

# Real Assets and Infrastructure in a Managed Portfolio

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# IMAP and COVID-19

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# Real Assets and Infrastructure



Tim Wong, CFA  
Director, Manager Research, Morningstar Australasia  
8 April 2020

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## Role in Portfolio

- Within a broader real assets exposure or as a defensive equity allocation
- Cash flows can be relatively stable and predictable
  - Essential services
  - Monopoly positions
  - Regulated earnings, long-term contracted revenue streams
  - Inflation linkages

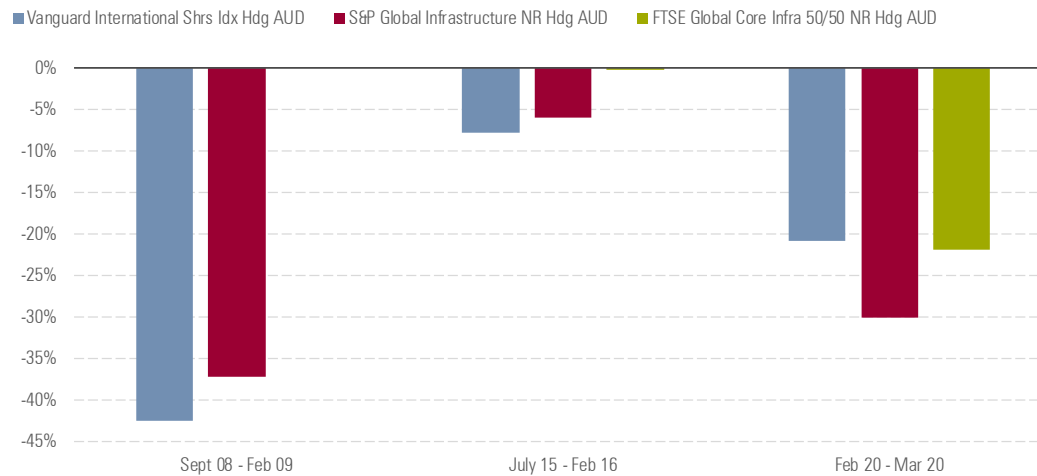
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## Role in Portfolio

- Global listed infrastructure is not immune to drawdowns
  - Still equities
  - Balance sheet leverage
    - Debt/total capital 50-60% vs ~40% for global equities
- Heterogeneous assets
  - Varying cyclicalities and indirect commodity price sensitivity
  - Investments aren't universally agreed upon

# Role in Portfolio

- Drawdowns have coincided with equity market volatility



Source: Morningstar Direct

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## Global Listed Infrastructure and Income

- Income
  - Higher dividend yields on portfolio don't always translate into higher and more consistent income distributions
    - Currency hedging
    - Fund flows
  - Infrastructure not typically a source of franking credits



# Global Listed Infrastructure and Income

- Erratic income distributions at times
  - Many funds didn't pay a distribution in 2009 FY as AUD collapsed
    - YTD fall not as severe, but may disrupt Q1 income distribution
    - TOFA election – adopted by many managers

	2008 FY	2009 FY	2010 FY	2011 FY	2012 FY	2013 FY	2014 FY	2015 FY	2016 FY	2017 FY	2018 FY	2019 FY
First Sentier Global Listed Infrastructure Securities	7.64	0.00	3.63	6.58	5.82	5.33	15.86	28.26	4.90	9.01	6.91	2.15
FirstChoice WS Global Infrastructure Sec	6.66	0.00	3.54	4.58	3.10	3.22	13.65	16.43	7.80	20.13	12.56	2.07
Lazard Global Listed Infrastructure	1.46	0.00	1.76	12.14	6.60	0.00	10.50	17.67	11.68	14.98	17.32	3.98
Macquarie International Infrastructure Securities	9.50	2.64	5.98	15.09	3.66	3.16	2.76	3.92	6.80	3.24	6.22	3.61
Magellan Infrastructure	4.53	5.42	12.55	9.24	3.20	2.72	2.86	2.54	7.33	8.48	4.23	2.86
MBA Global Listed Infrastructure-Hedge	N.Av	N.Av	N.Av	N.Av	N.Av	N.Av	N.Av	N.Av	N.Av	5.07	4.34	3.12
RARE Infrastructure Value Hedged	7.27	2.94	5.28	9.25	6.38	6.04	5.82	13.48	8.32	13.48	10.86	3.85
VanEck Vectors FTSE Global Infrastructure (Hdg) ETF	N.Av	N.Av	N.Av	N.Av	N.Av	N.Av	N.Av	N.Av	N.Av	2.38	3.97	3.83
Vanguard Global Infrastructure Index Hgd	N.Av	0.00	13.61	21.52	1.82	7.01	4.24	4.76	2.52	9.49	6.38	0.03

Source: Morningstar Direct

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## Morningstar's Approach to Assessing Infrastructure Strategies

- People, process, parent, and fees
- Emphasise peer relativities given benchmark disagreements
- Ability to deliver differentiated, defensive returns path
  - How strictly infrastructure managers define their investible universe
  - Risk assessment – governance, leverage, economic sensitivity



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# Global Listed Infrastructure

Light at the end of the tunnel

Trent Koch, Portfolio Manager

April 2020

 **First Sentier**  
Investors

# What is infrastructure?

Tangible real assets that provide essential services to society

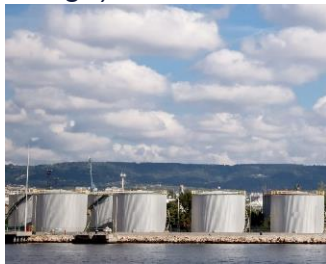
## Transport (Roads, Airports, Ports, Rail)



## Utilities (Water, gas, electricity)



## Energy (Oil & gas pipelines, storage)



## Communications (Towers and satellites)



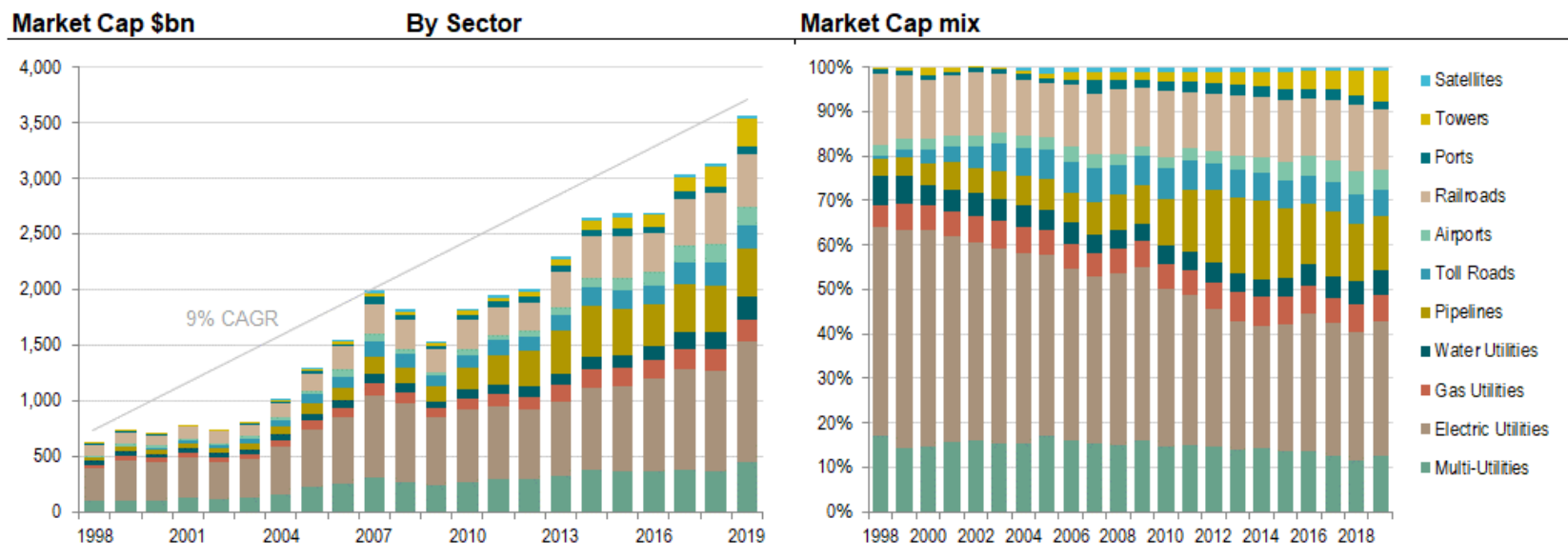
Source: iStock images



# Listed Infrastructure becoming a standalone asset class

Growing in size to a market of US\$3+ trillion

Improving diversification and quality through privatizations and restructurings



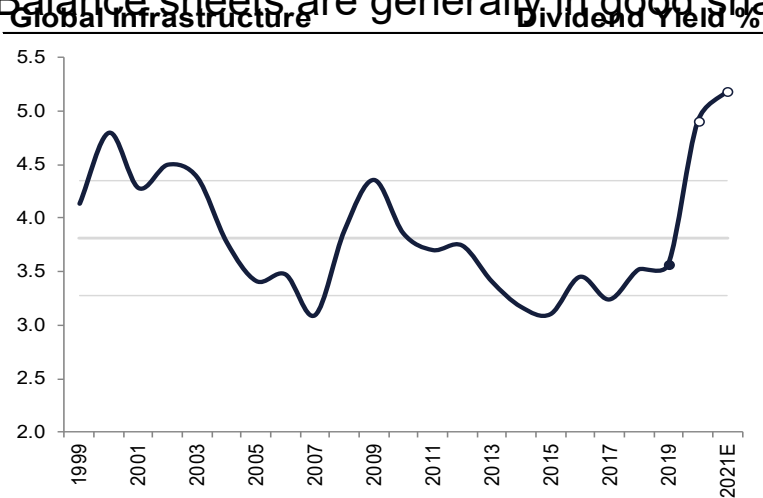
Source: Bloomberg, First Sentier Investors

# Reliable income

Infrastructure has delivered a reliable yield of 3-4% pa

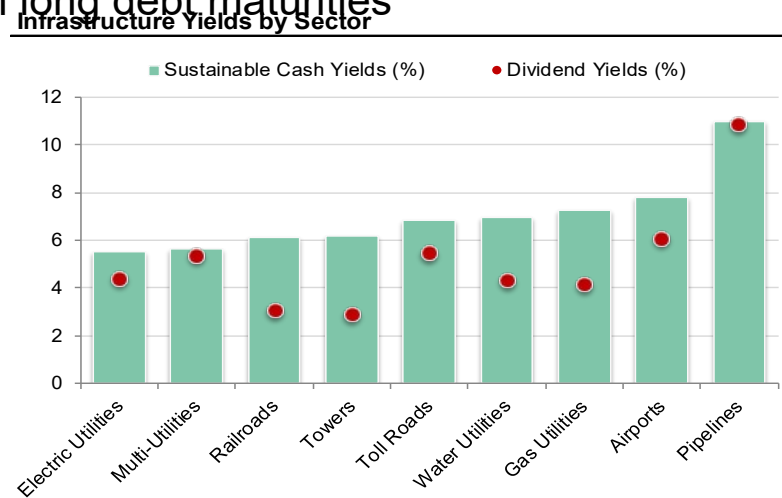
Some dividend cuts likely near term (COVID-19) but earnings should be more resilient than the broader market

Balance sheets are generally in good shape with long debt maturities



Source: Bloomberg, First Sentier Investors Simple avg of 250 stocks in universe

As at 30 June 2019. 2020E = 2020 Estimated. Current estimates do not guarantee future returns.

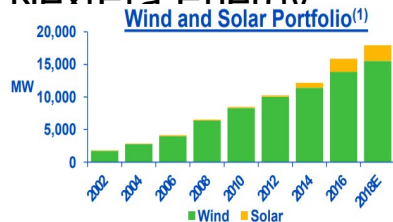


Source: First Sentier Investors

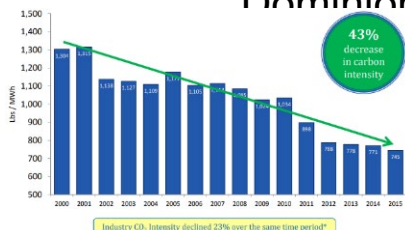
# Structural growth

## De-carbonising electricity

### NextEra Energy



### Dominion



## Relieving urban congestion

### Transurban



### East Japan Railway



## Securing low-cost energy

### TransCanada

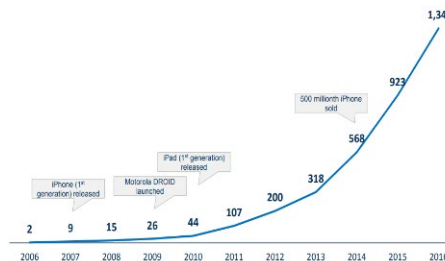


### Kinder Morgan

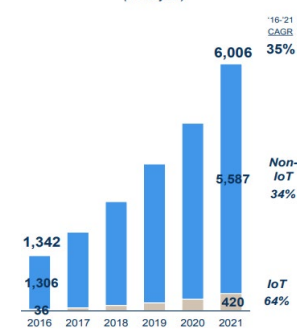


## Mobility of communication

### American Tower, Crown Castle



### U.S. Total Mobile Data Traffic (Petabytes)



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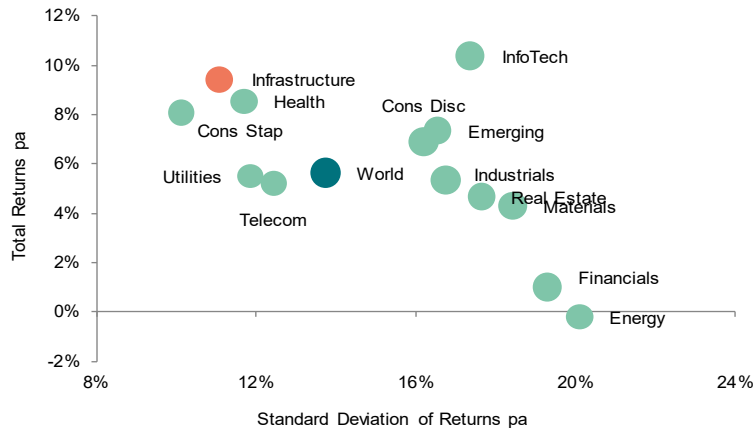


# Lower volatility

Global listed infrastructure has delivered higher returns with comparatively lower risk

Over the long term the sector has provided almost 80% of the upside in rising global equity markets but less than 60% of the downside in falling markets

## Global Listed Infrastructure Relative Risk/Return



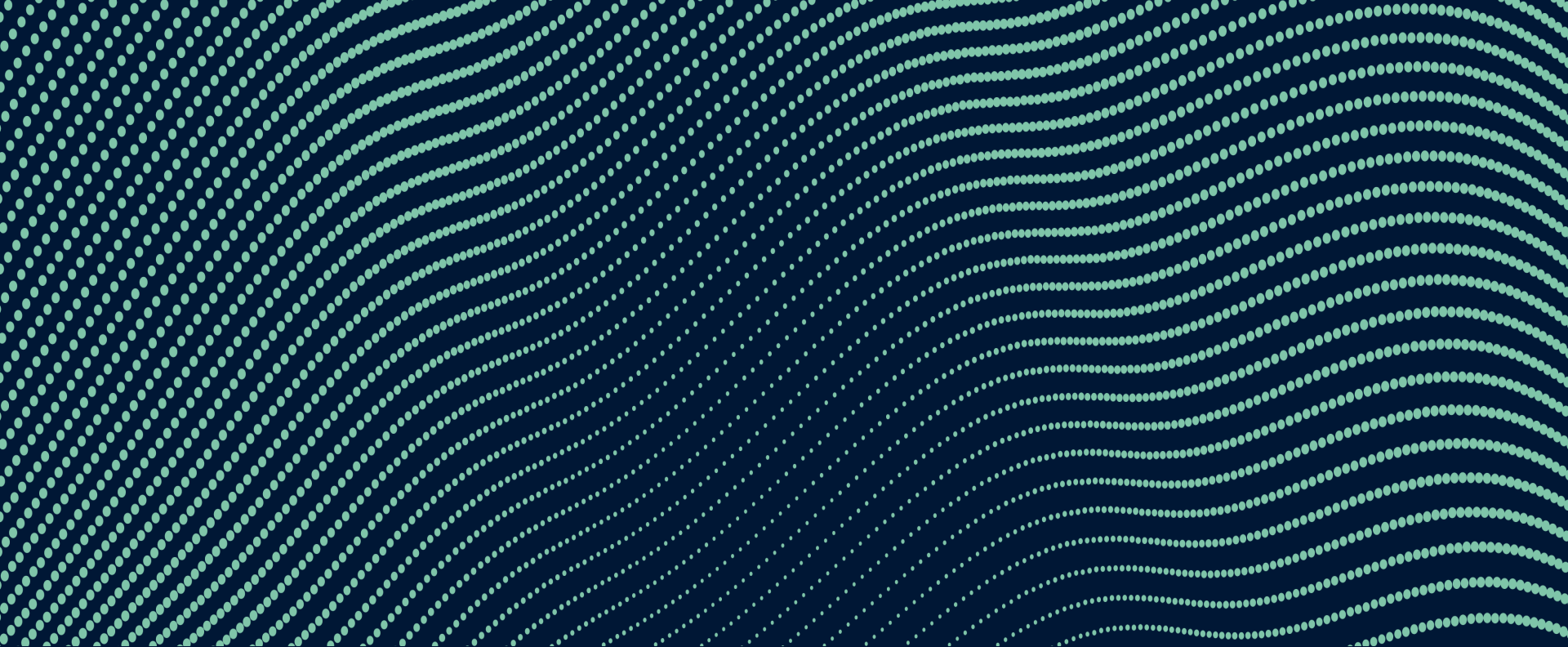
FTSE Global Core Infrastructure 50/50 Net TR Index AUD Hedged from Dec-05, previously Macquarie  
 MSCI World Net TR Local  
 Source: Bloomberg and First Sentier Investors  
 Monthly data for 15 years to Mar-20

## Performance in Rising / Falling Equity markets



FTSE Global Core Infrastructure 50/50 Net TR Index AUD Hedged from Dec-05, previously Macquarie  
 MSCI World Net TR Local  
 Source: Bloomberg and First Sentier Investors  
 Monthly data for 15 years to Mar-20

Past performance is not an indication of future performance



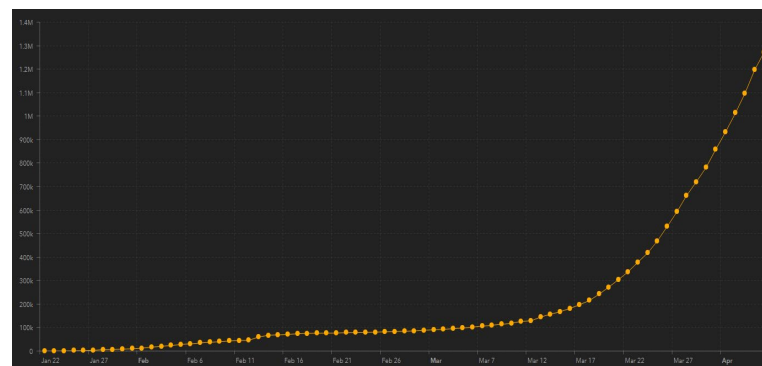
# Market update

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## COVID-19: Macro perspective

- China problem now global
- Diagnosis challenging, recovery rate high
- Impact on elderly and vulnerable
- World unprepared, crisis of confidence
- Containment has been effective
- Containment = low activity = recession
- Policy response will be critical

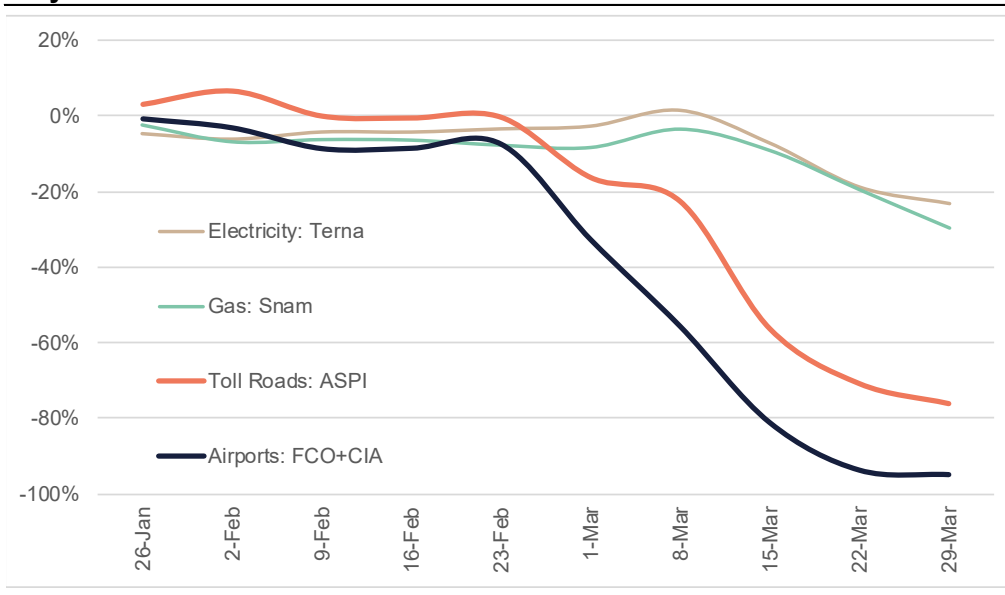
### Coronavirus



# Infrastructure and coronavirus

Shutdowns have significant impact on most industries, particularly transportation

**Italy volume declines due to coronavirus**



Source: Bloomberg, Atlantia, iStock photo



## YTD infrastructure performance

**Towers** benefit from structural demand, perhaps accelerated by WFH / VC

**Utilities** benefit from essential demand and lower interest rates

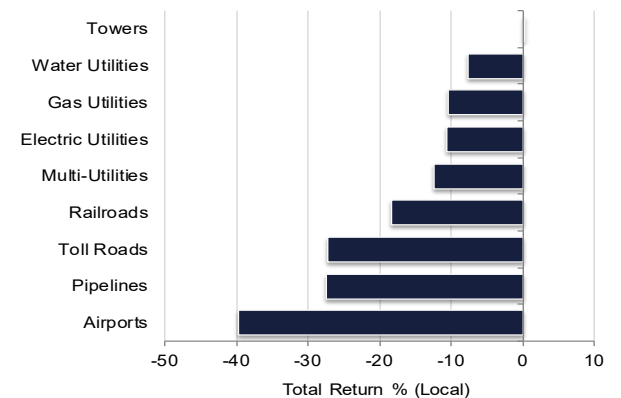
Toll Roads normally resilient but lockdowns unprecedented

Japanese passenger railroads impacted, North American freight railroads responding

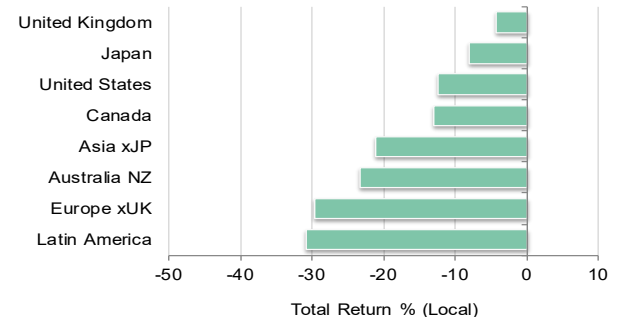
**Pipelines** were expecting reduced demand from Asia, now impacted by OPEC+

**Airports** most vulnerable to travel bans, airline collapses likely

Global Infrastructure Performance by Sector Mar qtr



Global Infrastructure Performance by Region Mar qtr



Sector classifications have been defined by First Sentier Investors and may differ from GICS sector classifications. All data in local currency terms. Source: Bloomberg data to 27 March 2020, First Sentier Investors.

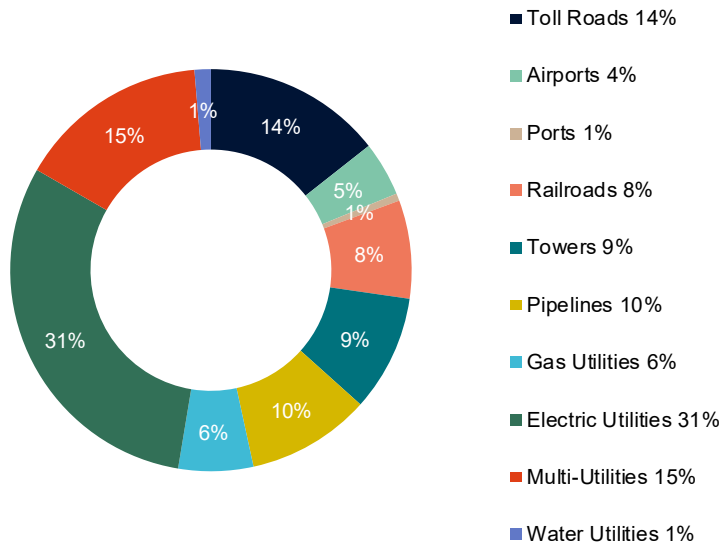
Source: Bloomberg, First Sentier Investors

Based on FGCI index weights

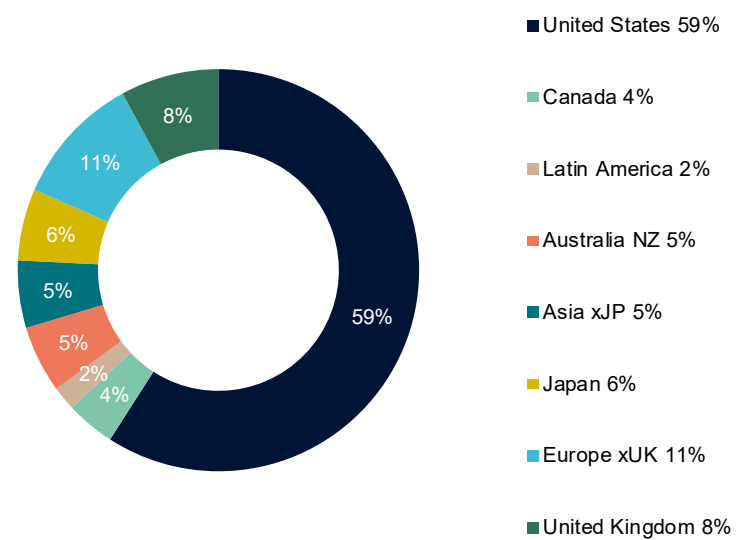
# Portfolio weights

Sensible diversification with focus on quality companies

**Portfolio Weights by Sector**



**Portfolio Weights by Region**

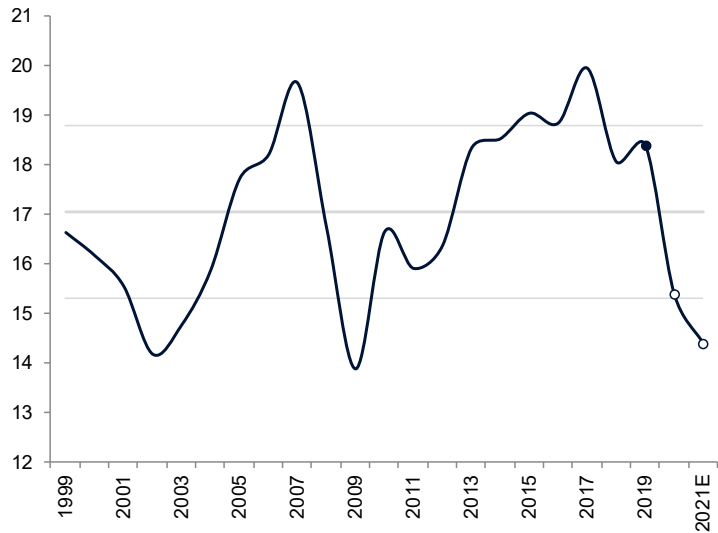


CFS Wholesale Global Listed Infrastructure Fund as at 31 March 2020.  
Source: First Sentier Investors.

# Sector valuations

Overall valuation multiples now more reasonable – provided earnings are resilient

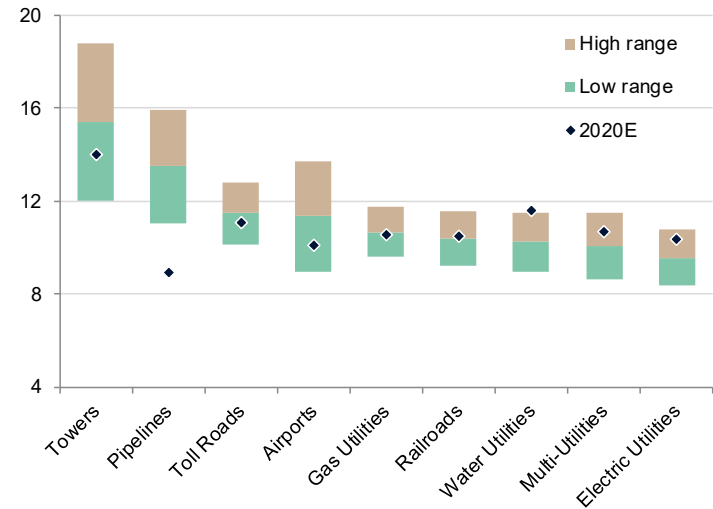
**Global Infrastructure Price / Earnings x**



Source: Bloomberg, First Sentier Investors

Simple avg of 250 stocks in universe

**Value Range by Sector EV / EBITDA x**



Source: First Sentier Investors

Annual data from 1999 to 2020E

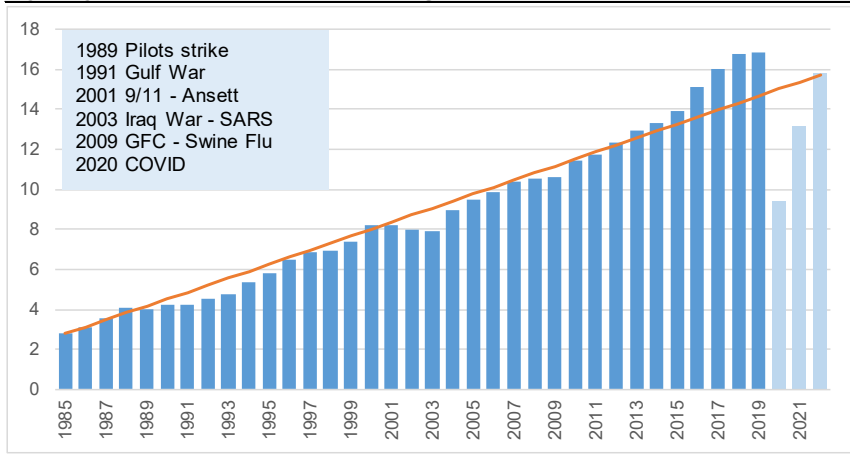
Data as at 31 March 2020. Forward multiples are 12m forward forecasts, based on Bloomberg consensus. They are predictive in nature and therefore not guaranteed to occur. They may be affected by inaccurate assumptions, known or unknown risks and uncertainties and may differ materially from results ultimately achieved. EV/EBITDA: Enterprise Value / Earnings before interest, tax, depreciation, and amortization. Source: Bloomberg, First Sentier Investors.

# Perspective for investors

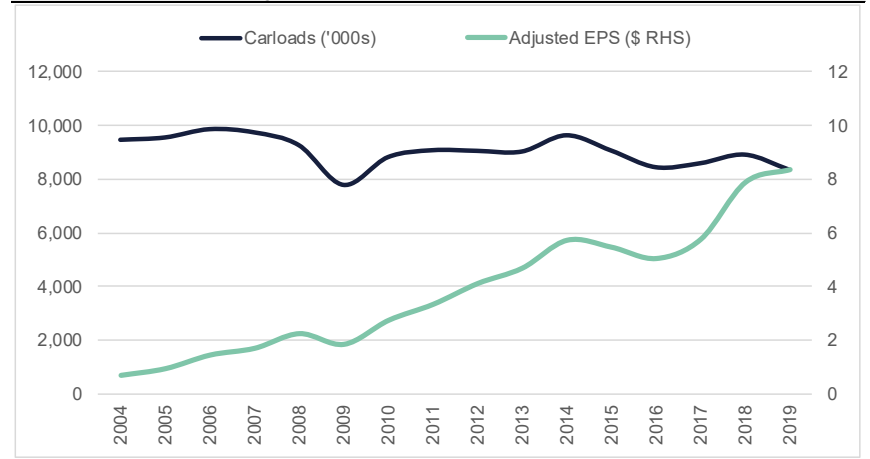
Long term investors recognize that the world will return to a similar normal

**Sydney Airport International Passengers**

million pax



**UNP Carloads and Adjusted EPS \$**



Source: BITRE, Union Pacific, First Sentier Investors.



# Outlook for 2020

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## Markets:

COVID-19 has created significant uncertainty – Listed Infrastructure is defensive but still an equity  
Transport / Energy weakness has been partly offset by Utilities / Towers strength  
Valuations are now more compelling and starting to price in recessions

## First Sentier:

Engagement with companies / industry to gain further understanding and perspective  
Stress test valuations – business model, leverage, counter-parties, management response  
Minimal changes to the portfolio given our focus on quality over the long-term



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