4 Reasons to Invest in Infrastructure

Prepared by:
Affin Hwang Asset Management

Against a backdrop of heightened volatility in markets this year, infrastructure assets has emerged as a source of stability for investors with its predictable cash flow and strong dividend growth.

Here are 4 reasons why you should invest in infrastructure assets to build resilience in your portfolio.

01 Resilience to Market Volatility

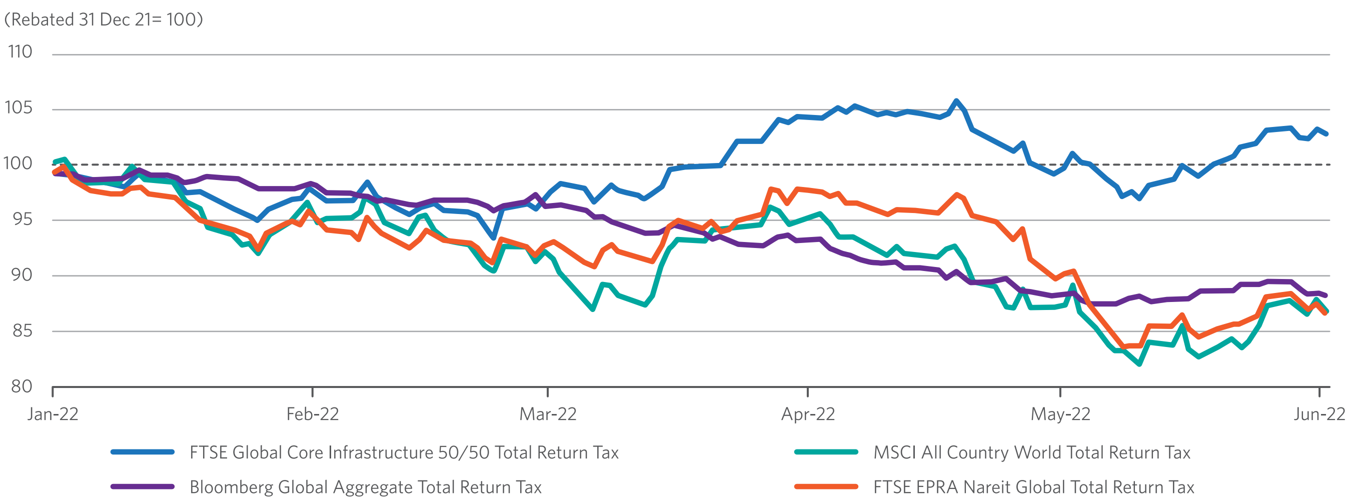
Of the 21 market sell-off episodes identified since 2005, global listed infrastructure stocks outperformed global equities 67% of the time, delivering excess returns of 2.7% on average.

Buttressed by its stable cash flow, strong dividend growth and robust inflation pass-through, infrastructure assets also held up strongly in the 1H'22 despite geopolitical shocks and rising interest rates.

When listed infrastructure outperformed, it did so meaningfully, by 4.5% on average. When it underperformed, it only did so by a paltry 92 basis points. This suggests listed infrastructure can possibly provide some downside protection during periods of heightened market volatility and risk aversion.

Chart 1: Global core infrastructure versus global equities, global bonds and global property

Strong outperformance of infrastructure versus global equities and global bonds comes against a backdrop of rising rates, elevated geopolitical risks and slowing global growth.



Source: Bloomberg, Data as of 31 May 2022. Past performance is no guarantee of future results.

02 Income linked to asset bases, not economic cycles

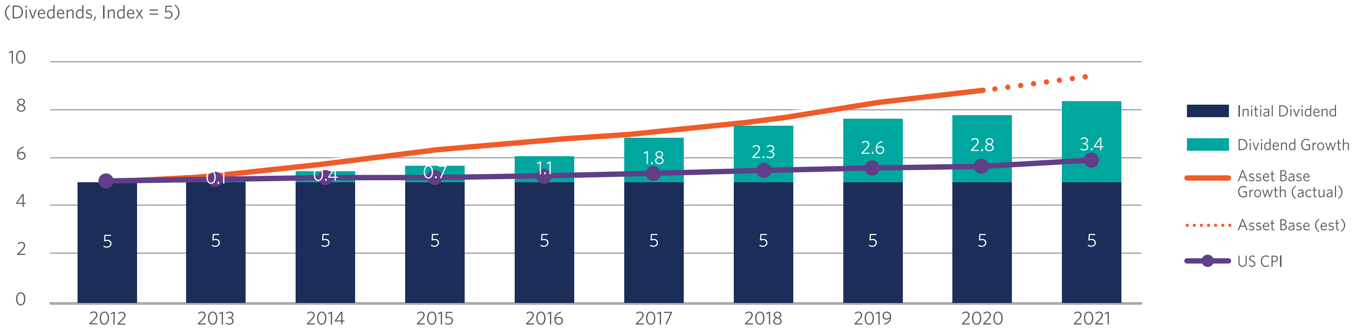
The underlying revenue drivers of infrastructure assets are linked to their asset bases as opposed to economic cycles, making them more resilient in a downturn.

Compare this with traditional dividend-stocks whose income-generation abilities is closely linked to economic activity or the business cycle. From this perspective, income from listed infrastructure appears more resilient and defensive in nature and somewhat safeguards investors from the vagaries of the economic cycle.

As can be gleaned from Chart 2 below, dividend growth is highly correlated with the expansion of the underlying companies' asset bases. It also demonstrates that the growth of dividends and asset bases over the last decade have beat headline inflation in the US.

Chart 2: Dividends, asset base growth and US Consumer Price Index (CPI)

Listed infrastructure divedends are closely linked to asset base growth.



Source: ClearBridge Investments, Calculations as of 31 December 2021, based on the global infrastructure income strategy managed by ClearBridge Investments. Past performance is not indicative of future performance.

03 A bona fide inflation hedge

With inflation expected to remain higher for longer, listed infrastructure's bona fides as a genuine inflation hedge looms large. As stated earlier, cash flows and revenues from the use of these assets are typically linked to and protected by regulation, concession agreements and long-dated contracts that may include various forms of price adjustments to help pass through the effects of inflation to end consumers.

Consequently, the returns of user-pay infrastructure companies as well as public utilities are positively correlated with inflation. Combined with steady demand for these essential services, infrastructure companies are typically able to ensure that nominal earnings keep pace with inflation.

Put simply, we believe demand inelasticity and the ability to pass the effects of inflation to the end customer somewhat insulates user-pay infrastructure companies and utilities – and by extension investors – from the impact of inflation.

04 Underpinned by Secular Trends

Significant decarbonisation efforts in the race to net zero and shifting public spending priorities towards greening infrastructure will boost infrastructure assets.

Continued urbanisation and expansion of the middle-class will also continue to buoy the prospects of listed infrastructure assets in the years ahead, as governments ramp-up spending.Trillions of investment dollars will likely be directed to this sector in the years ahead as global decarbonisation efforts ramp-up.

These investments will likely expand the asset bases of infrastructure companies within an environment of regulated returns, thereby allowing them to grow dividends over time.

Build Portfolio Resilience

With little overlap against traditional asset classes such as equities and fixed income, infrastructure assets provide an additional source of diversification to investors through a stable income stream owing to the long-term contractual nature of the assets. The Affin Hwang World Series – Global Infrastructure Income Fund provides investors access to global income opportunities through listed infrastructure assets to build resilience in their portfolio. Scan the QR Code to learn more or visit **www.affinhwangam.com/BUILD**

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