ETFS Trade idea

ETF Securities | *The intelligent alternative* | *Oct 2018*

Global Infrastructure: Designed for Retirees

ETFS Article

Key Takeaways:

- Infrastructure assets are considered by many advisers as ideal for retirees
- CORE gives a cost effective, diversified and international exposure to this sector
- CORE has **outperformed many active funds** over the past year, debunking the myth that active is always best in this sector


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Introduction

As an adviser you'll be well aware that one of the main investment goals for retirees is stable income streams.

That's why infrastructure assets have long been a favourite equity asset class for savvy retiree portfolios as the types of company involved normally have a dominant/monopolistic position in an area of infrastructure where demand is predictable, reliable and inelastic (usage does not change much regardless of the economic cycle) and the reason why we launched the ETFS Global Core Infrastructure ETF – **CORE.**

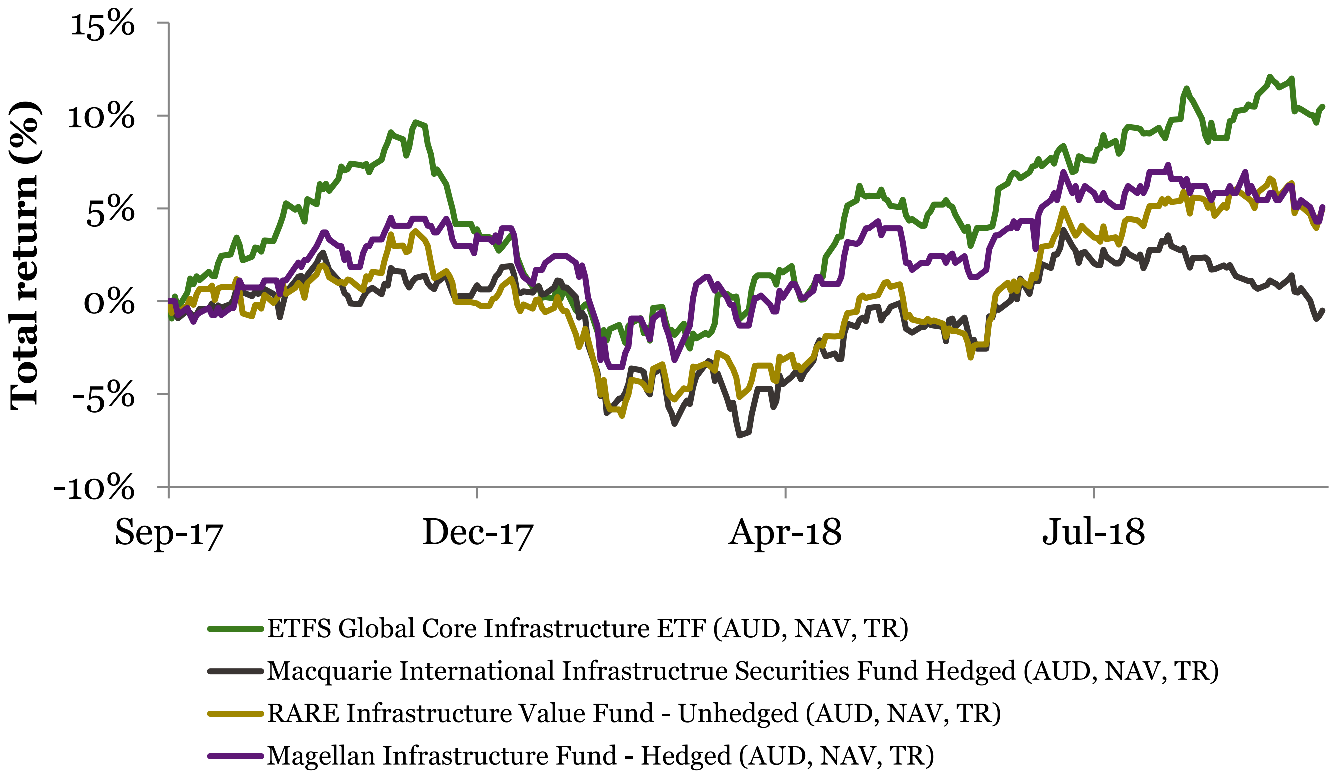
Unfortunately, though, infrastructure is often very underrepresented in Australian investor portfolios with many advisers saying "It's boring. It doesn't do anything".

This is actually the point of infrastructure assets though. Not to reach giddy heights, but not to fall to incredible lows. To produce stable income with low volatility. Precisely what many retirees want.

In this short article we debunk the myth that infrastructure must be played via active managers. We also show why **CORE** could solve for many retiree investors' "infrastructure" allocation.

CORE vs Active

There is common belief that infrastructure is best invested in via active managers. Many believe that infrastructure requires a fund manager to explore every dam and toll road personally to ascertain whether it is suitable for investment, but the performance of some index tracking funds would suggest this is simply not the case. This is illustrated when we compare **CORE** to Macquarie, Magellan and RARE's fund returns over the last year, with **CORE**'s simple low volatility, unhedged strategy winning out over this period.



Source: Bloomberg 30th September 2018

Simple Low Volatility Strategy

So how does **CORE** work? **CORE** is the only infrastructure ETF in Australia that runs a 'smart-beta' strategy to dynamically adjust its portfolio to reflect prevailing market conditions. It does so by tracking the Solactive Global Core Infrastructure Low Volatility Index (the 'Index'). The strategy of the Index aims to outperform the wider infrastructure market by investing in stocks with the lowest realised volatility. These stocks are likely to be the ones with the most "desirable" qualities for infrastructure investors; i.e. stable returns with lower correlation to the wider equity markets.

CORE - Index Methodology

"Developed markets": Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan, United Kingdom and United States.

Source: Solactive October 2018

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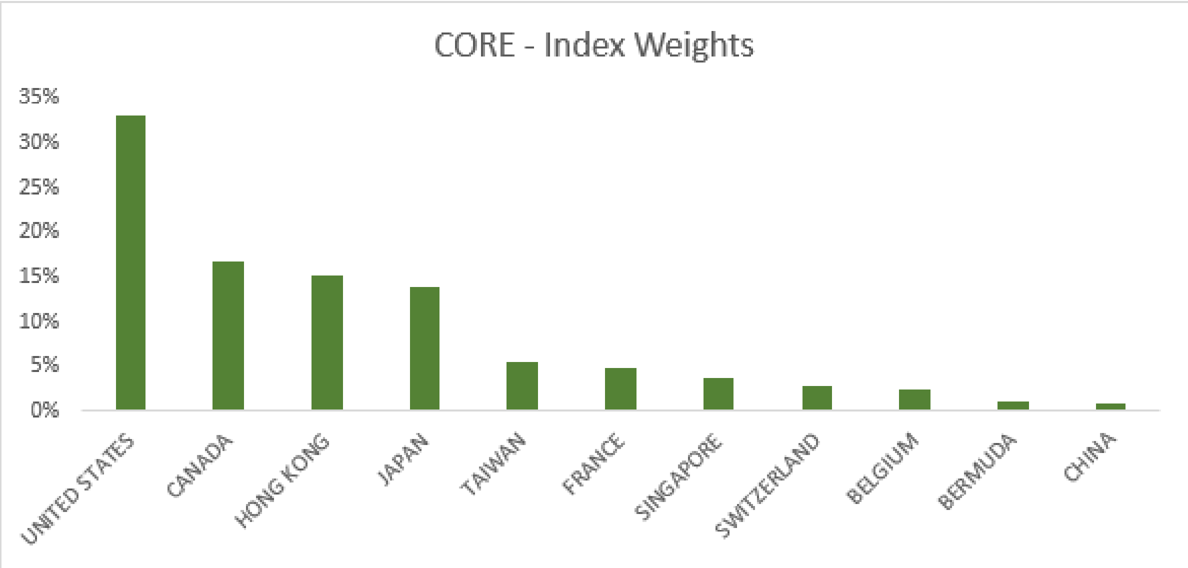
Truly Global



Source: Solactive (after September 2018 rebalance)

Additionally, unlike many other infrastructure funds, which have an overweight to the US, **CORE** is truly global with the US underweight vs the MSCI benchmark. This allows infrastructure projects with revenues from other diverse regions to contribute to the overall performance.

Truly Diverse

Furthermore, **CORE** does not have significant concentration in any one company. The top ten stocks represent only 21% of the portfolio, meaning no one stock is able to significantly impact performance. Other well-known infrastructure funds have more like 30% to above 50% allocations to their top ten holdings. This type of top-heavy strategy can be risky and expose investors to risks of company-specific events that are avoided by holding a more diversified portfolio.

Security Name	Ticker	Country	Index Weighting
HK ELECTRIC	2638 HK	HONG KONG	2.9%
HONG KONG & CHINA GAS	3 HK	HONG KONG	2.6%
EVERGY	EVRG UN	UNITED STATES	2.1%
NETLINK NBN TRUST	NETLINK SP	SINGAPORE	2.0%
AVISTA	AVA UN	UNITED STATES	2.0%
CHUNGHWA TELECOM	2412 TT	TAIWAN	1.9%
HKT TRUST AND HKT	6823 HK	HONG KONG	1.9%
ROGERS COMM. - B	RCI/B CT	CANADA	1.9%
CLP HOLDINGS	2 HK	HONG KONG	1.9%
TELUS CORPORATION	T CT	CANADA	1.9%

Source: Solactive (after September 2018 rebalance)

Summary

In summary, infrastructure assets are considered by many to be a stable source of income returns. However, most Australians are too quick to turn to Australian only infrastructure solutions like Transurban. Additionally, many investors believe that active managers are the best way to get returns from infrastructure. This may be the case sometimes but certainly not all the time and an ETF like **CORE** offers an effective, simple and cost-efficient alternative to the "usual" routes to get infrastructure exposure.

ETFS Global Core Infrastructure ETF Factsheet

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