A solid investment

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Paddy Swan looks at the growing popularity of infrastructure as an investment asset.

Global listed infrastructure typically delivers most of the upside in rising markets whilst falling by significantly less than global equities during periods of decline. Below we take a closer look at how infrastructure as an asset class can increase portfolio diversification.

Although it is a relatively new asset class, infrastructure has become an important part of investment portfolios because of its unique set of features. The term 'infrastructure' refers to the underlying framework that provides essential services to modern societies, such as electric power/gas generation and distribution facilities, sewerage and water systems, major road, rail, air and sea links, and telecommunications installations. The concept can be extended to include social infrastructure such as schools, hospitals and prisons.

Because infrastructure assets provide essential services, demand is stable with a relatively low sensitivity to the broader economic cycle, supporting infrastructure earnings at times when more cyclical businesses can struggle. This coupled with pricing that is generally regulated or contracted and hedged to inflation allows infrastructure assets to generate highly resilient and predictable cash flows. This can translate to a strong source of dividend income and an inflation hedge for a diversified portfolio.

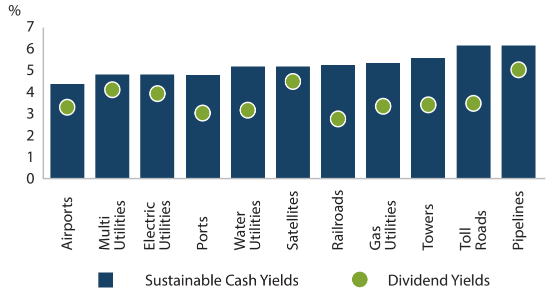
Infrastructure is a global market, with huge opportunities also in the refurbishment/replacement of existing infrastructure, in both the developed and developing worlds. As such, infrastructure is a major growth story. Overall, close to US$78 trillion is expected to be spent on infrastructure globally between 2014 and 2025, with the Asia Pacific market representing almost 60% of this spend.

Reasons to invest in global listed infrastructure now

- It provides inflation protection and structural growth which is less dependent on economic cycles.
- To diversify returns within an investment portfolio.
- Gain a liquid and diversified exposure to infrastructure assets.
- To benefit from strong demand for scarce infrastructure assets as pension funds increase exposure.

Infrastructure for the 21st century

After eight years of austerity, governments around the world are beginning to realise that they need to invest in their economies if they are to retain their competitive advantage and build an infrastructure fit for the 21st century. Some of the projects already underway are incredibly ambitious. China's multi trillion 'One Belt, One Road' initiative aims to connect China with the world, while the European €315 billion 'Juncker Plan' is targeting



roads, rail, housing and hospitals across the continent. The American Senate recently passed the $305 billion US Highway Bill and Donald Trump targeted infrastructure spending as a key platform initiative during his election campaign. In the United Kingdom, Philip Hammond, the newly appointed Chancellor of the Exchequer, announced that he too will loosen the purse strings in the wake of the 'Brexit' referendum result.

Building on recovery

In 2015, the Irish government unveiled an infrastructure and capital investment plan entitled 'Building on Recovery' which is to total €42 billion over the period 2016 to 2021. The focus is to increase spending on a wide range of strategic initiatives which include developing the water system and building housing, schools and hospitals. These projects are likely to be financed through a combination of public and private partnerships. As Government tax bases decline, the philosophical drive to privatisation and the demonstrated greater efficiency from the private sector means that this sector is increasingly being tasked with building and operating these investments.

While only large investors can contemplate direct ownership of infrastructure assets, the development of specialist listed infrastructure funds allows smaller investors to participate. This asset class is projected to grow substantially as countries upgrade or build new infrastructure and seek public investment to support these projects.

In summary, infrastructure investments may deliver:

- Lower volatility than equities
- Inflation hedging
- Interest rate resiliency when compared to bonds

As such, these investments warrant consideration for inclusion in a diversified portfolio.