

# AFP® Annual Conference



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INFORMATION



## A Road Map to Infrastructure Investing

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FAF ADVISORS®

## Evolution of FAF's Global Infrastructure Strategy

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- > Portfolio managers' experience provides unique perspectives for infrastructure asset class
- > This view drives identification of broader-than-benchmark investment universe
- > Ibbotson infrastructure study<sup>1</sup> validated approach
- > Differentiation has produced desired results

<sup>1</sup>Idzorek, Thomas and Christopher Armstrong (2009). "Infrastructure and Strategic Asset Allocation: Is Infrastructure an Asset Class?" Ibbotson Associates Research Report.

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## Why Invest in Infrastructure?

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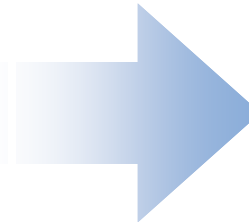
- > Large annual expenditure
  
- > Increasing worldwide demand driven by:
  - Population Growth
  - Urbanization
  - Economic Growth
  - Replacement Need
  
- > Privatization creates more opportunities to invest:
  - Governments lack resources
  - Private markets have capital
  - More prevalent around the world
  - Gaining traction in the United States

## Characteristics of Infrastructure Investments

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### Underlying Investment Profile

- > **Monopolistic**
- > **Inelastic demand**
- > **Stable cash flows**
- > **Inflation hedge**
- > **Long duration assets**
- > **Low economic sensitivity**



### New Asset Class

- > **Stable, income-oriented returns**
- > **Inflation protection**
- > **Low correlation**

# Infrastructure Has Provided Better Returns with Lower Risk

*Since Inception of the S&P Global Infrastructure Index – Present*



As of September 30, 2010

Source: Mellon Performance Universe

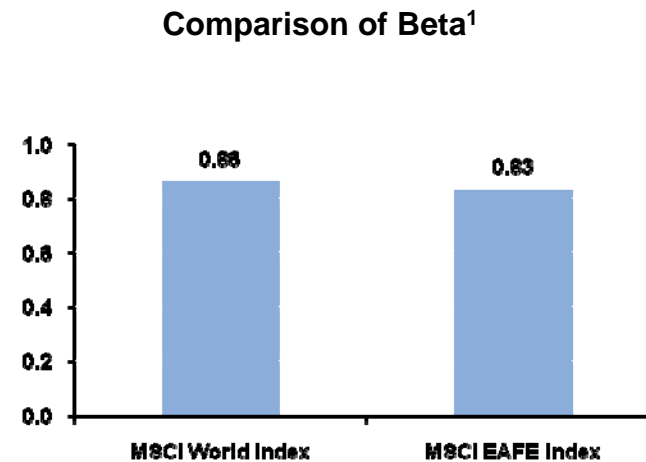
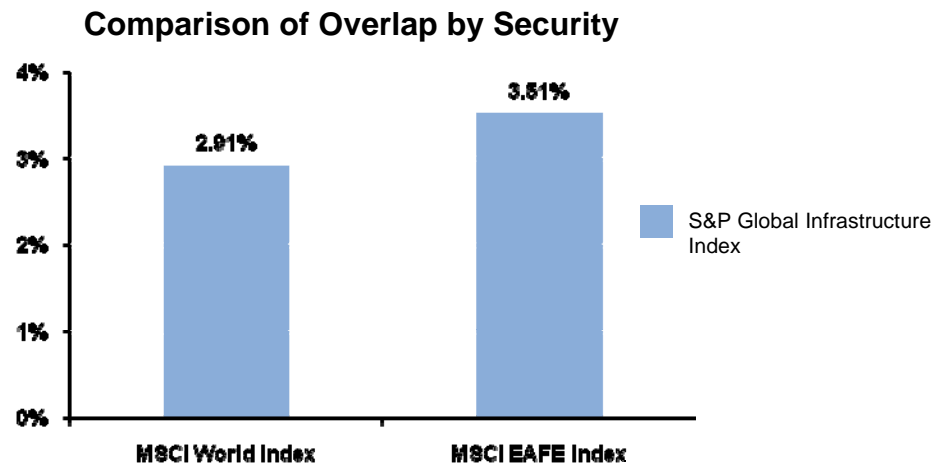
<sup>1</sup>Risk is represented as Standard Deviation

<sup>2</sup>Average annualized total returns

The returns and risk in the chart represent past performance of the indices and should not be viewed as a guarantee of future index or investment performance. Market indices do not include fees. You cannot invest directly in an index.

# Infrastructure Has Been a Better Portfolio Diversifier

*Comparing the S&P Global Infrastructure Index to Key Global Indices*



As of September 30, 2010

<sup>1</sup>Since inception of S&P Global Infrastructure Index to present (12/1/2001 – 9/30/2010)

Sources: MSCI Barra, Mellon Performance Universe

## Infrastructure Provides Portfolio Diversification

*As an asset class, global infrastructure has historically exhibited relatively low correlation to the major U.S. asset classes and real estate.*

### Correlation to Major U.S. Asset Classes

	Global Infrastructure	S&P 500	Barclays Capital Aggregate	REIT
Ibbotson Infrastructure Composite*	1.00			
S&P 500 Index	0.61	1.00		
BarCap Aggregate Bond Index	0.25	0.16	1.00	
FTSE NAREIT Equity REIT Index	0.51	0.54	0.17	1.00

Based on the period from 1/1/1990 through 9/30/2010

\*The Ibbotson Associates Listed Infrastructure Low Utilities Composite tracks the returns of listed infrastructure indices with lower than average utilities exposure.

Source: *Morningstar Direct*, Ibbotson Associates

## Infrastructure Complements a Diversified Global Portfolio

*Its relatively low historical correlation to other global investments also makes it a good potential diversifier for other global asset classes.*

### Correlation to Major Global Asset Classes

	Global Infrastructure	MSCI EAFE	Citi WBIG	International REIT
Ibbotson Infrastructure Composite*	1.00			
MSCI EAFE Index	0.81	1.00		
Citigroup World Broad Investment Grade Non-USD Index**	0.48	0.37	1.00	
S&P Developed (ex. U.S.) Property TR USD Index	0.77	0.82	0.43	1.00

Based on the period from 1/1/1990 through 9/30/2010

\*The Ibbotson Associates Listed Infrastructure Low Utilities Composite tracks the returns of listed infrastructure indices with lower than average utilities exposure.

\*\*Date for period 1/1/1999 through 12/31/2009. 1/1/1999 is the first full month that data are available for Citigroup World Broad Investment Grade Non-U.S.D. Index.

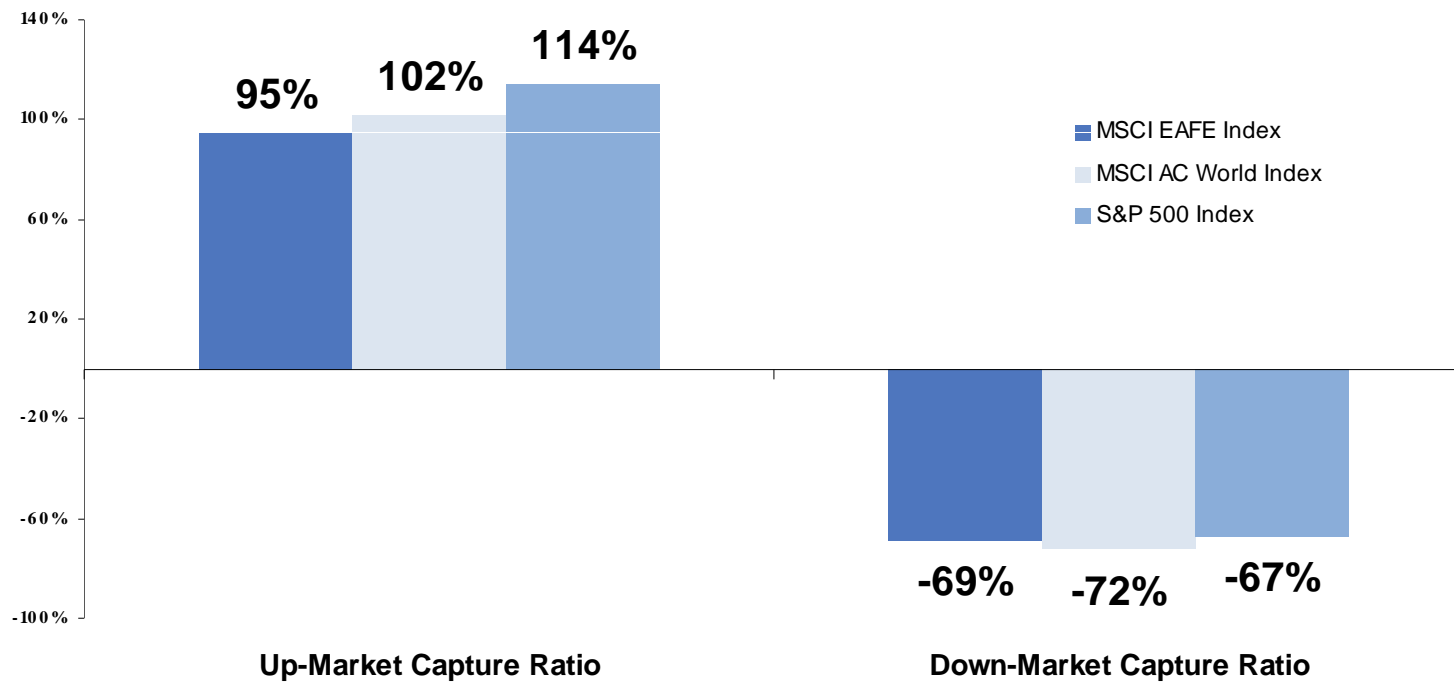
Source: *Morningstar Direct*, Ibbotson Associates



# Infrastructure Performance in Distinct Market Environments

*Capturing upside market performance while managing downside risk*

## Up-Market and Down-Market Capture Ratios of the S&P Global Infrastructure Index Versus Major Indices

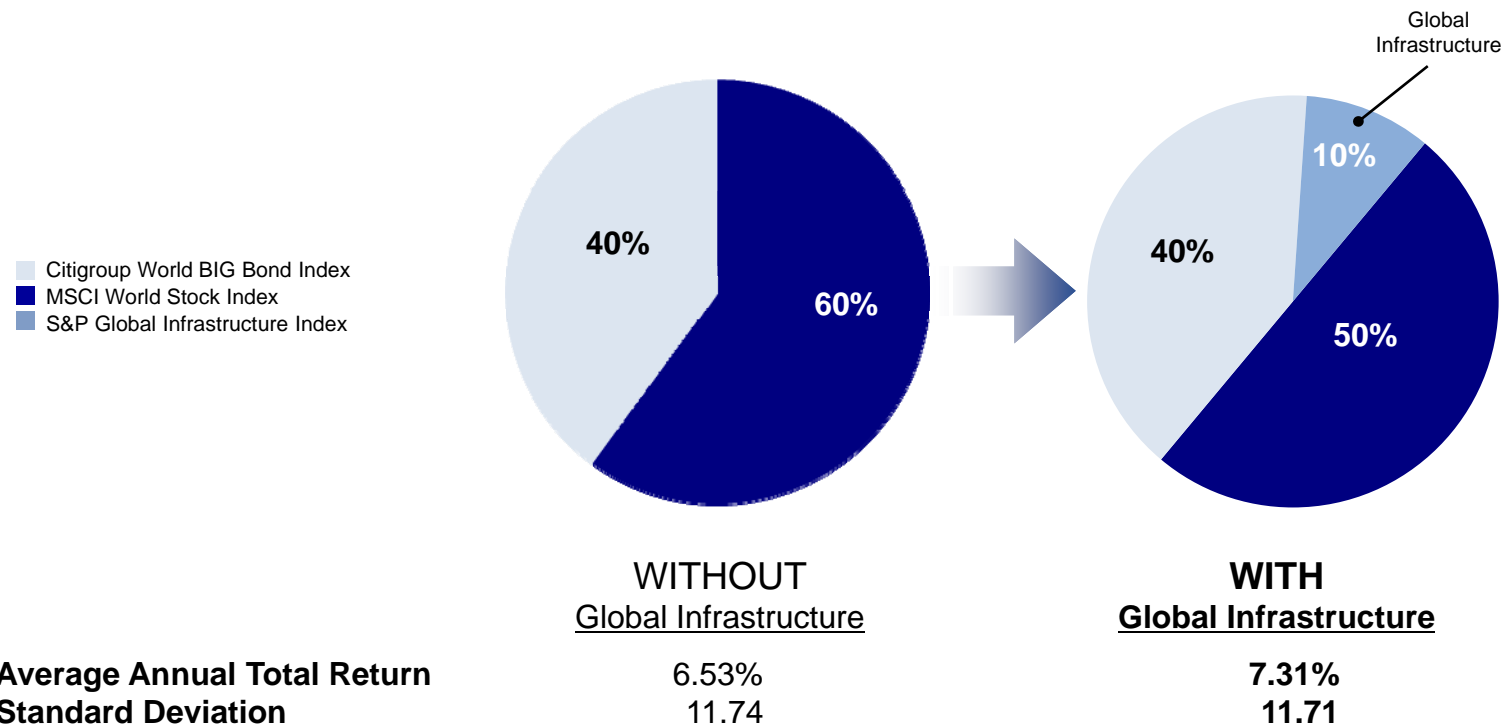


*December 1, 2001 – September 30, 2010*

Source: Morningstar, September 30, 2010

# Adding Infrastructure to a Global Portfolio

*Global portfolio with 10% infrastructure improves portfolio returns while reducing risk.*



Based on monthly total return history 12/1/2001 – 9/30/2010  
Source: Morningstar Direct

## Infrastructure Volatility Reduction

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### Causes of Volatility:

- > **Supply** – Unexpected changes in supply, supply disruptions, or unforeseen additional supply brought online
- > **Demand** – Unexpected changes in product demand
- > **Access to Capital** – Absence of capital availability strains companies liquidity positions and can cause price swings

### Infrastructure's Volatility Defense:

- > **Monopolistic or quasi-monopolistic** – Infrastructure assets offer relatively stable supply availability
- > **Regulated** – Infrastructure companies must be regulated to ensure fair pricing due to unconstrained demand
- > **“Mission critical”** – Infrastructure projects are better able to access capital because they are needs-based investments that facilitate more efficient functioning of economies

## Three Primary Methods to Gain Infrastructure Exposure

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### Direct Investment

- > Purest form of infrastructure investing
- > Requires significant amounts of capital
- > Provides most control to the investor
- > Potential problems include lack of liquidity and lack of diversification

### Private Equity Funds/Partnerships

- > Invest directly in infrastructure assets on behalf of shareholders/partners
- > More underlying investments with less capital commitment
- > Still potential issues with illiquid investment, depending upon vehicle

### Listed Infrastructure

- > Publicly traded stocks directly related to infrastructure assets
- > Benefits include liquidity, diversification, flexibility, and fees
- > Disadvantages may include overlap with existing investments, relative volatility, and purity of exposure to infrastructure sector

# Benefits of Investing in Public Equity Infrastructure

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## Liquidity

- > Portfolio of publicly traded underlying investments
- > Daily access and pricing for investors

## Diversification

- > Exposure to a full range of infrastructure investments across sectors and subsectors
- > Minimizes political risks of any single investment

## Transparency

- > Readily accessible schedule of portfolio holdings
- > Extensive regulatory reporting requirements for publicly traded companies

## Fees

- > Defined fee schedule
- > No “cost of carry”

## Infrastructure Risks

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### Regulatory Risk

- > Regulators approve capital expenditures and dictate acceptable levels of return

### Country Risk

- > Stability of political regime, effectiveness of monetary policy, and nationalization risk

### Debt Maturity Risk

- > Ability of company to match debt to liabilities of extremely long life assets

### Commodity Price

- > Exposure of business to changes in commodities prices

### Demand Elasticity Risk

- > Sensitivity of profits to changes in global gross domestic product (GDP) growth

## Key Components to the Valuation Process

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We attempt to exploit inefficiencies in the marketplace through relative valuations based on:

- > P/E
  - A company's multiple vs. its historical trading range
  - A company's premium/discount vs. a carefully defined peer group
    - Peer groups based on stock correlation analysis as well as asset-type similarity
- > EV/EBITDA
  - A company's multiple vs. its historical trading range
  - A company's premium/discount vs. a carefully defined peer group
    - Peer groups based on stock correlation analysis as well as asset-type similarity
- > Sum-of-the-Parts
- > Discounted Cash Flow
  - Incorporates country and sovereign risks including:
    - CDS Spread
    - Sovereign debt yields
    - Regulatory trends

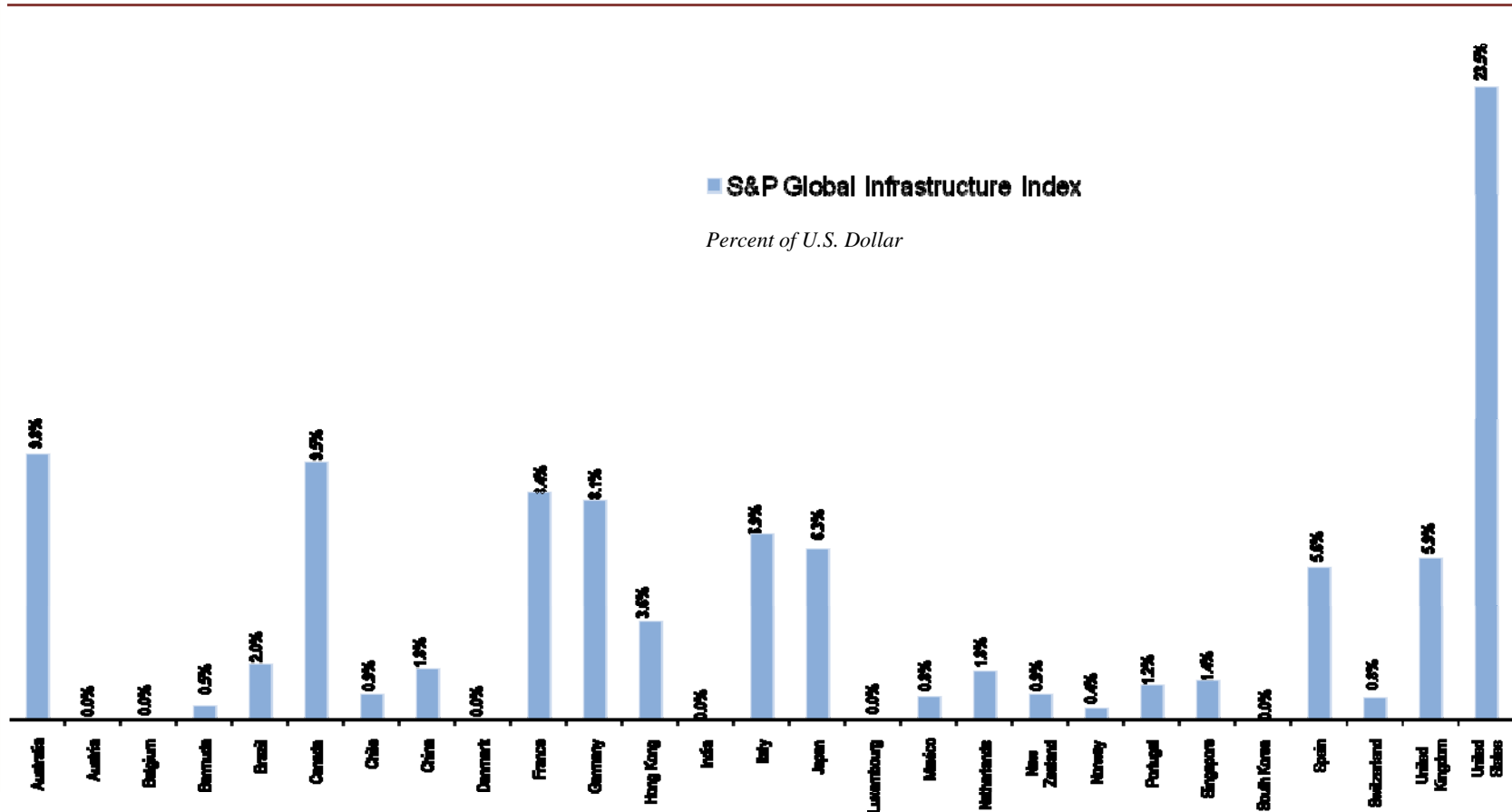
## Listed Infrastructure Universe

*FAF's universe extends to tangible asset-based companies not included in the S&P Global Infrastructure Index, creating lower exposure to traditional utilities.*

Transportation	Utilities/Energy	Social Infrastructure	Alternative Assets/Communication Infrastructure
Airports	Alternative energy	Government outsourcing/ facilities management	Asset management
Construction/ concessions	Electric Utilities	Hospitals/healthcare	Diversified infrastructure
	Electric transmission		Technology infrastructure <ul style="list-style-type: none"> <li>• Cell phone towers</li> <li>• Satellite systems</li> <li>• Data centers</li> </ul>
Parking lots	Gas Utilities		
Ports	Pipelines		
Shipping/tankers	Waste		
Rail/public transportation	Water infrastructure		
Toll roads			



## Portfolio Holdings of S&P Global Infrastructure Index – Country Allocations



Source: FactSet  
As of September 30, 2010

# Disclosure

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This information represents the opinion of FAF Advisors, Inc., and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. It is not intended to provide specific advice or to be construed as an offering of securities or a recommendation to invest. The factual information has been obtained from sources believed to be reliable, but is not guaranteed as to accuracy or completeness.

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# Redefining Global Infrastructure

## Characteristics of Infrastructure Investments:

- Stable, cash-flow-oriented returns
- Inflation hedge
- Low correlation to other major asset classes

## Risks:

Investing in specific sectors such as infrastructure-related securities may involve greater risk and volatility than more diversified investments. Risks include greater exposure to adverse economic, regulatory, political, and other changes affecting such securities. Foreign investing, especially in emerging markets, entails additional risks, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation.

## A strategy designed to encompass the expanding range of opportunities in global infrastructure.

Any notion of measurable progress in the material conditions of life around the globe will remain an abstraction if not supported by capable and reliable infrastructure. Like civilization itself, this complex framework of roads, waterways, utilities, and airports, among others, must be maintained and expanded to meet evolving global needs. To fulfill its function adequately, the worldwide infrastructural support system is itself in need of support – from new sources and in new ways.

At first glance, American investors might view infrastructure as something that consumes their tax dollars rather than something that might merit investment. And indeed, in the past, support for infrastructure has been the mandate of government. But increasingly, private funding has become an important resource as governments find themselves unable to cope with the challenges of modern infrastructure maintenance and development.

To address these opportunities, FAF Advisors developed a distinctive strategy that could help capture the investment opportunities presented by rapidly expanding infrastructure. This strategy focuses on publicly traded infrastructure companies and seeks to offer a broad range of both economic and social infrastructure investment opportunities. We put a premium on companies whose revenues flow from tangible assets with long-term concessions, capable of producing steady, predictable cash flows. This approach combines the benefits of diversification with those of liquidity, transparency, and a clearly defined fee structure.



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## Responding to a Global Challenge

### Types of Infrastructure

Social	Economic		
<ul style="list-style-type: none"> <li>■ Universities and Schools</li> <li>■ Hospitals</li> <li>■ Sports Facilities</li> <li>■ Convention Centers</li> <li>■ Public Housing</li> </ul>	<b>Transportation</b> <ul style="list-style-type: none"> <li>■ Toll Roads</li> <li>■ Bridges and Tunnels</li> <li>■ Airports, Seaports</li> <li>■ Rail Systems</li> </ul>	<b>Energy and Utilities</b> <ul style="list-style-type: none"> <li>■ Gas Storage and Distribution</li> <li>■ Electricity Generation and distribution</li> <li>■ Water Supply and Treatment</li> <li>■ Renewable Energy</li> </ul>	<b>Communications</b> <ul style="list-style-type: none"> <li>■ Cable Networks</li> <li>■ Broadcast and Wireless Towers</li> <li>■ Satellite Systems</li> </ul>

## The Urgent Need for Private Capital

The pressing global need for infrastructure development and/or maintenance will require massive investment in the coming decades. When it comes to financing infrastructure projects worldwide, the fundamental imbalance between supply and demand will continue to widen, presenting potential investors with an array of new opportunities.

Globally, an estimated 2% of gross domestic product (GDP), or about U.S. \$960 billion, is spent on infrastructure investment and maintenance annually.<sup>1</sup> Moreover, demand is increasing as population growth and global urbanization strain existing infrastructure and create a need for new development. World population is expected to grow by one-third, exceeding eight billion by 2050, with 50% living in metropolitan areas.<sup>2</sup> By 2030, more than 80% of the population of the Americas and Europe will be urbanized, while 54% of Asians will be city-dwellers.<sup>3</sup> This migration of rural populations into cities, proceeding on an unprecedented scale, will require an equally vast investment in roads, water, communications, power, and myriad other facets of urban infrastructure.

<sup>1</sup>“Trends and Drivers in Intelligent Infrastructure Systems” (2005) at [www.foresight.gov.uk/Previous\\_Projects/Intelligent\\_Infrastructure\\_Systems/Reports\\_and\\_Publications/General/TrendsandDriversReview/TrendsandDriversReview.html](http://www.foresight.gov.uk/Previous_Projects/Intelligent_Infrastructure_Systems/Reports_and_Publications/General/TrendsandDriversReview/TrendsandDriversReview.html)

<sup>2</sup>“Lights! Water! Motion!” in *Strategy + Business* (Spring 2007), Booz Allen Hamilton, Inc.

<sup>3</sup>Global Competitiveness Report, 2006-2007, Part I: The Competitiveness Indexes, World Economic Forum [www.weforum.org/fweblive/groups/public/documents/wef\\_member\\_pdf/gcr\\_0607\\_1\\_1\\_gcindexes.pdf](http://www.weforum.org/fweblive/groups/public/documents/wef_member_pdf/gcr_0607_1_1_gcindexes.pdf)

Expanding and modernizing infrastructure is also a nonnegotiable condition of economic growth, especially for developing countries. To compete successfully in the global market, such economies must invest heavily in new infrastructure if they have any hope of supporting growth initiatives and attracting global capital. India, for example, is a case of a nation whose enormous growth potential is hampered by poor infrastructure.

Meanwhile, developed countries face the urgent task of replacing and upgrading aging or inadequate infrastructure. As demonstrated by the California blackouts, the destruction caused by Hurricane Katrina, the bridge collapse in Minneapolis, or the water shortage in Georgia, even economic giants like the United States can no longer afford to overlook the impact of aging infrastructure.

## U.S. Infrastructure: On the Cusp of a Crisis

**When it comes to the state of infrastructure in the United States, there is no shortage of troubling statistics:<sup>4</sup>**

- We must plan to accommodate an additional 140 million in population over the next 50 years, compared with an increase of 130 million since the 1950s, when interstate construction and suburbanization began in earnest.
- Approximately \$1.6 trillion in infrastructure spending through 2010 is needed just for repairs and maintenance.
- Nationwide, countless roads, bridges, and tunnels will need extensive repairs and improvements. An estimated \$185 billion in additional funding will be required for road systems over the next five years.
- The United States will need to spend at least \$250 billion on its railways over the next 20 years just to match the rail-service quality in Europe and Asia.
- The Environmental Protection Agency and other experts estimate that a \$300 billion to \$500 billion gap exists for maintaining and improving wastewater infrastructure nationwide over the next two decades.

<sup>4</sup>Ernst & Young, *Investing in Global Infrastructure*, 2007

## Report Card on America's Infrastructure

**Overall Grade = D**

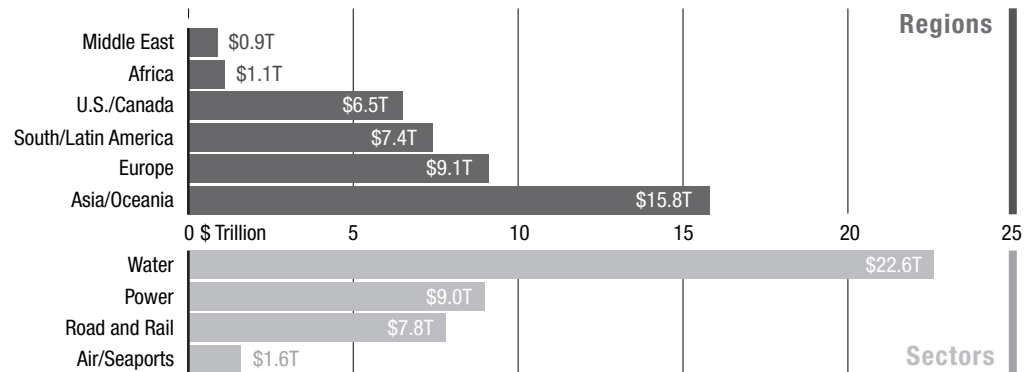
Aviation	D
Bridges	C
Dams	D
Drinking Water	D-
Energy	D+
Hazardous Waste	D
Inland Waterways	D-
Levees	D
Public Parks and Recreation	C-
Railways	C-
Roads	D-
Schools	D
Solid Waste	C+
Transit	D
Wastewater	D-

Source: American Society of Civil Engineers, 2009  
[www.asce.org/reportcard/2009/index.cfm](http://www.asce.org/reportcard/2009/index.cfm)

## Privatizing Global Infrastructure: A Historical Glance

- The trend started in 1979, when Margaret Thatcher became British prime minister and her government promoted a wave of privatization. Similar initiatives spread through continental Europe in the 1980s to Australia in the 1990s, and then through Canada and parts of Asia and Europe.
- In the past few years, the United States has begun to privatize such projects as the Chicago Skyway, the Indiana Toll Road, the Michigan Electricity Transmission Corporation, and the South Bay Expressway.
- One estimate holds that global private investment in infrastructure could exceed a trillion dollars annually.<sup>6</sup>

## Anticipated Growth in Infrastructure



Source: "Lights! Water! Motion!" in *Strategy + Business* (Spring 2007), Booz Allen Hamilton, Inc.

## Expanding Privatization

Over the next 25 years, modernizing and expanding the water, electricity, and transportation systems of the cities of the world will require approximately \$41 trillion – a figure roughly equivalent to the 2006 market capitalization of all shares held in all stock markets in the world.<sup>5</sup>

How can governments generate enough capital to cope with this scale? Increasingly, they have been reaching out to the private sector for funding. Strained for financial resources and often loath to raise taxes, governments have found willing partners in private-market investors.

The expanding role of private funding in public infrastructure, while still relatively new to the United States, has become a well-established practice in a number of other developed nations. It can take several forms, including full or partial privatization, public-private partnerships (known as PPPs or P3s), and even private-to-private investments through asset sales and mergers. What private investors bring to the table is not just badly needed cash but also administrative expertise, operational efficiency, and accountability to customers and shareholders.

<sup>5</sup>"Lights! Water! Motion!" in *Strategy + Business* (Spring 2007), by Booz Allen Hamilton, Inc.

<sup>6</sup>Ernst & Young, *Investing in Global Infrastructure*, 2007.

## A Significant Investment Opportunity

Today, essential infrastructure projects require more strategies than governments can supply. As private markets are invited to assist with financing, building, and operating these projects, a new investment universe is emerging. Infrastructure deserves a closer look because it offers several compelling investment characteristics:

- *Monopolistic in nature:* Components of infrastructure, like energy transmission or dams, typically demand large-scale investments with very high fixed costs, creating high barriers to entry and monopolistic or quasi monopolistic characteristics. Geography also tends to put limits on any proliferation of competing infrastructure projects.
- *Inelastic demand:* Since the physical assets and services that make up infrastructure are necessities, demand for them does not fluctuate with changes in price. Queens Midtown tunnel in New York City, for example, has had numerous toll increases since 1976, yet its share of traffic compared with the Queensboro Bridge, which charges no toll and is located just 20 blocks away, has remained between 40% and 60%.<sup>7</sup> Relatively inelastic demand, then, makes infrastructure less sensitive to business cycles.

### Infrastructure Provides Portfolio Diversification

#### Correlation to Major U.S. Asset Classes

	Global Infrastructure	Equity	Fixed Income	Real Estate
Global Infrastructure	1.00			
Equity	0.60	1.00		
Fixed Income	0.27	0.19	1.00	
Real Estate	0.50	0.52	0.18	1.00

#### Correlation to Major Global Asset Classes

	Global Infrastructure	Intl. Equity	Intl. Fixed Income	Intl. Real Estate
Global Infrastructure	1.00			
International Equity	0.80	1.00		
International Fixed Income*	0.46	0.34	1.00	
International Real Estate	0.75	0.81	0.37	1.00

<sup>7</sup>Mark A. Weisdorf, "Infrastructure: A Growing Real Return Asset Class," CFA Institute, 2007

Source: Morningstar Direct

Based on the period from 1/1/1990 through 12/31/2009.

\*Data for period 2/1/1990 through 12/31/2009; 2/1/1990 is the first full month that data are available for the Barclays Capital Global Aggregate Bond Index.

Global Infrastructure represented from 1/1/1990 - 11/30/2001 by the Ibbotson Associates Infrastructure Low Utilities Composite Index, and from 12/1/2001 (the inception date of the index) through 12/31/2009 by the S&P Global Infrastructure Index; U.S. Equity by the S&P 500 Index; U.S. Fixed Income by the Barclays Capital Aggregate Bond Index; U.S. Real Estate by the FTSE NAREIT Equity REIT Index; International Equity by the MSCI EAFE Index; International Fixed Income by the Barclays Capital Global Aggregate Bond Index; Global Real Estate by the S&P Developed (ex-U.S.) Property Index.

**Correlation** is a statistical measure of the degree to which changes in performance of different asset classes in the same market conditions are related.

- *Stable cash flows:* Longevity of contractual guarantees in partnerships between governments and private managers promotes steady cash flows generated by fees or tolls on underlying assets. Concessions granted by governments to private entities to manage infrastructure assets can span periods as long as 50 to 99 years.
- *Inflation hedge:* As replacement costs of physical assets increase in an inflationary environment, they protect the value of infrastructure investments. Moreover, fees for the use of infrastructure are frequently linked to inflation measures through a regulated return framework or a contractually specified rate of return.
- *Durability:* Infrastructure assets often last more than 50 years, with little or no risk of redundancy or technological obsolescence.

Due in large part to these qualities, infrastructure can be considered a distinct asset class, with potentially more stable, income-oriented returns that are not highly correlated with those of other major asset classes.

### Ways to Invest in Infrastructure

The most common ways to invest in infrastructure are through direct investment, private equity investment, or investment in listed (public) equity:

- Direct investment allows an investor to become a financial backer and potential beneficiary in a specific infrastructure project through an equity stake or joint venture. While this approach gives investors fairly stable cash flow streams and control over the underlying assets, it involves a large capital outlay with an uncertain prospect for residual values, offers limited diversification, and generally requires specialists to manage.
- Private equity partnerships invest directly in a variety of infrastructure assets or operating companies. Such investment vehicles may offer stability of performance with consistent cash flows and higher levels of diversification than direct investment. However, they are still relatively illiquid, requiring significant upfront capital commitments and often a long wait for a placement of assets. Due in part to the newness of these strategies, exit strategy options tend to be poorly defined. Private equity investment partnerships typically collect a percentage of the profits in addition to charging management fees.
- Listed (public) infrastructure securities are issued by companies that own, construct, or manage infrastructure assets. In contrast to direct and private equity investments, these investments offer greater liquidity, diversification, and transparency, as well as lower management fees. Their return potential, however, tends to be lower, and they may exhibit slightly higher correlation with other public equities and more equity-linked volatility.



**Infrastructure Assets Have Historically Generated Strong Risk-Adjusted Returns**

Asset Class	Index	Average Annualized Total Returns as of 12/31/2009			Standard Deviation	
		1 Year	3 Year	5 Year	3 Years	5 Years
<b>Infrastructure</b>	S&P Global Infrastructure Index	<b>25.28%</b>	<b>-1.98%</b>	<b>8.60%</b>	<b>22.51</b>	<b>18.49</b>
	S&P 500 Index	26.46%	-5.63%	0.42%	19.91	16.05
<b>U.S. Markets</b>	Barclays Capital Aggregate Bond Index	5.93%	6.04%	4.97%	4.17	3.70
	FTSE NAREIT Equity REIT Index	27.99%	-12.41%	0.36%	39.69	32.04
	MSCI EAFE Index	32.46%	-5.57%	4.02%	23.99	19.67
<b>International Markets</b>	Barclays Capital Global Aggregate Index	6.93%	7.05%	4.56%	7.64%	6.52%
	S&P Global REIT Index	42.77%	-12.17%	2.72%	28.94	23.78

The returns and risk in the chart represent past performance of the indices and should not be viewed as a guarantee of future index or investment performance. Market indices do not include fees. **You cannot invest directly in an index.**

Source: Morningstar Direct

**Standard Deviation** is a statistical measure of portfolio risk that measures variability of total return around an average over a specified period of time.

## Our Global Infrastructure Strategy: Public Equity with a Difference

Our global infrastructure strategy targets the universe of publicly traded infrastructure stocks and seeks to capitalize on the general benefits such stocks offer:

- *Liquidity*: A portfolio of publicly traded investments gives investors daily access and pricing. Public equity investing allows investors to fulfill their allocations to the asset class immediately. In addition, our strategy offers investors a clearly defined exit strategy.
- *Diversification*: While private equity tends to focus on specific projects or sectors, our strategy is exposed to a full range of infrastructure investments across sectors and subsectors. Their geographical and sector diversification helps mitigate the risks – political, operational, etc. – of a single investment.
- *Transparency*: Our strategy offers holdings traded on international exchanges that are subject to extensive regulatory reporting requirements. Because of their transparency, the performance of the companies and the portfolio is easy to benchmark.
- *Fees*: Our strategy has a defined fee schedule and entails no “cost of carry” (management fee + percentage of profits) or promotional interest.

### Expanding Our Infrastructure Universe


FAF Advisors seeks new potential opportunities by adopting a comparatively broad definition of what constitutes the universe of investable infrastructure companies. In our view, not all vital segments of this universe are represented, or represented appropriately, by the S&P Global Infrastructures Index and the Macquarie Global Infrastructure Index, the two indices most commonly used at present. These limitations reflect the fledgling condition of public equity investing in infrastructure.

We have broadened the definition of infrastructure to include companies with tangible assets or infrastructure services that are not included in the two indices. As a result, we have gained access to new sectors and also created lower exposure to traditional electric and integrated utilities, which feature prominently in the indices.

**Our Universe Extends to Tangible, Asset-Based Companies not Included in the S&P Global Infrastructure Index, Creating Lower Exposure to Traditional Utilities**

Transportation	Utilities/Energy	Social Infrastructure	Communications Infrastructure/Other
Airports	Alternative Energy	Government Outsourcing/ Facilities Management	Infrastructure Asset Management
Construction/Engineering Concessions	Electric Utilities	Hospitals/Healthcare	Diversified Infrastructure
Logistics	Electric Transmission		Technology Infrastructure
Parking Lots	Gas Utilites		
Ports	Pipelines		
Shipping/Tankers	Waste Management		
Rail/Public Transportation	Waste Infrastructure		
Toll Roads			

Sources: Standard & Poor's, FAF Advisors, Inc.

 Not included in the S&P Global Infrastructure Index

### Focus on Tangible Assets and Steady Cash Flows

In moving beyond the limitations of the indices, we were prompted in part by our interest in companies deriving their revenues from tangible assets. We seek companies that take a comprehensive view of infrastructure, controlling interrelated delivery systems rather than merely isolated nodes in the infrastructural web

- In the realm of shipping, for example, where the indices focus mainly on pure shipping or tanker companies, we seek out diversified shipping companies combined with port/terminal operations and storage assets.
- In the utilities sector, where the indices tend to emphasize companies generating electricity, we emphasize the companies that own the grid – and we also make forays into the alternative energy space.

In each instance, holdings with more-diversified or comprehensive composition and longer-life assets should, we believe, produce steadier, more predictable cash flows, smoothing out cyclical volatility. Moreover, such companies tend to incur limited ongoing capital expenditures, thereby helping promote a stable flow of income. Finally, we expect that a portfolio reflecting a broader, more-diversified selection of holdings than those currently represented by the indices is likely to suffer less from an individual sector's cyclical fluctuations and the resultant disruptions in cash flows.

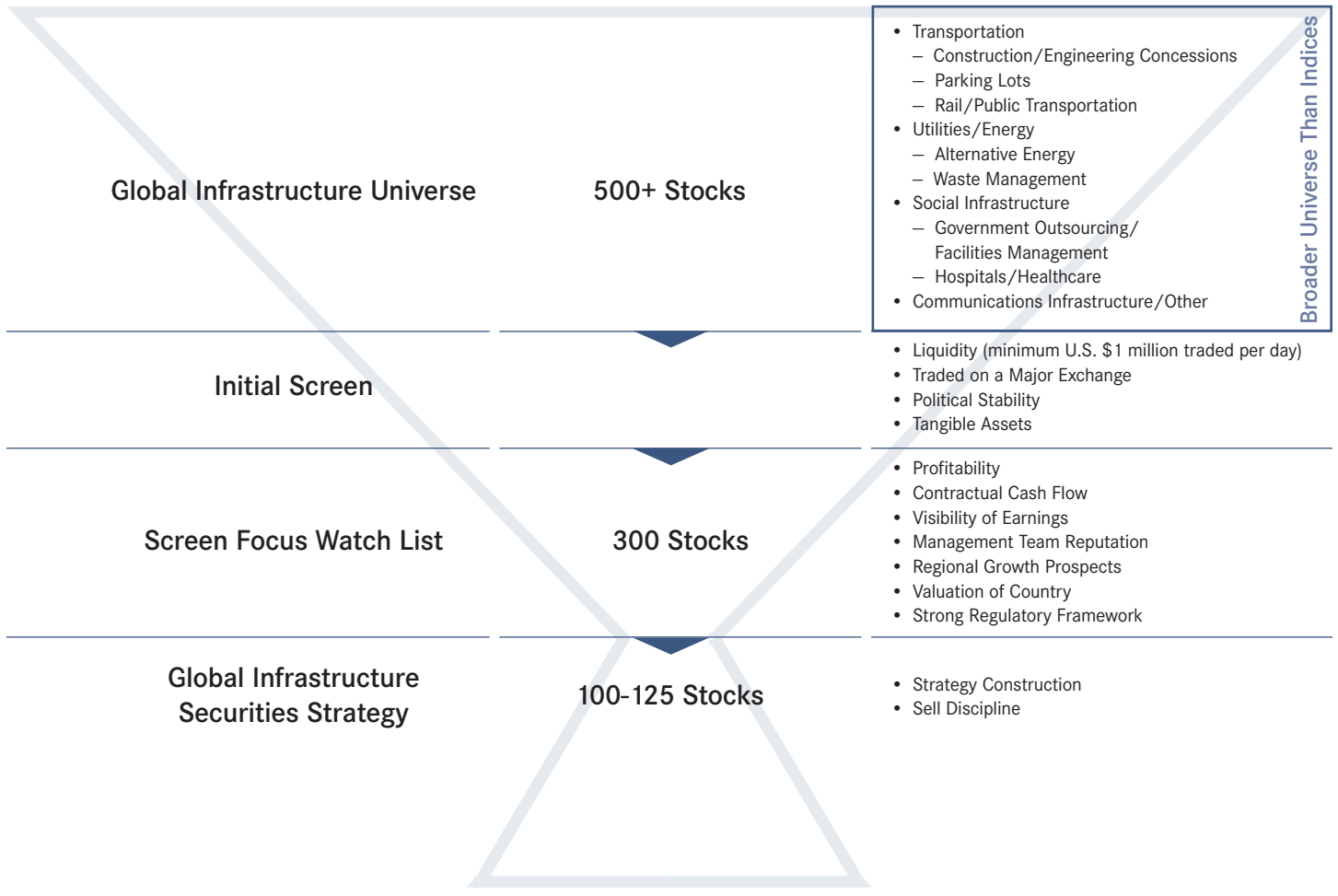
Insofar as our strategy explores potentially compelling opportunities that lie beyond the confines of the indices, it offers exposure to the kind of diversified pool of infrastructure investments that might otherwise be available only through private equity investing. It retains, however, all the general benefits and risk-management resources available through investing in a balanced portfolio of publicly traded companies. The strategy also presents an opportunity to invest in sectors that have been overlooked because of their small size or recent emergence. At the same time, it underemphasizes those sectors that have already received ample exposure (e.g., electric and integrated utilities).

### Disciplined Investment Process

Our screening process begins with a universe of more than 500 stocks, a much broader pool than those included in the indices. Throughout the process, qualitative analysis is combined with rigorous quantitative screening to identify companies capable of generating high relative total returns. The initial screen determines which of these names are traded on a major exchange and scrutinizes them for liquidity (minimum U.S. \$1 million traded per day), political stability, and ownership of tangible assets. The roughly 300 stocks remaining after this screen are then evaluated on the basis of business factors such as profitability, contractual cash flow, visibility of earnings, and management team reputation, as well as broader economic or legal factors – regional growth prospects, valuation of the country, and the soundness of the regulatory framework.

The process yields a strategy typically composed of 100 to 125 stocks, balanced across different sectors and regions. These holdings are continually monitored with a view to holding benchmark and factor risks in check and to maintaining sector diversification.

### Global Infrastructure Investment Process



### Core investment benefits:

- Diversification
- Exposure to emerging asset class
- Growth potential
- Liquidity
- Expanded investment universe

## Conclusion

Given the surging demand for financial resources to sustain infrastructure initiatives, there is little doubt that private investment will play an increasingly vital role as a source of funding. Private equity investment, already very much in evidence in the global markets, has the potential to generate bond-like cash flows but is also characterized by limited liquidity and high fee structures.

In contrast, FAF Advisors has developed a global infrastructure strategy that focuses on publicly traded companies that derive their revenue from tangible assets and are capable of generating high relative total returns. Our approach has the distinction of producing a highly diversified investment portfolio of global infrastructure securities with all the traditional benefits of public equity – transparency, liquidity, and daily pricing. This strategy, we believe, should allow investors to take full advantage of the opportunities presented by the rapidly expanding realm of global infrastructure investments.



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