasingly volatile, portfolio managers and individual investors logically seek investment alternatives that provide appropriate diversification and as a result, superior risk adjusted returns.

This infrastructure asset class is comprised of the physical systems of a country required to support economic and social activity, traditionally the responsibility of government spending.

Infrastructure assets are generally physically durable such that they operate over extended periods of time. Examples include power plants, airports, toll roads, seaports, railways and water treatment plants.

It is estimated the world needs more than $US 50 trillion in infrastructure spending in the next 20 years to simply keep up with the GDP growth.[1] Institutional investors such as pension funds have enthusiastically adopted Infrastructure as an asset class while individual retail investors have been slower to embrace Infrastructure. Information provided by Russell Investments Canada indicates the amount of Infrastructure assets the average Canadian institutional investors holds is 21.2% of the portfolio, while the average Canadian retail investor holds just 1.95%.

So Why Infrastructure?

i) Performs relatively well in periods of poor stock market performance

Because of the essential nature of infrastructure and it’s monopolistic characteristics, infrastructure is considered a classic defensive investment, generally outperforming other equity categories during market downturns. The table below measures the outperformance of the S&P Global Infrastructure Index relative to the Russell Global Index during periods of negative equity performance.

[1] RBC Global Asset Management

June 30, 2002	9.3%	September 30, 2008	(-2.1%)
September 30, 2002	8.1%	December 31, 2008	6.1%
March 31, 2003	4.3%	March 31, 2009	(-5.7%)
September 30, 2004	7.8%	June 30, 2010	(-0.4%)
June 30, 2006	7.9%	June 30, 2011	2.3%
June 30, 2007	(-1.22%)	September 30, 2011	5.3%
September 30, 2007	1.7%	June 30, 2012	3.3%
December 31, 2007	5.4%	June 30, 2015	(-2.5%)
March 31, 2008	0.3%	September 30, 2015	2.7%
June 30, 2008	1.1%	SJune 30, 2016	7.6%

Source: Russell Investments

ii) Attractive Cash Flow

The economic value of infrastructure assets is generally based on long term contracts with contractualized cash flow that includes inflationary provisions. For example, contractual indexation adjustments for toll roads and regulated concession adjustments for utilities.

iii) High barriers to entry

Infrastructure is predicated on high barriers to entry due primarily to regulation and high cost of new development. These prevent or minimize the effect of competition. An example is airport construction, where the limited availability of land, high cost of development as well as environmental restrictions, generally preclude the economic viability of a competing asset.

iv) Long term operational life

Infrastructure assets being physically durable, once built, tend to exist for generations.

How to Invest in Infrastructure

It is only recently that retail investors have been able to participate in a meaningful way in infrastructure. Purchasing a share of an airport or highway toll requires significant capital that was for the most part, viable only for institutional investors. Liquidity is also an issue. The long term time horizon associated with pension funds is much different than the time horizon and liquidity requirement faced by the retail investor.

The retail investor can now participate in infrastructure investing through exchange traded funds, (ETFs) mutual funds and infrastructure stocks.

ETFs

Investors looking to diversify their investment portfolio with broad exposure to infrastructure through an ETF would utilize a broad based alternative. Examples are the IShares Global Infrastructure ETF and BMO Global Infrastructure ETF, two of the largest infrastructure ETFs in Canada.

The sophisticated investor can choose to invest in boutique infrastructure ETFs which concentrate on a particular sector or subset of the infrastructure universe. Because of the narrow focus of these speciality ETFs, they are likely not appropriate for the average retail investor.

Mutual Funds

Several mutual fund companies offer an Infrastructure Fund, including Russell Investments and CIBC Asset Management. Management fees associated with mutual funds are generally higher than an ETF, but they also provide an active management component where they will tactically move capital within various infrastructure categories, dependent upon expected market conditions in the various sectors.

Stocks

As an example, Brookfield Infrastructure Partners owns and operates a series of utilities, transport business, energy business as well as data infrastructure across several countries.

You can also purchase stocks such as CN Rail or Enbridge, companies that operate directly in the infrastructure category. As with any stock purchase, you increase potential risk and forfeit the diversified nature of a broader based ETF or mutual fund.

In conclusion, infrastructure offers the potential for attractive, stable long term returns given that earnings are often regulated, predictable and reasonably resistant to economic downturns. However, like all equity investments, they are not immune to risks. Infrastructure companies could be affected by rising costs associated with more onerous environmental and other regulations, supply problems such as the impact of rising fuel costs as well as the risk of catastrophic accident or a terrorist incident. Finally, infrastructure tends to be sensitive to rising interest rates.

REGISTERED RETIREMENT INCOME FUND (RRIF) STATUTORY MINIMUM MONTHLY INCOMES BASED ON $100,000 COMMENCING ONE MONTH FROM ISSUE

Best Current Rate: 2.75%[1]

Age	1st Year	TOTAL PAYMENTS TO AGE 100
55	$239.00	$177,974.53
60	278.00	165,625.71
65	334.00	154,723.19
71	440.00	143,692.50

A R.R.I.F. can also be structured to pay a level income for a shorter period. Based on current interest rates, $100,000 will produce the following monthly income.

For 5 years: $1785.00
For 10 years: $926.00
For 15 years: $650.00

MONTHLY ANNUITY INCOMES COMMENCING ONE MONTH FROM ISSUE BASED ON $100,000[1]

Age	LIFE (Payments cease at death)		LIFE 10 Year Guarantee		JOINT LIFE 10 Year Guarantee
	MALE	FEMALE	MALE	FEMALE	MALE & FEMALE
65	$527.35	$475.07	$513.47	$473.85	$426.59
70	623.03	553.37	582.46	535.00	480.80
75	722.68	658.03	658.43	611.82	553.19
80	905.18	817.42	759.21	708.23	658.33

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Vancouver: 1100 – 1075 West Georgia Street, Vancouver, BC V6E 3C9 — Telephone: **(604) 688-9577** . . . **Toll Free in BC 1-800-663-0644**

Website: www.solguard.com

Email: info@solguard.com

North Shore: 200 - 100 Park Royal South, West Vancouver, BC — ***By Appointment Only***

Victoria: 520 - 645 Fort Street, Victoria, BC V8W 1G2 — Telephone: **(250) 385-3636** — **Toll Free in BC 1-877-500-3636**

Manulife Securities Incorporated

[1] CANNEX