IJGlobal
Project Finance & Infrastructure Journal

RARE: Unlisted returns to listed assets

Viola Caon

22/06/2016

Risk Adjusted Returns to Equity (RARE) Infrastructure was established in Australia in 2006 as an investment management company focused exclusively on global listed infrastructure.

It manages three strategies including the RARE Infrastructure Value Fund, a global strategy with a mix between income and capital returns; the RARE Emerging Market Fund and the RARE Yield Fund, a global strategy with a focus on distributing yield.

In July 2015, US asset manager Legg Mason bought a majority 75% interest in the Australian firm. Together, the two firms recently announced the launch of a US listed fund and are about to announce a fund targeted at UK investors, which will be structured as an open-ended investment company (OEIC).
In Europe and the UK, RARE offers the Value Strategy and Emerging Markets strategy through a UCITS product which is available in several currencies.

Following the Legg Mason acquisition, RARE retained its status as an independent investment affiliate of Legg Mason along with Brandywine Global, ClearBridge Investments, Martin Currie, the Permal Group, QS Investors, Royce and Associates, and Western Asset Management.

The Australian infrastructure manager has assets under management (AUM) of over $6.3 billion as at March 2016, and has offices in Sydney, Melbourne, London and Chicago.

Unlisted risk and returns to listed assets

CEO Nick Langley explained to *IJGlobal* how the firm's core aim is to bring unlisted risk and returns to the listed infrastructure sector.

"We aim to replicate the risk and returns of unlisted infrastructure through the listed markets. This works on the premise that listed and unlisted infrastructure companies have the same underlying characteristics and as such you analyse them in the same way. These are long-term stable cash-flows, lower correlation to other asset classes and income and inflation protection. In addition the listed markets offer the benefits of liquidity and lower fees. Listed infrastructure assets usually have protection in down markets, participation in up markets, leading to a better risk/return profile," he said.

The listed infrastructure segment that RARE exclusively focuses on includes publicly traded infrastructure securities such as, shares in electricity, water and airport companies. "Globally, the majority of infrastructure assets still remain within public ownership and are therefore not available to private investors. However with pressure on government fiscal spending, such infrastructure assets are increasingly transferring into private ownership through either the listed or the unlisted markets. It is the listed segment of this market that RARE focuses exclusively on," Langley said.

RARE also exclusively targets core infrastructure, which it defines as companies owning the underlying assets and providing steady returns. The main sectors that RARE invests in include gas and electric distribution and transmission, water, roads, rails, ports, airports and communications.

"Core infrastructure refers to whether or not the underlying assets are regulated or user pays. 'Regulated' assets (such as gas, electricity and water utilities) have revenues determined by the regulator. This leads to stable cash flow and inflation protection. User-Pay asset revenue is dependent on how many people use the asset. As economies grow, these assets also typically grow. For example, as more people use more mobile phone data, we see mobile communications towers adding additional capacity to meet this demand," Langley explained.

Another reason why RARE seeks equity opportunities among companies that own the hard asset is that it wants to invest as close to the asset as possible. Additionally, Langley added, selected assets must provide an essential service to a community or economy and there must be confidence - usually achieved through regulation or concessions - that investors will be paid for making these assets available.

Among RARE's main criteria to select an infrastructure stock for its Infrastructure Value Fund are a stable and predictable cash flow; no midstream pipeline due to commodity risk and a value strategy with a five-year horizon, a capital growth around 7%, a 5.5% real return rate and 3-4% yield.

Recent fund launches

IJGlobal recently reported that RARE is looking to launch a yield strategy OEIC targeted at UK-based investors.

The fund, which will be launched via Legg Mason, will target a yield strategy of 5% and seek to attract UK-based fund of fund managers, financial advisers and stockbrokers seeking yields in listed equities with low volatility outside the UK. The fund will be available on all main UK platforms, *IJGlobal* understands.

Most recently, RARE launched its first US listed fund. The fund will provide a broad approach to infrastructure, considering investments in physical structures, networks, developments and projects including transportation, energy, sewage, communications, water and social services-related projects.

"After a long period of low market volatility, we are starting to see increased levels of volatility across global market, leading investors to look beyond traditional stocks and bonds for asset classes that are less correlated to what they already own," a company statement said.

Richard Elmslie, RARE co-chief executive office and co-chief investment officer, is one of the fund managers.

