



Emerging Markets  
Investing in the new reality...



CONFERENCE

# Emerging markets infrastructure in the new reality

PCF Pre-Conference BRIC+ Masterclass, 25 August 2009

RARE Infrastructure Limited  
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Senior Portfolio Manager  
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# Introduction

## Topics for today

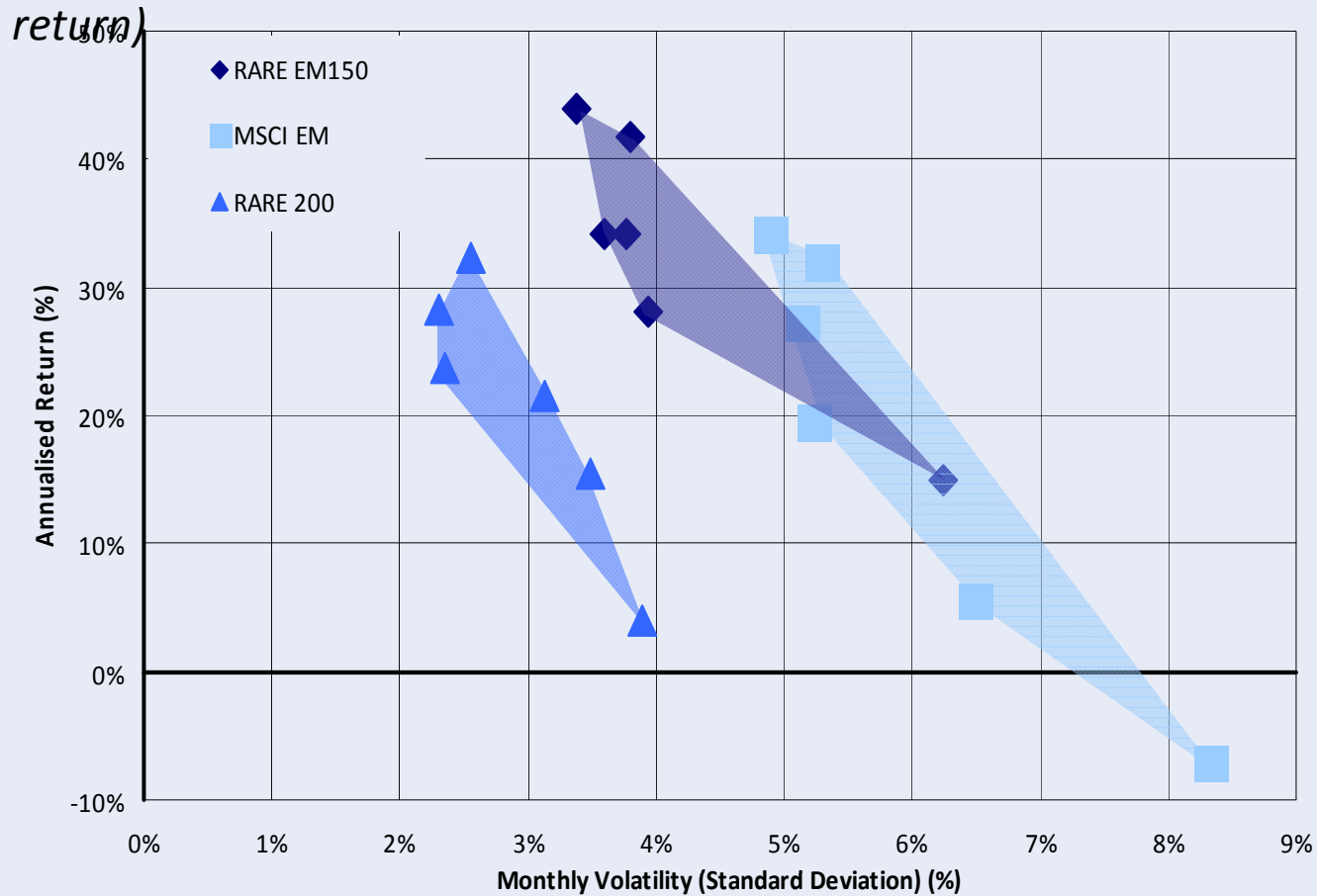
- Introduction: why are we excited about emerging markets infrastructure?
- Insights into emerging markets infrastructure
- Emerging markets infrastructure and the GFC

# Introduction

## Share RARE's excitement: risk vs return profile of EM infra

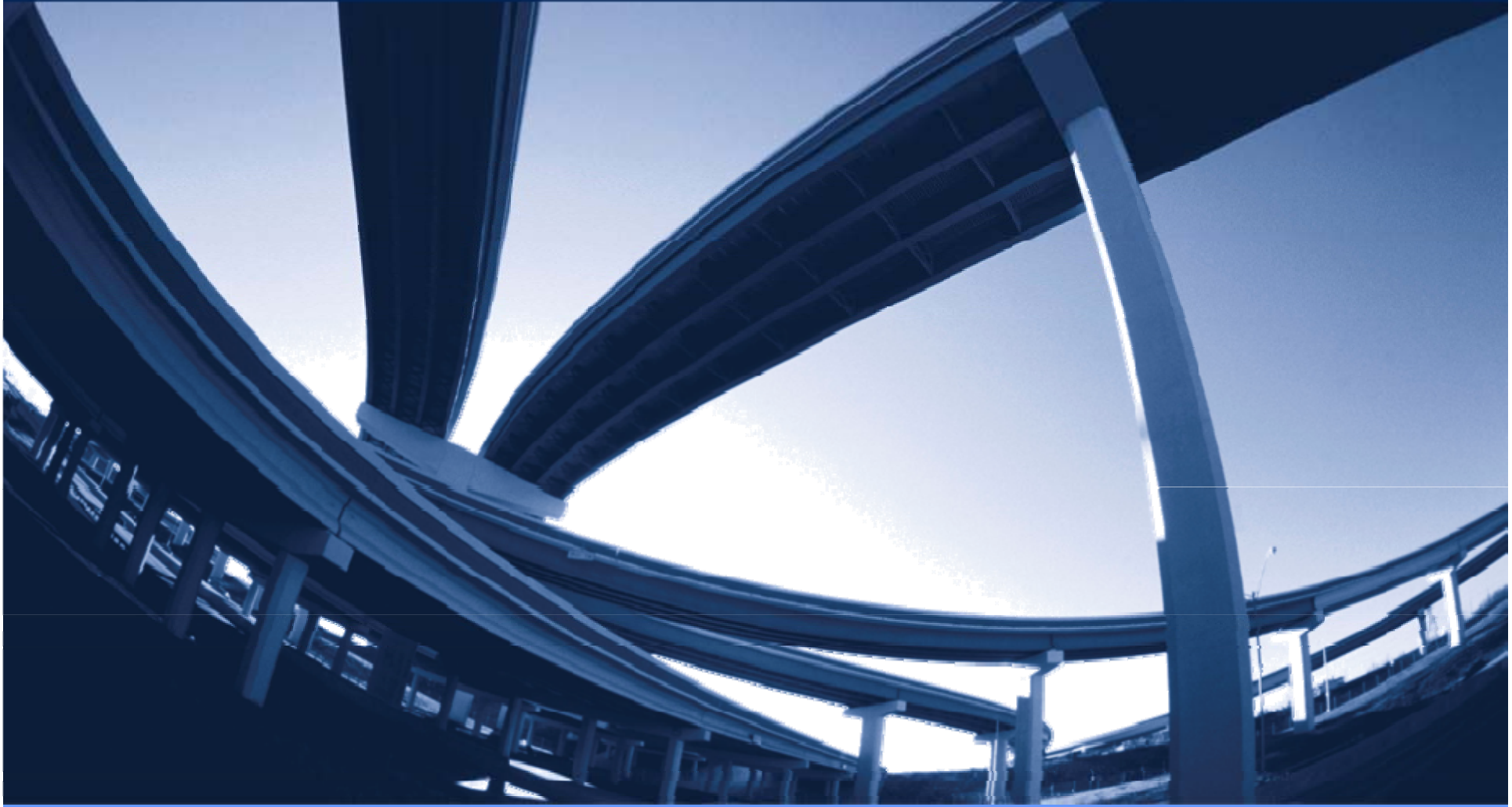
### Monthly Volatility vs Average Return

*(rolling three year observations Jan-01 to Dec-08, local currency total return)*



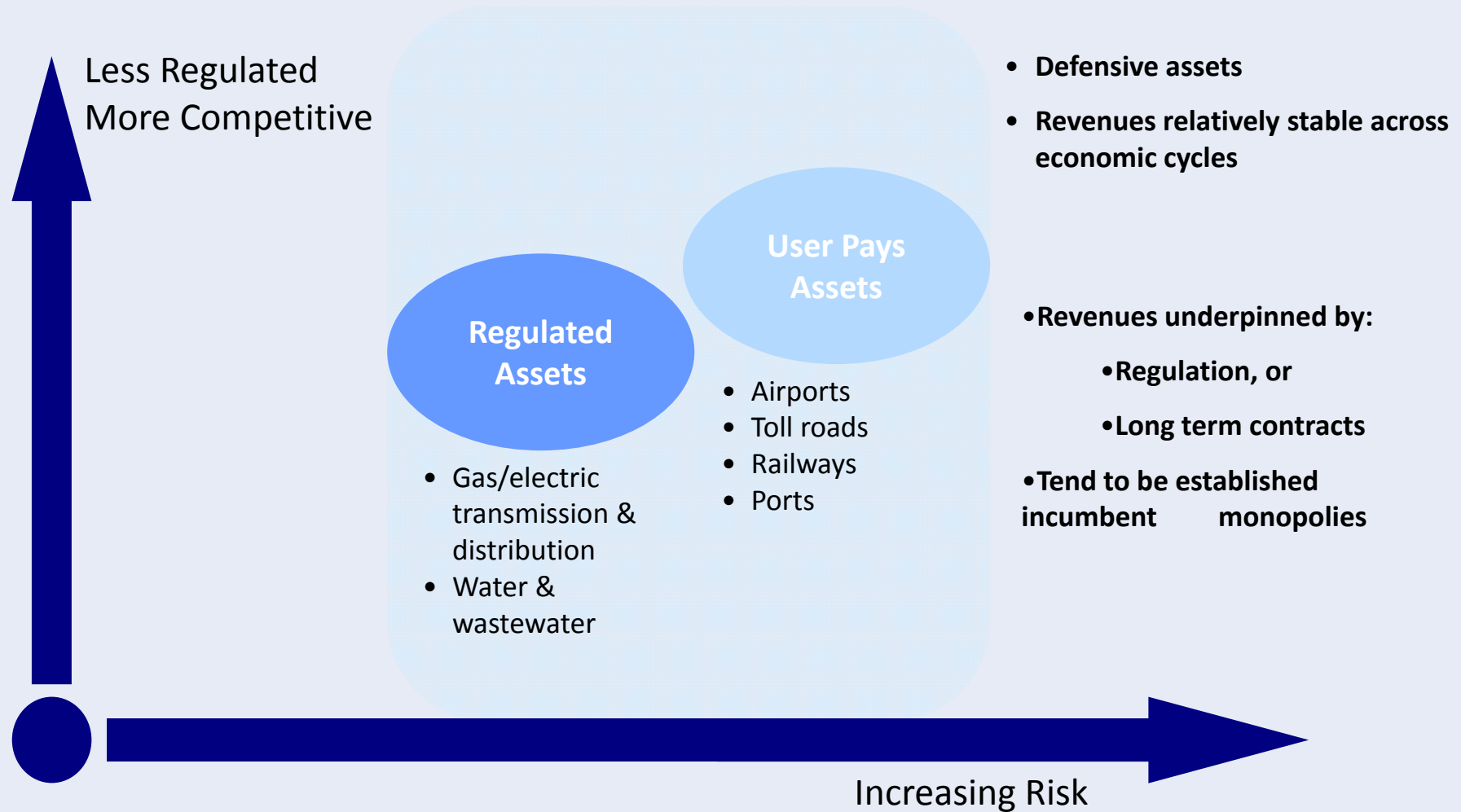


# Insights into emerging markets infrastructure



# Insights into emerging markets infrastructure

## How does RARE look at infrastructure?

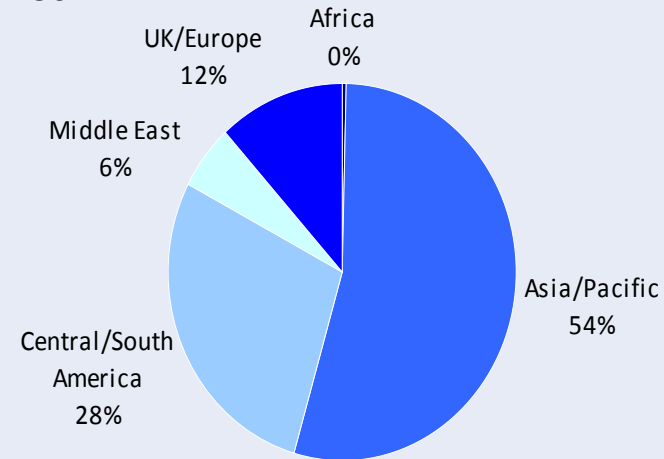


# Insights into emerging markets infrastructure

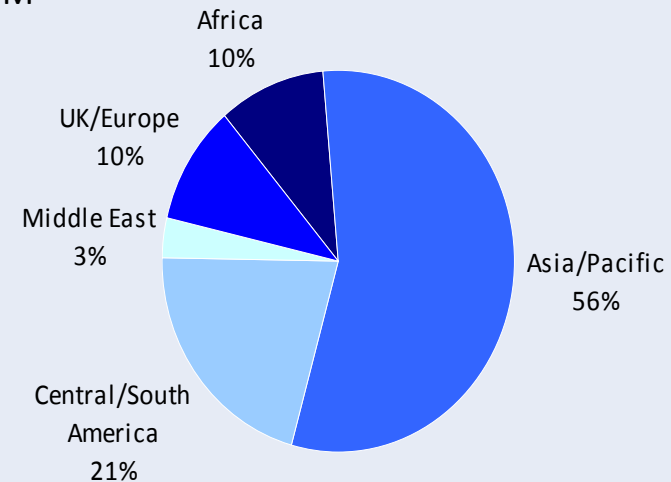
## Beware of the benchmark ...

- Consider the exposure provided by product – country vs region vs theme
- For example, the MSCI EM and the RARE EM 150 provide similar geographic diversity by listing
- However, you should also consider
  - The underlying revenue sources
  - Defensive versus cyclical sector exposure

RARE EM150 <sup>1</sup>



MSCI EM <sup>2</sup>



# Insights into emerging markets infrastructure

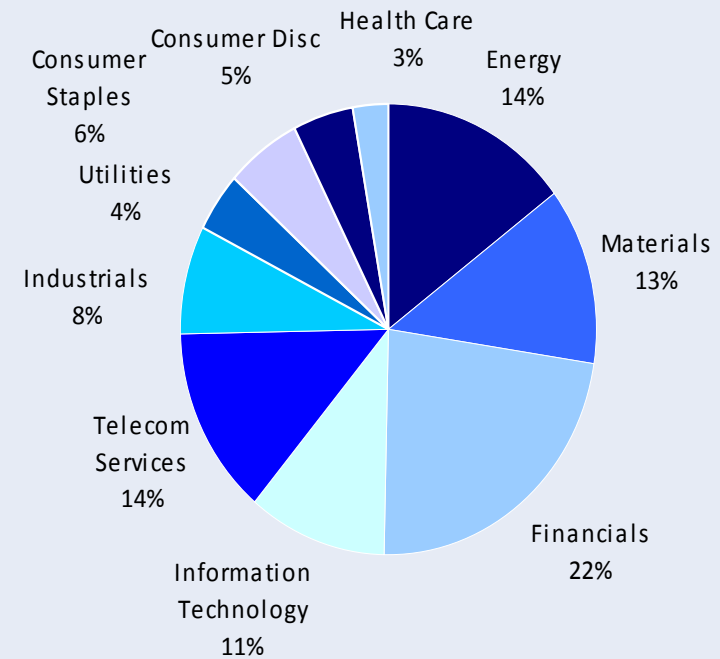
## To ensure exposure to EM growth

### Top 10 Holdings MSCI EM<sup>1</sup>

### Source of Revenues<sup>2</sup>

	MSCI EM Weight	Developed	EM
China Mobile	3.5%	0%	100%
Petrobras	3.3%	10%	90%
Samsung Electronics	2.3%	36%	64%
Teva Pharmaceutical	2.2%	87%	13%
Gazprom	2.0%	55%	45%
Taiwan Semi	1.6%	73%	27%
American Movil	1.6%	4%	96%
Ind & Comm BK of China	1.3%	0%	100%
China Life	1.2%	0%	100%
Val R Doce	1.2%	40%	60%

### MSCI EM by Sector<sup>1</sup>



<sup>1</sup> Source: Morgan Stanley

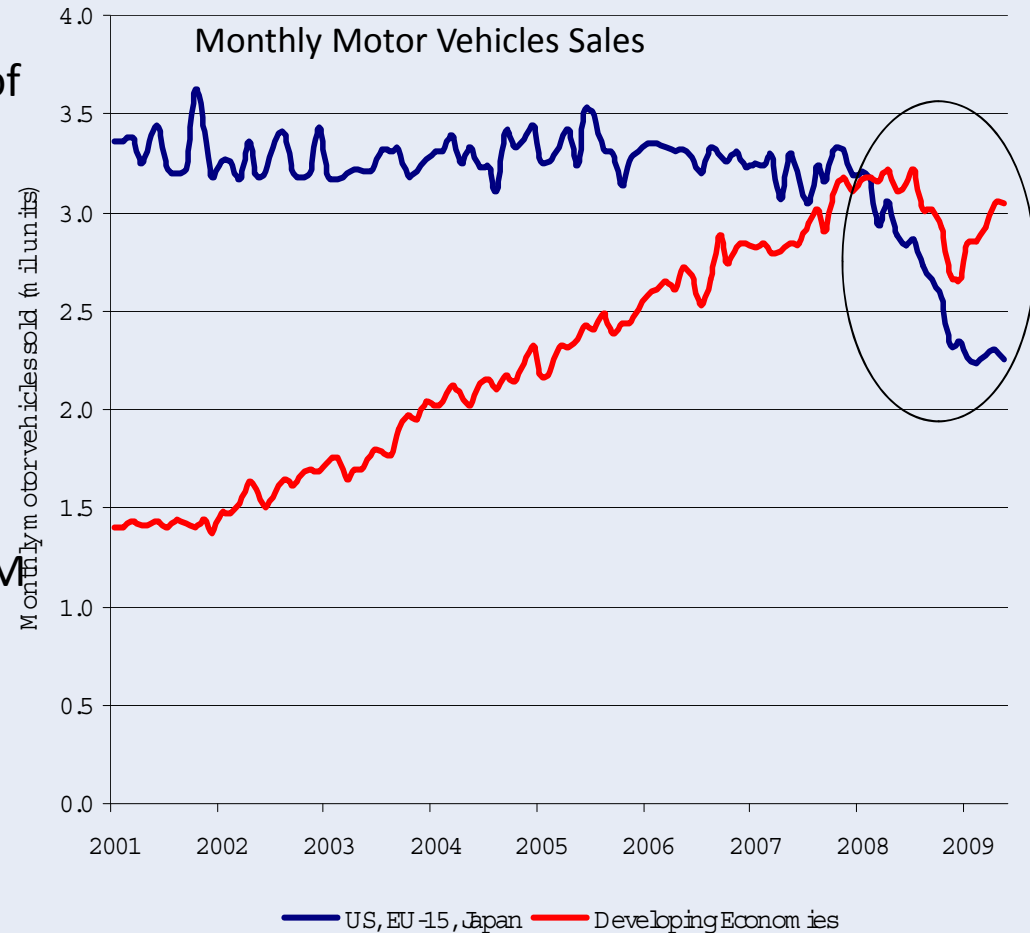
<sup>2</sup> RARE Estimates. Note Petrobras discloses only "International" and therefore the developed component may be overstated



# Insights into emerging markets infrastructure

## Direct access to EM demand!

- Motor vehicle sales a good indicator of domestic demand
- Significant growth in demand within EMs over last 7 years, but
- EM MV penetration well below DM highlighting potential of the EM
- EM demand accelerating again widening the gap between DM and EM



Source: UBS Date: as at May 2009

# Insights into emerging markets infrastructure

## Traps and Pitfalls

### ☛ Sovereign risk

- ☛ public policy changes
- ☛ not confined to EM
- ☛ important to have liquidity – ability to exit

### ☛ Government shareholders

- ☛ can be good and bad
- ☛ infrastructure companies can be viewed as implementers of public policy

### ☛ First mover advantage

- ☛ more attractive assets
- ☛ ability to leverage existing cash flows

### ☛ Developed market competitors

- ☛ have seen considerable corporate investment
- ☛ now exiting, creating opportunities

# EM Infrastructure and the GFC



# The “silver lining” of the GFC for EM infrastructure...

- Relatively resilient earnings
- Significant fiscal stimulus
- Government support for infrastructure
- Reduced competition for projects

# Relatively resilient earnings

Essential service, therefore lower exposure to GDP downturn

## Utilities historically held up well

- Power, gas, water etc are in the “basic need”<sup>1</sup> category
- Many regulatory frameworks:
  - protect short term earnings and
  - compensate for long term changes in financing costs and demand profiles
- Macro weakness generally coincides with lower fuel costs

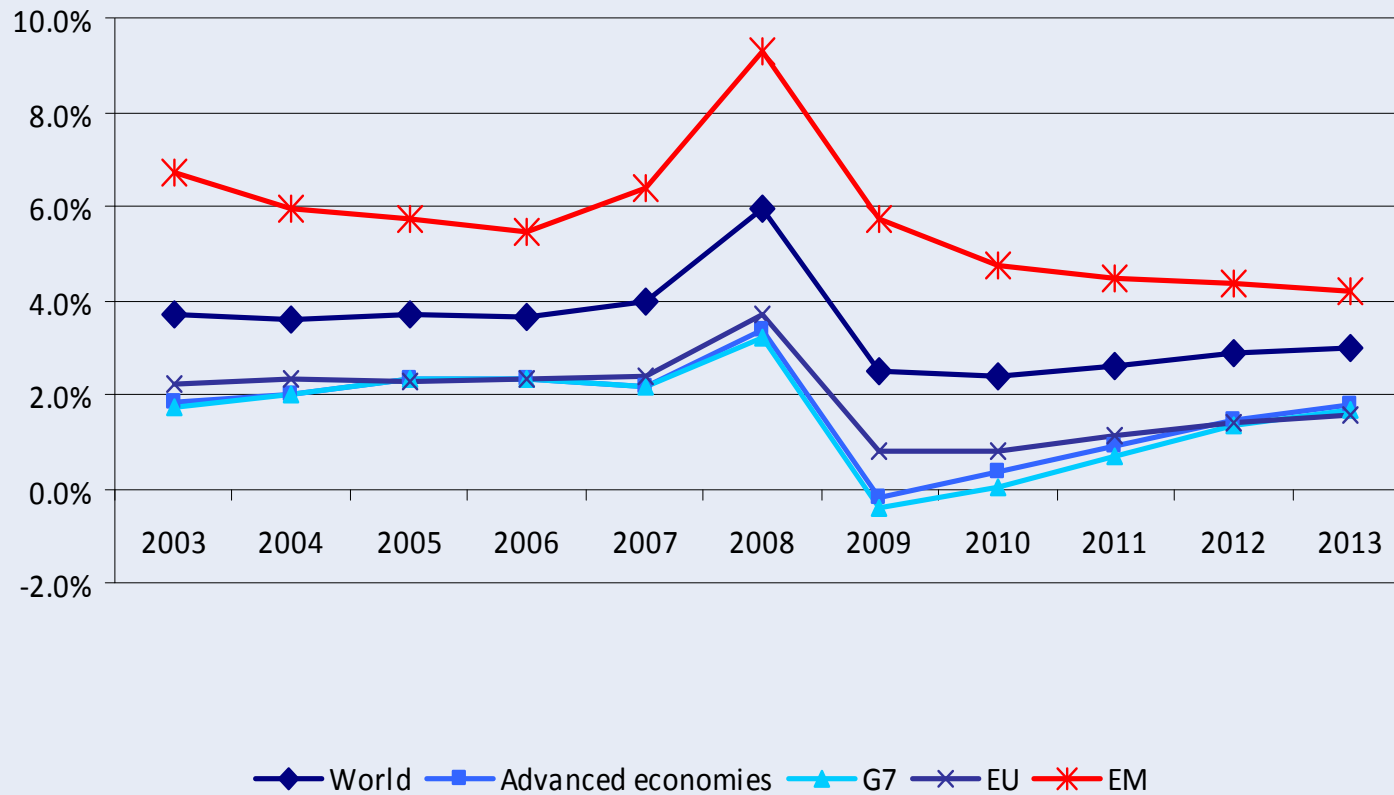
## GEM toll roads will be more resilient

- The wealth profile of users
- Lack of alternatives

# Relatively resilient earnings

## Earnings are typically inflation hedged

Inflation, average consumer price



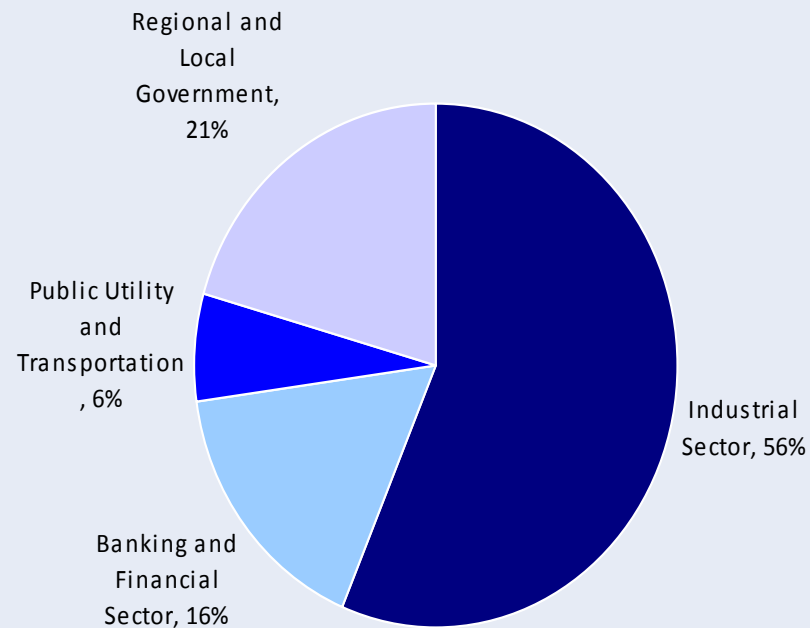
Source: IMF Date: as at March 2009



# Relatively resilient earnings

## Historically, low levels of credit default

Distribution of Emerging Market et Defaults by Sector 1995-Sept 2008

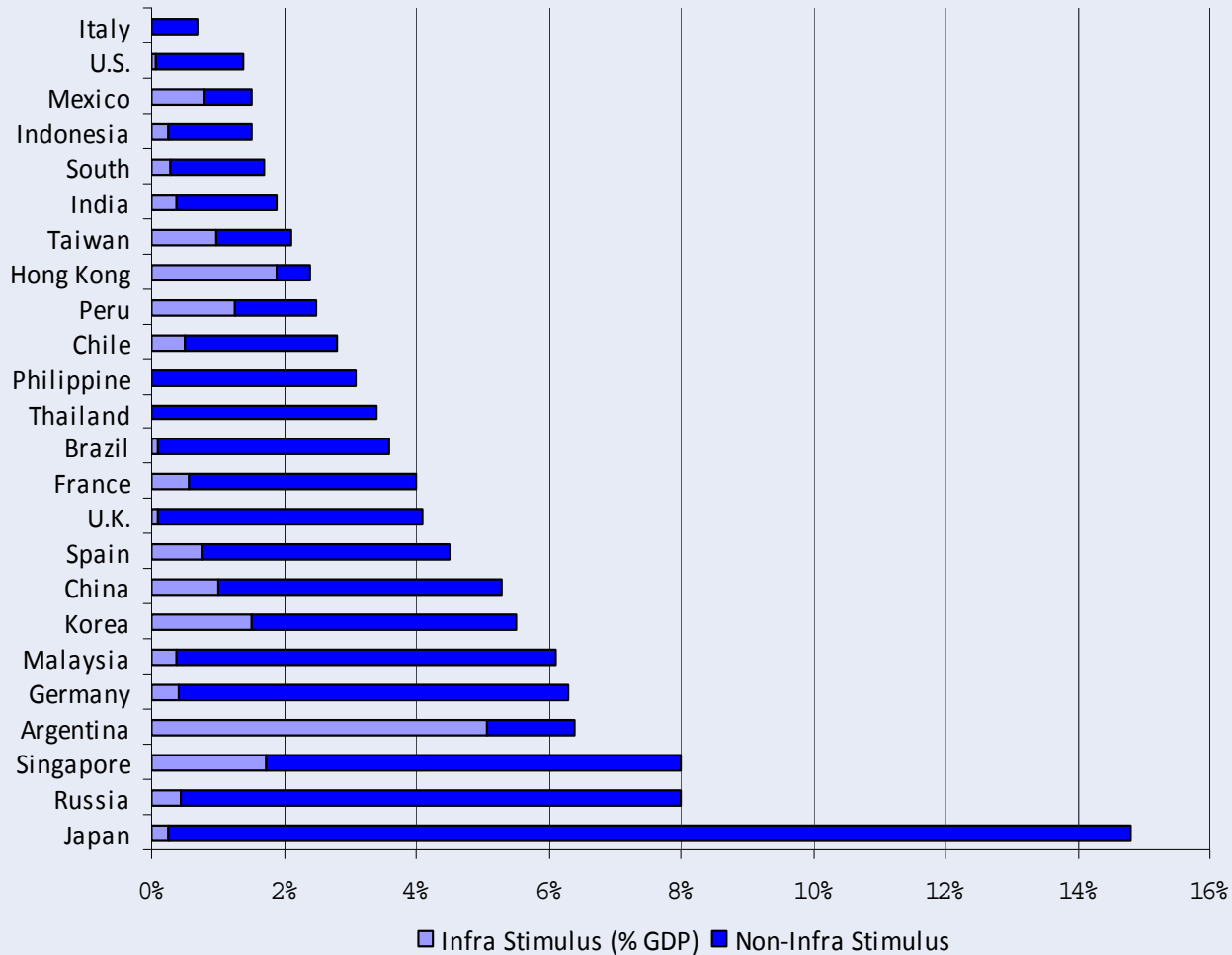


Source: Moody's Investors Service Date: as at September 2008

# EM Infrastructure and the GFC

## Government support for infra in fiscal stimuli

Fiscal Stimulus, % of GDP



Source: Credit Suisse Date: as at March 2009

# EM Infrastructure and the GFC

## Strong government support for private infra investment

### Brazil

- BNDES (Brazil's National Development Bank) financing up to 70% of new capex build within the infrastructure space at attractive rates
- Tax breaks for investment in certain regions/sectors

### Russia

- Banks have been “encouraged” to lend to utilities to enable ongoing investment
- Postponement of capex plans - linked to demand evolution

### India

- Tax incentives for infrastructure projects – depreciation front loaded
- Providing exemptions from India’s foreign lending rules for big projects
- Increased base regulatory ROEs in the utility space
- Encouraging foreign investment

### China

- Asset injections by provincial governments of operational assets at attractive valuations
- Banks have been “encouraged” to lend
- Advantageous financing terms for certain sectors (including infrastructure)

# Reduced competition for projects

Illustrated by reduced competition for new Brazilian toll road concessions



Sources: UBS, ANTT bidding documents

# Conclusion

## Review of topics for today

- Why are we excited about emerging markets infrastructure?
- Insights into emerging markets infrastructure
- Emerging markets infrastructure and the GFC

# Contact Details

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# RARE EM Product Performance

31 July 2009	1 month to 31 July 2009	3 months to 31 July 2009	1 year to 31 July 2009	Since Inception (March 2008)
<b>Representative Mandate</b>				
<b>Unhedged Gross Returns, AUD</b>				
Representative Mandate <sup>1</sup>	3.8%	20.0%	16.8%	15.2%
Benchmark: EM Sovereign Bonds +5% <sup>2</sup>	0.8%	10.1%	8.0%	7.1%
MSCI EM <sup>3</sup>	7.6%	11.6%	-8.3%	-12.3%

RARE Series Emerging Markets Fund	Since Inception (Sep 2008)			
<b>Unhedged Net Returns, AUD</b>				
RARE Infrastructure <sup>1</sup>	3.7%	18.7%	n/a	40.8%
Benchmark: EM Sovereign Bonds +5% <sup>2</sup>	0.8%	10.1%	n/a	5.9%
MSCI EM <sup>3</sup>	7.6%	11.6%	n/a	1.9%

<sup>1</sup> Sourced from RBC Dexia, GIPS methodology

<sup>2</sup> Citigroup Global Emerging Market Sovereign Investment Grade (Bonds in USD) Index (sourced from Bloomberg SBG I3B) plus 5% as calculated by RARE and reviewed by RBC Dexia

<sup>3</sup> MSCI Emerging Markets Daily TR Gross Local, converted to AUD, sourced from Bloomberg (MXEF Index in AUD)



# Appendix: RARE Series EM Fund

## Research House Ratings June 2009



1



2

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