

# Core Infrastructure – long term stable returns and decarbonisation

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

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# abrdn – Overview

Globally connected to deliver better investment results and innovation

Offering a broad range of asset class capabilities

>800

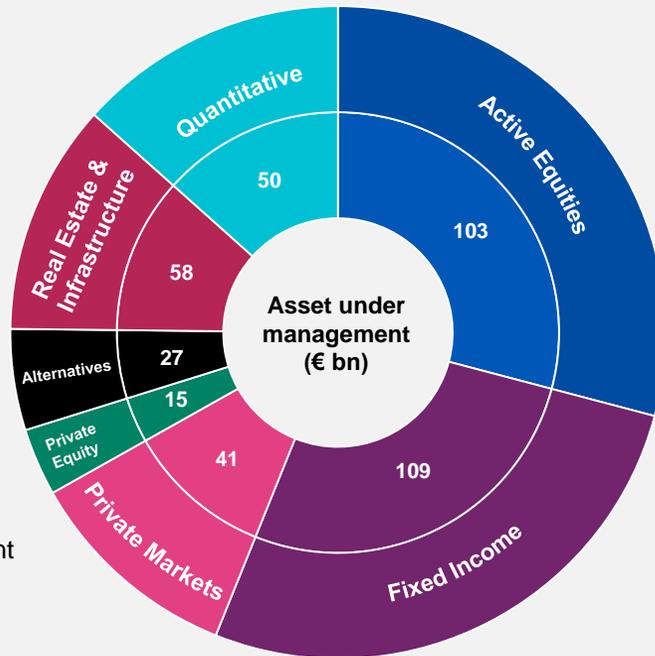
Investment professionals

>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

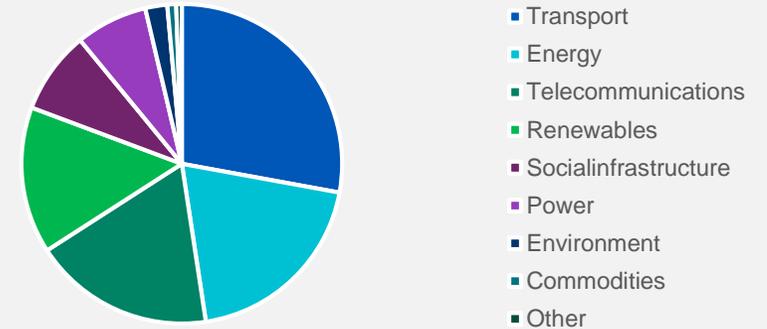


# Infrastructure Market

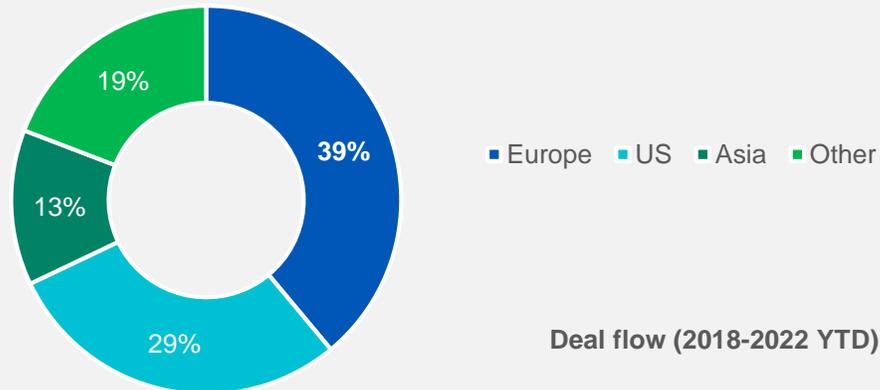
Increasing investor focus as asset class moves into mainstream

- Infra funds have raised \$145 billion year to date<sup>1</sup>
- 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 Geography<sup>2</sup>**



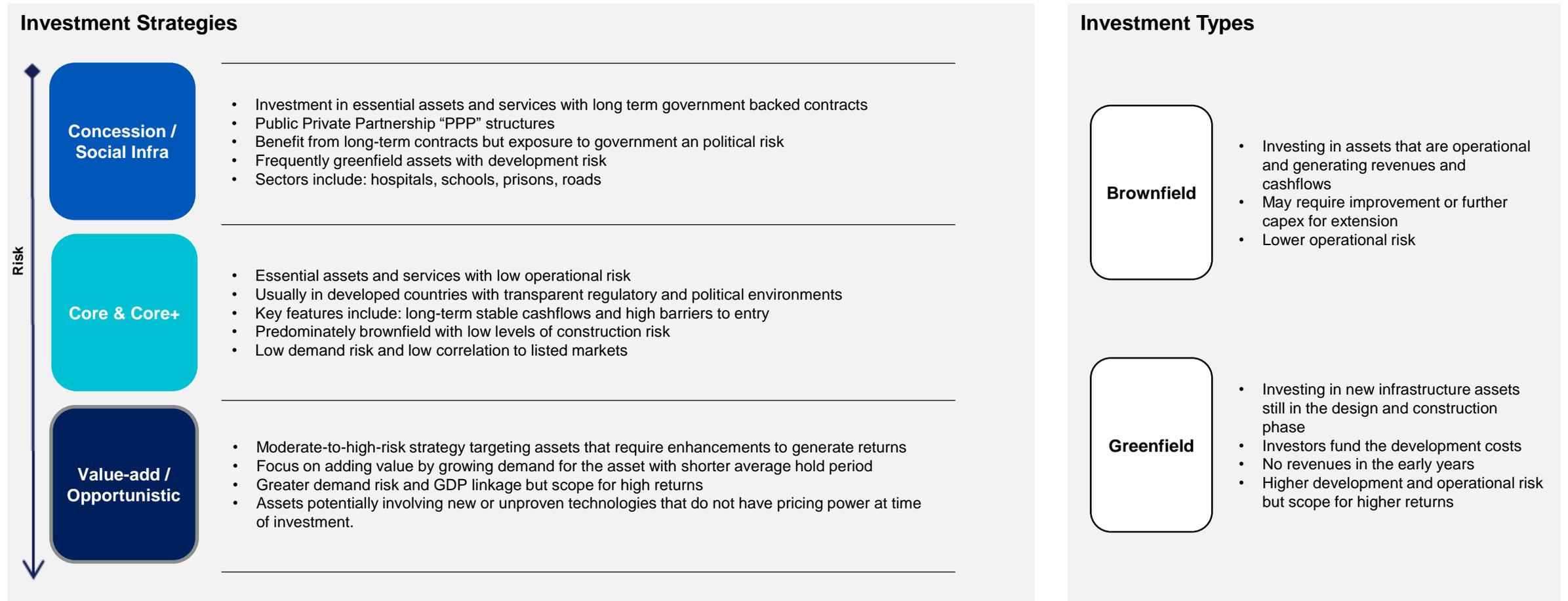
**Deal Flow by Market Segment<sup>2</sup>**

Number of European deals by size



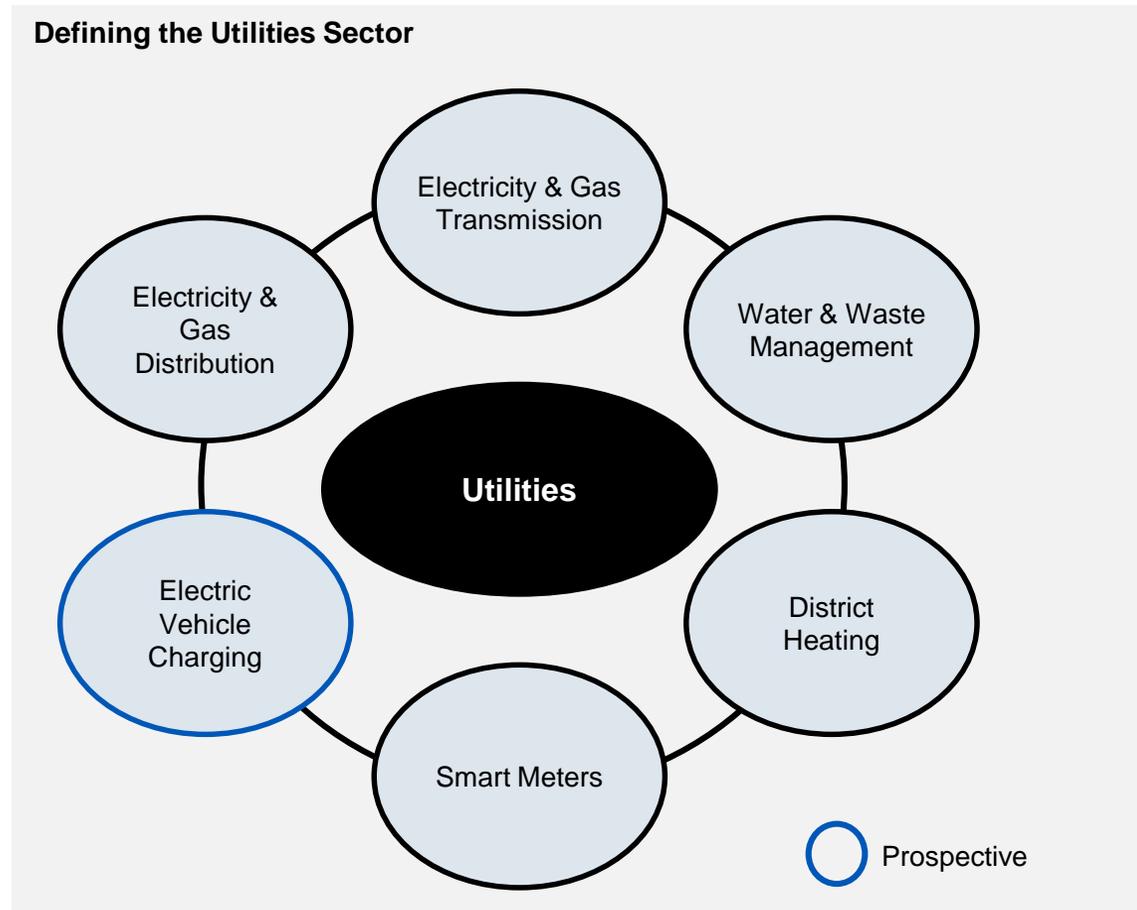
# Key Strategies across Infrastructure

## Strategies with varying levels of risk



# Utilities Sector

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



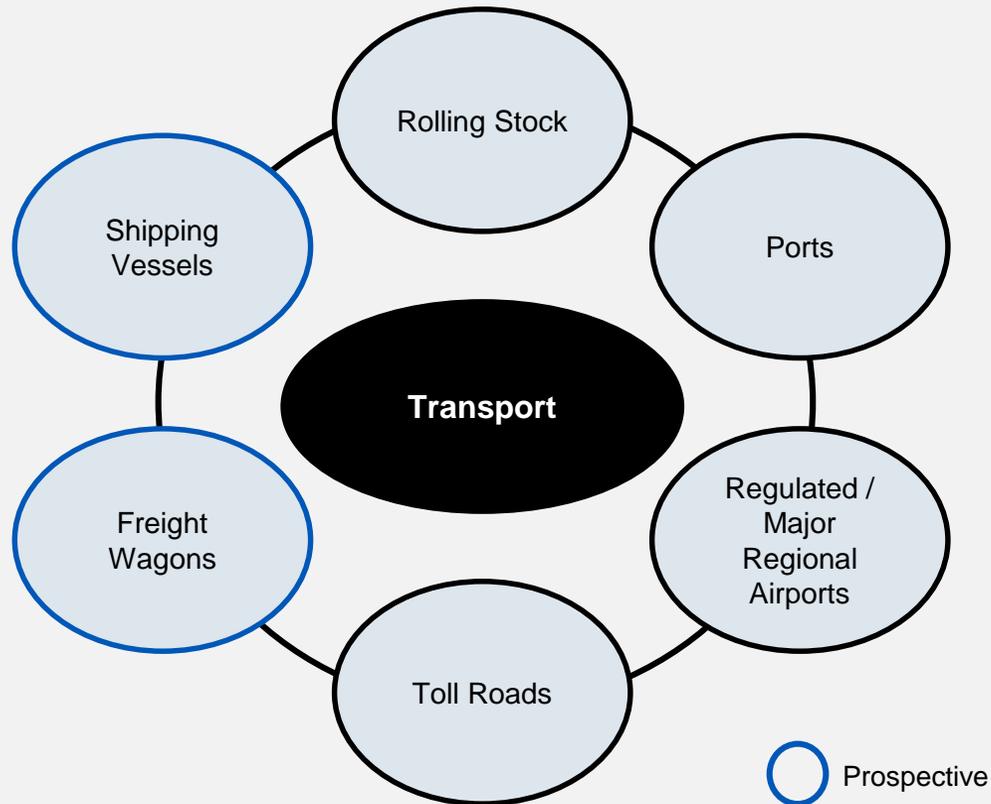
**Key Themes**

	<b>Growing demand with climate transition</b>	Focused on expanding and strengthening the transmission backbones
	<b>Key role in context of volatility in commodities</b>	Important role to ensure the security of supply at reasonable prices for the end customer
	<b>Strong demand for investment</b>	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

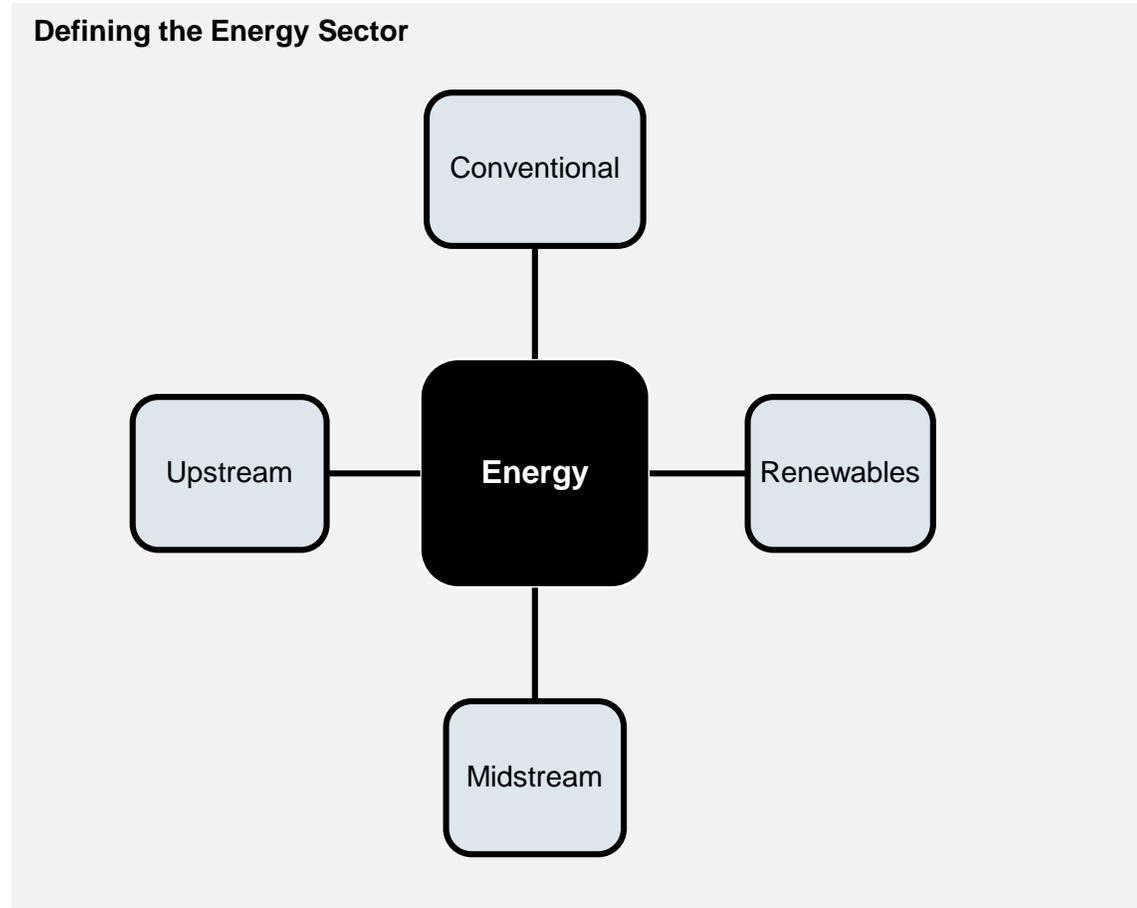


### Downside protection

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

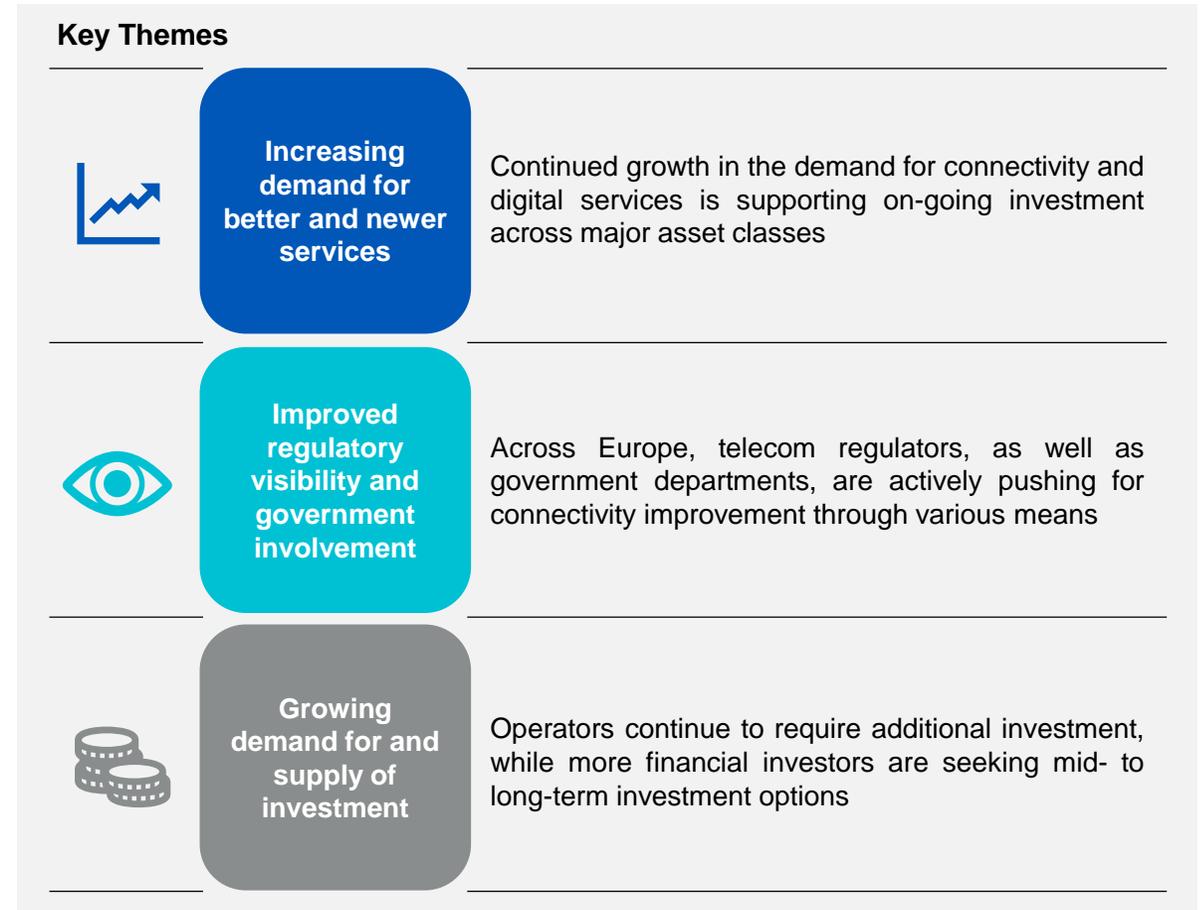
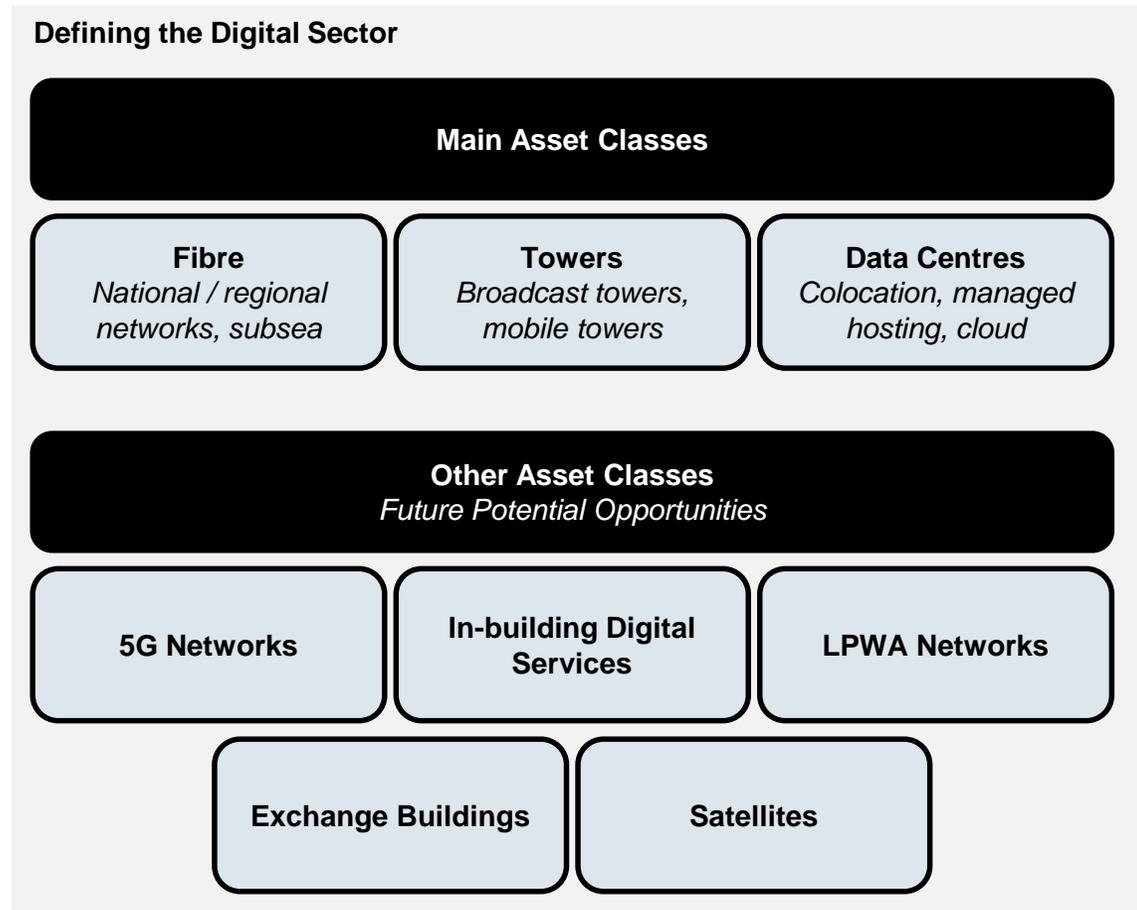


Key Themes

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

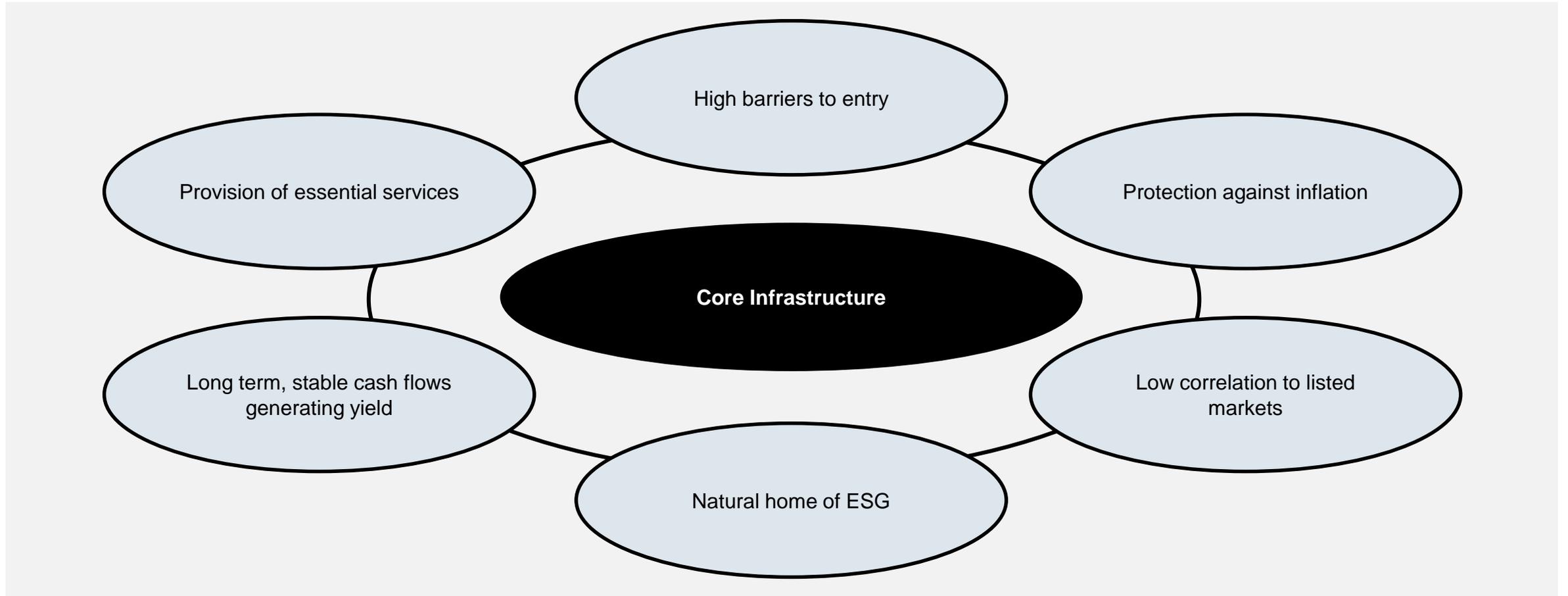
# Digital Sector

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"> <li>Regulated income stream provides stability and allows for periodic inflation adjustment</li> <li>Difficulty lies in predicting regulation changes</li> <li>Typically the adjustment mechanism is reactive resulting in time lag</li> </ul>	<ul style="list-style-type: none"> <li>Cash flows reinforced by long term contracts</li> <li>In Western Europe, PPA's are generally offered without inflation linkage</li> <li>Benefit from rising power prices which are linked to inflation</li> </ul>	<ul style="list-style-type: none"> <li>Demand based assets like airports can be severely impacted</li> <li>Availability based assets like rolling stock not materially impacted</li> <li>Assets benefit from inflation protection as costs to replace continue to rise over time</li> </ul>	<ul style="list-style-type: none"> <li>Demand based assets can be more severely impacted</li> <li>Level of inflation protection depends on ability to push through prices rises</li> <li>Buildout strategies impacted by cost inflation</li> </ul>
abrdn focus	<p><b>District heating</b></p> 	<p><b>Solar &amp; Hydro</b></p> 	<p><b>Rail rolling stock</b></p> 	<p><b>Rural fibre</b></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*



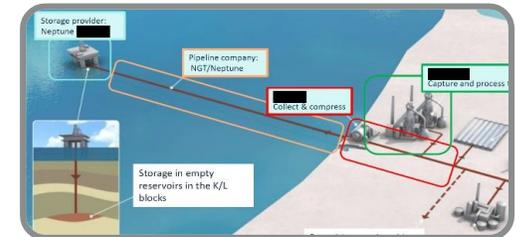
## Helping accelerate positive change including electrification of transportation

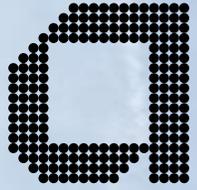
- *Helping support the electrification of the rail sector and use of public transportation*
- *Improving efficiency and decarbonisation of other sectors*



## 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*





# **abr dn's approach to Infrastructure**

[abr dn.com](http://abr dn.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%<sup>1</sup>

**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. 1<sup>st</sup> investment in rural fibre made in Sept 2022.
- Category 8 ESG rating under SFDR

## Sector Focus

Utilities



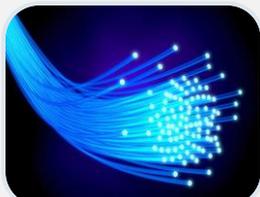
Transport



Energy



Digital



## Geographical Focus

Continental Europe



# Track Record<sup>1</sup>

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

<sup>1</sup> As at 30 June 2022; <sup>2</sup> 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; <sup>3</sup> Net of recycling; <sup>4</sup> As at 31 Dec 2021; <sup>5</sup> Net TVPI = Valuation + Distributions / Funded; <sup>6</sup> Source: Preqin. Based on net multiple for equivalent vintage funds; <sup>7</sup> Includes outstanding commitments to investments not yet drawn. <sup>8</sup> 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.

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**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.**

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