

## RM Alternative Income

Infrastructure

### Introduction

The VT RM Alternative Income fund invests in a diversified, liquid portfolio of globally listed securities and offers investors exposure to real assets whilst seeking to deliver an attractive and stable income returns.

[Click here to read the RM funds approach to ESG investing.](#)



### Why RSMR Rate this Fund

- This is a real assets focused fund that seeks to generate a meaningful income for investors
- The team have access to proprietary tools to monitor the variables that impact the underlying assets' ability to generate income
- The fund uses a strong core/satellite approach to ensure income target can be met whilst generating some growth
- The fund is run by an experienced team in the alternative assets space in listed, unlisted and advisory areas

### Fund Process

The managers begin with a macro assessment to understand the economic landscape and where economies may be in their respective cycles. The macro analysis will drive some of the investment decisions as the underlying assets will have certain characteristics that inform the payment mechanism i.e. demand based assets will generate income based on demand, and an expansionary economic environment is beneficial to demand based assets, whilst availability-based assets generate income upon completion of the asset irrespective of the demand. Consideration is also given to whether the counterparty that is fulfilling the income on the assets is a company or a government, as the credit profiles differ between them. The team then overlay their ESG screen and screen out sectors which are not compliant with their Responsible Investment policy.

The managers will meet with the management teams of investee companies and /or the board of the company and seek to understand the capability of the management team, how income is generated and how it can repay its debt obligations whilst also being aligned with the fund's income mandate. Cash conversion and free cash flow become dominant themes as this is how dividends are distributed.

The portfolio construction phase includes work on the liquidity profile of the underlying stocks and how this interacts with the fund's overall liquidity level.

Core positions in the fund are determined by the cash yield of the stock, which should be aligned with the fund's target. Total return objectives should be similarly aligned with the fund's target. Core holdings will have position sizes that are larger, whilst satellite positions are smaller based on the volatility of the stock. Satellite holdings may have a more secular dynamic to them and may not fully meet the income requirement but could contribute via growth in the share price.

### Evaluation

The fund could be affected by a period of rising interest rates impacting infrastructure assets, however there is a broad mix of investments within the fund and mechanisms to offset the potential reduction in valuations. The manager could move to more economically sensitive areas in the market to benefit from stronger economic growth.

This is a low volatility fund and should be viewed in the context of its asset class as opposed the headline indices. The fund could lag the wider markets in momentum driven equity markets and will experience more volatility when there are broad-based market sell offs.

The fund's volatility has been lower than that of markets and it pays a yield ahead of the UK market. There is active monitoring of positions in the fund and as the investable universe grows the team are partaking in IPO's and follow on issuance as a means of alpha generation and to keep costs down.

### Application

The fund can be used as a core holding for those seeking exposure to the alternative assets area. The low volatility profile and its income generation mean it can also be used within income mandates. Income is paid quarterly to holders and there is capital growth potential within the fund.

### Our Opinion

The team are highly experienced in the alternative assets space, with the managers having a history of structuring, managing and advising in private credit, real estate and infrastructure assets as well as working on corporate credit desks at large multinational banks. This experience shines through when talking with the managers about their assessments of alternative asset companies, their understanding of a business's cashflow profile, its debt obligations and the wider environment that could impact it. The team have the benefit of a proprietary software tool that can inform them of the productivity in electricity generation for their renewable energy assets, the volume of traffic on toll roads for demand led assets etc.

The team have demonstrated their ability to meet the income targets set for the fund and have been able to grow the fund over the early course of its life. The managers are highly experienced in the space having spent time in trading and advisory roles. The group's wider capabilities in debt structuring also helps them to assess the environment for real assets, understand the commercial property market and find secular growth themes within distribution, all of which has aided performance.



#### **Important Notice**

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