A simple way of backing infrastructure

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Every so often I come across an idea so smart, yet so simple, that it makes me wonder why no one has had it before. The **VT UK Infrastructure Income** fund is one such idea. It enables you to invest across the whole infrastructure arena via just one fund.

Infrastructure as an investment area has ballooned in size in recent years – using data from Numis, I reckon that, if you take the broadest definition, infrastructure funds now hold about £14bn worth of assets, paying out £700m in dividends for an average yield across the sector of about 5% – which is what attracts most investors, I suspect.

The trouble is, it's not that easy to understand this rapidly expanding sector. It covers everything from social infrastructure, such as schools, roads and hospitals, to wind turbines, solar arrays, and student finance. It's hard enough to grasp the mechanics of funding a GP's premises, but considering the regulatory risks involved in funding wind turbines is another matter and once we get to infrastructure bond funds – well, that's altogether different again. So that's one good reason to get a competent fund of funds manager to do the work for you. Of course, there's a downside too.
There's no guarantee that the manager will do a good job of picking funds.

And funds of funds are not cheap – you're paying management fees on top of the fees charged by the underlying funds in the portfolio. So how does this new fund measure up? The "clean" share class (available on most platforms, including Hargreaves Lansdown and AJ Bell) charges 0.75% a year – not exactly cheap, not expensive either.

More than half of the portfolio is invested in energy infrastructure. Electricity and water funds, and direct stocks, form 24% of the fund, solar 19% and wind 10%. "Classic" infrastructure assets come in at 14%, with healthcare funds at 11% and transport at 6%. Individual holdings include funds such as Target Healthcare, SQN, and Bluefield SolarIncome. It also makes direct investments in Heathrow, National Grid, and SSE.

Would I sell any of my current (fairly extensive) infrastructure holdings to buy it? I have to say no – I'm not as aggressively bullish on energy assets (I'd rather they were below 25% of any portfolio). I'd need to see how smart the asset allocation process is within the fund over time. My own concern is that many of these assets are highly priced at this stage in the cycle and that premiums may snap back in the next few years.

However, the managers make a convincing argument that in fact many of these assets are undervalued, given the low interest-rate environment. And despite my scepticism, if you don't currently own any infrastructure exposure, this could be a nice, simple way of buying access to a great, defensive, income-orientated asset class. It's arguably a few years late, but it's valuable nonetheless – and it could save you a load of bother researching all the niche opportunities in this sector.

http://moneyweek.com/a-simple-way-of-backing-infrastructure/