

July 30, 2007

ECONOMIC INDICATORS

CANADA

	Dec. 2006	June 2007	
GDP ⁽¹⁾	2.7	2.1 ⁽²⁾	↘
CPI ⁽¹⁾	1.6	2.2	↗
Unemployment	6.1	6.1	-

UNITED STATES

	Dec. 2006	June 2007	
GDP ⁽¹⁾	2.9	1.8 ⁽³⁾	↘
CPI ⁽¹⁾	3.2	2.7	↘
Unemployment	4.5	4.5	-

(1) Year-over-year % variation

(2) April 2007 (3) June 2007

Sources: Statistics Canada, U.S. Dept. of Commerce, U.S. Dept. of Labor Statistics.

EQUITY INDICES

% Change	2007 in local currency	2007 in C\$	
S&P/TSX	6.5	6.5	↗
S&P500	2.9	-6.4	↘
NASDAQ	6.1	-3.4	↘
NIKKEI	0.3	-8.4	↘
S&P 350 Europe	4.3	-1.5	↘

PARKYN
WERMENLINGER
LAYTON
CAPITAL INC.

INFRASTRUCTURES AT THE CROSSROAD

Infrastructure investing is not a new topic for the Economic Pulse. In a previous edition (“Infrastructures: The Four Ingredients of Success”, April 2006), we reviewed the reasons for pension fund interest in this asset class and the key factors driving investment success. One factor worth mentioning is “cash flow capturing”. For example, institutions such as OMERS and Caisse de Dépôt typically take these assets private instead of passively buying shares in the public market. By controlling entities completely, they can direct them to pay out all their operating profits, therefore capturing the assets’ cash flow. This strategy has two advantages. It provides these institutions with the income they need to cover pension payments. It also removes the earnings from the hands of corporate managers, avoiding the risk of unprofitable reinvestments.

But cash flow capturing is not exclusively reserved for large pension funds. Up until last year, many infrastructures such as power plants and pipelines were packaged and sold to the public in the form of income trusts. These entities pay out most of their profits, due to a tax exemption on distributions to shareholders. But the federal government’s Tax Fairness Plan unveiled in 2006 changed all that. The new rules will remove this tax exemption benefit for all income trusts with the exception of REITs, starting in 2011.

As is often the case in politics, solving one problem has created a new one. We agree that the possibility of massive conversions of large corporations into income trusts was a real threat to the country’s tax revenues. But income trusts were a boon for retirees (especially those who don’t have a defined-benefit pension) who need investment income, in times of sustained low interest rates.

In our view, Canadian public infrastructures are at the crossroad of three trends: 1- Many infrastructures are in a poor state and need to be rebuilt; 2- Provincial and municipal governments lament endlessly about their lack of financial resources; 3- Retirees and pension funds are hungry for high and stable income investments. Granting a REIT status to roads, bridges, power plants, water treatment facilities and other selected infrastructures would set the table for a privatization of many public assets through IPOs. While retaining the power to regulate rates and capital maintenance, governments could use the proceeds from the sales to pay back part of their debt and reduce their (large) interest costs. Even better, they would not have to fund the maintenance of these assets, which would be handled by...their users. It would provide our country’s infrastructure rebuilding effort, a huge challenge, with plenty of capital. But equally important, it would provide thousands of retirees with a more decent portfolio income.

Raymond Kerzérho, Director of Research



This article is provided for your information. Conclusions and opinions given do not guarantee future events or performance. Facts and data provided are from sources we believe to be reliable, but we cannot guarantee they are complete or accurate. This article is not intended to provide legal, accounting or tax advice and should not be relied on in that regard. Before making an investment or adopting an investment strategy, each investor should review his investment objectives with his financial advisor. PWL Capital and individuals and companies who are related may, at any time, buy or sell securities that are hereby described in this newsletter as a market maker or a broker.