

# DOUGLASBRADLEY's MoneyWise News Flash

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### **This month in brief:**

- **We believe Infrastructure could be the next "big thing" in investing.**
- **Wall Street has amassed tens of billions of dollars for investment in Infrastructure assets.**
- **Budgetary constraints across the globe are encouraging governments to seek private-sector funding.**

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### Infrastructure...The Next Big Thing?

An area that we've been watching for the last year, and that is starting to get some press, has been Infrastructure. You're likely to hear more and more people talk about Infrastructure in coming months, especially since Barrack Obama has identified it as one of the major points of his proposed economic agenda. We feel pretty strongly that this could become the next investment theme amongst Wall Street, politicians and economists. So here's a primer on Infrastructure and how it's shaping up.

Infrastructure is a rather open ended term, but one definition would be: all the things that help people and product move from place to place. It's roads, bridges and tunnels. It's airports, train tracks; pipelines and shipping ports. Historically, these things are largely funded, built, operated and maintained by federal, state and local government entities. One could argue that you could also include in this definition all the businesses that support Infrastructure - engineering firms; heavy equipment manufacturers; commercial construction companies; concrete and steel companies.

The discussion of Infrastructure in recent years has been largely associated with the build-out in emerging economies like China, Southeast Asia and India. With the global economic slow down, those emerging economies have slowed their infrastructure building. But the accident last summer in Minnesota, where the bridge collapsed into the river, brought the issue of US Infrastructure needs to the forefront. Everyone pretty much agrees that a lot of work needs to be done on US Infrastructure. The problem is most state and local governments don't have the huge sums of money to make the necessary upgrades. Guess who does? Major private equity and hedge fund firms have been amassing Infrastructure "war chests", and they've been dangling this carrot in the faces of politicians. The trade-off? The Wall Streeters want to run the assets once they fix them up. This is referred to as "leasing". The for-profit company signs a long term contract with the government entity whereby they agree to pay money to the government. It's the for-profit company's responsibility to operate and maintain the asset. For-profit companies exist largely for one purpose - to make profits. So what's the first thing they'll do? They'll increase the toll/use fee associated with the asset. But at least you won't have bridges collapsing - one would hope.

Infrastructure companies have seen their stocks take a hit along with everything else since October. So what makes us think Infrastructure is the next big thing? Here are a few reasons:

1. If consumer spending continues to slow, then corporate spending will dry up as well. In order to keep people employed, the US government (as well as foreign governments) could spend, spend, spend on building/upgrading Infrastructure.

2. Politicians would be seen as doing something to keep people employed, which considering the economy would be politically popular.
3. Wall Street has amassed billions of dollars already earmarked for Infrastructure. You can guarantee they'll be lobbying the politicians to let them put it to use.
4. Investors are attracted to its predictable long-term return profile and the fact that budgetary constraints across the globe are encouraging governments to seek private-sector funding.
5. Two high profile leasing arrangements currently in discussion are Chicago's Midway Airport and Pennsylvania's PA Turnpike, which are sure to get public and investor attention if approved.

Here are some data points to consider and a couple of recent articles on Infrastructure if you'd like to learn more.

- Infrastructure has developed into a new asset class and 2008 is set to be a record year for private equity fundraising.
- Macquarie Group, headquartered in Australia, began organizing infrastructure funds as early as 1996 and currently manages a portfolio of 102 assets in 25 countries, representing \$44 billion in equity under management.
- GoldmanSachs' first Infrastructure fund raised \$6.5 billion when it came to market in 2006 and their second Infrastructure fund (opened in April) is likely to easily hit its \$7.5 billion target.
- The Carlyle Group established a team to conduct Infrastructure investments and formed a \$685 million renewable energy infrastructure fund.
- GE and Credit Suisse announced that they intend to establish a \$1 billion joint venture, Global Infrastructure Partners, to invest in Infrastructure assets.
- MorganStanley hopes to invest up to a quarter of its \$4 billion global infrastructure fund in emerging economies such as China and India.

NY Times article on cities privatizing public infrastructure  
<http://www.nytimes.com/2008/08/27/business/27fund.html>

Wall Street Journal article on Pennsylvania leasing the PA Turnpike  
<http://online.wsj.com/article/SB121971201641371425.html>

We believe the recent steep declines in Infrastructure investments are temporary and eventually we would expect outsized returns from this area. As Duff & Phelps Investment Management entitled a recent white paper on the subject: "Infrastructure Investing, An Opportunity Too Large to Ignore". We feel there is long-term investment merit here, but the time to get on board is before the masses jump on the bandwagon. We expect to be making some investments in Infrastructure in the coming months.

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