WHITE PAPER

INSTARAGF
the POWER of ALTERNATIVES

INFRASTRUCTURE INVESTING:

A DISTINCT ASSET CLASS

THE INFRASTRUCTURE OPPORTUNITY

Infrastructure is a fundamental aspect of society that connects businesses, communities and people, helping to support economic growth and quality of life. However, investment in essential infrastructure in North America and globally is failing to keep pace with current and expanding needs. According to the Organisation for Economic Co-operation and Development (OECD), more than US$50 trillion of investments in infrastructure is required by 2030, which is equivalent to 2.5% of global gross domestic product (GDP) per annum.[1]

InstarAGF believes the most attractive markets for investment in infrastructure combine growth potential and high levels of investment with lower risk environments that feature economic stability, business efficiency, and more predictable regulatory and legal frameworks. The North American market is appealing for these reasons. Further, the North American market has experienced robust and growing deal flow in the last few years across infrastructure categories, including the energy, utilities and transportation sectors, comprising operating assets and greenfield opportunities.[2]

The need for increasing infrastructure investment in North America is well documented. We believe the private infrastructure opportunity in this region is sizable, growing and supported by macro factors such as the historical underinvestment in infrastructure, increasing urbanization, demographic shifts and the limited funding available from traditional government sources to meet burgeoning infrastructure investment requirements. With governments in North America and throughout the OECD facing sustained fiscal constraints, private investors have an unprecedented opportunity to fill some of the huge gap created by public-funding shortfalls.

FIGURE 1: The Infrastructure Asset Class

ECONOMIC INFRASTRUCTURE			SOCIAL INFRASTRUCTURE
TRANSPORT	ENERGY AND UTILITIES	COMMUNICATIONS	SOCIAL
• Toll roads • Bridges • Tunnels • Airports • Mass transit	• Electricity networks • Power generation • Renewable energy • Water and sewage • Gas networks • Energy storage • Energy infrastructure	• Cellular towers • Cable networks • Satellites	• Hospitals • Schools • Courthouses • Other institutional buildings

BENEFITS OF INVESTING IN INFRASTRUCTURE[3]

Essential infrastructure assets are facilities and structures that provide vital community services, including transportation networks, utilities, power generation, and water distribution systems, among others. The critical nature of the services delivered by these assets means there is consistent demand for them throughout the economic cycle, giving infrastructure investments a defensive quality. Further, the services provided by these infrastructure assets cannot practicably be delivered through any other means and operate in environments where there are high barriers to entry, such as planning restrictions, license requirements, availability of land, or the high capital costs of new infrastructure development. As a result, these assets have a strong competitive advantage that cannot easily be replicated.

[1] *Infrastructure to 2030: Telecom, Land Transport, Water and Electricity*, Organisation for Economic Co-operation and Development, 2011.
[2] Preqin Special Report: Infrastructure Transaction Activity, Preqin Ltd., 2014.
[3] Our views and referenced studies do not represent financial product or investment advice. Investors should make their own determination as to the suitability of the infrastructure asset class.

FIGURE 2: Attributes of Essential Infrastructure

Strong credit or off-take qualities	Regulated, contractually defined or long-term concession structure
Stable and predictable cash flows	Cash flow typically linked to measures of economic growth
Long-term capital appreciation	Sustainable competitive advantage due to natural or contractual barriers to entry
Long duration	Long-life assets that provide essential services in demand throughout the economic cycle.

InstarAGF believes infrastructure investments have the ability to offer investors an attractive investment profile.

Essential infrastructure assets are typically regulated or contractually defined or operate under a concession agreement, all of which are frameworks that tend to have embedded pricing formulas or revenue escalators that increase in line with inflation. This common characteristic of such assets, along with the essential nature of the services they provide, tends to effectively insulate cash flow from macroeconomic impacts. Further, essential infrastructure assets are often perpetual businesses, such as an electrical or water utility, or have contracted life spans of 25 or more years, resulting in steady, long-term cash flow that helps to mitigate duration risk. For these reasons, the infrastructure asset class can be especially appealing to institutional and pension fund investors, particularly in a time of potentially rising inflation and interest rates.

With long-life cash flow and inflation protection characteristics, we believe the infrastructure investment class is a compelling alternative to fixed income and equity investments, particularly for investors with long-dated liabilities. Several studies have demonstrated that infrastructure assets may have a relatively low correlation with other asset classes, thereby delivering portfolio diversification benefits and the opportunity for enhanced long-term, risk-adjusted returns.[4]

FIGURE 3: Infrastructure Has Exhibited Relatively Low Correlation with Other Asset Classes (July 2000 – September 2015)

	US Equities	Non-US Equities	Global Bonds	REITs	Commodities	Hedge Funds	Inflation-linked Bonds	Private Equity	Global Infrastructure	Canadian Equities	Cash
US Equities	1.00										
Non-US Equities	0.87	1.00									
Global Bonds	0.10	0.33	1.00								
REITs	0.62	0.62	0.29	1.00							
Commodities	0.31	0.43	0.22	0.17	1.00						
Hedge Funds	0.67	0.76	0.26	0.48	0.51	1.00					
Inflation-linked Bonds	0.00	0.12	0.69	0.23	0.23	0.23	1.00				
Private Equity	0.85	0.89	0.23	0.73	0.40	0.74	0.12	1.00			
Global Infrastructure	0.66	0.80	0.43	0.60	0.41	0.69	0.28	0.70	1.00		
Canadian Equities	0.80	0.82	0.25	0.53	0.58	0.79	0.17	0.79	0.67	1.00	
Cash	-0.16	-0.10	0.05	-0.07	0.00	-0.01	0.04	-0.18	0.05	-0.07	1.00

[4] *Can Infrastructure Investing Enhance Portfolio Efficiency?* Credit Suisse Asset Management, May 2010.

[5] Please see the Section "Information Regarding Performance" at the end of this paper for a description of the indices used as proxies for the asset classes in Figure 1.

As Figure 3 illustrates, listed infrastructure has a relatively low correlation to bonds and real estate. While there appears to be a higher correlation between infrastructure and equities, this analysis relies on a listed infrastructure index as a proxy for unlisted infrastructure where there is limited performance data. It is reasonable to expect unlisted infrastructure investments to have a lower correlation to equities. As a result of how infrastructure blends the characteristics of fixed income, real estate and private equity, and given its relatively low correlation to other asset classes, we believe infrastructure can meaningfully diversify investors' portfolios and potentially improve overall risk-adjusted returns.

While investing in infrastructure is not without risk, these risks are typically more readily identified and can often be mitigated. Revenue risk, for example, is mitigated through long-term contracts. Political risk is managed by investing in familiar and stable jurisdictions. Interest rate risk can be managed through limited use of short-term debt. Our experience is that a balanced portfolio diversified by infrastructure category, asset lifecycle and geographic location generally delivers consistent, non-cyclical returns and recurring yield to investors.

GROWING INVESTOR ALLOCATIONS TO INFRASTRUCTURE

Infrastructure is increasingly prominent in institutional portfolios. In 2014, the average current allocation of institutional investors in infrastructure increased to 4.3% from 3.5% in 2011, while the average target allocation grew to 5.7% from 4.9%. Approximately two-thirds of investors polled by Preqin in 2014 planned to increase their infrastructure allocation over the long term.[6] Moreover, investors are allocating capital to infrastructure at a greater pace than other alternative asset classes such as private equity or real estate. Overall, InstarAGF believes investors will continue to be drawn to the infrastructure asset class for its low correlation with other asset classes, portfolio diversification benefits, and its ability to enhance the overall efficiency of a portfolio while improving return per unit of risk.

ABOUT InstarAGF

InstarAGF Asset Management (InstarAGF) is a wholly owned subsidiary of InstarAGF Inc., a joint venture of Instar Group Inc. (Instar) and AGF Management Limited (AGF). Instar is an independent alternative asset management firm founded by Gregory J. Smith. AGF, through its investment management subsidiaries, serves institutions and individuals internationally with approximately C$32.4 billion[7] in assets under management. InstarAGF was formed to invest in and manage high quality alternative investment products, focusing primarily on North American infrastructure, with the goal of delivering sustainable and attractive returns to investors.

InstarAGF typically focuses on contractually defined or regulated essential infrastructure assets, which include facilities, structures and services in the power, civil, utilities and social infrastructure categories.

FIGURE 4: InstarAGF's Infrastructure Investments

Billy Bishop Toronto City Airport Passenger Terminal

- Acquired terminal alongside local and international partners
- Essential infrastructure for the Greater Toronto Area that is a driver of economic growth for the region and supported by strong market fundamentals
- Expected to generate long-term, contracted cash flow that escalates in line with inflation

ZED Wind Power Projects

- Acquired two wind power development projects in British Columbia totaling 30 megawatts of capacity with construction scheduled to commence in 2016
- Projects awarded 40-year electricity purchase agreements with BC Hydro
- Expected to generate long-term, contracted cash flow that escalates in line with inflation

[6] 2015 Preqin Global Infrastructure Report.
[7] As at September 30, 2015.

INFORMATION REGARDING PERFORMANCE

Historical data is from the period July 2000, when the Macquarie Global Infrastructure Total Return Index commenced producing data, to September 2015. Asset class data was modeled using the following indices:

- **US Equities:** S&P 500, a value-weighted index published since 1957 of the prices of 500 large-capitalization stocks in the United States.
- **Non-North American Equities:** MSCI Daily Total Return Gross EAFE, a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets (excluding the United States and Canada).
- **Canadian Equities:** S&P/TSX Composite Total Return Index, a free float-adjusted index that has been viewed as a leading indicator of market activity for Canadian equity markets since 1977
- **Global Bonds:** JP Morgan Global Aggregate Bond Total Return Index, which measures the total return from investing in developed government bond markets (Australia, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Spain, Sweden, the United Kingdom and the United States).
- **Commodities:** S&P Goldman Sachs Commodities Total Return Index, a composite index of commodity sector returns calculated primarily on a world production-weighted basis and representing an unleveraged, long-only investment in commodity futures that is broadly diversified across the spectrum of commodities.
- **Hedge Funds:** Credit Suisse Hedge Fund Index, the industry's first asset-weighted hedge fund index comprised of data representing more than 4,500 hedge funds.
- **Inflation-Linked Bonds:** Barclays US Inflation-Linked Bond Index, which measures the performance of the US Treasury Inflation Protected Securities (TIPS) market, which includes TIPS with one or more years remaining maturity with total outstanding issue size of $500 million or more.
- **Private Equity:** LPX50 Listed Private Equity, a global index that consists of the 50 largest liquid listed private equity companies covered by LPX Group.
- **Global Infrastructure:** Macquarie Global Infrastructure Index, an index designed to reflect the stock performance of companies within the infrastructure industry, primarily those engaged in the management, ownership and operation of infrastructure and utility assets.
- **Cash:** USD 3-month LIBOR, a filtered average of rates charged by banks for unsecured, 90-day loans to other banks.

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Investment in the InstarAGF Essential Infrastructure Fund involves certain significant investment risks, including risks of loss of capital or the entire investment or other amount of capital. No assurance can be given that the Fund will achieve its investment objectives.

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