

Client: John Laing
Source: New Model Adviser (Main)
Date: 24 January 2011
Page: 56
Reach: 6059
Size: 452cm2
Value: 2752.68

FINSBURY

Investors turn to infrastructure funds as inflation spikes

Fund managers are looking for ways to benefit from rising inflation and some have been increasing their exposure to infrastructure funds investing predominantly in the UK

NICK PALER

npaler@citywire.co.uk



Last week the consumer prices index (CPI) jumped to 3.7% for December, up from 3.3% in November and well above the Bank of England's official target of 2%.

Economists speculated inflation would continue to climb, and with no word yet from the Monetary Policy Committee (MPC) on possible action, multi-asset investors have been snapping up infrastructure investments to boost returns from this surge.

Infrastructure funds buoyed by inflation

Max King, fund manager in charge of the £18.6 million Investec Balanced Managed fund, said he had increased his exposure to infrastructure companies recently because they benefited from rising inflation. Investec's fund has beaten its benchmark after returning 18.6% in the last year.

The Balanced Managed fund has 3% invested across the long-running HSBC Infrastructure company – now known as HICL – as well as the 3i Infrastructure

investment trust and the recently launched John Laing Infrastructure fund.

'They give good yields and they are inflation protected so we do like them at present,' said King.

'We topped it up recently and

now have around 1% in each. The government contracts which they invest in allow for inflation pass-through [factor in rising inflation] and that is an area we like.'

The funds have been yielding around the 6% mark, although that has come back recently – 3i is currently yielding around 5.3%.

Investors are benefiting at present from the funds because of the way the government contracts are structured. David Marshall, fund manager on the John

Client: John Laing
Source: New Model Adviser (Main)
Date: 24 January 2011
Page: 56
Reach: 6059
Size: 452cm2
Value: 2752.68

FINSBURY



Laing Infrastructure fund, said it had agreed an assumed retail price index (RPI) rate of 2.75% across its range of 19 projects, and it earns additional revenue if RPI moves above that level. RPI is currently at 4.8%.

'The revenue for the contracts we invest in comes in two parts: fixed and indexed,' Marshall said.

'We tweak the contracts to make sure we get a positive correlation to inflation, and when we agreed the contracts we made the assumption that RPI would be higher than 2.75%.'

There has been growing investor interest in infrastructure funds, and the IPO for the John Laing fund was the second largest of 2010 raising £270 million, second only to Anthony Bolton's Fidelity China Special Situations fund raising.

The top-performing Aberdeen Multi-Asset fund has also invested more of its £626 million portfolio into the space.

Senior investment manager Fiona Gillespie said the fund had topped up its exposure to HICL during the closed-ended fund's recent C-share issue.

'It invests in projects which are linked to RPI or CPI, so if rates go up they get that extra income,' she said.

The Aberdeen fund, one of the top performers in the Balanced Managed sector in the last year after returning 15.4% against an average 12.6%, now has 2% in HICL and a further 1% in 3i Infrastructure.

King's fund has outperformed strongly Source: Lipper



Gillespie has upped HICL weighting Source: Lipper



Inflation is rising sharply Source: Lipper

