

Sector & Company Profiles
Fisher Morrison Infrastructure Fund

June 2011

EQUITIES

Sector: North American Railroad

Companies we invest in

Norfolk Southern Corporation
 Union Pacific Corporation



NSC is one the two "Class1" railroads serving the east coast of USA, while UNP is one the two "Class1" railroads serving the west coast of USA. US freight rail companies own large irreplaceable transport networks with volumes underwritten by the movement of bulk commodities. Freight charges have risen substantially above inflation in recent years as railroads exert pricing power. Increasing road-freight costs and on-going rail productivity enhancements are lowering the distances over which rail is cheaper than road. Long-term underinvestment in the US highway network has resulted in road congestion in many regions and the competitiveness of trucks has also been impacted by their relatively high labour and fuel costs and an increasing burden of environmental and safety regulations. Technological and structural improvements to railroad operations is allowing trains to run faster, cleaner and with greater reliability and allowing increased number of cars per train and carload weight.

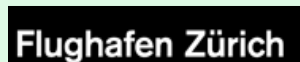
Sector: Airports (Europe and Asia)

Strong traffic growth over an extended period of time has led to significant airport congestion at European airports. Stimulated by the growth of Low Cost Carriers (eg. Ryanair and easyJet) the long term trend in the airline industry is for declining air fares. This has increased the number of destinations available as well as stimulated strong demand even in mature markets.

Development within the European Union has stimulated travel between existing EU states and those eastern European countries gaining EU membership are likely to follow this trend.

Airport pricing is generally influenced by some form of regulation which is commonly referred to as single or dual till. This refers to whether returns are regulated across the whole airports business or only aviation assets are regulated and commercial operations (such as car parks) are left to market forces.

Companies we invest in



Flughaven Wien (FLU)
 Flughafen Zurich (FHZN)
 Malaysia Airports Holdings Berhad (AIRPORT)

FLU operates the capital city airport in Vienna, Austria, with passengers of 18.1m, and is the 23rd largest passenger airport in Europe. FLU can be described as a secondary hub airport, with Lufthanza, (following the takeover of Austrian Air), the main hub airline. FLU is well positioned to take advantage of the development of eastern Europe given their catchment area including Hungary, the Czech Republic, Slovakia and Slovenia. FLU's regulator applies a light handed form of dual till regulation providing scope for earnings growth over the long run.

FHZN is the operator of the airport at Zurich, With 21.9m passengers in 2009, Zurich Airport was the 15th largest passenger airport in Europe. FHZN's primary carrier is Lufthanza considered one of the strongest European full service carrier. FHZN's regulator applies a light handed form of dual till regulation.

Malaysia Airport Holdings Berhad, owns operational concessions to 39 airports in Malaysia, 5 of which are

international - Kuala Lumpur International Airport is the largest, handling 59% of all traffic and 85% of international. MAHB also owns stakes in airports in Hyderabad, Delhi, Turkey & the Maldives. MAHB's international traffic is weighted heavily to rapidly growing Asian routes and provides a compelling investment case when this high growth is combined with the supportive airport industry megatrends (increasing GDP per capita resulting in an increased propensity to fly and growth from the low cost carriers). MAHB is currently building a new low cost carrier terminal, which will provide an increase in retail revenue on completion.

Sector: European/US Courier/Postal

Courier companies have major investment in their networks which provide strong barriers to entry, with most markets capable of having only two main providers, eg NZ with NZ Post/DHL and Freightways, US with Fedex and UPS. This was recently demonstrated in the US when DHL attempted to enter the market, but exited after 5 years with significant losses.

Companies we invest in

Fedex (FDX)



Sector: Ports

Companies we invest in



China Merchants Holdings

China Merchants operates container and cargo terminals in China's coastal regions: the Bohai Economic Zone, the Yangtze River Delta, the Xiamen Bay Economic Zone, the Pearl River Delta, and the Southwest region. It is the largest shareholder of China International Marine Container (46.5%), the biggest container manufacturer in the world, and the second-largest shareholder of Shanghai International Port Group (24.5%), the sole operator of the largest cargo port in the world. China Merchants will directly benefit from the volumetric growth in emerging markets, with management forecasting TEU CAGR of 10% till 2014.

Sector: Water

Companies we invest in



Severn Trent

Severn Trent offers attractive risk adjusted returns in the current high inflation environment (Feb RPI was +5.5% YoY). UK water utilities are regulated in 5 year price setting periods by Ofwat which provides stable predictable inflation linked cash flows and allows Severn Trent to pay strong and growing dividends. An environment of high Retail Price Index (RPI) inflation benefits the company because it drives the Regulated Capital Value (RCV) growth from which equity investors will earn future returns without additional cost to shareholders. There is no accompanying increase in net debt so all of this growth will flow through to equity valuations. The 4 listed UK water companies currently trade at slightly above RCV although recent non-control private transactions have been completed at a premium to RCV of greater than 20%.

Sector: Energy

Companies we invest in



ITC holdings (ITC)
International Power (IPR)

ITC Holdings is a regulated electricity transmission company with assets in the US. As a fully independent transmission company with rates regulated entirely by the US Federal Energy Regulatory Commission "FERC" (FERC has historically provided incentives for transmission owners to invest in the transmission grid - a premium ROE), ITC offers above average ROE and EPS growth potential coupled with below average earnings volatility. EPS growth is forecast to be ~15% over the next few years, driven by capital investment plans and the ability to earn premium returns on its investments.

International Power is the world's 9th largest generation company by gross MWs under management and twice the size of the next independent power company. It was the subject of a reverse takeover by GDF Suez EI earlier in the year and has over half of its assets in emerging markets (14% in Asia, 22% in Middle East and 16% in Latin America). These fast-growing regions have the long-term potential of convergence with developed markets through (i) growth in pricing and (ii) higher volume growth from economic activity. It is forecast that over half of IPR's EBITDA growth over the next three years will come from Latin America, which should lead to a rise in EPS. With regards to the risk generators face from changing carbon legislation, IPR has very little coal exposure and most merchant assets are clean gas, therefore comparatively it should be less affected than other generators. IPR reduced its exposure to commodity markets during the GDF Suez reverse takeover – its portfolio now is approximately 60% contracted and 40% merchant.

FIXED INTEREST

Our fixed interest investments are all investment grade rated corporate bonds. They provide exposure to the New Zealand infrastructure sector and include holdings in the following sectors and companies:

Company	Sector
Transpower	Electricity transmission
Contact Energy	Electricity generation
Genesis Energy	Electricity generation
Meridian Energy	Electricity generation
Vector	Electricity distribution
NZ Post	Postal/courier
Wellington Airport	International airport
Auckland Airport	International airport
Auckland Healthcare Services	Healthcare