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Infrastructure investing: How to access this illiquid asset class

*By **Adam Burniston at Thesis Asset Management** **(Money Observer)*** |

With gilts, corporate bonds and equities all considered by many to be overvalued now, investors are hungry for other opportunities from which to derive income. As a result, there has been a rise in interest in infrastructure investing, although this asset class is not always perceived to be as accessible to retail investors as more traditional assets.

Direct infrastructure as an asset class tends to be characterised by large lot sizes and high illiquidity. Ownership of whole infrastructure projects is usually a sole corporate endeavour (ie one institutional owner) or a small conglomerate of long term, professional investors, sometimes alongside government bodies - difficult for retail investors to get involved in.

That said, there do exist listed companies such as **National Grid** (NG.) or **SSE** (SSE) that could technically be referred to as infrastructure, in which any investor could buy a share. However, these types of companies are conventionally classed as utilities and are generally considered distinct from pure play infrastructure.

When we talk about infrastructure we tend to mean Private Public Partnerships or arrangements similar in nature, wherein a contracted, government backed revenue stream allows for a predictable cash flow and valuation for investors. Think schools, sanitation infrastructure or railway rolling stock, for example.

When using infrastructure in client portfolios, fund managers are often looking to provide diversification from traditional asset classes, such as stocks and bonds, instead preferring investments to be as 'pure' as possible. One way of accessing purity in infrastructure is by using investment trusts, for example **33i Infrastructure** (3IN) and **International Public Partnerships** (INPP), two main holdings in this space for Thesis.

Investment teams at these trusts, and others like them, have both the expertise and economies of scale to take sole - or significant - ownership in an infrastructure project at a sensible valuation, and where appropriate can also manage the project proprietarily. For example the named funds have made investments in projects such as Anglian Water Group, Northampton Schools and Thames Tideway.

There do exist other avenues to infrastructure investment. For those who can't hold listed investments in their portfolios there is the option of a fund of infrastructure trusts (such as **VT UK Infrastructure Income**). As the name suggests the fund comprises listed infrastructure investments such as **GCP Infrastructure Investments Limited** (GCP) and **John Laing** (JLG), as well as renewables and specialist trusts.

Another option is listed infrastructure funds, which allow access to a diverse portfolio of infrastructure-related stocks - these could be UK or international companies in sectors such as energy distribution, airports, transport assets, telecoms, to name but a few.

Whilst the underlying assets may be 'real' infrastructure, and therefore inherently have the defensive characteristics to perform resiliently in the long run, the fact of the shares being listed on the main stockmarket means these companies act very similarly to equities, the very asset class that is looking overvalued to many currently.

Structural advantages

One of the most attractive characteristics of infrastructure investments is their pre-determined and predictable, usually government-backed, cash flows. This type of predictability and high level of free cash flow yield allows for the payment of substantial, often growing and inflation-linked dividends.

In an environment of ultra-low bond yields, compressed and highly-valued property rents, the type of income produced by infrastructure has been extremely popular. The government-backed aspect of the investments, coupled with the high pay out, has made infrastructure investments historically less volatile as their future prospects don't change radically day to day or month to month.

As previously mentioned, many infrastructure projects have high inflation-linkage; inflation of course being a growing concern for investors in the ongoing quantitative easing, weak sterling and high employment environment. INPP has an inflation 'linkage' of 89% (the highest in the peer group) - that is to say that for every 1% of inflation in the economy, INPP's revenues grow by 0.89%. This is a good starting point on which to develop a growing revenue stream.

It is no surprise that infrastructure is rising in popularity. It can provide investors with a defensive, high-dividend holding with which to diversify away from the 'classic' asset classes in a challenging environment. It can also offer a relatively predictable trajectory over the longer term. So long as investors know what they are buying into when it comes to infrastructure, its popularity is likely to be maintained.

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