

Core Infrastructure – long term stable returns and decarbonisation

13th of October 2022

Roger Pim, Senior Investment Director
abrdrn Core Infrastructure Team

[abrdrn.com](https://www.abrdrn.com)

For Professional Investors Only – Not for public distribution

abrdn – Overview

Globally connected to deliver better investment results and innovation

Offering a broad range of asset class capabilities

>800

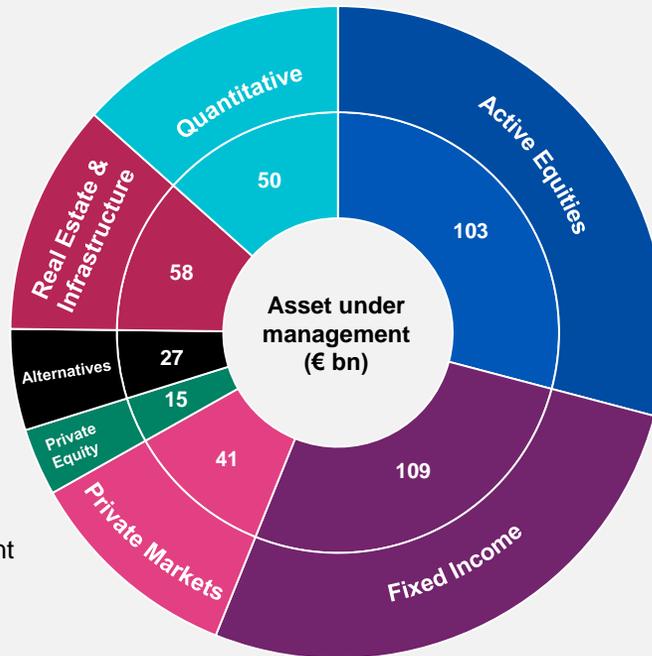
Investment professionals

>30

Countries investment managers are in

€449bn

Assets under management



- One of the biggest **independent** and **active** asset manager **globally**
- **High quality in-house research** and fundamental investment understanding underpin consistent outperformance
- **ESG fully embedded** in all our investment processes to generate the **best long-term outcomes for our clients**
- **Membership** UN Principles for Responsible Investments since 2007, **PRI-Rating A+** and **MSCI ESG-Rating AAA**
- **Membership** Net Zero Asset Managers Initiative
- In **Frankfurt am Main** since 2007
- AuM on behalf of German clients: c **36bn** EUR

Figures may appear not to add due to rounding. An exchange rate of £1:€1.1617 as at 30 June 2022 has been used. Source: abrdn, 30 June 2022
AUM breakdown does not include cash/liquidity assets of circa \$45bn

What is Infrastructure

A wide variety of industries and sectors with similar characteristics

Key Characteristics:

- Provision of essential services to society
- Strong market position with high barriers to entry
- Underpinned by sustainable and predictable long term cashflows
- Stable cashflows with low correlation to listed markets and frequently with inflation protection
- Capital intensive businesses with high operating margins
- Sectors include: energy, transportation, utilities and digital market segments

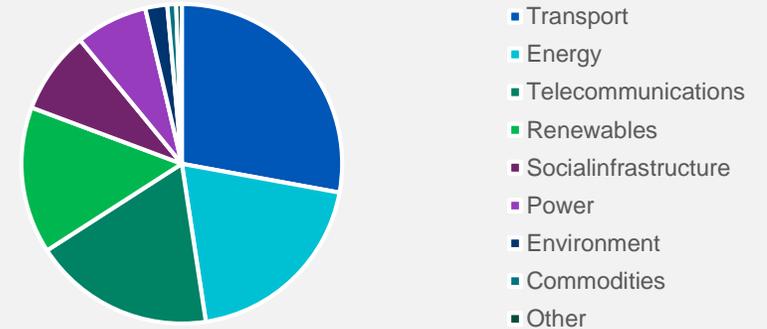


Infrastructure Market

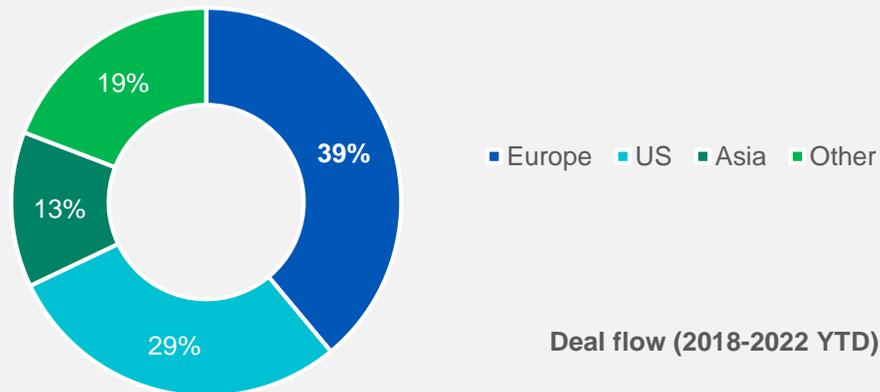
Increasing investor focus as asset class moves into mainstream

- Infra funds have raised \$145 billion year to date¹
- Pension funds account for ~50% of capital with typical allocations of 5-10%
- Europe largest market by number of deals
- Transportation, Energy, Telecommunications and renewables account for >75% of transactions
- Within Europe, the mid-market continues to be largest segment and outperforms large market

Sector split of transactions



Market Share by Geography²



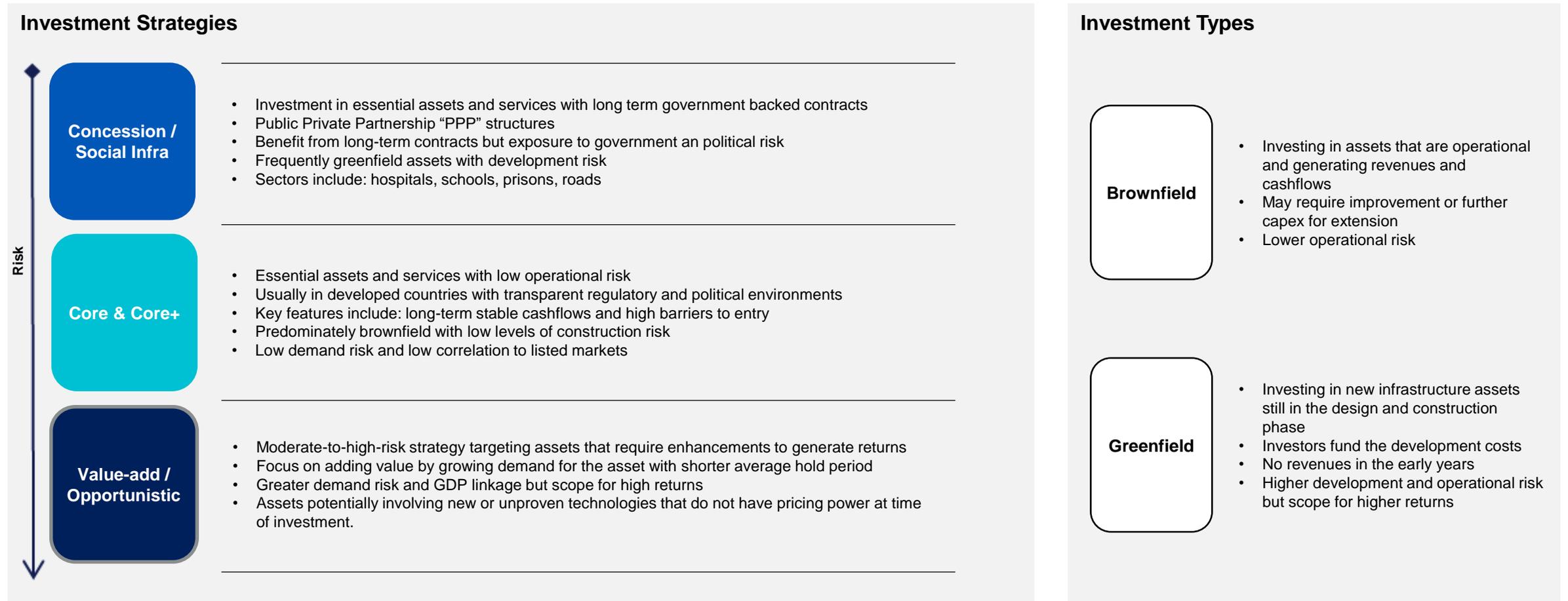
Deal Flow by Market Segment²

Number of European deals by size



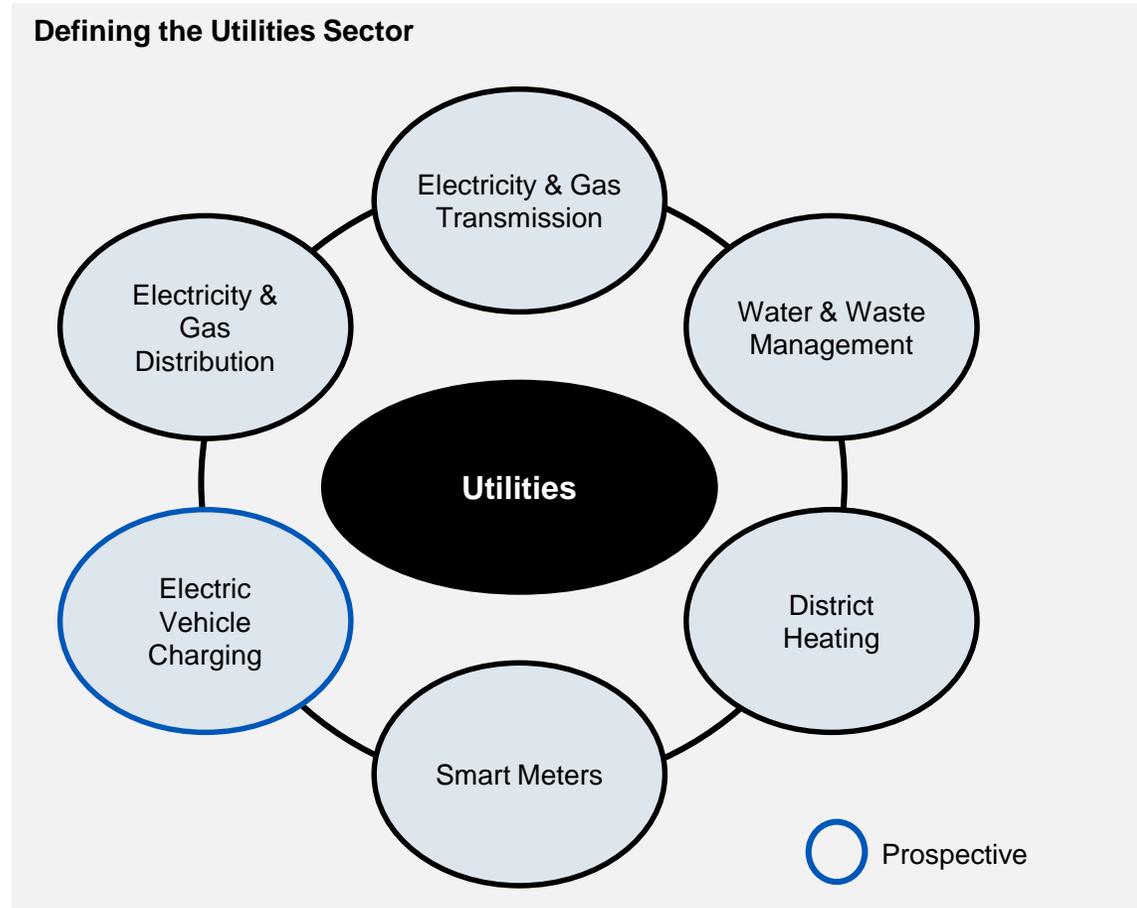
Key Strategies across Infrastructure

Strategies with varying levels of risk



Utilities Sector

Strong demand given robust performance and crucial role in the energy transition



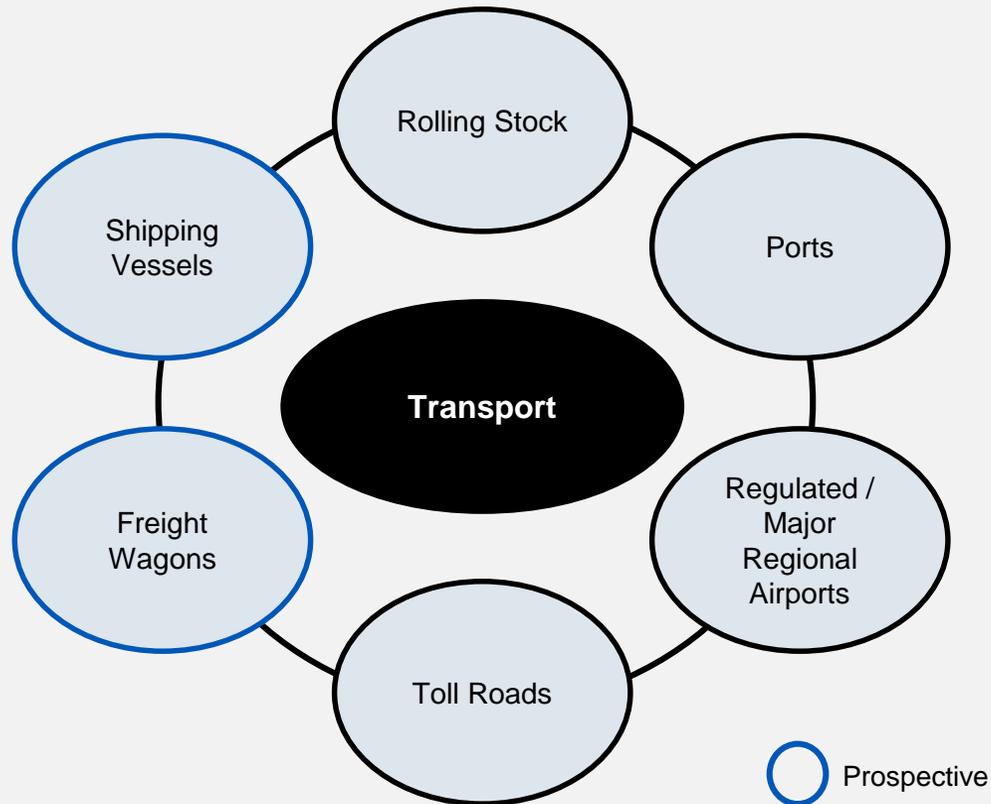
Key Themes

	Growing demand with climate transition	Focused on expanding and strengthening the transmission backbones
	Key role in context of volatility in commodities	Important role to ensure the security of supply at reasonable prices for the end customer
	Strong demand for investment	Utilities will not be able to do this alone - substantial private capital will be required to ensure the EU energy transition targets are achieved

Transport Sector

Continued strong performance whilst being central in the Energy Transition

Defining the Transport Sector



Key Themes



Key role in path to "Net Zero"

Government focus on delivering cleaner public transport systems requires significant infrastructure investment. Considerable government support throughout the pandemic confirms this is central



Rolling Stock at the centre

Increased decarbonization of transport will continue to create new investment opportunities to replace older, less environmentally-friendly, diesel trains

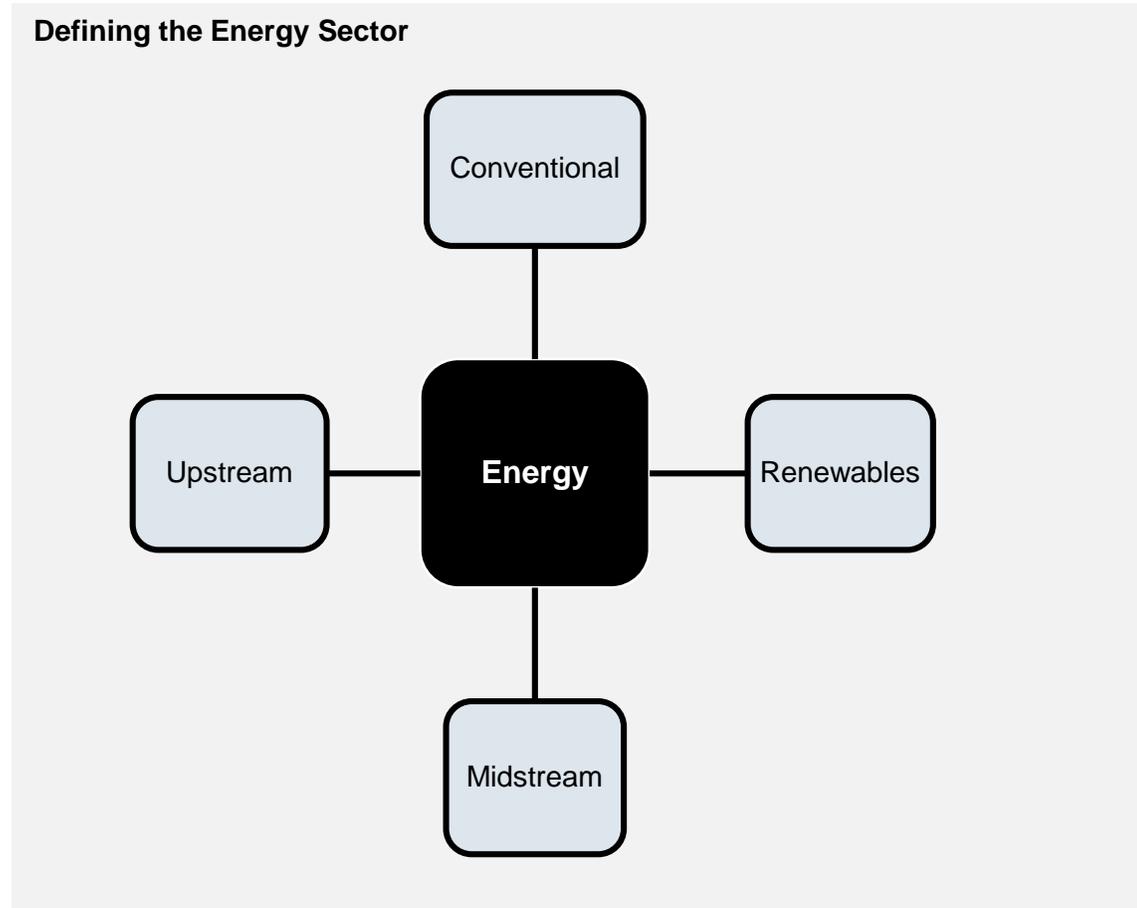


Downside protection

Institutional investors increasingly attracted by inflation-linked cashflows that provide a natural hedge

Energy Sector

European energy markets are profoundly affected by current geopolitical events

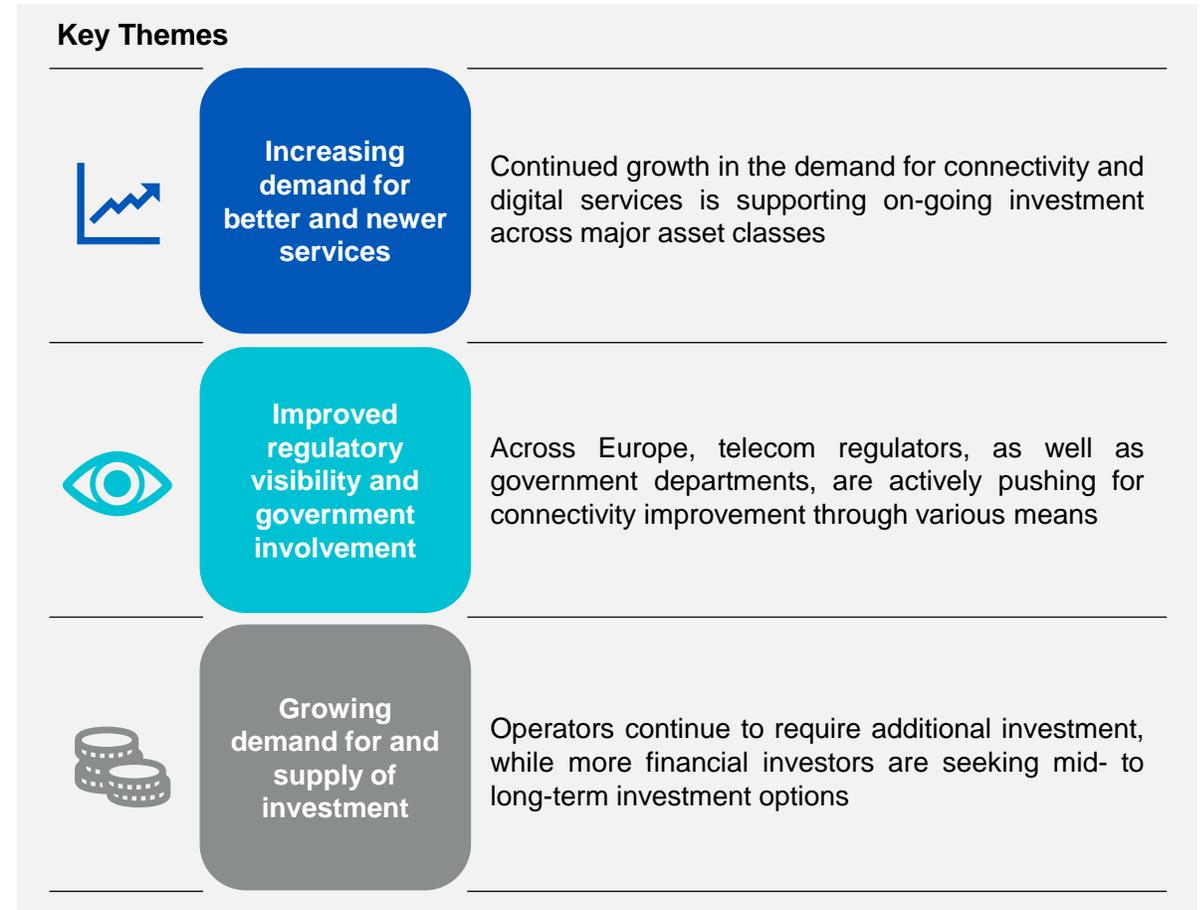
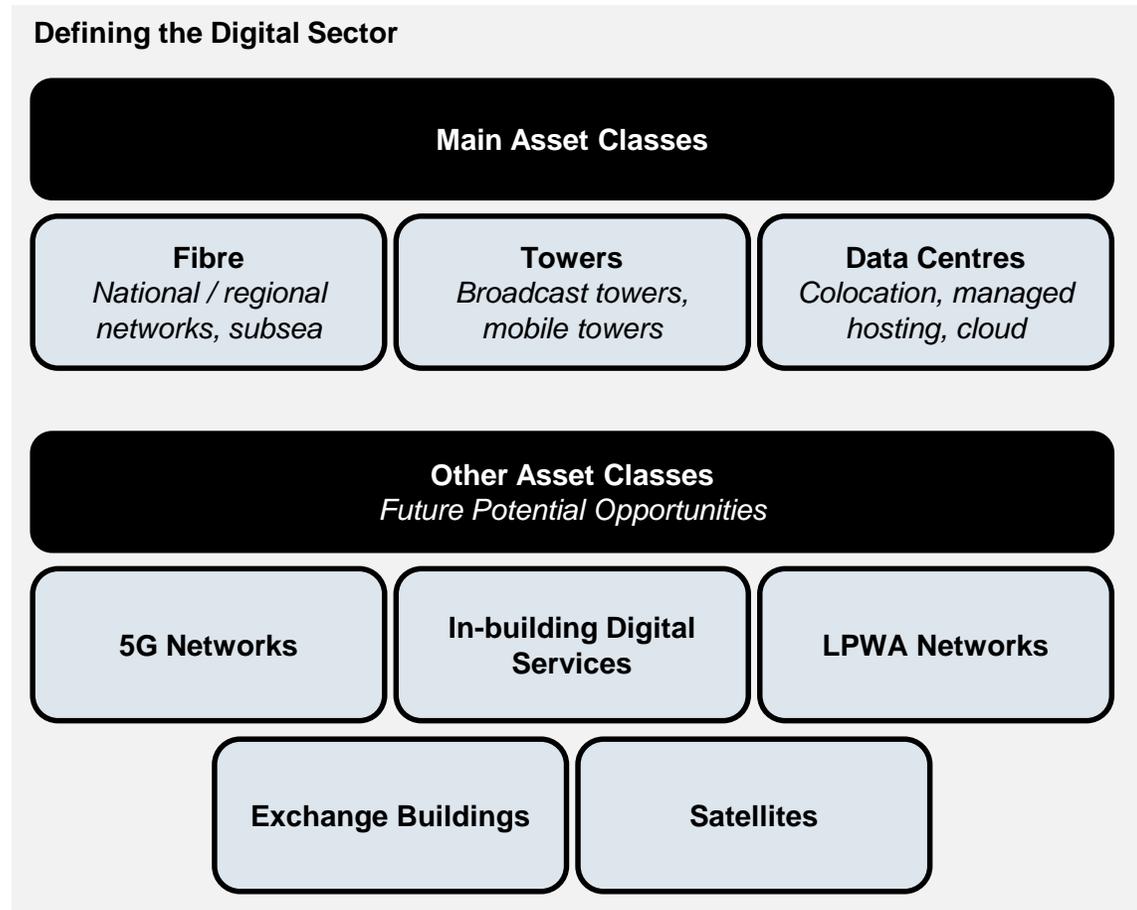


Key Themes

	War in Ukraine	Role of Russia in the European energy mix in the medium to long term
	Security of supply	How does Europe secure its energy needs?
	Market fundamentals	Structurally higher gas and electricity prices – impact on society?
	Energy Transition	Is an accelerated deployment of renewable energy sources (“RES”) achievable?

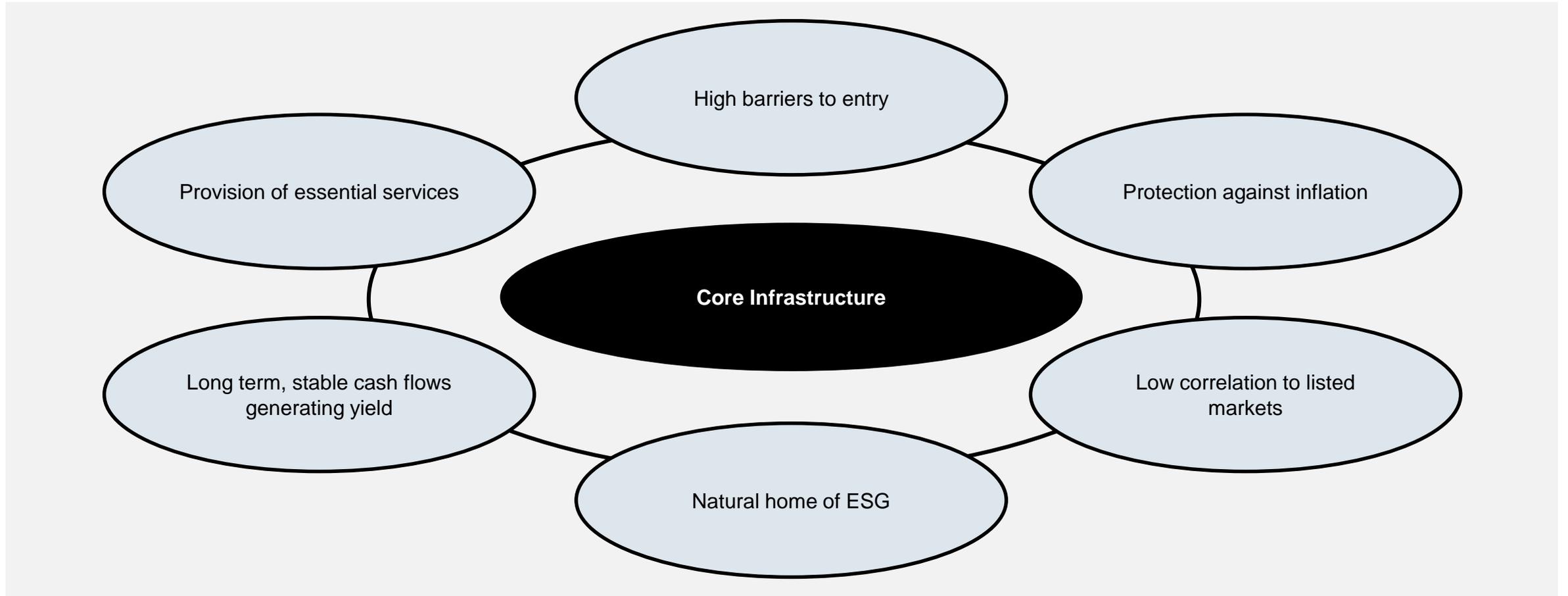
Digital Sector

Growing demand given the evolution of services and regulatory environment



Why invest in Core Infrastructure?

Core Infrastructure's defensive characteristics continue to provide comfort to investors



Protection against inflation

Inflation linkage varies by sector and sub-sector

	Utilities	Energy	Transport	Digital
Asset Examples	District Heating, Gas & electricity transmission and distribution, CHP, water	Renewable energy, midstream	Roads, rail, ports, airports	Fibre, data centres, towers
Inflation Sensitivity				
Inflation Impact	<ul style="list-style-type: none"> Regulated income stream provides stability and allows for periodic inflation adjustment Difficulty lies in predicting regulation changes Typically the adjustment mechanism is reactive resulting in time lag 	<ul style="list-style-type: none"> Cash flows reinforced by long term contracts In Western Europe, PPA's are generally offered without inflation linkage Benefit from rising power prices which are linked to inflation 	<ul style="list-style-type: none"> Demand based assets like airports can be severely impacted Availability based assets like rolling stock not materially impacted Assets benefit from inflation protection as costs to replace continue to rise over time 	<ul style="list-style-type: none"> Demand based assets can be more severely impacted Level of inflation protection depends on ability to push through prices rises Buildout strategies impacted by cost inflation
abrdn focus	<p>District heating</p> 	<p>Solar & Hydro</p> 	<p>Rail rolling stock</p> 	<p>Rural fibre</p> 

Low Correlation to Listed Markets

Correlation between unlisted Infrastructure and other asset classes

- Overall unlisted infrastructure has a low correlation to listed markets
- Assets benefit from long term contracts with returns generated by long-term cashflows rather than relying on exit multiples or short term factors
- Assets typically valued via DCF methodology
- Valuable source of diversification across a portfolio

Correlation matrix

	PE All	Infra Global	RE All	Natural Resources	Private Credit Global	European Equities	US Equities	Bloomberg Global Agg Credit
PE All	1.00	0.42	0.61	0.49	0.66	0.71	0.70	0.30
Infra Global	0.42	1.00	0.38	0.45	0.43	0.31	0.36	0.11
RE All	0.61	0.38	1.00	0.41	0.43	0.35	0.32	0.03
Natural Resources	0.49	0.45	0.41	1.00	0.53	0.47	0.44	0.12
Private Credit Global	0.66	0.43	0.43	0.53	1.00	0.73	0.73	0.38
European Equities	0.71	0.31	0.35	0.47	0.73	1.00	0.88	0.54
US Equities	0.70	0.36	0.32	0.44	0.73	0.88	1.00	0.34
Bloomberg Global Agg Credit	0.30	0.11	0.03	0.12	0.38	0.54	0.34	1.00

Source: Private Market Data: Burgiss March 2000- March 2022, Public Market Data: Refinitiv Eikon March 2000- March 2022, MSCI Europe (USD) Total Return Index, S&P 500 (USD) Total Return Index, Bloomberg Global Aggregate Credit (USD) Total Return

“Natural home of ESG”

Infrastructure is critical for future growth, environmental protection and society’s development

- Infrastructure provides essential services across energy, transportation, utilities and digital sectors at junction between public and private sector
- Direct investment typically with majority positions enabling control of strategic direction of company
- Long-term patient capital
- ESG embedded into infrastructure industry with decarbonisation typically at the hearth of long-term strategy
- Focused on long term value for investors and positive impact rather than quarterly earnings or being limited to voting to effect change



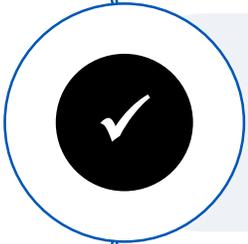
“Natural Home of ESG”

Investments in “green assets” as well as helping accelerate the transition



Investing in renewables and other “green assets”

- *Helping accelerate the roll out of solar, wind and hydro*
- *Supporting new opportunities in second generation clean energy including biofuels, biogas, geothermal and hydrogen*



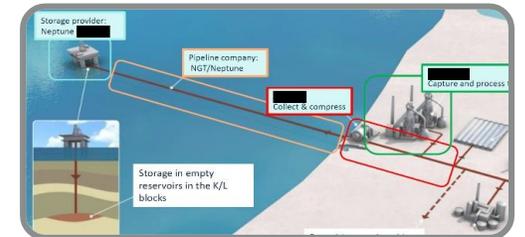
Helping accelerate positive change including electrification of transportation

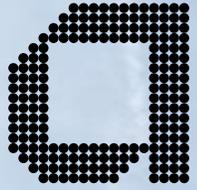
- *Helping support the electrification of the rail sector and use of public transportation*
- *Improving efficiency and decarbonisation of other sectors*



Driving de-carbonisation in carbon intensive sectors

- *Accelerating the shift from fossil fuels to clean alternative*
- *Working with partners on the development of offshore CCS solutions and transport of green hydrogen*





abrdrn's approach to Infrastructure

abrdrn.com

Investment Strategy

Continuation of a successful, established strategy

Investment Focus

- Core and Core+ infrastructure assets in Europe
- Lower mid-market focus with equity investments of €100m – €200m
- Regulated, strong contractual framework, monopolistic characteristics or high barriers to entry
- Targeting 8-10% net IRR and stable 4-5% net yield
- ESG factors fully integrated into investment and asset management processes

Status

Fund I (2015 vintage; £516 million)

- Fully invested, net IRR of 9.7% and average net yield of 4.4%¹

Fund II (2019 vintage; €669 million)

- Fully invested, Net IRR of 11.2%

Fund III (2022 vintage)

- €1bn target; second close in Jul 2022 at €411m. 1st investment in rural fibre made in Sept 2022.
- Category 8 ESG rating under SFDR

Sector Focus

Utilities



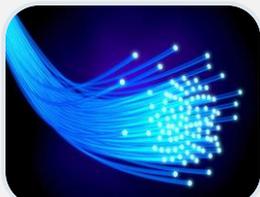
Transport



Energy



Digital



Geographical Focus

Continental Europe



Track Record¹

Strong deployment and lack of commitment fees = rapid exposure with no J-curve

Since Inception

15 deals

Across 7 countries

>20

Further bolt-ons

€2.7bn

Funds under management

Fund I – Performing in line with target, generating attractive net IRR and yield for investors
Fund II – Strong underlying performance and rapid deployment has helped avoid any J-curve

Fund	Commitments	Invested	Funded	Drawn (%)	Distributions	Average Net Yield ⁴	Valuation	Net TVPI ⁵	Gross IRR	Net IRR	Performance ⁶
SLCI I (2015)	£516m	£531m ²	£471m	91.3% ³	£62.7m	4.4%	£630m	1.5x	11.0%	9.7%	Top Quartile
SLCI II ⁸ (2019)	€669m	€603m ⁷	€394m	58.5%/83.7% ⁷	N/A	N/A	€482m	1.2x	12.1%	11.2%	Top Quartile

¹ As at 30 June 2022; ² Following the original investment of £82.9m in September 2017, £41.0m of cost was returned in April 2018 as a result of the recapitalisation of the asset and immediately re-invested into the second transaction meaning the total Fund investment into Noordgastransport is £102.1m; ³ Net of recycling; ⁴ As at 31 Dec 2021; ⁵ Net TVPI = Valuation + Distributions / Funded; ⁶ Source: Preqin. Based on net multiple for equivalent vintage funds; ⁷ Includes outstanding commitments to investments not yet drawn. ⁸ Track Record for 7 deals as at 30 June 2022

Summary

Core infrastructure

- Infrastructure encompasses a wide range of industries and sectors but with the common characteristic of providing essential services to communities
- Key sectors include: Energy, Utilities, Transportation and Digital
- An increasingly important element of many investors portfolios due to:
 - Ability to generate attractive long-term stable returns
 - Alternative source of yield
 - Provides diversification and inflation protection
 - Natural home of ESG



Important Information

Fund Specific Risk Factors

Liquidity Risk - The funds are closed-ended vehicles with 10-12 year terms with limited shorter term liquidity options for investors

Infrastructure investment risk

- Infrastructure covers a wide range of sectors and assets may have certain characteristics which have associated risks. These may include exposure to regulatory risk, risk of tax changes, interest rate sensitivity, FX exposure and demand risk. In addition because assets do not trade on public markets, valuation and pricing may be difficult to determine. Investors should have the financial ability and willingness to accept the risks and lack of liquidity associated
- Investors should have the financial ability and willingness to accept the risks and lack of liquidity associated with an investment in a closed-ended partnership
- More details of the risks applicable to this fund can be found in the Due Diligence Questionnaire (DDQ) which is available on request

Investment Objective

- The strategy of the Fund is to build a diversified portfolio of 6-10 Core / Core+ European mid-market infrastructure assets across utilities, transport and energy sectors. This is a direct strategy with the manager typically acquiring majority stakes and sitting on the Board which enables ESG considerations to be fully integrated into the investment and asset management process. The fund's objective is to achieve long-term, consistent returns, principally through yield generation and capital appreciation. The fund will aim to achieve a net IRR to investors of between 8%-10% with a running net yield between 4%-5%, paid on a semi-annual basis.

For Professional Clients Only – Not For Public Distribution

Past performance does not predict future returns. The value of investments, and the income from them, can go down as well as up and clients may get back less than the amount invested.

The Fund Management company may terminate arrangements for marketing the fund under the Cross-border Distribution Directive denotification process.

A summary of investor rights can be found in English on our website <https://www.abrdn.com/corporate/legal>. Any decision to invest should take into account all objectives of the fund.

The information contained herein including any expressions of opinion or forecast have been obtained from or is based upon sources believed by us to be reliable but is not guaranteed as to the accuracy or completeness.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use abrdn*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, abrdn* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

* abrdn means the relevant member of abrdn group, being abrdn plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

The information contained in the document is for exclusive use by professional customers/eligible counterparties (ECPs) and not the general public. The information is being given only to those persons who have received this document directly from abrdn and must not be acted or relied upon by persons receiving a copy of this document other than directly from abrdn. No part of this document may be copied or duplicated in any form or by any means or redistributed without the written consent of abrdn. The information contained herein including any expressions of opinion or forecast have been obtained from or is based upon sources believed by us to be reliable but is not guaranteed as to the accuracy or completeness. Infrastructure is a relatively illiquid asset class, the valuation of which is a matter of opinion. There is no recognised market for infrastructure and there can be delays in realising the value of assets. Tax treatment depends on the individual circumstances of each investor and may be subject to change in the future. Professional advice should be obtained before making any investment decision.

For Professional Clients Only – Not For Public Distribution

Aberdeen Standard Core Infrastructure III and abrdn Venture Partners XIII may only be offered/distributed within the meaning of Article 10 of the Federal Act on Collective Investment Schemes of 23 June 2006, as amended (“CISA”). The Confidential Placement Memorandum, the Limited Partnership Agreement as well as the annual and semi-annual reports of the Fund are available only to Qualified Investors free of charge from the Representative.

Germany, Austria: Issued by abrdn Investments Luxembourg S.A., 35a, Avenue J.F. Kennedy, L-1855 Luxembourg, RCS No.B120637. Authorised in Luxembourg and regulated by CSSF.

DE-270922-181239-1