

Why Invest in UK Infrastructure today?



What is Infrastructure?

Infrastructure assets are those that provide the essential services and facilities necessary for a society and economy to function successfully. Typical assets are hospitals, schools, transportation networks, power generation and delivery. These are 'must have' assets, almost all of which are either financially backed or regulated by the UK Government.

A Growing Asset Class

The UK government is looking to the capital markets to secure over £200 billion of additional infrastructure investment over the next 5 years. A significant proportion of existing and proposed Government infrastructure spend will continue to be supported by private funding allowing retail investors to benefit directly from the asset class.

The Benefits:

Government Underpin – A substantial proportion of private sector UK infrastructure spend generates revenue from long-term contracts with the public sector or public sector-backed clients. This gives additional counterparty security to the resulting long dated income streams.

Substantial barriers to entry – Projects typically require significant capital investment and have lengthy lead-in times creating substantial barriers to entry for competitors resulting in reduced volatility.

Resilience to the economic cycle – The provision of vital services means their usage remains relatively stable during economic downturns.

Inflation hedge – Revenues from infrastructure assets, being generally long dated, are often linked to inflation either through a regulatory framework or contractual obligations.

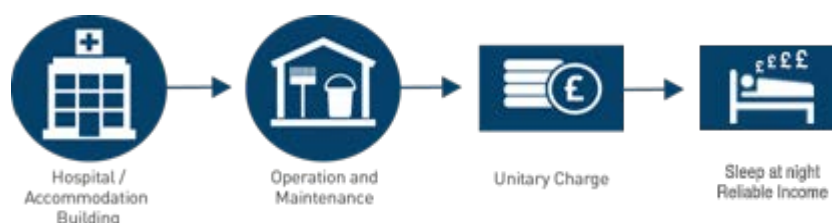
Income Generation – infrastructure assets tend to be cash generative and hence are generally able to produce regular income distributions which are both stable and reliable giving investors significant visibility.

Low Correlations – Being long dated assets with a built-in resilience to the economic cycle coupled with significant inflation hedging the asset class displays very low correlation with the broader market.

Socially Responsible Investing – A significant proportion of UK infrastructure expenditure is invested in socially important projects such as renewable energy, social housing, schools and healthcare facilities.

Why Now?

Following the EU Referendum result we expect the loosening of UK Monetary and Fiscal Policy to strongly support the Public Sector as inward investment and corporate and consumer spending look set to reduce. As such we believe this will lead to increased spend on infrastructure projects giving additional breadth and opportunity to the existing market. At the same time alternative sources of reliable income for investors from bond and equity markets continue to be squeezed by Central Bank actions, QE programmes and the suspension of a number of open-ended funds. These factors should ensure the continued attractiveness of an asset class which offers greater income returns than either equities or Investment Grade Corporate Bonds whilst offering low volatility returns.



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