outlook

EDITION TWO 2017

Making a splash

Investment:
Insights from a fund manager

Active advice:
The moment that changed a business

Specialisation:
Plan ahead for the aged care you want

Perspective:
Setting up for retirement success

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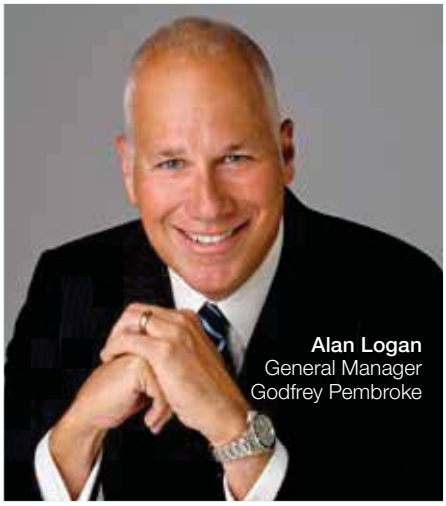
Welcome to Outlook's Summer issue



Alan Logan
General Manager
Godfrey Pembroke

What's your perfect summer lifestyle? Chances are, it involves water – whether it's lazing under a beach umbrella, throwing a line over the side of a dinghy, or chasing the perfect wave.

For many Australians, including Godfrey Pembroke adviser, Neale Murphy, summer life involves splashing around at the local pool. But for Neale, it's more than just a summer pastime – and more of a year-round obsession.

Neale is a life member of Drummoyne Water Polo Club, a local community-funded club that's helping young athletes reach their sporting potential. Neale talks to Outlook about his volunteer role with Drummoyne Water Polo Club and the joy the club brings to locals and the wider sporting community.

Outlook also takes a deep dive into infrastructure investment – an increasingly popular choice for retirement savings plans. We discuss some of the considerations and choices that come into play when adding a well-diversified infrastructure segment to your investment portfolio.

We then talk to three Australian entrepreneurs who've hit the big time. Each of them shares what they believe was the defining decision that set their business on the path to steady growth.

Outlook also examines a big decision that you may need to make one day – getting help to take care of yourself if you're no longer able to do so. We outline a range of options to consider now – so that if the time comes, you won't have to face the stress of making last-minute decisions.

And speaking of plans, this issue of Outlook also includes a Q&A session with Brian Long, Head of Retirement at NAB Asset Management, about how to plan your finances for retirement. According to Brian, it's about starting with the lifestyle you want, then looking at the wealth you have now – and if there's a gap, how to fund it.

As always, we welcome your questions or suggestions for articles that you'd like to see in future issues of Outlook. Simply email us at outlook@godfreypembroke.com.au.

Yours sincerely,

Alan Logan

General Manager,
Godfrey Pembroke Limited

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A lifelong member of the Drummoyne Water Polo Club, Godfrey Pembroke adviser Neale Murphy talks about the joys and challenges of being part of a grass-roots community sporting club.

Advice

The moment that changed a business

Is there a defining moment that takes a good business into the big time? Three top entrepreneurs share the turning point that catapulted their businesses to success.

Specialisation

Plan ahead for the aged care you want

Planning for your twilight years can involve some tough and emotional decisions. We look at the steps you need to take to make the transition into care smoother and less stressful.

Specialisation

Five steps to consider before entering an aged care home

Are you or a loved one getting ready to move into aged care? Here are five important steps to take to prepare for this life-changing event.

Perspective

Setting up for retirement success

Make your retirement years your golden years. Brian Long, Head of Retirement at NAB Asset Management answers some common questions about getting financially ready for life after work.

Investment

Insights from a fund manager

A popular choice for retirement savings plans, infrastructure investments can potentially deliver lower volatility and higher yields than equities – but they need to be properly diversified.

Godfrey Pembroke adviser **Neale Murphy** has lived a life devoted to supporting and promoting his passion of water polo – helping provide a pathway for young athletes to achieve their Olympic dreams.

Making a splash

Making a splash

There's no question that sport plays an important role in Australian cultural life – and as a nation we expend considerable time and money supporting our most popular sporting codes.

But while the big sports – like football, swimming and cricket – attract plenty of attention and funding, other sports are sustained almost entirely by the passion and enthusiasm of a community of die-hard, grass-roots supporters.

Drummoyne Water Polo club is a great example of a community organisation that has provided generations of water polo players with access to facilities, coaching and financial support. Founded in 1904, the club – located in an inner western suburb in Sydney – hosts 27 teams, from junior and social teams to National League teams, and has recently seen some of its players compete at the Olympic level.

And at the heart of the club is a core of dedicated volunteers – and one of the most devoted is life member, and Godfrey Pembroke adviser, Neale Murphy.

From small beginnings

Born in Drummoyne, Neale has been involved in the water polo since his teens, when he joined a team at Drummoyne Water Polo club along with some of his rugby friends in 1969.

"I started playing at 15 – my sister was an Olympic swimmer, so I got dragged along to swimming pools. Then I gave swimming away and started playing water polo – which was a lot more fun!"

Neale says that at the time the club was small, with his team the only one competing at that stage.

"We were a small second division club – something which didn't change much for the next 10 to 20 years, when we all started having children," says Neale. "When our kids all started playing water polo, we started to grow exponentially."

These days the 'Drummoyne Devils' includes more than 400 members and has an extended community of 1,500 people, making it one of the largest water polo clubs in the country.

Developing the sport

Over the years, the club has introduced more than 1,300 children aged 9–14 to the sport through its Junior Development Program, sponsored by the local sailing club.

But it has also invested at the elite end of the sport, helping develop some of water polo's most promising athletes.

In the 2014/15 season, 18 of the club's players were named in Australian squads or teams, covering 44 different national representative opportunities. The club also saw three of its members (Aidan Roach, Tyler Martin and Mitch Emery) compete at the the Rio Olympic Games in the men's teams, and has just had Morgan Baxter selected into the Australian women's team.

To do this, the club has made significant investments in procuring quality coaching staff from overseas, where the level of competition is higher, and funds athletes to pursue training pathways to help them achieve their best.

"We have invested in bringing coaches from Europe – one bloke was the women's coach at the Rio Olympics. He was from Serbia, which is a pretty war-torn country – we gave him a new start in Australia."

"This has produced some very good water polo players in the club – which may not have been the case without that coach."

Making ends meet

Neale has been Treasurer of the club for the past 10 years and says that as a community organisation, funds are often tight.

"Certainly, from my point of view, the biggest challenges we face are financial – we have to generate the revenue ourselves to cover our costs. Most water polo teams are funded by universities, or by wealthy individuals associated with the team. We haven't got that – we rely on our community for support: but we're going alright."

Neale says that his financial acumen – from his more than 25 years working as an adviser – has been an asset as the club has grown.

"My background has helped on the financial side of the club. It helped us to build a sensible structure as we grew from one to 29 teams, and to deal with the financial stress that causes."

"It currently costs us around $140K a year to run the national league clubs. That's money we have to raise through social gatherings and fundraising – but the depth of the club means there are lots of players who contribute to that."

"My background has helped on the financial side of the club. It helped us to build a sensible structure as we grew from one to 29 teams, and to deal with the financial stress that causes."

For the love of the sport

Neale considers that the time and money the club and its members put into the sport is a good investment in the future.

"I like the idea of donating to young people in sport. It keeps them fit, gives them a passion, and hopefully gives them a sport they can love and keep playing for many years to come."

"It's very rewarding to see the development of our kids into the various levels they've achieved. Personally, I have three daughters who played, two still do, playing at second grade, which is a pretty fair standard."

At 62, Neale still plays himself, in a team that includes men aged from their early 20s up to their 60s.

"Therein lies the beauty of the game: you can keep playing for as long as you keep enjoying it. It's a very physical game, but the ability to be 62 and still playing … there aren't too many sports where you can do that. But you do get worse as you get older!"

Despite his love of the game itself, it's the community aspect that keeps him coming back year after year.

"It's a small sport, and very much an amateur sport, but we pride ourselves on our community, which is extremely strong. We're community based and community funded – run by the parent body and community."

"It's great watching our juniors be up there among the best in Australia – not all the time of course, but they're very competitive. And I enjoy the social life, the friendships – on Tuesday nights you always can find me at Drummoyne pool for a beer and a steak."

The moment that changed a business

For Oporto founder **Antonio Cerqueira**, it was finding the right partner. For entrepreneur **Anthony Janssen**, it was working on his business, not in it. For Girl Geek Academy co-founder and CEO **Sarah Moran**, it was backing herself. What was the moment that changed them? **Three business owners tell.**

The wake-up call

Anthony Janssen,
Managing Director,
Margaret River Hospitality Group

So pushed you have to ask your other half to drop by your workplace with your baby daughter for the only glimpse you'll have of her all week? Welcome to my life, circa 2012, says chef Anthony Janssen.

Finding himself in this position was a 'road to Damascus' moment that resulted in Janssen's vowing to stop being the 'everything guy' in his string of successful restaurants and cafes. Instead, he realised the only way his growing empire could survive and thrive would be for him to shrug off his chef's whites, step into the CEO role and allow trusted partners and staff to step up to the plate.

A newcomer to the West Australian wine-growing region in 2003 when he scored his first executive chef gig at age 21, Janssen is now the owner of popular eateries the White Elephant Beach Cafe, Morries Anytime and The Common, along with a thriving catering business.

His company, the Margaret River Hospitality Group, employs up to 130 staff in peak season and welcomes around 5000 patrons a week through its collective doors. Construction of a beachfront cafe in Dunsborough is slated to begin later this year.

"I remember many times doing a breakfast and lunch service at one venue and then racing to the next venue to do dinner," Janssen recalls.

"I guess I was young enough to cope initially but it broke me eventually.

"We had a 10-month-old baby and my wife was bringing her to the back door of the kitchen so I could see her. Anxiety set in and one morning I said to my wife, 'I can't keep going like this.' I knew I needed to find someone who could take on some of the responsibility and allow me to spend time working on the business instead of in the business."

Janssen subsequently established a partnership with Alex Brooks, an employee whose potential he'd clocked, shortly after the pair met in 2010.

"Alex was a young guy who had barely been in hospitality when he asked me for a job, but he just had an amazing attitude," Janssen says.

Brooks took a 50 per cent stake in the restaurant and cocktail bar Morries Anytime in 2012, and the success of this arrangement prompted Janssen to sell him a 25 per cent stake in a second venue two years later.

With an enthusiastic partner shouldering a share of the management burden, Janssen set about transforming his successful fiefdom into an operation that could run smoothly without his presence on the pots and pans.

Identifying up-and-comers with management potential and offering them the chance to take on greater responsibilities has been a focus.

"I put a lot of importance on leadership and training and accountability, and I have faith in our people that they genuinely want to do a good job," Janssen says.

It's a formula that has saved his sanity – and seen the company's turnover double since 2015.

"I had the choice five years ago to shrink down and take on what was more manageable for one person or look for the right people and then pursue growth," Janssen says. "For me, personally, I was still inspired to grow."

The partner

Antonio Cerqueira, Founder, Oporto

Was teaming up with a like-minded business partner the key to turning a handful of fast food joints in Sydney into a multimillion-dollar chain of 150 stores? Oporto founder Antonio Cerqueira thinks so.

His Portuguese chicken business might have remained a small-scale affair were it not for a fortuitous meeting with Gary Linz, a marketing-savvy customer who shared his vision to take the wildly popular Portuguese-style fare national.

"We started in 1986 as a family business in Bondi, and for the first nine years we had just two stores," Cerqueira says.

"I had a dream of us becoming a big franchise like KFC and meeting the right partner really helped me to kick that off. It always makes things easier if you have someone you can trust and work together with as a team.

"Gary was a regular who came to me in 1994 and said, 'I think we can go national on this and make a great business together'."

While Linz was quick to clock the opportunity to put Oporto's hot and spicy offering on the map, what was it about this particular customer that marked him as potential partner material for Cerqueira?

"Passion," he says.

"He was young, very personable, close to my age, and I just felt he was the right person to do together the things I wanted to do. I had the food, I had the operations and I needed somebody to help me prepare the business to grow and to do the franchise systems and marketing."

More than 100 stores later, the pair's partnership culminated in the sale of the Oporto chain to Quadrant Private Equity in 2007 for an offer – widely reported to be $60 million – they were unable to refuse.

"Gary and I did well together, we still chat today, we're still friends," Cerqueira says.

The crossroad

Sarah Moran, Co-founder and CEO, Girl Geek Academy

Head overseas for a high-flying marketing gig in Silicon Valley or say goodbye to the security of a monthly pay cheque and give your own sideline venture everything you've got: these were Sarah Moran's options. A year after deciding San Francisco could wait, the faith the Girl Geek Academy co-founder had in her big idea has been rewarded.

Founded in 2014 to encourage women to learn about technology, create high-tech start-ups and 'build more of the internet', the Girl Geek Academy movement hosts female-only hackathons and runs programs to educate teachers about teaching young girls to code. Popular events include MissMakesCode, billed as the world's first hackathon for girls aged five to eight.

"My four co-founders and I had all been working full time and managing Girl Geek on the side for a couple of years," Moran says.

"At the end of 2015 it got to a point where I thought, 'I keep telling people to build businesses, and I'm ready to leave Australia to work for an American company – but if I do, I won't be backing myself.'

"I'd been saying to other women, 'If you see something where there's a real opportunity for success, where people are willing to pay for it and lots of people want to do it, then maybe that's a good business idea.' Having to take my own advice was a real wake-up call!"

The past 12 months have seen Moran secure three sources of funding for the enterprise, including a LaunchVic grant to deliver a hackathon program statewide.

Girl Geek Academy has set itself the goal of impacting on the lives of a million women by 2025, both directly through seminars and hackathons and indirectly through its education initiatives.

"We've realised there is huge demand for these programs and a real desire from women to have access to fun social opportunities where they can learn technical skills and how to build businesses for the internet," Moran says.

This article was originally published in Business View, the business magazine of NAB, and is republished here with permission.

Plan ahead *for the aged care you want*

Early planning can take away a lot of the stress and uncertainty that can arise when considering aged care at home or a residential aged care facility.

Know what your options are

The first option that probably comes to mind is a residential aged care facility. These facilities provide accommodation and care depending on your personal needs. Care can range from personal care, such as help with showering and dressing, together with occasional nursing care to continuous nursing care for those with a greater degree of frailty.

What you may not realise, however, is that there are also Home Care Packages that provide access to services that can help you to stay at home for as long as possible. Support services may include cleaning, meal preparation and transport for shopping or appointments.

Start planning early

There are a number of reasons why you should plan ahead and well before the need for aged care is imminent. For example:

- in many cases, the need to move into residential care can be sudden due to a serious illness or injury (eg a stroke, heart attack, or fall), or another unexpected event
- it's not uncommon to find there are significant waitlists for residential care, particularly at the more popular facilities, and
- regardless of whether home or residential aged care is required, if you wait until the last minute to speak to a financial adviser, you may not be able to minimise the fees you may have to pay and/or maximise the social security benefits you may receive.

Visit local facilities

Whether you currently need residential aged care or not, ideally you should plan to visit a range of facilities in your chosen area as soon as possible and, you may prefer to do this with family members.

Becoming familiar with the alternatives can enable you and your family to have meaningful conversations regarding your options and make more informed lifestyle and financial decisions.

Importantly, with assistance from a financial adviser, you can:

- determine whether care in your preferred facility is affordable, and
- potentially start restructuring your assets to improve your financial position.

Assess affordability

A range of fees may be payable when accessing care services. One of the key payments when moving into residential care is the accommodation payment. This payment:

- is subject to certain limits
- can be paid as a lump sum, in regular instalments, or a combination of a lump sum and regular instalments, and
- is published on the facilities website and at myagedcare.gov.au for potential residents to consider.

The published amount will vary between facilities and, as a general rule, it will be higher for newer places because of the money recently outlaid on building or improving the accommodation, and for facilities in more affluent suburbs.

It's therefore important to ensure you will have sufficient assets to pay the accommodation payment required to secure yourself a spot in your facility of choice when the time comes, as well as cover the ongoing aged care fees and your living expenses.

Understand the trade-off

There are a range of strategies that can be used to reduce aged care fees. However, caution needs to be exercised to ensure you have enough money to afford the care you'd want. A financial adviser can help you to address this complex issue. They can also assist in many other ways, including estate planning needs in conjunction with your lawyer.

Five steps to consider *before entering an aged care home*

If the need for residential aged care is nearing, following these five steps will help you make a smoother transition.

1/ Get your eligibility assessed

Before you can enter an aged care facility and receive Government support, your health situation must be assessed by the Aged Care Assessment Team (ACAT)[1]. The assessors are generally health professionals such as doctors, nurses and social workers who specialise in aged care.

This is a free service that can be done at home or in a health centre or hospital. The purpose is to determine whether you are eligible to move into residential care, or can access a range of care services that would enable you to stay in your home longer.

More information about ACAT assessments can be found on the Australian Government's My Aged Care website: www.myagedcare.gov.au/eligibility-and-assessment/acat-assessments

2/ Find a suitable facility

Once ACAT has determined whether you are eligible for residential aged care and the care services you may need, it's a good idea to visit a few facilities. The My Aged Care website has a 'Find a Service' tool that enables you to locate and contact aged care homes in your preferred area[2].

Each facility is different, so visiting a few will help you to decide which one is the most suitable for you. Not all aged care homes will be able to meet your care needs. Also, some provide higher standards of accommodation and broader food choices, which generally come at a higher cost. These are called 'extra services' facilities.

3/ Work out the cost

While the Australian Federal Government provides some funding for residential aged care facilities, those who can afford it are expected to contribute to the cost of their care. The four different fees you may be asked to pay include:

- an **accommodation payment** – for your accommodation in the aged care facility, which may be paid as either a lump sum, regular instalments or a combination of lump sum and instalments
- a **basic daily fee** - which will usually be payable by all residents and is a contribution towards daily living costs, such as nursing, personal care and meals
- a **means-tested care fee** - which is an additional contribution towards the cost of care that you may need to pay depending on the assessment of your income and assets, and
- an **extra services fee** - which may be payable if you choose a higher standard of accommodation or additional services and it varies from place to place.

4/ Seek advice

Moving into residential aged care can be a financially challenging time. However, obtaining financial advice can help reduce a lot of the stress by helping you to:

- determine which fees may be payable
- implement strategies that could reduce your care costs and/or increase social security entitlements, and
- ascertain whether care at your preferred facility(s) is affordable for you.

In conjunction with your solicitor or other legal professional, a financial adviser can also help you to ensure your estate planning affairs are addressed. Issues that may need to be considered include the:

- selling, renting, retaining or transferring ownership of your family home
- nominating a person to maintain and/or rent your home on your behalf
- reviewing your enduring power of attorney
- reviewing your Will (including the benefits of including provisions in your Will that establish a Testamentary Trust upon your death), and
- reviewing your superannuation death benefit nominations.

1 An Aged Care Assessment Team is referred to as an Aged Care Assessment Service (ACAS) in Victoria. In this article a reference to ACAT, includes a reference to the Victorian ACAS.

2 http://www.myagedcare.gov.au/service-finders

5/ Apply for an aged care home

Once you've decided the type of care you want and can afford, and your estate planning affairs have been taken care of, it's time to apply with an aged care home. To do this, you will need to complete an application form with the relevant aged care home of your choice.

You may find that a place in your preferred aged care facility is not available. In case that happens, it may be a good idea to lodge an application with a few places and ask to go on the 'waitlist'. You can apply to as many places as you'd like and the facility will let you know if your application has been accepted.

If you are offered a place, you must be given a copy of the Accommodation Agreement before you move in. This agreement sets out the key terms and conditions and it should be reviewed by a legal professional. You must sign the agreement and decide how you will make the accommodation payment within 28 days of entering the facility.

The Department of Human Services (DHS) may also ask you to complete and lodge a 'Request for Combined Assets and Income Assessment'. DHS will then use the information to determine what, if any, means-tested care fees you may need to pay.

Next steps

If you would like to find out more about moving into an aged care home, check out the My Aged Care website myagedcare.gov.au

Setting up for *retirement success*

Q&A with **Brian Long**, Head of Retirement, NAB Asset Management

Brian, most Australians save for their retirement through our mandatory superannuation system. Do you think this will be enough?

Obviously what people want for their retirement will vary from person to person. It depends on your age, the type of lifestyle you want and the wealth you have inside and outside of super. The super system only started in 1992 at relatively low contribution levels so many older workers may have low balances which possibly won't be enough to completely fund their retirement. However, all things being equal, younger generations should arguably be in a better position to self-fund retirement at the current super guarantee rate of 9.5% which is set to rise to 12% by 2025. But the sooner they start planning, the better.

There are many views on how much you need to retire and the Association of Superannuation Funds of Australia (ASFA) suggest $545,000 if you're single and $640,000 if you're a couple[1]. However NAB recently did a survey and found most people felt they needed between $700,000 and $1.1m[2].

I don't think people should be focusing solely on their super balance. Instead I think the real question is, what lifestyle do you want? Look at your total wealth, including assets outside of super and your eligibility for the age pension.

1 ASFA Retirement Standard, June quarter 2017. Based on figures for couples and single female retirees aged 65-85.

2 MLC quarterly Australian wealth behaviour survey, MLC, Q1 2107.

3 The OECD for example suggests a replacement rate for a median income earner of 70% of final earnings. OECD Private Pension Outlook 2009.

4 ASFA Retirement Standard, June quarter 2017.

5 'Australian Life Tables 2013 – 2015', ABS.

For people with modest balances that don't have a lot of assets outside of super the Age Pension remains an important pillar in the retirement system.

And for younger people who have time on their side, the earlier they start engaging with their super, the better the outcome they could have.

So what's a good rule for how much people will need to spend in retirement?

Again, this very much depends on the lifestyle you want. In general your spending will be a percentage of the after tax earnings that you had while working[3]. There are also a few guidelines you can look at. For example ASFA believes, to be comfortable, a typical couple will need about $60,000 a year[4].

We often tell clients that, in our view, there are three broad stages of retirement, and you'll typically spend differently during each stage. Firstly there's the active stage when you first retire and you spend more because you might be renovating your house, taking holidays and being active in your hobbies. But then you settle into a simpler lifestyle where your costs are usually less. And finally you have a supported lifestyle where your expenses support your health and assisted living.

Life expectancy for women is 88 and men 85. How does this help people understand how much super they'll need, and how much income they can take each year in retirement?

People want to have a stable level of income in retirement, so being able to estimate life expectancy is really important. In the 1980s life expectancy at retirement was to about 74 years, but now, if you're a male it's 85 and 88 if you're female. If you're a couple, there's a 33% chance that one of you will live to age 94. And it's really important to recognise that 50% of people live longer than these averages[5]. So while statistics are a good starting point, you can't assume that they will necessarily transpire in your own individual circumstance.

There is also a lot of discussion at the moment on the role annuities and other longevity products play in providing income for people who expect to have long healthy lives.

A lot of people lost large amounts of their retirement savings when the global financial crisis hit 10 years ago. What advice can you give people who are planning on retiring in the next few years, to attempt to mitigate the risk of a large market fall?

It's important to keep the majority of your retirement savings invested in a diversified portfolio, as a significant amount of the income you earn in retirement is produced by your saving balance at retirement.

> *"I don't think people should be focusing solely on their super balance. Instead I think the real question is, what lifestyle do you want? Look at your total wealth, including assets outside of super and your eligibility for the age pension."*

The challenge that we have as a nation is that the vast majority of our retirement funds tend to be in account based pension products, meaning you have to estimate how much you can take out each year, while ensuring you have enough to last a lifetime. So planning becomes critical.

However, a fall in the value of your super around the time of retirement is, understandably, a retiree's biggest fear – you're not contributing anymore and you're having to take out money at the bottom of the market, forcing you to potentially crystallise losses.

Setting up for *retirement success*

Between 55 and 75 years, when your super balance is typically at its highest, it's particularly important to try to mitigate this risk and the financial services industry is working hard to assist retirees with this problem.

From an investment perspective there are a few solutions that are helpful in managing this risk. Bucket strategies aim to keep people invested when the market goes through a difficult time by having a portion of their money allocated to cash. There are products that have the flexibility to adapt asset allocation as needed.

This means your clients' investments are continually positioned to attempt to manage the risk of large losses and attempt to deliver real returns in a range of market conditions. Plus, there are products that provide a level of protection for a fee from negative returns or provide you with a stable level of income.

It's important that investors work with their adviser who can tailor these investment solutions to meet the client's specific goals. So it's best to talk to your adviser if you're worried about this risk.

Is there a single product that Australians can invest in once they retire, that will help to manage these risks you've talked about?

That's a good question, but the short answer is no. As we've discussed, everyone has different expectations about their retirement and different views on the amount of risk they're prepared to take, so there's no silver bullet. The industry is working hard to develop more longevity products (products that will give you an income for life) and better account based pensions, but I think retirement is a lot more complex and it's likely we'll see it's a combination of products that are needed to meet people's needs.

Retirement products are constantly evolving and new ones are available all the time, so I really think it's important to seek advice from a financial adviser.

"Retirement products are constantly evolving and new ones are available all the time, so I really think it's important to seek advice from a financial adviser".

Insights from a fund *manager:*

the infrastructure opportunity

Building infrastructure into your retirement plan could bring benefits – but diversification is key.

Max Cappetta
CEO, Redpoint Investment Management

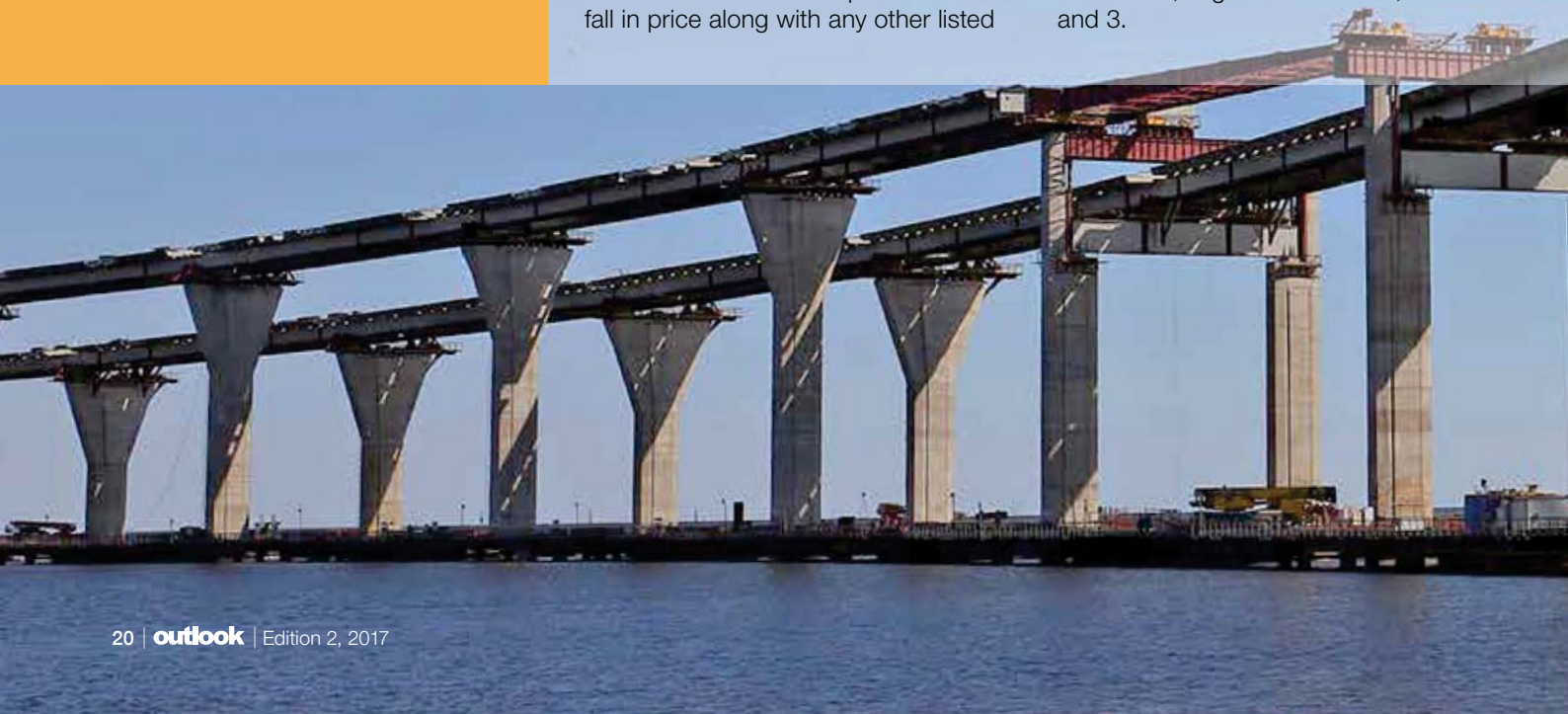
It's easy to see why more investors are including infrastructure in their retirement investment portfolio – it could deliver lower volatility and a higher dividend yield than global equities. Nevertheless, before you make any decisions about investing in infrastructure it's important to speak to your financial adviser about whether this type of investment is suitable for you. The information in this article is only of a general introductory nature.

Investing in international shares enables you to diversify your sharemarket exposure not only across a broader range of countries but also into companies and industries that are not represented in the Australian share market. Across the global economy, there is potential to invest in companies that manage core infrastructure assets or deliver essential services such as water and electrical utilities, toll road and rail transport operators and those that own gas pipeline, telephony and satellite networks. And, while you may be concerned that listed infrastructure companies can fall in price along with any other listed shares in your portfolio in moments of market stress, companies that deliver core infrastructure services that are critical to the economy exhibit key characteristics that can assist in managing this risk.

Using beta to manage your portfolio

Beta is a statistical measure of how the price of a stock moves relative to the overall market. The beta of the stock market is one, so a portfolio with a beta higher than one is likely to fluctuate more than the market. A portfolio with a beta lower than one is likely to be less volatile than the market and is broadly considered 'defensive'.

Creating a lower-risk portfolio with a beta lower than one using infrastructure is about two things: picking suitable companies and seeking a diversified mix of different infrastructure activities. A list of different infrastructure activities, their beta compared to the overall market, and how their market behaviour correlates when they are compared to each other, is given in Charts 1, 2 and 3.



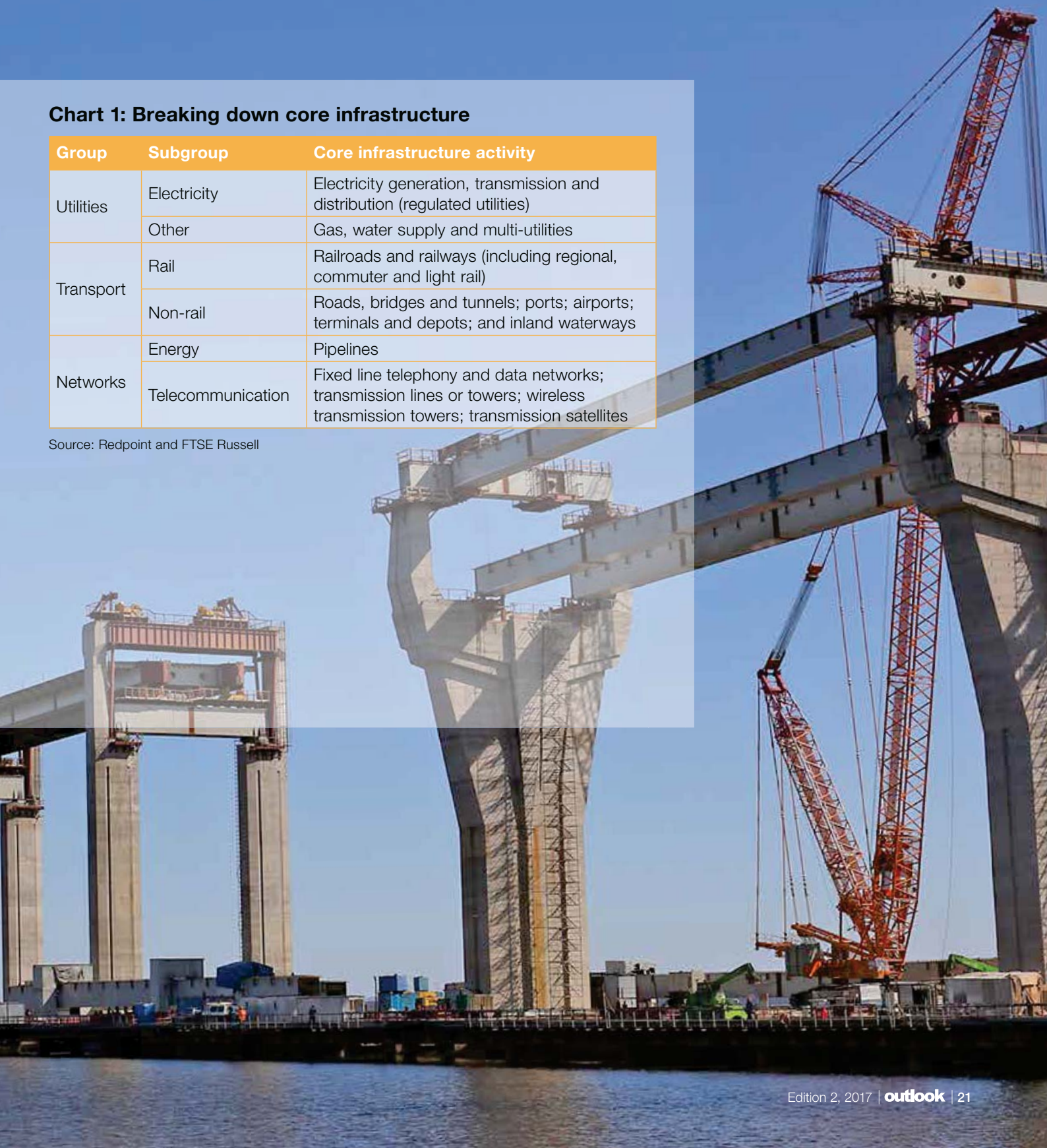


Chart 1: Breaking down core infrastructure

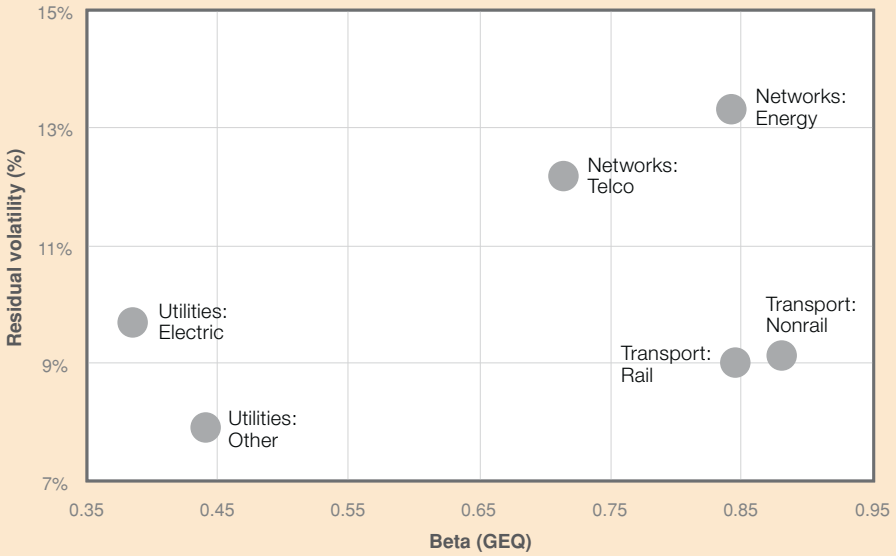
Group	Subgroup	Core infrastructure activity
Utilities	Electricity	Electricity generation, transmission and distribution (regulated utilities)
	Other	Gas, water supply and multi-utilities
Transport	Rail	Railroads and railways (including regional, commuter and light rail)
	Non-rail	Roads, bridges and tunnels; ports; airports; terminals and depots; and inland waterways
Networks	Energy	Pipelines
	Telecommunication	Fixed line telephony and data networks; transmission lines or towers; wireless transmission towers; transmission satellites

Source: Redpoint and FTSE Russell

Insights from a fund *manager:*

the infrastructure opportunity

Chart 2: Breaking down core infrastructure



Source: Redpoint, analysis period 30 November 2007 to 30 June 2016.

According to research, the subgroups of infrastructure companies shown in Chart 1 each carry distinct risk characteristics. Most infrastructure strategies deliver different levels of volatility, which can be explained by different exposures to these six subgroups.

Each subgroup has a lower beta than listed global equities in general, and so is considered to be more defensive, but they also exhibit different risk characteristics relative to each other. Chart 2 shows that the subgroup of listed Utility (U) companies has lower volatility, and a lower beta to global equities, than the subgroups of Transport (T) and Networks (N). So, while Transport and Network subgroups have similar betas to global equities, the Network subgroups are inherently riskier than Transportation.

Chart 3: Infrastructure subgroup correlations - residual returns

	U: Electric	U: Other	T: Nonrail	T: Rail	N: Energy	N: Telco
U: Electric		0.80	0.22	- 0.01	0.04	0.14
U: Other	0.80		0.21	0.02	- 0.25	0.18
T: Nonrail	0.22	0.21		0.03	0.10	0.20
T: Rail	- 0.01	0.02	0.03		0.14	- 0.00
N: Energy	0.04	0.25	- 0.10	0.14		0.33
N: Telco	0.14	0.18	0.20	- 0.00	0.33	

Source: Redpoint, analysis period 30 November 2007 to 30 June 2016.

Another way of thinking about this dimension of risk is the correlation between subgroup returns. Rather than just looking at the beta compared to the overall market, correlation compares the market behaviour of these subgroups with each other, as highlighted in Chart 3. Rather than just looking at the beta compared to the overall market, correlation compares the market behaviour of these subgroups with each other, as highlighted in Chart 3. In theory, the lower the correlation, the less similar the returns and the greater the benefits of diversification when the two subgroups are combined. For example, the negative correlation between energy networks and non-rail transport subgroups is particularly attractive.

Both Charts 2 and 3 show the volatilities of the subgroups after the characteristics common to their relationship with global equities have been removed.

Many opportunities for diversification

The differences between subgroups provide many opportunities for diversification beyond infrastructure's relationship with global equities in general. A well-diversified portfolio of infrastructure securities can take advantage of each subgroup's global equity beta, volatility and correlations to deliver a strategy with lower volatility than more concentrated approaches, and with less negative returns in periods of market stress.

One further consideration when looking at a portfolio of infrastructure securities is that passive strategies and typical active strategies tend to deliver relatively concentrated portfolios.

While popular global infrastructure benchmarks (on which passive strategies are based) appear diversified with 75, 100 or more than 150 stocks depending on the index. It is usually the case that fewer than 20 stocks represent the majority of that index due to their sheer size. Typical active strategies are usually concentrated by design, with most active managers holding far fewer stocks than any of the indices. As a result, both index and typical active strategies generally place a significant bet on the performance of just a few companies.

Diversifying across individual infrastructure companies to reduce this concentration risk can deliver better outcomes in the long term.

Investors might also want to diversify their portfolios geographically. There are well-run infrastructures in Australia and around the world and a global perspective gives investors the benefit of access to companies operating in sectors not represented on the ASX, such as satellite owners and water utilities.

Talk to your financial advisor

Well-managed companies delivering core infrastructure services across the world could be well positioned to grow as an investment for retirement savings. Everyone's circumstances are different so talk to your financial adviser about whether this type of investment is suitable for you.

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Beta is a statistical measure of how the price of a stock moves relative to the overall market. The beta of the stock market is one, so a portfolio with a beta higher than one is likely to fluctuate more than the market. A portfolio with a beta lower than one is likely to be less volatile than the market and is broadly considered `defensive'.

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