

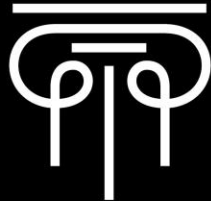
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# Infrastructure's inflation hedge is real, yet misunderstood

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Portfolio  
Construction  
**Forum**

# **INFRASTRUCTURE'S INFLATION HEDGE IS REAL, YET MISUNDERSTOOD**

## A Hedge means....

Protecting against financial loss or other adverse circumstances

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The long-term tailwinds for infrastructure investing are intact, and its role in a portfolio enhanced

# Why Listed Infrastructure?

## Listed infrastructure has the potential for:



### Significant Growth

Secular growth story  
Sovereign fiscal constraints  
Competition for capital  
underpins allowed returns  
Infrastructure driver and  
outcome of economic activity



### Stable Cash Flows/ Dividends

Cash flows underpinned  
by regulation or  
long-term contracts



### Inflation Hedge

Revenues are often  
linked to inflation

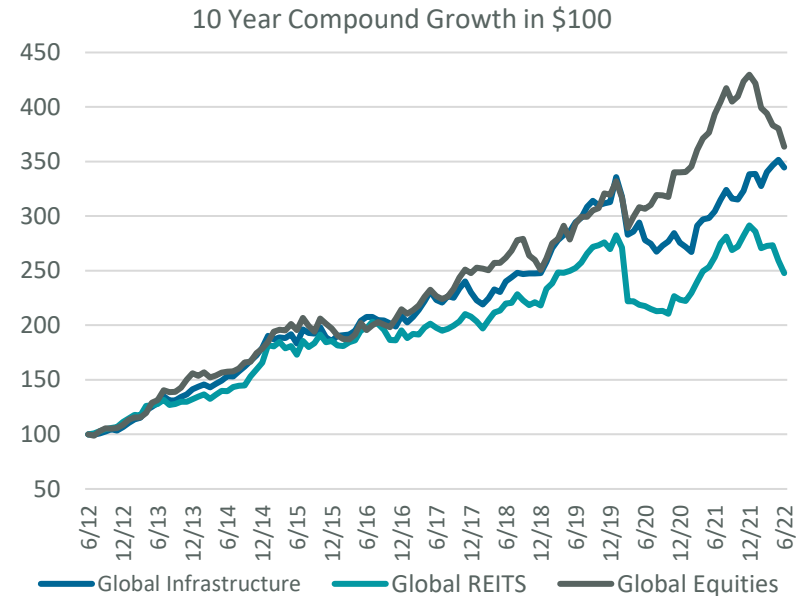
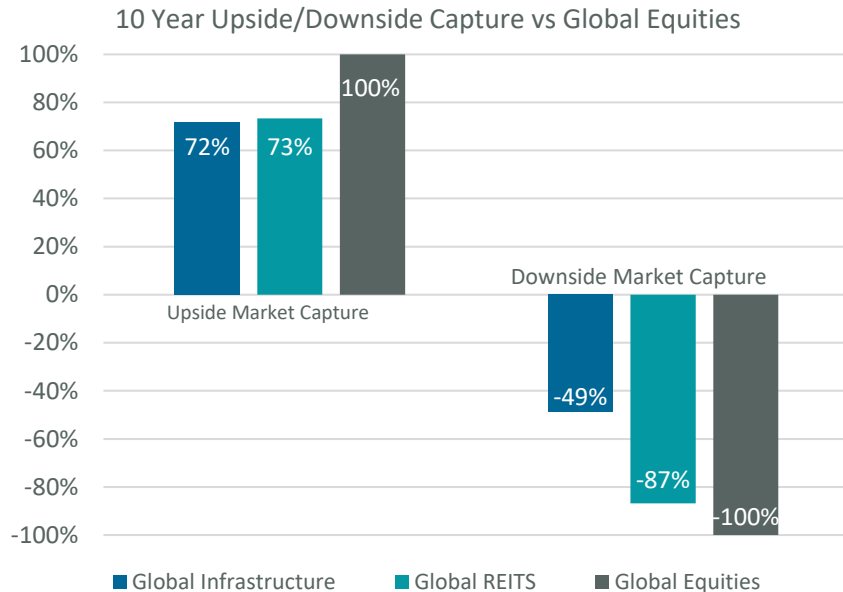


### Diversification

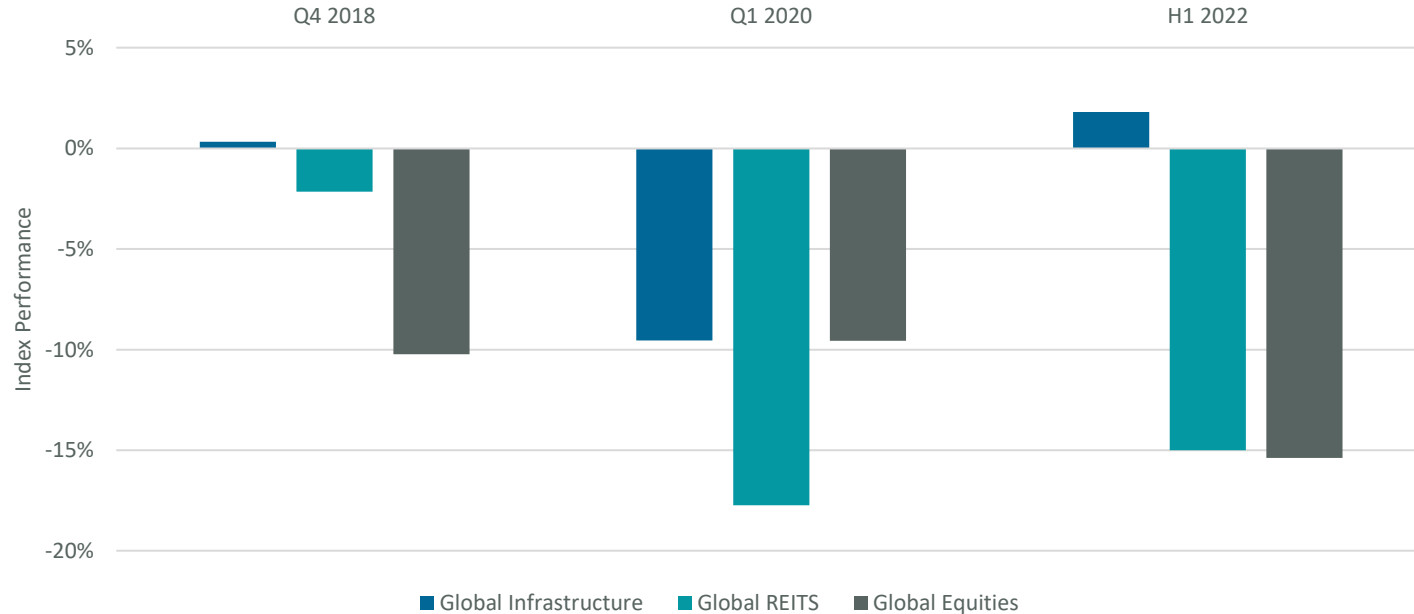
Low correlation to most  
major asset classes  
Attractive upside and  
downside beta

# Asymmetric Return Profile

## Leads to Compounding Returns Over Time



# Greater Stability in Volatile Markets



# Infrastructure's Inflation Hedge is Real, but Misunderstood

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The Essential Nature of Infrastructure Assets and  
Pricing Mechanism Creates a Unique Inflation Hedge

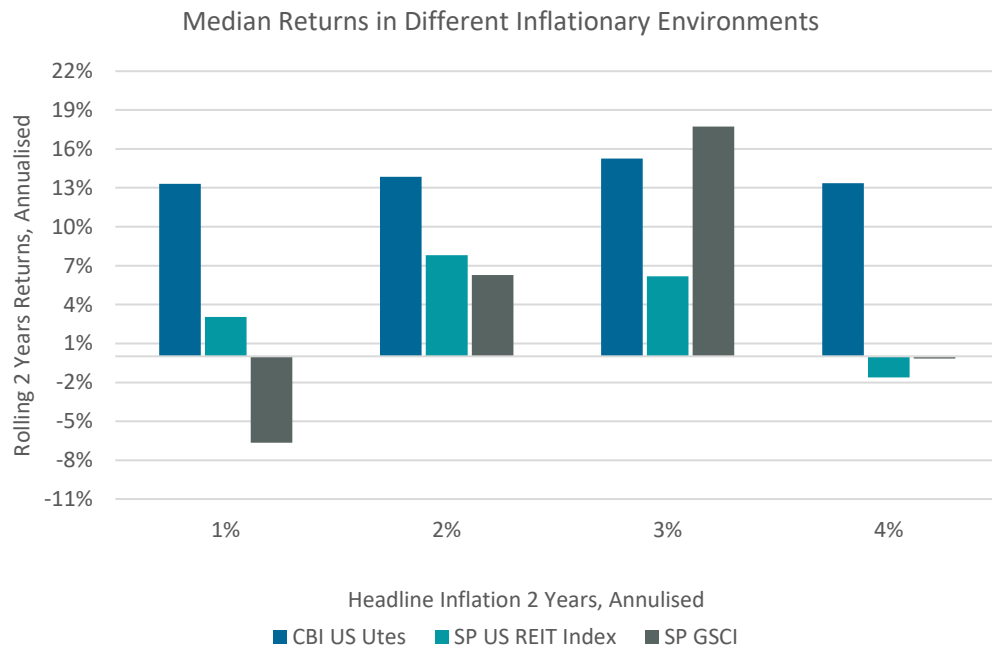
# Infrastructure is Unique as an Inflation Hedge

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	Infrastructure	REITS	Commodities
<b>Pricing Mechanism</b>	Regulation Concession	Supply & Demand	Supply & Demand
<b>Market Structure</b>	Monopoly/Oligopoly	Competitive	Competitive
<b>Demand/Volume Volatility</b>	Low	Moderate	High



# Not All Inflation Hedges Are Equal



## Inflation <4%

- ❖ CBI US Utilities perform in a tight band
- ❖ Commodity performance rises with inflation
- ❖ REIT performance increases from low to moderate inflation

## Inflation 4%+

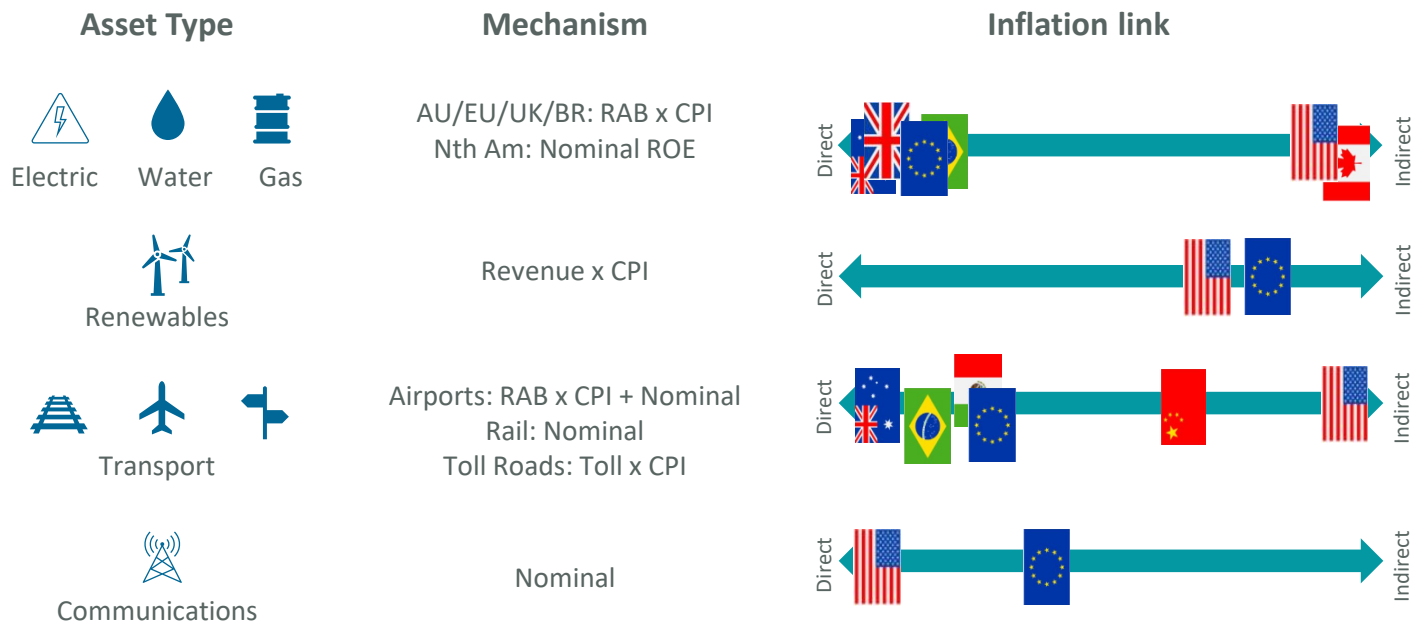
- ❖ CBI US Utilities continue to perform in a tight band
- ❖ REITS and Commodities performance deteriorates

# Infrastructure's Inflation Hedge is Real, but Misunderstood

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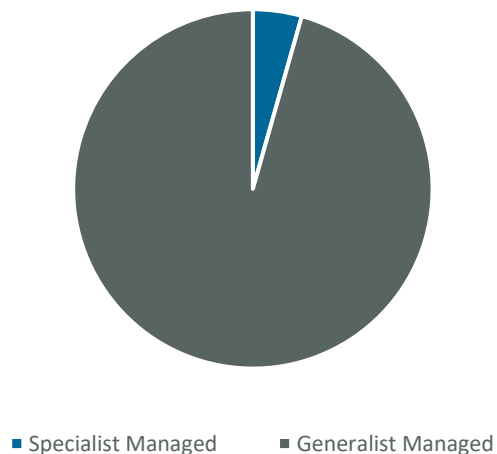
Inflation Protection is Common, but Mechanisms  
Vary.....creating active opportunities

# Inflation Pass Through Varies By Asset and Region



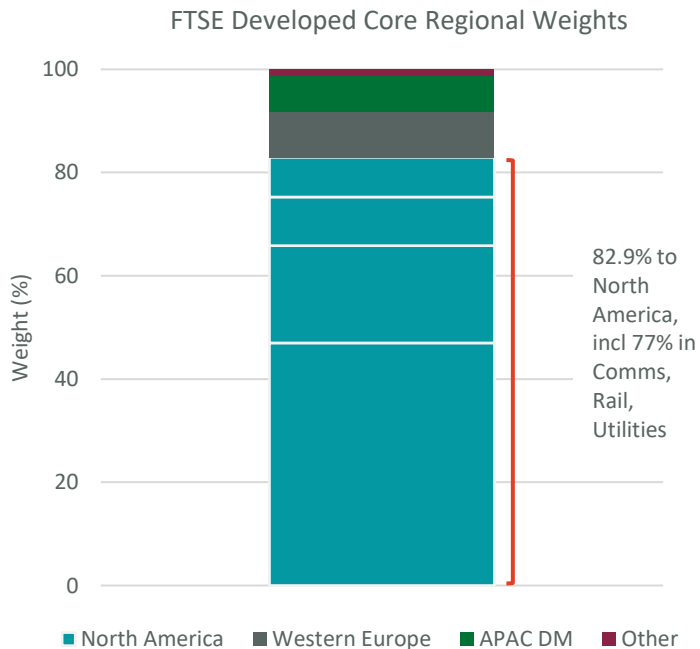
# Specialist Knowledge Provides an Active Advantage

Listed Infrastructure Market Cap Ownership



Case		Infrastructure Performance
'22-'23	Market Expectations	<i>Declining growth and inflation</i> Positive for utilities (rate base growth, good ROEs). Rotation away from economically sensitive infra
Rec	Recession & Low Infl	<i>Low/negative growth, low inflation</i> Bond yields lower. Utilities shine with strong earnings growth. Infra will disappoint
Hot	Running Hot	<i>High growth, high inflation</i> Bond yields much higher and will weigh on utilities. Fed response will be critical. Infra will rocket
Stag	Stagflation	<i>Low growth, high inflation</i> UK/EU utilities do well, infra mixed. Negative real yields support real assets

# Passive = Concentrated Regional and Sector Skews



## 134 Names but Limited Exposure to Key Opportunities

Renewables:	0%
Transport ex-Nth Am:	5.5%
Utilities ex-Nth Am:	8.8%

# Themes and Opportunities Ahead

## Listed Infrastructure is a Secular Growth Story



### Decarbonisation

- ❖ Clean Energy: contracted renewables
- ❖ Decarbonisation: deployment of renewables, retirement of hydrocarbon emitting generation, strengthening of networks and a move towards cleaner fuel sources such as hydrogen - Global utility exposure
- ❖ Beginning and facilitating a transition - selected energy infrastructure



### Global Utilities

- ❖ Portfolio simplification
- ❖ World leaders in clean energy
- ❖ Compelling valuations on an excess return or other market metrics such as PERs or DYs



### Recovery

- ❖ Roads recovering fastest as lockdowns ease
- ❖ Rail driven by an economic recovery as mobility improves in the U.S. and Europe
- ❖ Airports more of a slower burn to recovery, 2-4 years



### 5G Evolution

- ❖ Significant carrier capex required to improve and “densify” cellular networks
- ❖ Listed tower companies primary beneficiary



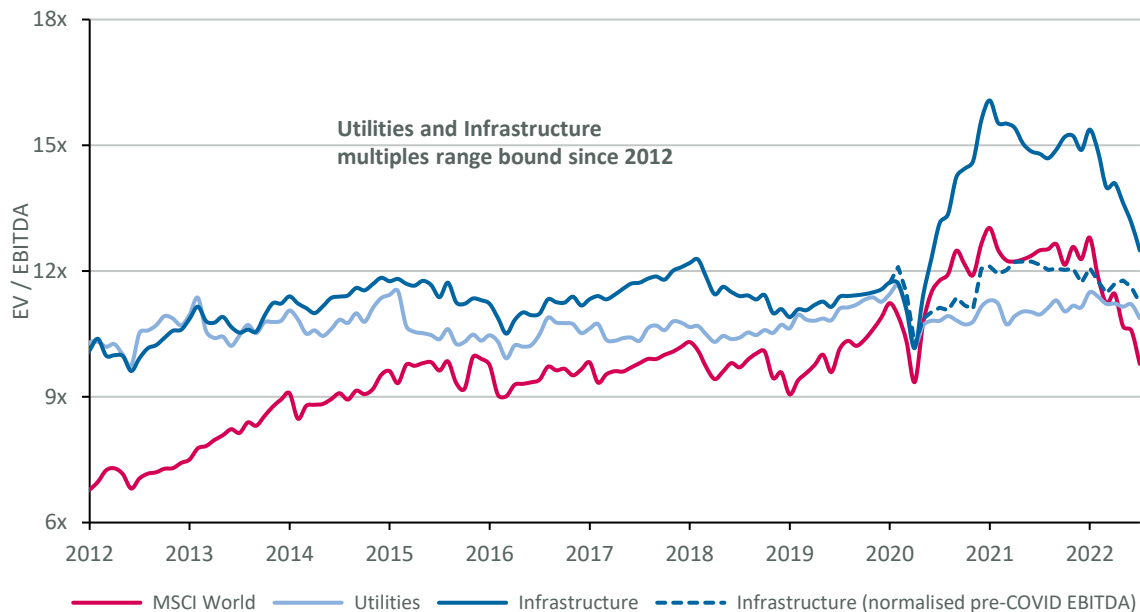
### Listed & Unlisted Valuation Divide





- ❖ U.S. \$300bn of unlisted “dry powder” paying a premium for listed assets, showing the attractiveness of listed infrastructure

# Valuation

## Market not factoring in Growth Rates or Lower Cost of Capital

EV / EBITDA - Historical trend using FY1 EBITDA



-  **Increased Asset Base Growth**
  - Utility investment to address climate change & net zero emissions
-  **Infrastructure Recovery**
  - Normalisation from eased mobility restrictions
-  **Lower Cost of Capital**
  - Lower for longer yields
  - Public policy support
-  **Inflation Protection**
  - Ability to pass through macro economic changes

# Infrastructure's Inflation Hedge is Real, but Misunderstood

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- 🎯 Inflation will not derail traditional infrastructure drivers
- 🎯 The path to NZE provides additional growth to an already defensive, attractive asset class
- 🎯 Infrastructure's inflation hedge is unique, but definition matters
- 🎯 Specialist knowledge and active management is key to enhancing infrastructure returns

## **Investigate further**

[Inflation, Rising Rates and their Impact on Infrastructure Paper](#)

[Protect Your Portfolio Against Rising Inflation Video](#)

[Q2 2022 Valuation Pack](#)



# Conclusion

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So if Infrastructure's **inflation hedge is real**, yet misunderstanding creates **opportunities**

What should the Infrastructure weight be in your portfolio?



**The Future Ain't What It Used To Be. Infrastructure's Role In a Portfolio is Enhanced**

# **INFRASTRUCTURE'S INFLATION HEDGE IS REAL, YET MISUNDERSTOOD**



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