

Current infrastructure equity cycle

Where are the opportunities?

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Road map

- What is infrastructure in today's market?
- Rise of the asset class (growth in AUM / investment by sector)
- Key factors attracting investors to infrastructure
 - Stable cashflows through the cycle
 - Low historical correlation with other asset classes
 - Inflation protection
- Where are we in the cycle
 - Changing style of infrastructure investment over time
 - Valuations
 - Impact of rising interest rates
- Conclusion

What is infrastructure?

The definition has broadened significantly in recent years

Energy & Utilities



Transport



Communications



Social Infrastructure & PPP



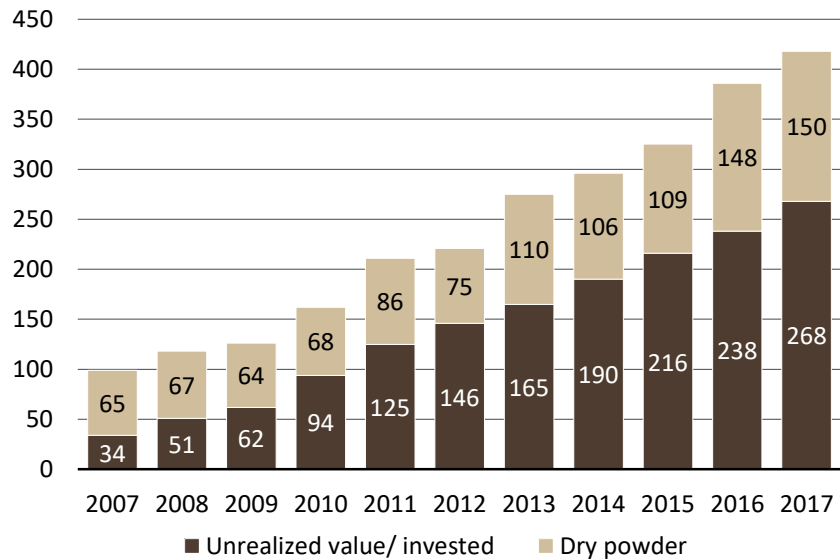
What about?

- Asset light businesses , e.g. hospital operators?
- Crematoria?
- Autism community centres?
- Laundromats?

Rise of the infrastructure asset class

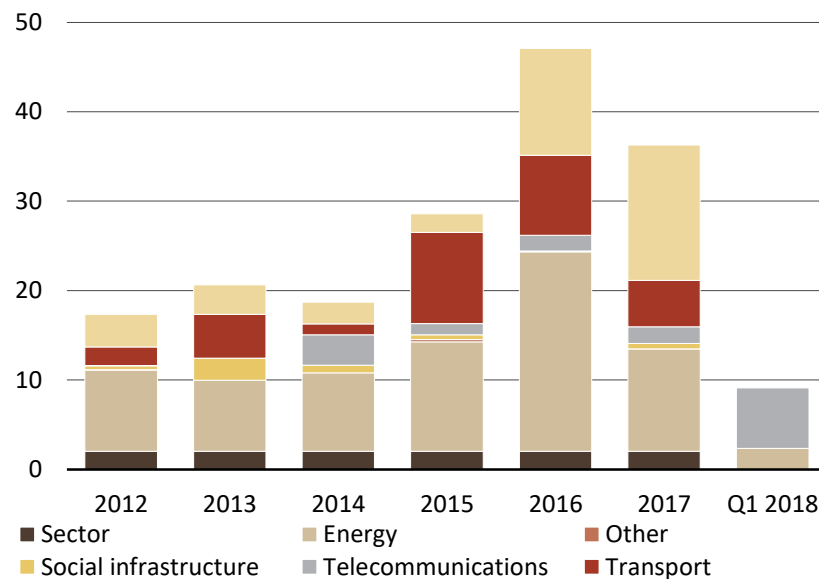
Infrastructure sector now four x larger than in 2007

Growing AUM in infrastructure (USD bn)



Source: 2018 Preqin Global Infrastructure Report

Investment by sector – annual (USD bn)

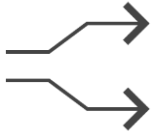


Source: Preqin 2Q 2018

What attracts investors to infrastructure



1. Defensive assets with strong performance during economic cycles



2. Low historical correlation with other asset classes



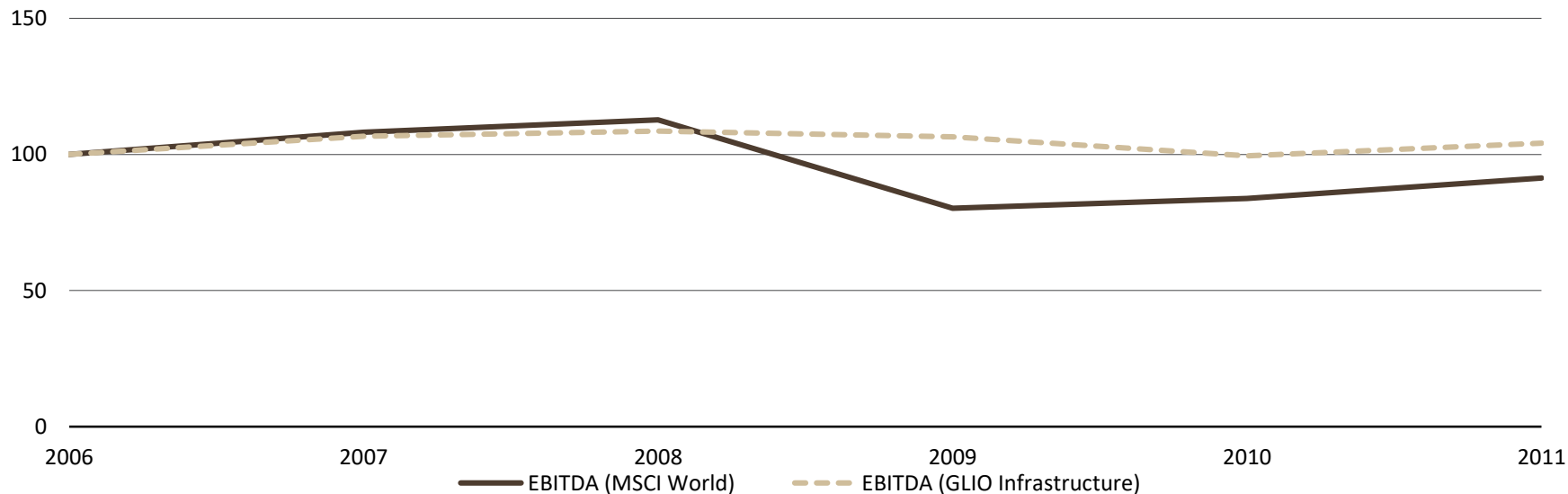
3. Inflation protection

Source: UBS Asset Management, Real Estate & Private Markets (REPM); September 2018

Stable performance during economic cycles

Performance during the financial crisis: defensive

Comparison of global equities and infrastructure EBITDA (2006-2011) (index: 2006 =100)



Source: DataStream, MSCI World Index¹, Listed infrastructure included in GLIO index¹, UBS Asset Management, Real Estate & Private Markets (REPM); May 2018

¹ Outliers removed from indices to capture M&A related earnings movements.

Historically low correlation with other asset classes

Infrastructure has a low correlation with other asset classes

Correlation (Q4'07 – Q4'17)	Global equities	Global gov. bonds	Global corp. bonds	Global listed infra.	Unlisted global infra. (2Q lag)
Global equities	1.0				
Global gov. bonds	-0.4	1.0			
Global corp. bonds	0.5	0.2	1.0		
Global listed infra.	0.8	-0.1	0.7	1.0	
Unlisted global infra. (2Q lag)	0.3	-0.1	0.0	0.3	1.0

Source: Global equities: MSCI WORLD (USD); Global government bonds: JPM GBI GLOBAL ALL MATURITIES; Global corporate bonds: ICE BofAML Global Corporate Index; Global listed infrastructure: DJ BROOKFIELD GLB INFRA (USD); Unlisted global infrastructure: MSCI Global Quarterly Infrastructure Asset Index.

Note: The correlation analysis with unlisted infrastructure is lagged by two quarters; the unlagged correlation is 0.02.

Providing improved risk-adjusted returns

	Base Case ¹	Infrastructure case: 10% allocation ²	
Portfolio Return (annualized)	5.7%	6.4%	△
Portfolio Volatility (annualized)	10.2%	9.3%	▽
Sharpe Ratio	0.53	0.65	△

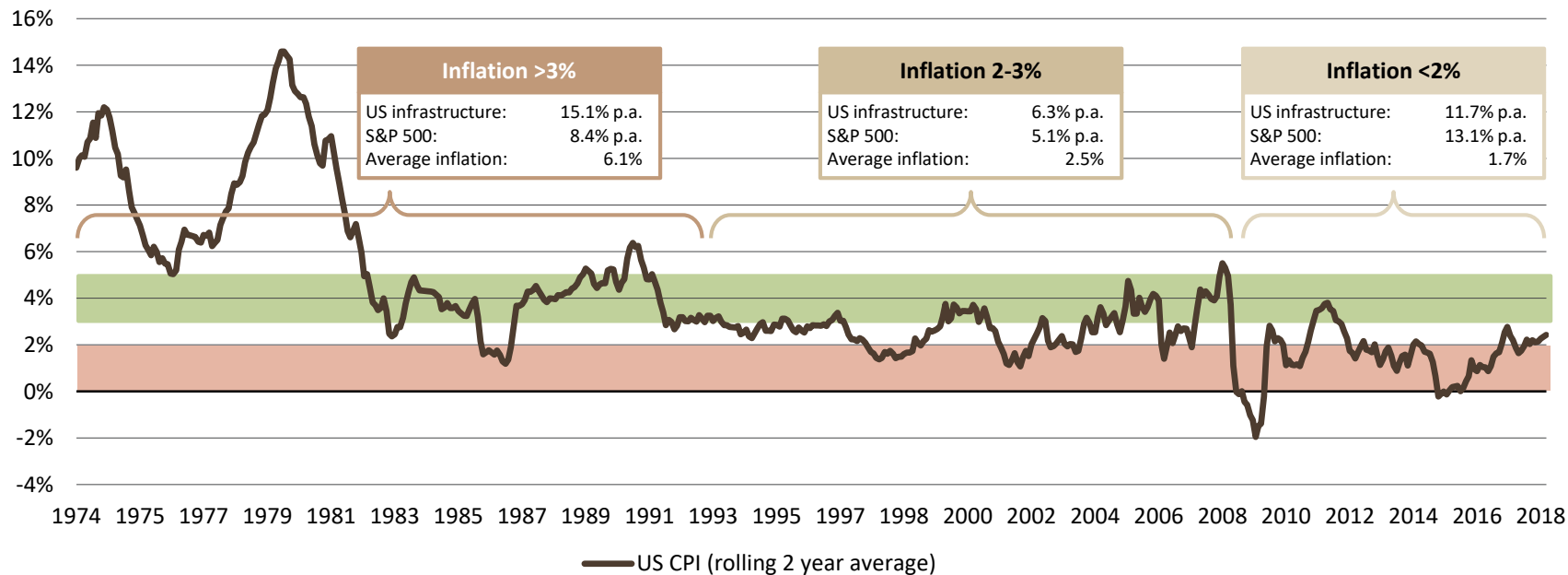
Source: MSCI WORLD (USD); JPM GBI GLOBAL ALL MATURITIES; ICE BofAML Global Corporate Index; DJ BROOKFIELD GLB INFRA (USD); MSCI Global Quarterly Infrastructure Asset Index

1. 50% global corporate bonds, 50% global equities

2. 45% global corporate bonds, 45% global equities; 10% infrastructure

Inflation protection

Infrastructure offers protection against rising inflation



Source: DataStream; S&P 500 Total Return, US-based equities in the DJB Infrastructure Index

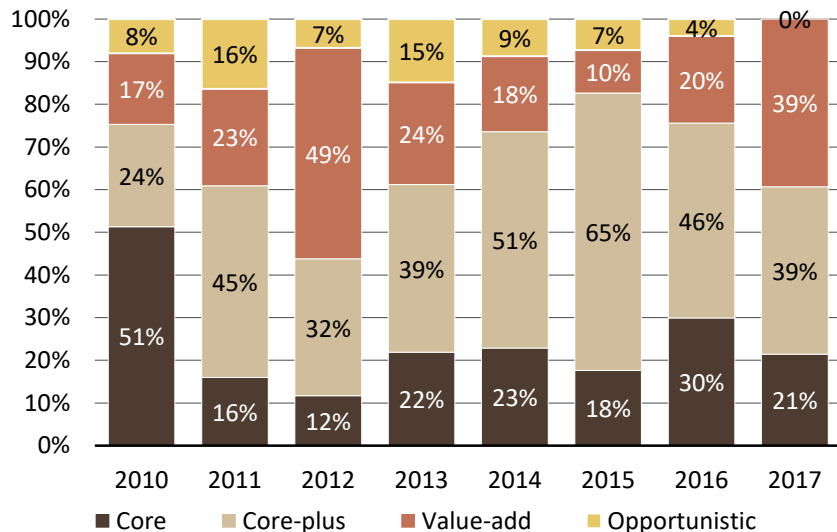
Infrastructure equity market themes

Increasing share of non-core strategies in market...

...Leading to more capital-driven strategies

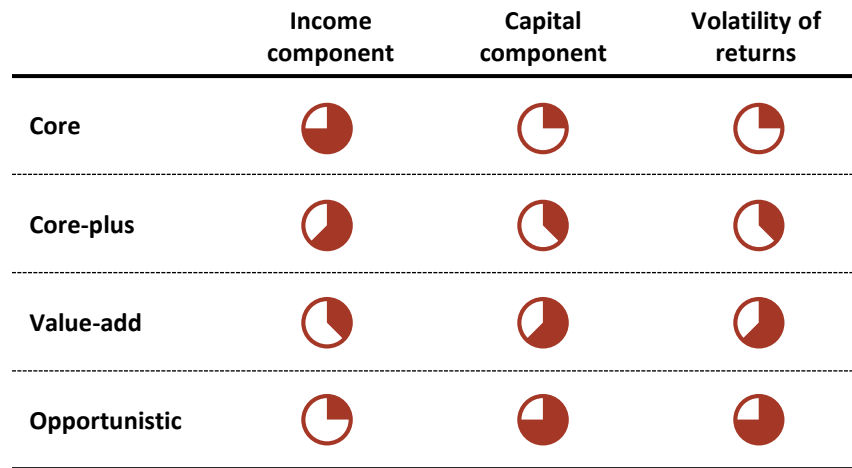
Changing investment style

(Capital raised by primary equity strategy, %)



Source: MSCI Global Quarterly Infrastructure Asset Index, December 2017

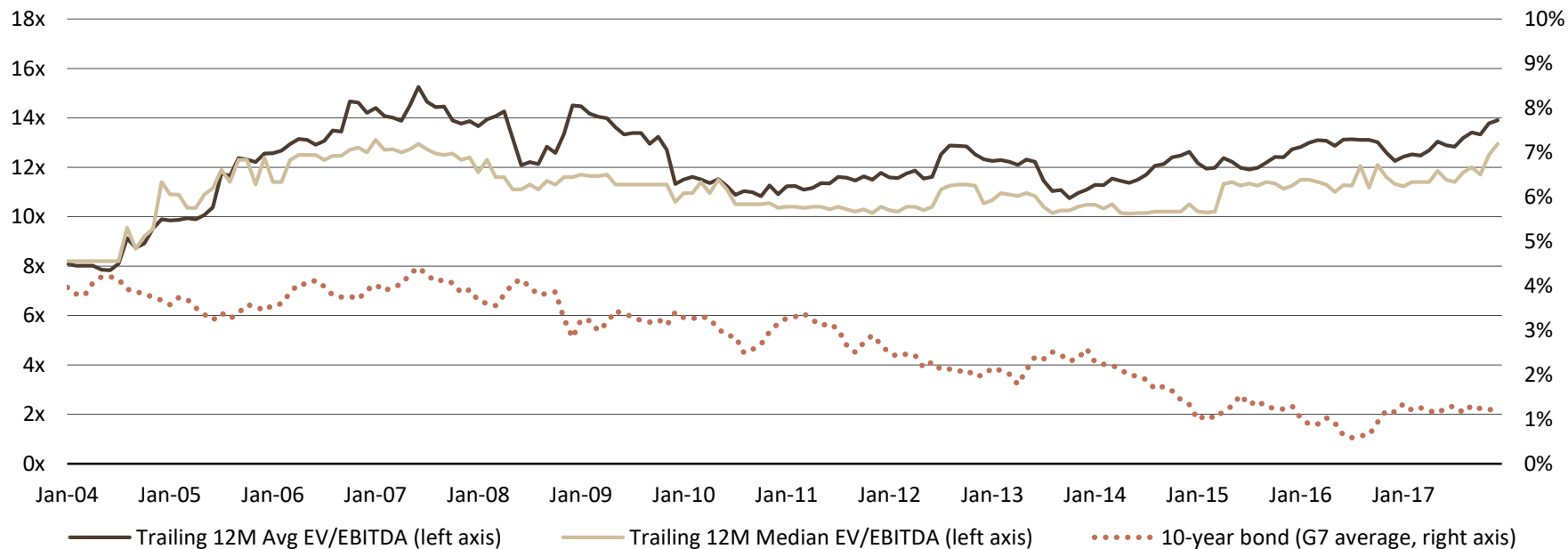
Illustrative return profile by style



Source: UBS Asset Management, Real Estate & Private Markets, 2018

Valuations showing late-cycle signals

EV/EBITDA at 2007 levels but base rates c. 1.5% lower



Source: UBS-AM Proprietary Database, Mergemarket, Infranews, Infrastructure Journal, Infrastructure Investors, Bloomberg; August 2018

Increasing focus on ESG

01 | Responsible ownership and operation of infrastructure assets can have a significant positive impact on the environment and clients' returns



02 | While financial objectives remain the primary focus, many managers consider long-term environmental, social and governance aspects



Environmental

- Carbon emissions displacement
- Resource depletion, including water



Social

- Occupational health & safety
- Working conditions, including slavery and child labour
- Local communities, including indigenous communities



Governance

- Executive pay
- Gender diversity

Source: UBS Asset Management, Real Estate & Private Markets (REPM); September 2018.

Note: PRI reporting is the largest global reporting project on responsible investment. GRESB assesses the sustainability performance of real assets.

Research: Infrastructure and the economy

- Pressure on rate rises from solid GDP growth and rising inflation
- Infrastructure cashflows typically respond well to GDP growth and inflation
 - Expected to largely offset a modest increase in rates; impact subject to asset-specific factors, e.g. capital structure
- In rising rate environment, we would expect equities to outperform, and new inflows to infrastructure could slow
- Investor sentiment for the sector remains at record highs and we expect infrastructure to continue to play an important role in investor's portfolios



Concluding remarks

Infrastructure sector has proven itself as an attractive asset class...

- Institutional investor interest in infrastructure sector is at record highs
- Level of dry powder is at record levels as demand exceeds opportunities
- Growth of sector means that investors now have a choice of managers across the risk-return spectrum
- Data suggests sector is moving more towards the core-plus, value add style than core
- Riskier "infrastructure" investments perform more like public or private equity investments, where capital appreciation tends to make up a large part of returns
- In uncertain times, we believe income strategies are an attractive risk-return opportunity and may outperform capital driven strategies if there is a market correction

...by providing diversification and strong returns

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