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Dear AvSuper member

RARE Infrastructure manages your investment in global listed infrastructure. The principal infrastructure assets we invest in provide predictability of revenue across economic cycles due to regulation on long term contracts.

We are pleased to provide below the market and portfolio commentary on global listed infrastructure and our view on emerging markets as it affects infrastructure given recent volatility.

Market Commentary

The RARE Infrastructure Value Fund was up 6.2% over the three months to 28 Feb 2011, outperforming its benchmark (+1.6%). Developed market equities were the outstanding performers, with S&P 500 +13% and Europe rebounding +14%. Political tensions embroiled the Middle East and North Africa (MENA), leading to change of Governments in Tunisia then Egypt, and continued unrest in Libya and Saudi. While the equity weakness has, for the most part, been isolated to the region, oil prices rallied hard over the quarter on supply concerns (WTI +13.6% to $96.97). Inflation concerns and asset price appreciation in China led to several policy tightening measures over the period, with Shanghai ending the quarter +3%. Over the entire period, MSCI EM (+0.5%) underperformed MSCI World by 9.1%.

Portfolio Commentary

Over the three months, Toll Roads (+240bps contribution), Electric (+211bps contribution) and the Gas sector (+108bps contribution) outperformed. High conviction stocks we topped up on weakness during November, Vinci (Toll Road, Europe) and Abertis (Toll Road, Europe), both rebounded strongly over the period (+18%). Seaports (-18bps contribution) and Railway (-4bps contribution) were the weakest sectors amongst the portfolio stocks. DP World (Seaport, Global) was weak on regional political tensions and concerns over global trade with rising inflation, despite Middle East & Africa (ex-UAE) only being ~8% global capacity. All America Latina Logistica (Rail, South America) was also weak ahead of upcoming regulatory announcements. We are confident in our positions in both stocks, strengthened by recent management meetings with both over the period, and have been adding to the positions on weakness.

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Emerging market weakness – a time to selectively top up

RARE's guiding philosophy is to invest in companies in both developed and emerging markets, with cash flows backed by a strong regulatory or contractual framework that provide strong revenue and cash flow. As such the fund can go up to a maximum 25% invested in emerging market infrastructure and utility companies. Specifically to the quarter to Feb 28, much focus of global markets was on the emerging economies, and we also found the most attractive company-level opportunities in the EM space over the period.

Brazil (-0.5%) and Shanghai (3%) unperformed the MSCI World (9.6%) substantially, due to inflation concerns (China, Brazil), political tensions (Middle East), policy responses (China) and substantial Global Emerging Markets Fund & ETF redemptions. We believe several of our portfolio stocks got caught in the wave of Emerging Market selling, and selectively added new names (Beijing Enterprises) and topped up existing positions (DP World & All America Latina Logistica). Beijing Enterprises owns Beijing Gas, which has over 3 million connected households, and also owns Water and Toll Road assets.

On a macro level in emerging markets, we see two major trends – one internal and one external:

- Internally, many of the central banks are "behind the curve" in terms of interest rate rises to constrain inflationary pressures. They are caught between raising rates (and making their markets look more attractive for "hot money" out of the developed markets) and utilising other measures like bank reserve & provisioning requirements and currency constraints to manage the amount of money flowing into & circulating in their markets. This transition from loose monetary policy to tighter monetary policy causes volatility in equity markets, however, is generally short lived.
- Externally, many global investors in developed markets are beginning to find new "recovery related" opportunities in their home markets and are repatriating capital from the emerging markets

The expected short term nature of the monetary policy rebalancing and the benefits to emerging markets of a recovery in the developed markets provides some unique opportunities for RARE to selectively increase its weighting to emerging market stocks. The main risk to this thesis is whether the current political upheavals in the MENA remain isolated to that region, as markets remain concerned about the potential for it to spread. The key indicator for the crisis is the price of oil (WTI is +13.6% for the last three months and still rising in March). A spike in energy prices could derail the recovery underway in developed markets.