

FRONTIER

Real Assets Quarterly

July Quarter 2019



▶ Real Assets: Frontier Advisors

We constantly monitor events in real assets markets around the globe and apply our insights to advise clients on opportunities and risks facing their investment portfolios. International trends and developments, as well as those here in our own market, continually shape our opinions around portfolio management and opportunities. This quarterly review provides our summary of recent developments concerning real assets markets globally, our current investment outlook and a round-up of transactions.

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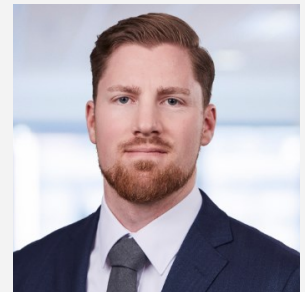
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Get smart? Investing in education

Australia is in the midst of an education boom. Between 2005 and 2018, the number of foreign students increased by more than 140%, reaching 626,988 students per annum. The country's reputation as a top-tier education provider saw the sector rise to become the 3rd largest export¹.

Increasing demand for education is not unique to Australia. The education sector is a fast-growing segment world-wide, as individuals and populations seek to protect themselves from global competition, and increasingly, automation.

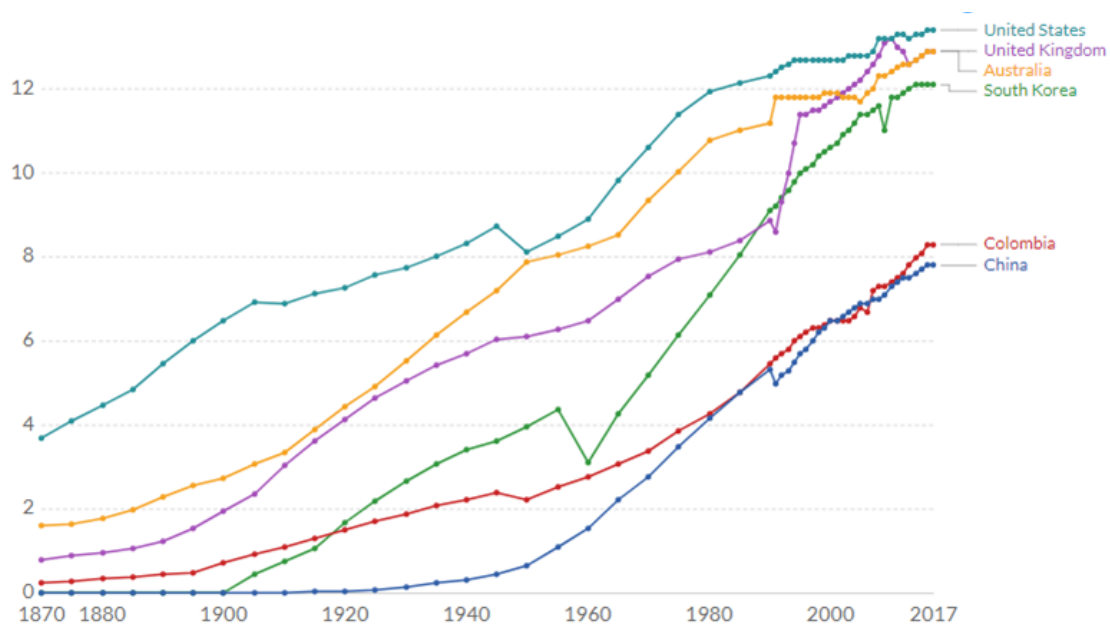
The less cyclical nature of education may also have appeal. In a recession, people often look to upskill by enrolling in a new course. The Australian government's HECS-HELP program also provides funding for tuition, meaning that domestic students can continue to enrol regardless of the economic environment.

A recession would likely result in the Australian dollar depreciating, improving the attractiveness of Australia as a destination for foreign students.

For long-term investors seeking to access less cyclical (and potentially counter cyclical) demand drivers to diversify their portfolios, while also contributing to society and the economy, investment in the education sector may have appeal. In addition, the education sector can at times offer investors long leases, backed by highly creditworthy (and sometimes semi-government) institutions. However, this is not always the case, and each opportunity needs to be underwritten on its merit.

The following sections cover two recent transactions which highlight how property and infrastructure investors are gaining exposure to the education sector.

Chart 1: Mean years of schooling



Source: Our World in Data

¹ABS

Campus turns commercial – ISPT

Seeking to reposition its brand and differentiate its offering, Victoria University (VU) sought to develop a modern “CBD HQ” facility in the heart of Melbourne. To attract innovative approaches, VU ran a market process seeking a development partner.

The opportunity was well received, with several familiar operators submitting bids (i.e. Charter hall and Plenary Group). However, drawing on its long-standing Melbourne capability and reputation as a long-term capital partner ISPT emerged as the winner.

The initial scheme comprises a 32-level, A-grade vertical campus with a total NLA of circa 25,000 sqm.

In addition, the transaction included the Former Records Office, which comprises a 4-level heritage building constructed in the early 1900’s and is currently occupied by VU Law School across 4,000sqm. No development activity is planned for this site. With an expected completion value of \$300 million, both assets will be leased to VU with a 30-year term and fixed annual rent reviews. The underwritten deal metrics expect to return a low double-digit development margin and a mid-single digit lifetime IRR. In addition, ISPT successfully bid for the former Land Titles Office (LTO), on which it is seeking to develop an additional tower.

With funding support and a push into knowledge workforces globally, well-located centres with top-tier facilities create an attractive target for investors seeking long term and robust cashflows. The key risks to ISPT are development risk, which is reduced by partnering with a tier 1 builder.

In addition, the highly specialised nature of a vertical campus creates re-leasing risk, however, this has been offset by the long tenor of the lease. Furthermore, the core CBD location should improve the appeal of the asset should VU seek to vacate.

In many respects, universities are the ultimate precinct, drawing together retail, entertainment, food and beverage. Going forward, cash-strapped universities need to think carefully about how they can meet their needs for innovation, appeal, operation and funding.

Education should be built into all major economic precincts, working with local commerce to utilise the facilities, vitality and economic output of the many stakeholders. High rise uses need to come to the fore, in dense centres, along with other types of specialised research and engineering facilities. Amenity should be provided inside the campus but also leverage resources outside of the university boundary. Crucially, this includes public transport and safe, inviting, communal space. Most importantly, nearby jobs are required for both current students and future graduates to support a vibrant ecosystem.

The ISPT Core Fund’s VU transaction demonstrates that by partnering with universities, skilled, long-term capital partners can create considered and innovative physical environments that support the success of students, universities and the broader community, while at the same time, deliver appropriate investment returns to investors. Provided development risk is managed within a fund’s investment guidelines, an emerging strategy such as this is a good fit in a core portfolio.



Student accommodation — AMP Capital Diversified Infrastructure Fund

Over 70% of Australian National University (ANU) students are from outside Canberra or overseas.

To meet the needs of its cohort, ANU developed the largest portfolio of on-campus purpose-built student accommodation (PBSA) in Australia. Historical demand for on-campus accommodation has been highly correlated with student enrolments, which averaged 8% annual growth over the five years to 2018. While a growing student population has been positive for the university, it has also created challenges in terms of finding suitable accommodation.

Infratil and the Commonwealth Superannuation Corporation acquired a 100% interest in ANU's PBSA under a 37-year concession in 2016. In 2019, two infrastructure funds managed by AMP Capital acquired 100% of the concession for \$700 million (Infratil reportedly paid \$82.5 million in 2016 and received \$162 million in 2019 for its share).

The ANU on-campus student accommodation portfolio is the largest in Australia, comprising over 4,000 beds. Under the terms of the deal, the concessionaires maintain the facilities, receiving occupancy revenues from leased beds, while ANU receives a fee for marketing and operating the accommodation. "Hard" facilities management (maintenance) has been outsourced to Spotless under a long-term contract.

There is the potential for future upside through a first right of refusal over new PBSA opportunities, while a "financing partner of choice" has been provided for non-PBSA investments (such as carparking and retail).

While the deal is reportedly expected to provide a low double-digit return and is underpinned by a healthy cash yield, there are risks that must be considered. The key risk is patronage risk; changes in student numbers and preferences can directly impact revenues. The experience of student housing providers at Canberra University demonstrates that this is a real risk. However, a 10-year history of 98.5% occupancy, combined with the continued growth of the student base, provided AMP Capital some comfort that this risk was minimal. In addition, limited off-campus private PBSA (<2% of supply) and a competitive rental market at record low vacancy, combined with ANU's in-place rents being priced below market, reduced the risk from existing competition. Further, contractual protections regulate new supply of on-campus PBSA.

Provided these risks can be suitably managed, AMP Capital's ANU transaction highlights infrastructure investors can gain thematic exposure to secular growth in the education sector to achieve long-term, inflation-linked cashflows and deliver robust performance for members.



²Infrastructure Investor

Property

Index performance to 31 March 2019

	1 Year			Total returns						Index composition		
	Income	Capital	Total	3 Yr (%p.a.)	5 Yr (%p.a.)	10 Yr (%p.a.)	15 Yr (%p.a.)	20 Yr (%p.a.)	25 Yr (%p.a.)	Assets	Capital value \$m	Weight %
All property - Australia	5.4	3.9	9.5	10.9	11.5	9.7	10.4	10.5	10.4	1,444	194,121	100
Retail	5.3	-0.2	5.1	8.1	9.4	8.9	9.9	10.6	10.5	508	81,544	42
Office	5.3	7.2	12.9	13.0	12.8	10.0	10.6	10.1	10.0	357	84,792	44
Industrial	6.1	7.4	13.8	11.8	13.2	10.7	10.6	11.0	11.7	378	19,076	10
Other (inc. hotels)	6.5	2.8	9.4	13.9	15.1	12.8	12.4	-	-	201	8,708	4
Retail— Australia												
Super/major regional	4.7	-0.3	4.4	7.7	8.2	8.2	9.6	10.4	10.3	66	41,052	21
Regional	5.7	-0.9	4.8	7.2	8.8	8.9	10.1	10.3	10.1	30	7,884	4
Sub regional	6.1	-2.1	3.9	7.5	9.8	9.0	9.9	10.9	10.8	97	13,756	7
Neighbour- hood	5.8	-1.6	4.1	8.1	10.5	9.4	9.5	10.8	11.1	73	3,722	2
Other	5.7	2.9	8.7	10.5	12.0	10.5	10.8	-	-	136	11,507	6
Office - Australia												
Premium grade CBD	5.3	6.6	12.3	11.5	12.0	9.7	10.8	10.2	9.9	60	27,230	14
Grade A CBD	5.2	7.8	13.4	13.9	13.0	10.1	10.7	9.9	9.8	125	36,840	19
Grade B CBD	5.6	3.8	9.5	15.6	14.7	10.4	11.3	10.9	10.2	34	3,697	2
Non-CBD	5.6	7.6	13.6	13.1	13.1	10.3	10.2	2.4	2.8	133	16,936	9
Industrial - Australia												
Warehouse	5.8	7.5	13.7	11.8	14.8	11.7	11.5	11.5	12.0	144	5,746	3
Distribution	6.1	6.8	13.3	11.5	12.2	10.5	11.0	11.3	11.3	133	8,334	4
Industrial estate	6.3	8.5	15.3	12.9	13.2	10.2	9.6	10.8	11.4	24	1,679	1
International												
IPD UK All Property	5.1	0.4	5.5	6.8	9.9	9.7	6.9	8.0	6.2	N.A.	N.A.	N.A.
IPD Europe Ex -UK	4.0	4.6	8.8	8.7	8.2	6.2	6.7	N.A.	N.A.	N.A.	N.A.	N.A.
NCREIF US NPI	N.A.	N.A.	6.8	7.1	9.1	8.5	8.8	8.9	9.4	N.A.	N.A.	N.A.
REITs												
S&P/ASX 300	N.A.	N.A.	25.9	10.2	14.9	15.3	6.0	7.4	7.5	N.A.	N.A.	N.A.
FTSE EPRA GREIT \$A (H)	N.A.	N.A.	16.2	6.9	9.2	15.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Bloomberg, MSCI, NCREIF. Note: IPD Europe ex-UK updated to 31 December 2018

Infrastructure

Quarterly transaction overview

Region	Transaction	Sector	Transaction Size (m)	Vendor/ grantor	Acquirer	Comment
Asia	East West Pipeline	Energy	USD 1,892	Reliance Industries	Brookfield	A 1,400km gas pipeline in India.
Australasia	NSW Regional Rail Fleet (Greenfield)	Transport	AUD 1,101	NSW Government	DIF Infrastructure Fund V, CAF, CIMIC	Designing, building, financing and maintaining a new train fleet for 15 years.
Australasia	Property Exchange Australia (PEXA)	Digital Infrastructure	AUD 1,604	PEXA	Link Group, North Haven Infrastructure Partners II, CBA	First electronic property settlement business in Australia.

Infrastructure

Quarterly transaction overview (cont.)

Region	Transaction	Sector	Transaction Size	Vendor/grantor	Acquirer	Comment
Europe	Vortex Energy 497MW Wind Portfolio	Renewables	EUR 400	EFG Hermes	JP Morgan	998MW portfolio of pan-European onshore wind farms.
Europe	Proxiserve	Utility	EUR 600	Latour Capital, Proxiserve	Mirova Core Infrastructure Fund II, Asterion Industrial Infrastructure Fund	French heating and metering business.
Europe	Wales and Borders Rolling Stock (Greenfield)	Transport	GBP 674	Welsh Government	Equitix Fund V, SMBC	The project includes launching a new integrated transport network, the South Wales Metro.
Europe	Tampnet Sale	Telecomms.	EUR 800	EQT	Arbejdsmarkedets Tillægspension (ATP), 3i Infrastructure	Owner and operator of the world's largest offshore fiber-backed communication infrastructure network.
Europe	VTTI Acquisition	Midstream	USD 975	Buckeye Partners	IFM Global Infrastructure Fund, Vitol	Owner and operator of marine storage terminals for oil and refined products globally.
Europe	Elizabeth Line Rolling Stock Sale	Transport	GBP 1,060	Transport for London	SMBC, RBS, Equitix Fund V	Sale and leaseback over 20 years of 70 trains on the new Elizabeth line in London, UK.
Europe	Eolia Renovables de Inversion	Renewables	EUR 1,300	Cowen and Company, Oaktree Capital	AIMCO	Sale of a Spanish wind and solar developer which owns a net 669MW of 38 operating wind and solar assets.
Europe	HES International Sale	Energy	EUR 1,300	Riverstone Holdings, The Carlyle Group	Macquarie European Infrastructure Fund V, West Street Infrastructure III, GIC	One of Europe's largest independent bulk handling companies with terminals in the Netherlands, France, Belgium, Germany, the UK, and Poland.
Europe	Altice French Fibre Business SFR FTTH	Telecomms.	EUR 1,700	Altice	AXA Investment Managers, IST3 Infrastruktur Global, Allianz, OMERS	Second largest fibre optic network in France.

Infrastructure

Quarterly transaction overview (cont.)

Region	Transaction	Sector	Transaction Size	Vendor/grantor	Acquirer	Comment
Latin America & Caribbean	Ascenty Data Centers	Telecomms.	USD 613	Digital Realty Trust	Brookfield Infrastructure Partners	Operator of a 4,500km fiber optic network and 14 data centres.
North America	Tunnel Hill Partners	Environmental	USD 350	Tunnel Hill Partners	MIP IV	Waste management company with two landfills, 14 transfer stations, two recycling facilities, one burial site and a collection company.
North America	Hill Top	Power	USD 726	Hill Top Energy	ARES-EIF	620mw natural gas-fired power plant.
North America	KKR 1,192MW Renewable Portfolio Investment	Renewables	USD 757	Nextera	KKR Global Infrastructure Investors III	Koint venture with Nextera to finance the acquisition of 1.19 GW portfolio of US renewable operating assets.
North America	Kodiak Gas Services	Midstream	USD 1,000	The Stephens Group	EQT Infrastructure Fund III	Texan firm which provides provides compression equipment and services to the oil and gas industry.
North America	AT&T Data Centers	Telecomms.	USD 1,100	AT&T	Brookfield	18 internet data centers in the US and 13 outside the US.
North America	Northwest British Columbia Hydro Electric Facilities	Renewables	CAD 1,390	AltaGas Power Holdings	Manulife, Axiom Infrastructure	Hydroelectric generation facilities in British Columbia.
North America	Wheelabrator	Renewables	USD 3,200	Energy Capital Partners	MIP IV	US-based energy from waste platform with 25 assets.
North America	Tallgrass Energy	Midstream	USD 3,213	Energy & Minerals Group, Kelso & Company	Blackstone Infrastructure Partners, Enagas, GIC	A midstream energy infrastructure company operating across 11 states with transportation, storage, terminal, water, and gathering and processing assets.



About Frontier Advisors: Frontier Advisors is one of Australia's leading asset consultants. We offer a range of services and solutions to some of the nation's largest institutional investors including superannuation funds, charities, government / sovereign wealth funds and universities. Our services range from asset allocation and portfolio configuration advice, through to fund manager research and rating, investment auditing and assurance, quantitative modelling and analysis and general investment consulting advice. We have been providing investment advice to clients since 1994. Our advice is fully independent of product, manager, or broker conflicts which means our focus is firmly on tailoring optimal solutions and opportunities for our clients.

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