SHINING A LIGHT ON……
GCP INFRASTRUCTURE INVESTMENTS LTD

At a glance

The 3i Infrastructure Investment Trust is part of our portfolios, and invests in projects in the UK, Europe and India. It has consistently outperformed the benchmark and is currently trading on a premium of nearly 15%.

Investors received a yield of over 5% in 2013; making it an ideal option for those seeking income. Additional the volatility is around 7% which is similar to bonds.

We recently met the management team of the GCP Infrastructure Trust. This provided us with an opportunity to compare it against 3i. The GCP Trust has a slightly higher yield of over 6%, it is trading on a premium of nearly 9%, volatility is around 5% and its focus is on the UK.

From a performance perspective there is little difference between the two options with 3i slightly ahead.

In this review we will highlight some of the key aspects of the GCP offering.

Who are the team behind the fund?

The team behind the trust are Stephen Ellis, Rollo Wright, Ronan Kierans and Nick Parker. All of the team have significance experience in the Corporate Finance Sector and in particular infrastructure financing.

What is the story behind the investment?

The UK Government outsource infrastructure projects, such as the building of a new hospital, to third parties. In return the government provide a guaranteed RPI linked cash flow for a fixed period (normally 25 to 30 years).

As an example, Balfour Beatty are currently contracted to build a hospital. The cost of build is £90 million which Balfour Beatty funds, in return they receive a guaranteed cash flow from the NHS Trust of £9 million a year for the next 30 years.

Balfour Beatty will borrow some of the project cost from the banks (for example £80 million) and use equity to fund the balance. The cash flow is then used to pay down the debt and fund building maintenance. The balance is profit.

Infrastructure Investment Trusts enable investors to benefit from this income stream.

Fund highlights?

There are two investment strands – Private Financial Initiatives (PFI) and Renewable Energy.

PFI primarily invests in government / local authority projects. The size of the projects means in the majority of cases banks will provide the lending (this is called senior debt) and the developer will provide the balance as equity. Once the project is complete the developer will look to free up the equity (effectively re-mortgage) and GCP will take this as subordinated debt which is secured against guaranteed cash flows. The fund has around 37% allocated to this.

Renewable emerging projects (Solar, Biomass and Wind) tend to require smaller loans which are not well serviced by the banks. GCP provide the loan (senior debt) and similar to subordinated debt secures this against the guaranteed cash flows. The fund has around 55% allocated to this.

There are currently 32 projects in place with an average yield of 9.6% and a weighted life of 15 years. New projects are coming to the table but these are less profitable and the managers are prepared to sit back and wait. They do have a small pipeline of business primarily providing senior loans for biomass projects. Investors in this trust will be investing in mature projects with a steady growing cash flow.

In recent months we have seen NHS Trusts going into administration. It concerns us that this would impact on the income. In these scenarios the cash flow has to continue, and if the trust is unable to pay then the government will step in. The eventual outcome is normally that the trust merges with another and therefore there is no disruption to the payments.

In summary the trust provides loans to government backed projects secured against future cash flow. There are risks, as there are with any investment, but the nature of the investments reduces these significantly to deliver a low volatile investment delivering a sustainable income for investors.

Fund performance

The table below shows performance since its launch in July 2010 against 3i and the benchmark:

	2010	2011	2012	2013	2014	Since launch
GCP Infrastructure Investments Ltd	8.59%	2.81%	11.13%	12.03%	0.16%	9.64% p.a.
3i Infrastructure Ltd	12.87%	4.93%	6.60%	15.36%	0.67%	11.22% p.a.
iShares Global Infrastructure	6.53%	-3.89%	-5.55%	6.72%	3.36%	1.81% p.a.

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

The fund has demonstrated its ability to outperform the market index. It is currently trading at a premium. We would continue to favour 3i due to its wider investment sphere although investors seeking income may prefer GCP which has a slightly higher yield.

The source of information in this note has been provided by GCP and is correct as at February 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.