

## TRANSPORTATION

### RAIL CAR LED INVESTING

#### Strengths:

- To accrue operating and cost efficiencies, rail car operators increasingly prefer to lease rail cars as opposed to making a direct purchase
- Leasing affords flexibility, ability to focus on core competencies as opposed to pursuing an expensive-labour intensive-integrated approach of managing and servicing a railcar fleet
- Contractors can offer the most cost-effective and flexible options in the business
- Ability to monetise rail assets, whilst keeping cars in the fleet (eg. sale-leaseback arrangement)

#### Weaknesses:

- The railroad industry is not immune to economic cyclicalities

#### Opportunities:

- Freight transportation by rail is cleaner, requires less energy, is less susceptible to traffic congestions
- The need to transport both traditional and modern fuel resources -coal, renewable and bio fuels; timber; metal and mining resources (partially ties-in with the commodity boom cycle currently underway), commercial, manufacturing and other goods etc, is on the up tick
- Based on a recently revised forecast by the US based Economic Planning Associates:

"demand for rail cars will remain on solid footing for a number of years to come"

The optimism is anchored in the need to replace/modernise fleet, stay abreast with technological advances and comply with legislation (greenhouse)

#### Threats:

- Global GDP growth slows considerably/slides unexpectedly - depression

#### Risk Management:

- Need to deal with derailment, accidents, natural disaster recovery, track remediation, switching installations and turnout issues
- Ability to optimise fleet revenues

#### Skills:

- Ability to offer competitive, high quality rail car leasing and management services
- structured financing expertise

#### How it works:

For example Trinity Rail's leasing team has financing and leasing experts that help customise financial structures (fleet purchase and leasebacks, joint ventures or partnerships)

Examples of some leases they offer (short-term or long term)

##### • Full service lease:

- is a comprehensive lease structure that includes full maintenance, makes property tax payments and handles railroad damage claims.
- it also provides rental abatement while the car is non functional; needs operating repairs.

##### • Net Operating Leases

- Trinity Rail receives a monthly lease payment from the client, and the latter is responsible for maintenance and administering the cars
- receives no rental abatement for cars that are out of service

##### • Per Diem Leases

- one of the most flexible lease structures offered, provides equipment to customers free of rental fees
- revenue is derived from the railroads' usage based on time/mileage on their lines

#### Some leading players:

- Trinity Rail, US – (Trinity's Railcar Leasing and Management Services Group)
- BNSF Railway, US
- Babcock & Brown Rail Management (BBRM), Australia – railcars
  - Joint railcar leasing venture established with Greenbrier
  - Eurorail - locomotives and railcars - joint venture with HBOS

#### Investments:

structured products, transportation and infrastructure funds that allocate to the railroad industry, pvt equity, equity and debt