Steady Investment returns

Infrastructure as an asset class is a relative newcomer to the investment world and was greeted some years ago with scepticism. Infrastructure assets are roads, railways, ports, airports, telecommunications facilities, electricity generation, gas or electricity transmission or distribution, water supply or sewerage, and hospitals. And of course energy production in Australia has been in the forefront of the news lately. Research done recently by Amp Capital's Shane Oliver shows that infrastructure has become the steady returner for retiree's. Oliver has demonstrated that out of the past fifteen years Infrastructure has been the best performing asset class four times.

Generally speaking, in order for a security to meet the infrastructure definition, its underlying business must provide a service that is essential to the efficient functioning of a community. It must also generate cash flows that are not subject to external risks such as commodity prices or bear any sovereign risks.

When dealing with retirement funds the prime goal is to endeavour to invest in assets that provide an income stream and this is where infrastructure really comes into its own as most of the return is usually paid out as income distributions.

Long term investing also needs to have growth assets taken into account to keep ahead of inflation over time, and these are typically made up of Australian and International shares. Looking at the average balanced fund in the market reveals that a portfolio is usually between 40% and 50% of these assets.

So when considering infrastructure as an investment Oliver considers that, on the risk scale, it only sits one notch higher than long term bonds yet shows a significantly higher return. If you haven't got any of this asset in your retirement portfolio maybe it is time to review your investment strategy, particularly for larger portfolios.

Key message: diversification is also a bit like the magic of compound interest. Infrastructure funds could be something to consider in that diversification. Having a well-diversified exposure means your portfolio won't be as volatile and this can help you stick to your strategy when the going gets rough.