DOUBLE TAKE

Infrastructure

***Foresight Infrastructure Income** focuses on the assets of the infrastructure and renewables sector rather than the services they provide...*

Infrastructure and renewables assets can provide investors with uncorrelated, low-volatility income without exposure to some of the risks found in the fixed income and property markets. We access these real and yielding assets through holding a diversified portfolio of the best listed infrastructure and renewables companies.

Building blocks

A decade ago, infrastructure and renewables investment was largely the preserve of private, institutionally funded pools of capital. In the past few years we have seen a surge in the number and size of listed investment companies focusing on these sectors.

The underlying assets to which the fund has exposure include large-scale infrastructure projects, such as the Thames Tideway Tunnel scheme, as well as the solar parks and wind farms that are driving the UK's transition to a low-carbon economy.

We take a different view to many of the infrastructure strategies in the market, which typically invest in equities that provide goods or services to the infrastructure and renewables markets, for example the National Grid or Stobart Group.

Our focus is on the projects and assets themselves, which can deliver uncorrelated, long-term cashflows for investors.

In the case of renewables, we prefer assets that enjoy government subsidy support. This increases the predictability and quality of the cashflow available for dividend distribution. These assets are well positioned in the current environment to deal with interest rate and inflationary headwinds, given the inflation-linked nature of the underlying cashflows.

Dispelling myths

Liquidity and share premium concerns have prevented some investors from buying into the infrastructure and renewables sector, but taking a diversified and active approach can deliver a unique risk-adjusted return.

With the right execution capabilities and the ability to understand underlying asset valuations, it is possible to pick management teams and operating assets that deliver over the long term without suffering from low levels of liquidity or inflated pricing.

Portfolio construction is driven by the objective of delivering a predictable 5% yield, combined with low volatility and low correlation to equity markets. While we access our universe from a bottom-up perspective, we also aim to strike a balance between renewables and infrastructure in the portfolio.

The risks and value drivers between these two sectors do not correlate, and so combining them in a single strategy enables us to naturally hedge and reduce volatility.

The strength of this approach was evident during 2018 when volatility remained below 4.5% despite wider market turbulence.

The long-term environment for this strategy depends on the continued investment into renewable energy and social and economic infrastructure.

There are positive signals in terms of capital deployment into these areas, with scale of requirement and political will driving the agenda forward.

As the UK continues to decarbonise and build out its core infrastructure, private capital will play a significant role. Investment companies in our portfolio are positioned to capture these future opportunities. LW

'AS THE UK CONTINUES TO DECARBONISE AND BUILD OUT ITS CORE INFRASTRUCTURE, PRIVATE CAPITAL WILL PLAY A SIGNIFICANT ROLE'

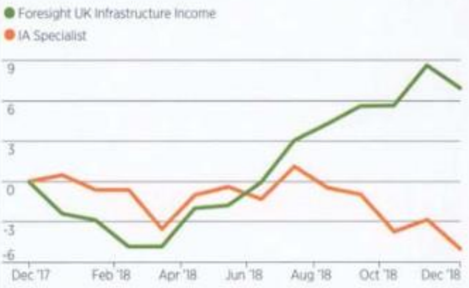
Mark Brennan, lead manager, Foresight Infrastructure Income Fund

Foresight Group
Fund facts

Foresight Infrastructure Income Fund	
Launch date:	4 Dec '17
Fund manager:	Mark Brennan
Fund size:	£67m
1-yr performance:	14.8%
3-yr performance:	N/A
AMC:	N/A
OCF:	0.65%
ISIN:	GB00BF0VS922

Source: FE, factsheet

Foresight Infrastructure Income Fund
1-yr performance %



Source: FE Analytics

WEALTH MANAGER COMMENT

Ryan Hughes
Head of active portfolios, AJ Bell

Both funds are a little different in focus and approach. Foresight has a focus on UK infrastructure and renewable energy via a collection of strategies from specialist investments; M&G has a more traditional approach with a global focus on listed companies that operate in the infrastructure market.

Foresight will interest those looking at the wealth of options in this area but want to outsource the selection and management of the specialist area. However, it is important to look under the bonnet, particularly at the additional costs that are not evident from the headline ongoing charges figure (OCF) as the underlying investment trusts can have management costs that don't make it to the fund OCF.

M&G on the other hand focuses on more mainstream infrastructure companies and takes a value approach to investing in this area. The fund is relatively new so there are more established infrastructure funds available and it will be interesting to see how it develops.

*...while the **M&G Global Listed Infrastructure** team targets diversification and incorporating ESG*

In the developed world, spending on the care, maintenance and expansion of existing infrastructure has fallen woefully short, leaving many critical assets creaking and bursting at the seams.

Infrastructure investment among G6 members has been in a multi-decade decline, and the current 3.5% of GDP is the lowest level since 1948. With government finances under pressure and limited appetite for large-scale public sector projects, the private sector will play a significant role in the restoration and upgrade of our critical infrastructure.

Infrastructure can be a highly political issue. It is often difficult for investors to look beyond grand pronouncements, such as China's 'One belt, one road' policy or Donald Trump's infrastructure spending proposals, to discern where the opportunities lie.

What lies beneath

The key is to identify underlying structural trends on a global level, such as renewable energy, universal connectivity, urbanisation, water and waste management, transportation of the future, and social and demographic shifts. These will outlast electoral cycles and politicians' promises.

The M&G Global Listed Infrastructure Fund is a high-conviction fund holding 40-50 companies that exhibit strong and growing cashflow dynamics. We expect dividends from these companies to increase sustainably over the long term. The fund aims to meet two objectives: deliver a higher total return than the MSCI AC World Index in sterling terms over any five-year period; and increase the distribution paid to investors every year in sterling terms.

Diversification is a key feature of the fund. It is not benchmarked against a listed infrastructure index and invests beyond the traditional realm of economic infrastructure (utilities, energy and transport) into social (health, education and civic) and evolving infrastructure (communication, transactional and royalty).

Incorporating environmental, social and governance ensures the assets in which we are investing are sustainable and, therefore, commercially viable over the long term.

Favoured regions

The fund's largest regional weighting is to North America, with a 54% exposure. This does not necessarily reflect a high-level view of the region, though governance and capital discipline standards are favourable.

The UK and continental Europe make up the second-largest exposure, representing just under 40% of the fund. The most recent holding added to the fund is SDCL Energy Efficiency Income Trust, a newly listed company in the UK. It is uniquely positioned to enable both large and small businesses to improve their energy efficiency.

From a sector perspective, utility companies make up the largest exposure in the fund, at roughly one-third of the portfolio. Denmark-listed Orsted is one of the fund's largest holdings and concentrates exclusively on renewable energy.

Global macroeconomic outlook, monetary policy and geopolitical ructions will inevitably affect the value of listed infrastructure equities in the short term. However, we will continue to emphasise the long-term nature of the asset class. We will take advantage of opportunities that arise from increasingly short-term focused markets. LW

'INCORPORATING ESG ENSURES THE ASSETS IN WHICH WE ARE INVESTING ARE SUSTAINABLE AND, THEREFORE, COMMERCIALLY VIABLE OVER THE LONG TERM'

Alex Araujo, fund manager, M&G

M&G
Fund facts

M&G Global Listed Infrastructure	
Launch date:	5 Oct '17
Fund manager:	Alex Arujo
Fund size:	£25.8m
1-yr performance:	8.5%
3-yr performance:	N/A
AMC:	0.75%
OCF:	1.07%
ISIN:	GB00BF00R928

Source: FE, factsheet

M&G Global Listed Infrastructure
1-yr performance %

Source: FE Analytics