Opportunity in Infrastructure Investing July 2021

OVERVIEW

- **Within a diversified real assets portfolio, infrastructure offers a complementary asset mix that can benefit overall risk-return**
- **Current thematic opportunities within infrastructure include communications, renewable energy and assets linked to GDP growth**
- **Key considerations for implementation include public vs. private equity structures and diversified vs. specialized strategies**

Background

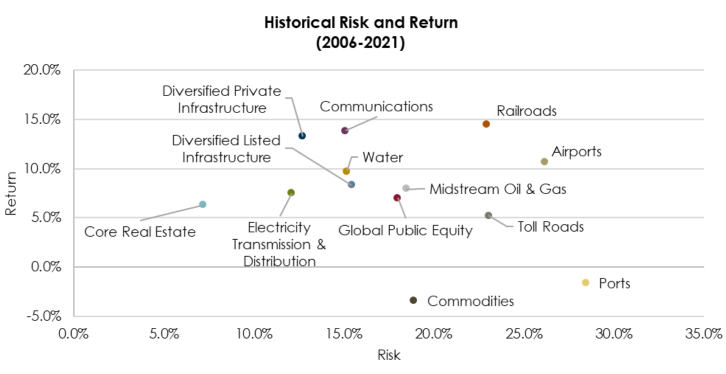
Near-term inflation concerns have raised investor interest in real assets. While core real estate offers a steady foundation for a diversified real assets portfolio, infrastructure can serve as a high-quality complement that can help protect against inflation and benefit total return.

Drivers of Infrastructure Investment

The current appeal of infrastructure investment has three primary drivers. First, growing concern of near-term inflation has investors looking for ways to insulate their portfolios while preserving long-term total return. Second, the current administration's plans for a large infrastructure spending bill could require meaningful private investment to effectively achieve its goals. Third, investors are drawn to opportunities in thematic forms of infrastructure like communications and renewable energy, which have the potential to generate competitive total returns while also providing social benefits.

Risk and Return by Asset Type

Diversified infrastructure has generated a favorable risk-return profile, proving that it can complement other real assets like core real estate and traditional risk assets like global public equity. However, risk and return can vary significantly across different types of infrastructure and in public versus private markets, something investors should consider when determining appropriate implementation.



Source: Bloomberg, EDHECinfra, ACG Research

Opportunities and Risks

There are currently several attractive themes within infrastructure, including communications, renewable energy, and assets linked to GDP growth (aviation, shipping, ports, etc.). Within communications, there is expected to be significant growth in global data usage, which will require mission-critical infrastructure to support greater bandwidth and speeds. For renewable energy, there is significant private and public sector support for creating cleaner sources of power. Infrastructure that supports this shift, such as wind/solar and battery storage platforms, could be well-positioned to succeed and have seen returns improve over time. Lastly, GDP-linked assets like airports and railroads should benefit as the global economic recovery and pent-up consumer demand result in higher volumes, which will translate to greater user fees that help support asset values.

These opportunities do not come without risks. Three key considerations in the current environment include asset valuations and leverage, supply versus demand for unlisted assets, and uncertainty regarding how (and to what degree) a Biden infrastructure plan will utilize public-private partnerships ("PPP"). Each of these factors could create headwinds for future investment opportunity and returns.

Theme	Opportunity	Risk
Communications	5G buildout Cloud computing	Premium valuations Consolidation
Renewable Energy	ESG initiatives Government support	Mixed return history Nascent technologies
GDP-Linked	Economic reopening Inflation sensitivity	Cash flow variability PPP uncertainty

Implementation Considerations

Investors should consider factors such as whether to use public versus private equity structures, and whether diversified or specialized strategies offer the best risk-return opportunity for their portfolio. Private equity structures can potentially offer broader access to non-traditional and GDP-linked assets than public equity vehicles, but private equity options are illiquid and tend to have high minimum investment requirements. Diversified strategies invest in a broad range of assets and often target core/value-added returns driven by steady income, versus specialized strategies that pursue specific asset types and tend to emphasize capital appreciation. Investors may also consider their preferred geographic orientation when evaluating different implementation options. However, most infrastructure strategies take a global focus with a meaningful allocation to non-US assets.

ACG's Position

As part of a diversified real assets portfolio, an allocation to infrastructure can help protect against inflation and benefit total return. Investors' choice of implementation will impact how they are able to access different asset types, but across both public and private markets, there are opportunities in areas such as communications, renewable energy and GDP-linked assets. These themes offer an attractive framework for investors looking to capitalize on global infrastructure trends, but as always, asset and manager quality should remain the primary guiding forces for investor decision-making.

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