Roundtable

Listed Infrastructure

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Moving into the spotlight

Investors are beginning to discover the merits of listed infrastructure – both relative to its unlisted cousin and in its own right. Andy Thomson meets with five leading players in the space

When unlisted fund manager iCon Infrastructure closed its latest fundraising on its €800 million hard cap earlier this year after just three months in the market, it was a testimony to the high regard in which the firm is held by the investor community. It was also, however, indicative of something else: the weight of capital which is trying to force its way into the unlisted infrastructure space, but is finding limited opportunity to do so.

It means that some blue-chip unlisted managers are able to raise the capital that they are targeting very easily and quickly. Furthermore, and less satisfactorily, it means that many investors are finding it hard to get the exposure to infrastructure that they would like.

And this is where listed infrastructure – arguably the less celebrated cousin of its unlisted counterpart – comes into the picture. "Deploying capital in core infrastructure is increasingly a challenge as the suite of opportunities in the unlisted space is not growing at the same

"It's an education process that listed infrastructure should be a core part of the infrastructure exposure" **Anagnos**

rate as the capital wanting to get into the space," says David Bentley, a portfolio manager for Tailored Portfolio Strategies at Sydney-based RARE Infrastructure.

"As a result," he continues, "investors are forced to accept significantly lower returns or they have to go up the risk curve. Alternatively, they are starting to think about infrastructure debt or listed infrastructure."

SEEK AND YE SHALL FIND

Bentley is one of five listed infrastructure experts who have gathered in London at the behest of *Infrastructure Investor* to discuss the listed infrastructure opportunity, as well as its challenges.

Jeremy Anagnos, a senior global portfolio manager at CBRE Clarion Securities, agrees that listed infrastructure offers a risk/return profile of the type that investors may be looking for but may not necessarily find in unlisted infrastructure:

"You need to make sure you are getting the returns you are seeking," he maintains. "People talk a lot about private equity-type infrastructure investments, which can have a higher risk profile and not necessarily offer core exposure. It's an education process that listed infrastructure should be a core part of the infrastructure exposure,

AROUND THE TABLE

Jeremy Anagnos, CBRE Clarion Securities
Anagnos is a senior global portfolio manager, a member of CBRE Clarion Securities' global investment policy committee, and leader of the global infrastructure team and investment strategy. Prior to joining in 2011, Anagnos served as co-chief investment officer of CB Richard Ellis investors' securities team responsible for portfolio management of global real estate securities, separate accounts and funds.

David Bentley, RARE Infrastructure
As senior investment analyst and portfolio manager for tailored portfolio strategies, Bentley is responsible for the development and management of RARE's Tailored Portfolio Strategies (TPS), which includes the management of separate portfolios, client servicing and reporting for TPS clients. He is also responsible for the valuation and analysis of UK water stocks. Prior to joining RARE in 2013, Bentley was an investment manager at the Future Fund.

Giuseppe Corona, AMP Capital
A portfolio manager/analyst, Corona is based in AMP Capital's London office and leads coverage of infrastructure companies in Europe. He has over 15 years' global experience in the financial industry, and five years' experience in portfolio management across long only and long/short products. Prior to joining AMP Capital, Corona spent two years with a European equity research house as a senior equity analyst covering multi-utilities and infrastructure companies.

Craig Noble, Brookfield Investment Management
Noble is CEO and chief investment officer of Brookfield Investment Management as well as portfolio manager for Brookfield's global infrastructure securities business. Based in Chicago, Noble oversees all aspects of portfolio management and business development related to the firm's public equity and credit securities investment strategies. Additionally, Noble is a portfolio manager for the firm's global infrastructure securities platform, which he has led since its inception in 2008.

Tony Roper, InfraRed Capital Partners
Roper joined InfraRed in 2006 and is one of InfraRed's managing partners. He is responsible for the teams that advise the three brownfield infrastructure investment vehicles (HICL Infrastructure Company Limited, The Renewables Infrastructure Group Limited, and InfraRed's unlisted Yield Fund). He is also responsible for asset management. He has over 20 years' infrastructure experience and has been involved in the PPP sectors in the UK, Europe and Australia.

as it's difficult to get the exposure you want on the unlisted side. Listed infrastructure allows you to diversify across core sectors and avoid the j-curve, development and higher leverage associated with private equity infrastructure."

Bentley adds: "You have to ask yourself what real value unlisted managers are bringing to running a utility, for example. As you go further up the risk curve, I understand there is a role for operational added value which demands a private equity approach with a fee structure to match. But, at the core level, we can find very well run companies for good prices and for fees of well less than 100 basis points – half what's paid in the unlisted space."

One of the difficulties of obtaining allocations to listed infrastructure can be that investors struggle to know which particular 'bucket' to allocate from. Should it be part of the equities exposure, or part of infrastructure – or something else entirely? "You do get sent up and down the corridor," says Tony Roper, a director at InfraRed Capital Partners. He recalls that, back in 2009, capital for listed social infrastructure was even coming from the cash allocation in one instance.

'GOOD UNDERSTANDING'

Craig Noble – chief executive officer, chief investment officer and portfolio manager at Brookfield Investment Management – says that, from his experience, interest in listed infrastructure from institutional investors is accelerating. "There is generally a good understanding in the marketplace of the way listed securities are valued and investors appreciate the liquidity offered by these investments. We've seen a real pick-up in demand and in understanding over the last few years," he says.

Noble does not argue for the supremacy of listed infrastructure over unlisted, as Toronto-based parent company Brookfield Asset Management offers both listed and unlisted infrastructure products and believes equally in the merits of both.

Giuseppe Corona, a portfolio manager in AMP Capital's Global Listed Infrastructure division, believes a more meaningful comparison for listed infrastructure is not with unlisted infrastructure but with global equities.

He says: "The cash flow characteristics of infrastructure equities are more defensive versus global equities. We have looked at how infrastructure has performed since 2000. When global equities plummeted, we found that the fall in infrastructure stocks was much less steep. So, especially during periods of volatility, people should have part of their global equities exposure in infrastructure."

Says Noble: "There is a very broad representation of the investor universe that is seeking to invest in listed infrastructure – retail, foundations and endowments, corporate and state pensions among them."

He adds that these investors are attracted by characteristics such as defensiveness and low volatility relative to global equities or other global indices, cash flow stability, and high barriers to entry. As a result of these qualities, he maintains, there has been a meaningful shift toward listed infrastructure as an alternative to traditional debt or equity investments.

"You also have the ability of management teams to extract extra growth," continues Noble. "So it's about income but it's also about growth – and that often gets overlooked. Listed infrastructure really sits between global equities and fixed income and shows attributes of both."

> "The advisers think retail investors can understand infrastructure and get their heads round it more than, for example, aircraft leasing" **Roper**

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"From our point of view, it's an aggregation play," says Roper. "We buy direct investments and investors gain exposure to those through a listed infrastructure fund such as HICL or TRIG, and that approach is essentially attractive to retail investors. Their advisers have been steering them to alternatives but they have limited choice in terms of where to put their money. The advisers think retail investors can understand infrastructure and get their heads round it more than, for example, aircraft leasing."

DIVERSIFICATION

Anagnos says listed infrastructure has most appeal to small and medium-sized pension plans and those that are coming afresh to the asset class. "You can get exposure to the core segment without researching specific managers. You have to bear in mind that some of the pension fund teams are not very large and therefore with limited resources welcome the opportunity to get diversification and exposure to multiple sectors, together with liquidity when you need it."

Roper agrees that listed infrastructure is "an easy entry point for a first-timer".

This begs the question regarding the opportunity set when it comes to UK pensions, which are large in number but generally small in individual size. Would they not be natural investors in listed infrastructure?

"The UK pension market is quite different to Australia which is dominated by seven or eight huge pensions," notes Bentley. "In the UK there are a lot of relatively small funds, around £2 billion to £10 billion in size. They're not quite of the scale to go direct. So, for us, that should be a real opportunity."

"We were courting a UK local authority which made its first allocation to listed infrastructure this year," adds Roper. "They want yield, low correlation to equities and liability matching."

Corona maintains that listed infrastructure could be "a replacement for fixed income but also a liquid alternative to unlisted infrastructure. The likes of IFM and Future Fund have been increasing their exposure to the listed market due to the scarcity of assets and high valuations on the unlisted side. Plus, they are able to deploy their money quicker."

EDUCATION PROCESS

With many UK pensions employing consultants to advise them on their investment choices, talk then turns to the issue of whether there is sufficient education regarding the benefits of listed infrastructure. "Consultants are increasingly aware of our sector and realise that yielding, listed infrastructure is right for some clients, where previously they had only been thinking in terms of capital gain or unlisted funds," says Roper.

"Here [in Europe] infrastructure is now a big thing," adds Bentley. "The education is better and there's pragmatism about the best way to do it. People looked at infrastructure a few years back and some went down rabbit holes paying a lot for utilities and now they are having a re-think about the best approaches to the market which should lead to some productive conversations over the next 12 months."

"You do get challenged on whether it's a good time for the asset class," says

Bentley. "There is a view that because infrastructure is popular, it must be expensive – and in parts of the unlisted space that is certainly the case. But in reality the listed market is still very fairly valued, especially relative to bonds and unlisted transactions. Also, you shouldn't necessarily try to time something that has a 15 or 20-year duration. That's a bit of a mug's game."

"There is an education issue, which is that people often use traditional valuation metrics that are not applicable to infrastructure," Corona points out.

MEASURING UP

However, fund managers in the unlisted space can only go so far in demonstrating the merits of their product. When it comes to benchmarking, the lack of available information is something of a bugbear. "People have a certain perception of what infrastructure investing should provide but unfortunately there is a lack of data to prove that it is indeed meeting that expectation," claims Anagnos. "We are, however, getting closer to being able to make meaningful comparisons," he adds.

One obvious comparison, of course, is over the returns being targeted. "We look at the cash flows of target assets and ask whether the returns look attractive given the current market environment," says Bentley. "The answer versus global equities is usually yes. Our belief is that 10 to 12 percent over the long term is a good return. If you are expecting returns of 15 to 20 percent, it won't happen. Regulators don't allow you to make those kind of returns over the longer term and will inevitably do something to curtail them."

"Our equity returns are in the upper single to low double-digit range," adds Corona. "Back in 2009, it was mid-double digit. There has been a re-rating over the last five years but if you can still deliver 8 to 12 percent, that's quite good. You can get those returns, despite sometimes having an inefficient capital structure with a low leverage ratio."

One thing that may alter the playing field somewhat for infrastructure investors is what happens with interest rates. "In the short term there is a question about interest rates and it's a valid question," says Noble.

He adds: "But rates have been low for a long while and will not suddenly step up. We expect any increases to be more gradual, over an extended period of time. Furthermore, we [Brookfield] have a product that invests across listed real asset investment opportunities – including listed infrastructure, REITs, natural resources equities and real asset-related fixed income. Depending on the environment, we can allocate across this investment universe to optimise the balance of yield and growth.

"For example, listed infrastructure typically makes up between 10 and 50 percent of this product. Today, infrastructure represents 35 percent, while fixed income is at the lower end of the range. This allocation will change from time to time, which provides us with significant flexibility to take advantage of opportunities we identify based on our expectations for the market environment."

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WALL OF CAPITAL

The conversation then moves on to the subject of competition – a hot topic in the unlisted infrastructure space given the perceived wall of capital and relatively scarcity of opportunities to invest sensibly.

In the listed space, insists Bentley, "you'd have to have a huge weight of capital to move the needle on valuations. There is more than enough supply of assets. Indeed, the listed infrastructure space could grow strongly and we would still not be fighting with each other for opportunities."

"The size of the investable universe continues to grow," observes Noble, "which is a function of a maturing asset class. We are seeing governments selling stakes in infrastructure and spinouts of infrastructure assets from diversified corporations."

Roper says that, for InfraRed's listed funds – which invest directly in the assets – "the scarcity of assets in social infrastructure is more of a challenge, but we have succeeded through forming relationships which have enabled us to source assets. If you didn't have those relationships, the markets in which we operate in would be tough."

With the clock ticking, those around the table are asked for their concluding thoughts on the opportunities and challenges that lie ahead. Noble is first to offer an opinion:

"With regulation, which I'd put under the risk category, there is an ebb and flow in different markets but it is a crucially important factor to understand. It can be a headwind and is forever on our radar screens. Interest rates are also very important, especially in the short term and the price of oil is a factor where people include pipelines in their infrastructure definition. And then there is the growth of the investable universe through industry spinouts and government privatisations, which will be a tailwind."

Contrary to fears of regulation, Corona says he believes it represents an opportunity. "Regulators are reaching out to investors and they want to put the right regulation in place in order to attract investment," he asserts.

Furthermore, Anagnos believes that the listed market has the flexibility to adapt well to such things as regulatory and pricing volatility. "Things will change, but you can reposition easier in the listed space, where you have liquidity, than if you are committed for 10 or 15 years."

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'EARLY ACCEPTANCE'

Anagnos goes on to conclude on a positive note: "As an asset class we're only ten years in, but there has been early acceptance and we're meeting investors' needs. The profile of investors and the investable universe will expand and that should lead to positive returns and further growth."

Bentley adds: "We've seen in Australia, and a little bit also in the UK, that people realise pensions are invested in these [infrastructure] assets and that privatisation can be a virtuous circle. Governments also realise it's in their interests to have stable long-term investors in the assets, and I hope that continues."

With that, the discussion comes to a close and it seems that everyone has meetings to head to with some haste – which in itself may be taken as a positive sign that conversations about listed infrastructure are all the rage these days. ■