

# Global Listed Infrastructure

## Firm Overview

**Our infrastructure research program is among the oldest in the investment industry**

The Duff & Phelps investment organization has an 80 year history in infrastructure research—among the oldest in the industry of any listed infrastructure investment team. This history creates a formidable institutional advantage and knowledge base for our firm. Starting in the Great Depression, our founders began researching and identifying investment opportunities in the utility sector and successfully steered private investors towards reliable returns and away from outsized risks. While researching and investing in infrastructure sectors may be new for some, it is our firm’s core strength—and has been since 1932.

## Strategy at a Glance

Inception date	January 2005
Index	MSCI World Infrastructure Sector Capped Index
Primary Sectors	Communications, Utilities, Energy, Transportation
Geography	Global – Developed Markets
Capitalization	Mid-Large
Approach	Relative value with in-depth research to identify sources of income and inflation protection benefits
Attribution	90% stock selection and 10% sector allocations*
Yield	Generally in the 4% range, historically double the S&P 500 yield*
Holdings	45–55
Turnover	Generally below 40%
AUM	\$71 Million as of December 31, 2011
Team	8 seasoned team members—5 of whom have invested together for the last 18 years

\*On average since inception through December 31, 2011. Inception date is 12/31/04.

## Strategy Description

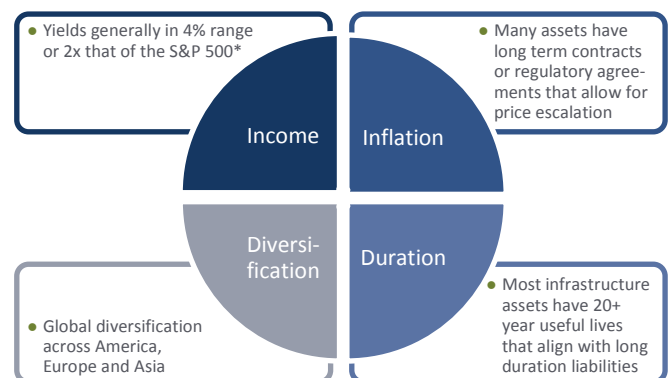
**A total return, income-oriented portfolio constructed by identifying the best relative value opportunities within each infrastructure sector**

Our investment focus is on owners and operators of infrastructure assets across the Transportation, Utilities, Energy, and Communication sectors. Since our strategy’s goal is to mimic the purity of many core private market infrastructure programs, our portfolio is appropriate as a stand-alone allocation to the infrastructure asset class or as a liquid complement to a private infrastructure investment program.

To deliver our clients’ objectives, we offer our 80 year history in infrastructure research; our firm’s proven relative value investment process, and our seasoned team of seven infrastructure investment experts.

## Investment Philosophy

**Capture the long-term financial benefits of infrastructure as an asset class—inflation hedging characteristics and an attractive risk-adjusted return**



\*On average since inception through December 31, 2011. Inception date 12/31/04.

We invest as a fiduciary and for the sole benefit of our clients. We have designed our strategy to meet their key objectives, since we believe that most institutional clients add infrastructure investments to further diversify their multi-asset class portfolios.

In choosing the infrastructure asset class, our clients want access to:

- **A predictable income stream**
- **Investments with inflation protection** through exposure to monopolistic physical assets with proven pricing power
- **Companies with inelastic demand curves** and business models that can **perform in multiple economic environments**

As infrastructure investments must co-exist in a multi-asset class portfolio, our strategy is intended to give our institutional clients the purest exposure to the beneficial characteristics of the infrastructure asset class. To that end, we:

- **Minimize overlapping exposure** to other asset classes such as commodities, emerging markets, or real estate
- **Focus on owners and operators of assets in developed markets**, who deliver transparent revenue with low variability

Finally, we believe clients can benefit from our sector specific relative value process, which offers the best methodology to compare and contrast investments across geographies.

## Team

### A deep, seasoned team of infrastructure experts

We believe we have the most seasoned and focused investment team of any institutional quality listed infrastructure strategy. Our team is composed of eight skilled investment professionals, six of whom have more than 18 years of investment experience. Five of the eight team members have been working together for over 18 years. Since our portfolio managers and analysts have an average of 18 years of experience in their sectors and only cover 20–30 companies each, we have the resources to quickly identify and implement investment ideas. Specifically, we have:

- **Two proven Portfolio Managers**, Randle L. Smith, CFA, who joined in 1990, and Connie M. Luecke, CFA, who joined Duff & Phelps in 1992. **Connie and Randle have been researching infrastructure securities as their sole focus for 20 and 22 years**, respectively, and **working together for 20 years**
  - **Connie** focuses on the global telecommunications and transportation sectors, and brought 8 years of investment and private market valuation experience to Duff & Phelps.
  - **Randle** concentrates on the global utilities, energy, and transportation sectors. For 8 years before joining Duff & Phelps, he worked in the Strategy and Planning group

at Northern Indiana Public Service Co., an owner and operator of utility assets in the mid-west and north-east United States.

Together, Randle and Connie make a formidable team, and their collective knowledge base and close working relationship in portfolio construction is a tremendous asset to our portfolios.

- **Four accomplished Analysts**, Deborah Jansen, CFA; Eric Elvekrog, CFA, CPA; Charles Georgas, CFA, CIPM; and Joyolin Brown, CFA, who served for 5 years in corporate and regulatory finance at Southern California Company. The insights they have into their stocks and their experience working within the relative value investment process make them an essential part of our team. These analysts are:
  - **Sector aligned** and support Connie and Randle with idea generation and research
  - **A deep bench**, with 51 years of collective investment experience at Duff & Phelps and 77 years in the industry.
- **Two experienced Traders**, Tim Fitzgerald and Brian VanderMeulen, who support Connie and Randle with market color and trade execution. They have 31 and 15 years of investment experience, respectively, and an average of 15 years in trading infrastructure/utility securities at Duff & Phelps.

## Investable Universe

### 140 of the purest infrastructure companies

- 1500: Global communications, utilities, transportation, and energy companies
- 800: Developed market domicile
- 210: Greater than a \$1 billion free float
- 120–140: We narrow the universe, using our team's circle of competence, to investments with the following general characteristics
  - A yield generally above 2%
  - Emerging market exposure <50% of revenue, assets, or gross income
  - Revenue, assets, or gross income from infrastructure activities >50

## Idea Generation

### Relative value within each sector and across geographies

The first step in the investment process is generating ideas at the sector level: The investment team compares each stock to its global and regional peers to find compelling relative value qualities.

Our comparative criteria includes current and forecasted:

- Yield
- Dividend Payout Ratios
- Enterprise Value/EBITDA
- EPS Growth
- PE Ratios
- PEG Ratios
- Cash Flows
- Debt Ratios
- Credit Rating

## Fundamental Research

### Identify relative value and yield stability

Our analysts specialize by sector and actively cover 20-30 infrastructure securities. Since they are able to focus on a smaller group of companies, they can fully understand the relative value potential of current holdings and prospective investments.

We also assess an investment candidate's ability to maintain and grow dividends and (for a substantial portion of the portfolio) an ability to withstand inflation pressures. This analysis includes an in-depth look at a company's customer demand, revenue contracts, and pricing environment. Like private market investors in core-oriented infrastructure, a large percentage (>50%) of our total return will probably come from income.

The research process is collective and involves active dialogue, including weekly team meetings and daily informal conversations. Inputs into the research process include:

- Proprietary research
- Third party research and models
- Company reports and filings
- Extensive management meetings and interviews
- Extensive focus on regulatory research

We generally don't invest in any company unless we have met with management—and **we have met with the CEO or CFO for every stock in our current portfolio**. Unlike many of our competitors, we've evaluated members of company management for over 20 years. This historical perspective allows us to analyze the impact that managers will have on firms as they shift roles, and we have occasionally made portfolio changes based on management changes.

## Regulatory Research

### Thousands of hours invested over 20 years provides vital context

We place high importance on fully understanding the regulations under which investment candidates operate, as an unfavorable environment can destroy an investment thesis and override a company's fundamental, management and relative value strengths.

In global utilities, in particular, regulation is crucial because it impacts key factors, such as power to price and asset valuations. Investment professionals who enter from outside the asset class are often surprised with the complexity of this unique feature of infrastructure investing.

Regulatory research is one of our firm's historic strengths, and over the last 20 years, our Portfolio Managers and analysts have studied and navigated the changing regulatory environment surrounding their investment decisions.

We have spent thousands of hours over the last 20 years on regulatory research: meeting with government and regulatory officials, speaking with influencers, reading regulations, and following state/country specific developments. We augment our internal research with a subscription to products from Regulatory Research Associates (SNL).

## Inflation Protection

### Many underlying assets have embedded inflation-linking mechanisms

The inflation protection that infrastructure investments provide is based on the thesis that underlying company fundamentals can withstand rising inflation. To be clear, we believe that high or hyper-inflation is not good for investors of any type. However, under controlled inflation, certain infrastructure assets have historically provided some protection, so we look for:

- Owners and operators of physical ("real") assets
- Contracts that provide pricing power, since counterparty agreements:
  - Are usually multi-year, as assets have long lives
  - Traditionally compensate owners and operators for inflation's impact by linking it to revenues, asset values, and even dividends
  - May contain negotiated rates that factor in inflation expectations
- The support of constructive regulatory environments
- Inelastic customer demand
- Control of, or ability to, hedge input costs

## Portfolio Construction

**Incorporates our relative value, bottom-up fundamental research**

- **Buy and sell recommendations** are discussed at weekly team meetings and enter or exit portfolio with PMs' consensus
- **Security weights** are based on our PMs' conviction gained through in-depth analysis of a company's relative valuation, income stability, management, regulatory environment and embedded inflation hedging opportunities
- **Sector weights** are based on our PMs' views on the company specific opportunities within each sector together with macro-economic and geographic factors

We seek to achieve a diversified exposure to sectors across North America, Europe, and Asia (see table).

## Portfolio Construction at a Glance

Holdings:	45–55
Sector allocation:	±10% of benchmark weight Out of benchmark investments allowed
Single security:	Maximum 10% of portfolio ± 5% of benchmark weight
Cash:	Maximum 5%
Country allocation:	Minimum 25% U.S. Minimum 3 countries
Annual turnover:	Generally less than 40%



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