



IMAP Independent Thought Podcast

Episode 47: Rethinking the role of listed infrastructure in portfolios

Join our host **Emily Barlow (Perpetual Private)** and **Ben Morton, Head of Listed Infrastructure at Cohen & Steers** they discuss:

- how global forces are reshaping the opportunity set for listed infrastructure investors
- how to think about this asset class in a world of faster technological and policy changes
- do infrastructure investments tend to provide equity-like returns at present?
- what is the outlook for listed infrastructure investments?

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Emily Barlow

Hello and welcome back to the IMAP Independent Thought Series podcast. My name is Emily Barlow, and today we're turning our focus on global listed infrastructure.

This is an asset class sitting at the heart of some powerful global themes, including de-carbonisation and electrification, but also increasingly the rapid acceleration of AI and the surge in data center demand that comes with it. Much of our conversation today will center on how these forces are reshaping the opportunity set for infrastructure investors and how to think about this asset class in a world of faster technological and policy change.

With that, as a backdrop, I'm delighted to be joined by Ben Morton, Head of Listed Infrastructure at Cohen & Steers. Ben and his team run a global portfolio of 30 to 60 companies using a relative value approach that combines top-down macro analysis with bottom-up fundamentals. Ben, thank you so much for joining me today.

Ben Morton (Cohen & Steers)

Thanks for having me. Glad to be here.

Emily Barlow (1.14)

Ben, to kick us off, I'd like to get your thoughts on how we should be thinking about the asset class in the context of a diversified portfolio. Historically, infrastructure,

particularly unlisted, but to some extent listed, has been viewed as a more stable, bond-like allocation, valued for its defensiveness, income, and inflation protection. More recently, though, we've seen much greater price volatility. So, from your perspective, what is it that's changed? How does listed infrastructure now differ from other asset classes? And should asset allocators be rethinking the role that it plays in portfolios?

Ben Morton (Cohen & Steers) (1.51)

Yes, that's a good question, a comprehensive question. I guess if I take a step back and think about the performance characteristics of the asset class historically, as you've noted, you know, infrastructures tended to provide equity-like returns, but with lower volatility and attractive downside protection, meaning in periods when the market is down, infrastructure is down less than the broader market on average. And why is that?

It's because of the essential public service providing nature of the businesses and assets that are owned by infrastructure companies. It's due to the fact that still today, infrastructure businesses tend to have inflation linkages to their cash flows. And it's due to the fact that these are assets that are very difficult to replicate.

So, I would say generally speaking, infrastructure businesses have not changed. With that said, I do think on the margin there has been an evolution. And that evolution is to a place of increased growth opportunities from many of the infrastructure businesses.

And you noted some of those powerful themes that are driving that. So I think as managers of companies and decision makers at different infrastructure businesses, they are more than ever needing to balance the demand for income that they have from their investors with the opportunities to invest, whether it's in energy transition, building new renewables, or investing in digital infrastructure to help accommodate the very powerful theme of the digital transformation of economies.

So, I do think this has evolved to be a little bit more of a total return focused asset class from roots that many folks would have thought of as being just more bond-like and income-oriented.

Emily Barlow (3.31)

Great. So, if we move on, you've just mentioned one of those powerful thematics reshaping global markets today, which is that explosive growth in AI and cloud computing and the resulting demand for data centres or anything that's impacting that thematic more broadly. At a high level, how are you thinking about AI and data centres within the listed infrastructure space? And does it differ at all by region?

Ben Morton (Cohen & Steers) (3.59)

Sure. So yes, AI is a massive driver of clearly investment around the world. And a lot of that investment is going into data centres and the equipment and computing that effectively supports that AI build-out and data center build out. Now, within our investable universe, there's only a handful of data centres globally.

So, what's really most relevant to us are the companies in our universe that are at the bottlenecks and are trying to solve bottlenecks as we think about hyper-scalers getting data centres online. And right now, the biggest bottleneck to doing so is access to power. And companies where we see opportunities tend to be in the

electric utility space around the world. Now, a lot of this investment's happening in the US and to a lesser degree in other parts of the world.

So it is a global opportunity, but I'd say the majority of the near-term opportunity tends to be in US electric utilities, who are seeing very rapid electricity demand growth in their service territories, which will eventually lead to faster earnings per share growth as they have to invest in new power plants, transmission facilities, and distribution assets, power lines.

Now, the other part of our universe where we're seeing some benefit and some real implications from all of this spending on the AI build out in data centres is in midstream energy. So, these are gas pipeline operators, right?

So, these are companies that are going to benefit from rising production of natural gas, for example, in North America, that is needed to support the fast-rising demand that we expect to see from new gas-fired power plants to support all of this new data center build-out. So, I think there's a couple of ways in our universe. Again, majority of it is US centric right now, but it is broadening out to other parts of the universe geographically.

Emily Barlow (5.53)

So you mentioned the electrification. So that's where you like to play in terms of the listed infrastructure space or where you have the most opportunity to invest. So that brings me actually to another question I wanted to talk to you about, which is community impact.

And what we're seeing with a lot of these data centres is they've got huge water demands and the need for electricity, as you've mentioned, is significant, which is having impact on the people that live in these regions. So, I'm just interested in your thoughts on how material these constraints are from an investment perspective. For example, are you seeing any delays or returns impacted because of these concerns? And do you see them increasing?

Ben Morton (Cohen & Steers) (6.39)

Absolutely. So right now, I would say that some of these dynamics are causing varying trends in terms of data center build-out around the world. So, places like Europe have been slower to build data centres because of that exact issue, community pushback, environmental implications of the data center build and the like, and then social implications.

We see that in the United States too, in a growing way. In fact, you know, right now we have, I think we have 36 gubernatorial elections this year in the US out of our 50 states. So, 32 governor races. And I expect to see that affordability, which relates to sort of higher cost of electricity, which indirectly, and in some cases directly, relates to higher power demand coming from hyper-scalers, for example, in these new data centres, is going to be very front and center. And we've already seen several governors start to talk about capping electricity prices or trying to figure out ways to alleviate the burden to their constituents.

So yes, we're seeing local pushback on many levels, whether it's environmental pushback, whether it's, you know, zoning restrictions. We've had some states look to ban new data centres in the US with some legislation to do so. I do think that's going to get noisier and I think particularly noisy going into the next election cycle here, which is going to be November of this year.

Emily Barlow (8.01)

And you mentioned that you don't really invest in data centres. Is it got any connection to that thematic, or is it just because there aren't the listed assets too invested in that space? Would it be something that you would be looking to invest in if it was uh if it was a greater opportunity?

Ben Morton (Cohen & Steers) (8.17)

Yes, we would invest in data centres. And I would describe the handful of data centres that are in the listed market to be part of our universe. They are probably the most, the cuspiest from an infrastructure definitional perspective, in terms of not necessarily having the longest-term contracts, if you will, of businesses in our universe, having a bit more technology risk. With that said, yes, we would invest in them. We just find better value and opportunities right now in some of the companies that are investing to help solve the bottlenecks in things like power demand, for example.

Emily Barlow (8.50)

You've actually just mentioned something else that I wanted to talk to you about, which is that longevity of those assets. So, technology is clearly evolving really fast, and infrastructure investors typically assume pretty long asset lives. So, do you see that risk of stranded assets increasing? And how should investors be thinking about that as a result?

Ben Morton (Cohen & Steers) (9.12)

Yes, good question. So, I guess we've always faced this in the infrastructure world, right? I mean, we have toll roads that compete toll free roads nearby, and you wonder about what the ebbs and flows of traffic on toll roads when you've got competing roads at different times of economic stress in a community. You've had pipelines that by virtue of rapidly changing production growth in certain regions of North America evolving sort of demand centres in in North America, pipelines that have been made sort of obsolete given changing flow dynamics.

So, we're always trying to think of risk of stranded assets in our space. And you bring up a good one, which is some of these in the sort of digital infrastructure world that going to be most impacted by the things we don't know yet around what the impact could be on ROI and is all this spending what the hyper-scalers hope it will be. And what does this world look like with you know a trillion dollars spent by hyper-scalers in the next 10 years? What is this world going to look like in terms of longevity of these assets?

But let's just revisit some of the hallmark characteristics of infrastructure. And again, you know, we would never underwrite and support a company that is building assets that don't have long-term contracts for cash flows associated with them. So while I do think that there is rising stranded asset risk given some of the uncertainties and just evolution of some of these businesses and the markets that are around them, I do think the protection that infrastructure businesses can point to are, in the case of some of these utilities, 10 to 20 year contracts with the hyper-scalers for power from the utilities or pipeline companies that tend to have long-term contracts.

So that's one of the offsets that we look for from infrastructure companies in terms of trying to protect against that potential stranded asset risk.

Emily Barlow (11.23)

So, you've touched on those long-term contracts in terms of future-proofing infrastructure assets. How do you distinguish between outside of those long-term contracts, one that simply looks attractive in the current cycle versus one that is genuinely future-proofed?

Ben Morton (Cohen & Steers) (11.14)

That's a good question. You know, future-proof can mean a lot of things. I think ultimately, it's about these contracts that we expect our infrastructure companies to have. And again, that protects the sort of cash flow, even if there are evolving trends in the market. Now, some of those can be called into question, meaning customers can try to walk away, but typically they're very tight legal protections.

But on the flip side, there's also how adaptable are some of our infrastructure businesses in terms and assets in terms of ability to evolve along with markets. So, for example, I gave the example earlier of pipelines. You know, we've had pipelines that have reversed flow, because they used to send natural gas out of Texas and north into the central part of the United States. But the reality is we needed that energy to flow the other way because of evolving supply and demand trends, and they actually reverse flows of pipelines. So, I think adaptability is a really important point when I think about future proofing.

I also think the other thing that we have to think about with these assets, and it's a core tenet of infrastructure businesses, are how scarce are they? Can we replicate these assets easily? And I think for numerous reasons, whether it's environmental constraints, zoning restrictions, cost, because as we know, the cost to build today in many markets is much more than it was prior, just given inflationary pressures and the supply chain.

So, how scarce are assets? And if you've got a scarce asset, then is it, does it become somewhat future-proof, or at least does it have enduring value over time? And then ultimately, we think about things like pricing power and how does that evolve over time? We look for assets that tend to have pricing power. So hopefully again, infrastructure and the assets that we would invest in, can check these boxes and hopefully remain, quote, "future-proof" going forward.

Emily Barlow (13.40)

And if we turn to implementation, many investors do access infrastructure like with many other asset classes through passive strategies. Why do you think it's important to take an active approach for this asset class?

Ben Morton (Cohen & Steers) (13.54)

Yes, that's a great question and one that I love to get. I think the reality is there's massive dispersion of returns between not only infrastructure sub-sectors, but also companies within each sub-sector. So let me give you some examples. So, every year, there's at least 25% dispersion of returns between the top performing infrastructure sub-sector and the bottom performing infrastructure sub-sector.

Because while a marine port shares some characteristics with a regulated utility, the reality is they're very different businesses and they trade very differently in different macro environments. So, if one has a no one's going to have a crystal ball in terms of macro conditions, and I think it's getting even more difficult to do that as time goes on. But the reality is if you have a view on sort of some of your macro inputs, that can help inform you know which sub-sectors you are think are likely to outperform and under-perform.

Taking it a step further, within sub-sectors of infrastructure, we've seen dramatically variable returns within sub-sectors up between the companies. So, take, for example airports. In the trailing 12 months ended March 31st. We had a global airport operator that was up 40%, and we had a global airport operator that was down 30%. And you think about that and port that across that type of dispersion across all the different sub-sectors, there's a real opportunity for infrastructure managers like ourselves, and I'd say skilled managers, to create alpha and generate alpha because of that. Now, what's unique about infrastructure that drives that dispersion and drives our ability to generate alpha from that dispersion?

You know, infrastructure businesses are regulated and often for the most part, and often I'd say, it's at times supportive and at times very challenging political dynamics. And it's our job to underwrite those risks and opportunities and look for market mis-pricings when we see regulation that feels like the market is overreacting to or under reacting to. So, I'd say there's a lot of mis-pricings in this market that allows specialist experts like ourselves to identify stocks that are under and overvalued where that equity wrapper onto those assets is being mis-priced that allows us to generate alpha. So, I think it's a very clear case for active management within this asset class.

Emily Barlow (16.28)

And assuming advisors do want to take that active approach, what would you say are the top two or three questions they should be asking prospective managers to ensure those portfolios are genuinely resilient, adaptable, and aligned with long-term outcomes?

Ben Morton (Cohen & Steers) (16.44)

Sure. I think the first point would certainly be let's talk about the definition of infrastructure that you have, because certainly, for example, on the private side, we've seen some real style drift from infrastructure managers in terms of trying to frankly chase growth and get capital deployed in what's become an increasingly competitive world with all the capital's been raised on the private side. I think less so on the listed side, do we see style drift?

But we certainly would encourage investors to make sure that managers are investment managers in this space are focused on businesses and companies that provide the investment characteristics that, again, you know, investors are looking for, which is equity-like returns, but with lower volatility and attractive downside protection.

So, I'd say that's the sort of top priority, if you will. Beyond that, I think it's how do you underwrite things like political risk, regulatory dynamics? I think that's a very important question in the space today. And then I guess lastly, I'd probably ask when you think about how you're generating risk in your portfolio, what is the biggest tilt that you're taking? Are you very focused on, for example, stock selection?

Our bread and butter is underwriting risks and opportunities specific to assets owned by the companies that we invest in. We don't want to be taking risk on things like value versus growth or momentum. That is not our bread and butter. We want to generate the vast majority of our risk budget from stock selection because that is our expertise. And I'd say there's numerous managers out there where other common factor risks, which are a bit more difficult for us, (and anybody frankly), to predict are more of what is driving returns. And that's again, not what we're looking to do.

Emily Barlow (18.33)

And finally, to wrap up, given you're investing globally against a backdrop of significant policy divergence, how are you thinking about the outlook for listed infrastructure from here? And for anyone not currently invested in this asset class, is now a good time to be investing?

Ben Morton (Cohen & Steers) (18.49)

Sure, that's a good question. So, I think first, yes, I think now is a good time to be investing in the listed infrastructure asset class. Having said that, very strong performance from listed infrastructure in the first quarter this year relative to equities. We've given a little bit back here in the second quarter. But I guess what I'd say is taking a step back, what are the environments in which the macro environments in which infrastructure tends to trade well and perform well? It tends to be a strong performer in periods of broader market uncertainty and elevated volatility.

And that makes sense given, again, the relative predictability of infrastructure businesses and the sustainability of demand for these effectively essential public services.

So, I'd say periods of market uncertainty and volatility. I think second, we do see infrastructure tend to outperform in periods of above trend and rising inflation. And frankly, surprise inflation. And it's one of the key views that we've had for some time is that inflation is likely to remain above trend and surprise to the upside.

We think we've moved from an era of abundance when it comes to commodities to an era of scarcity driven by numerous factors and being amplified by some of the geopolitical dynamics in the world today. So, that's very supportive of the asset class because, again, one of the hallmarks of infrastructure is pricing mechanisms for assets that have inflation linkages to them. So, it's an asset class that again tends to outperform in periods of surprisingly high inflation. So, the macro backdrop is solid. Add to that the fact that we've got valuations for listed infrastructure that are very attractive.

Historically, listed infrastructures traded about an 8% to 10% premium to global equities on a cash flow multiple basis, EV to EBITDA basis. And that premium has been generated or supported by more predictable cash flows than broader equities, which is something that investors have been willing to pay up for. Right now, on the heels of the massive run that we've seen in the broader equity market over the past couple of years, infrastructure is trading at an 8% discount to global equities, so we think the asset class is cheap.

So, first point on the case for today, macro support. Second point, valuations.

And then I'd just say the third point is what you opened with, which is some very powerful fundamental drivers that are providing tailwinds to the fundamentals and investment opportunities for our companies.

So those would be rising power demand on the heels of not only AI and data centres, but also things like re-shoring of manufacturing in different parts of the world as we move to this world of de-globalization, electrification trends. So rising power demand that's benefiting a significant portion of our universe.

Add to that the digital transformation of economies, which is having, again, a very powerful impact on spending for businesses like cell tower companies, satellites, and also data centres.

And then the third leg of this is what I mentioned earlier deglobalization and evolving supply chains and trade flows, which is creating some real, I'd say, opportunities and risks, winners and losers within the freight transportation space. So, a few legs to the story as we think about the case for infrastructure today.

Emily Barlow (22.02)

Ben, we're out of time. Thank you so much. It's been a really insightful discussion. And for me, what's come through from our conversation today is that global listed infrastructure is really now about understanding how technology, power demand, and politics are reshaping what counts and the implications on the asset class as well as the broader economy. Thank you so much for joining us and sharing your perspectives.

Ben Morton (Cohen & Steers)

Thank you for having me.

Emily Barlow

And to our listeners, thank you for tuning in to the IMAP Independent Thought Series podcast. If you found this conversation useful and interesting, please feel free to share it. And we hope you'll join us again next time.

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