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AFTERNOON AMERICANO

Nordea ASSET MANAGEMENT

Interview with lead portfolio manager Jeremy Anagnos, of CBRE Clarion

Nordea 1 – Global Listed Infrastructure Fund

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Please note that the conference call occurred on the 27th of November 2020. All market commentary and information refers to the period before then.

Key takeaways

- While the election of President Joe Biden and major global infrastructure spending plans are supportive for the asset class, long-term secular trends will drive the stable and predictable growth of listed infrastructure.
- Decarbonisation adds a tailwind, requiring investment in renewable generation, storage, green hydrogen, natural gas and transmission investments.
- Changing consumer trends and evolving business demands are driving increased usage of internet-based devices – with a greater need for data storage, processing power and bandwidth of connections.
- Benchmark definitions developed more than a decade ago may not fully capture the global opportunity set available to listed infrastructure investors.

President-elect Joe Biden has outlined major infrastructure spending, how much does this hinge on the upcoming Senate runoffs?

If the Democrats take the Senate, the so-called 'blue wave' likely paves the way for the near $2trn plan Biden previously outlined. This encompasses many areas of infrastructure – with a focus on clean energy investment, as well as transportation and communication. Even if the Republicans retain a slight Senate majority, this may not derail an infrastructure spending plan. There is recognition the US needs to improve its infrastructure, while this is also a way to promote jobs in an economy impacted by the Covid-19 pandemic. So, while we may not see the full $2trn package, there is a likelihood we get a bipartisan infrastructure spending plan.

Biden wants to re-join the Paris Agreement and accelerate decarbonisation efforts. What impact will this have on infrastructure companies?

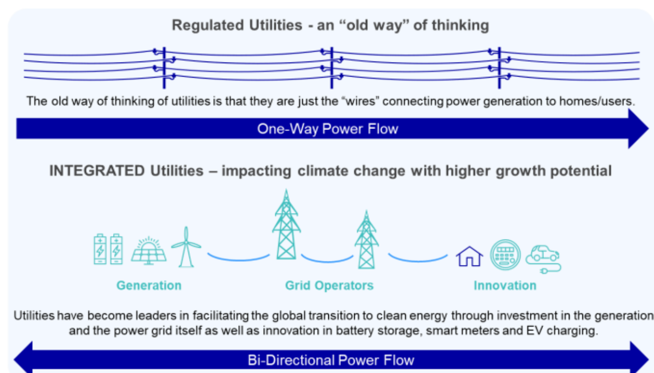
There is an opportunity for energy companies to participate in the transition to a clean future. Ahead of the US election, it was estimated more than $400bn a year would need to be spent for the next ten years in order to achieve the sustainable targets outlined by each of the states. This is not even as aggressive as Biden's plan for a carbon neutral power sector by 2035. While renewable generation, such as wind and solar, is required, there is also a need for battery storage backups and transmission investments. At the user end, there need to be increased smart metres and electric vehicle charging stations, for example. We had already recognised this secular opportunity, but the Biden plans could bring this forward.

It seems this is not simply a US phenomenon. Are you encouraged by spending pledges in other regions across the world?

Absolutely. The EU unveiled its green recovery plan in the summer, with a significant amount of investment targeting clean energy. The UK chancellor also put forward an infrastructure spending plan a few days ago. Again, with 7.5% projected unemployment next year in the UK, this is a way to boost employment. In addition, Japan and China recently announced net-zero carbon targets for 2050 and 2060, respectively. This decarbonisation movement is truly global. Fortunately, the largest

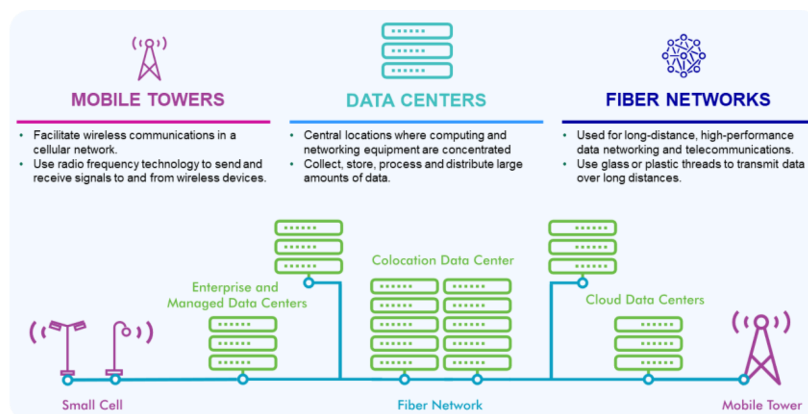
developers of renewable assets – the wind and solar facilities – are publicly traded companies. These global companies have the scale needed to compete for what will be a continuous pipeline of projects, powered by rising government policy support.

Sticking with decarbonisation, can you explain the role of 'integrated utilities'?



Traditional regulated utilities, which own the wires and poles, are increasingly becoming integrated – building and owning renewable generation facilities, investing in battery storage technology or home smart meters. These utilities are also investing in the grid. The grid was originally designed to carry power in one direction, but with increased take up of solar panels on homes, for example, there is the potential for power to flow back into the grid. The grid must be modernised to enable this. The integrated utilities we are targeting, like the Italian group Enel, are facilitating this transition. Such innovation is critical for society to transition to a cleaner energy future.

You believe listed infrastructure benchmarks are sub-optimal, due to the exclusion of opportunities in growing areas like data centres. Why is this space appealing?



We do not want to limit ourselves when it comes to investment opportunities in the infrastructure asset class. We have invested in towers and fibre networks for a long time, but critical to facilitating the movement of data is the data centre itself. While not all data centres have core infrastructure characteristics, we have found a few global names that are a key part of the entire network and have a long runway for growth – especially as we increasingly work in a virtual environment. The indices often lack consistency when it comes to infrastructure, so data centres can fall into areas like telecommunications or specialty REITs. The largest institutional investors in the world invest in data centres within core infrastructure – a stance we have also taken.

Are there opportunities in terms of upgrades to existing infrastructure?

Definitely. We have been discussing some of the more exciting themes – such as investment in clean energy and communication assets – but there is a need to improve the safety and reliability of what is already in the ground. We have old infrastructure in the developed world and while it was built well and lasted a long time, we are at the stage where we need to replace these assets that are 50-100 years old. This is powering ongoing organic growth in the 3-4% range for the bulk of the listed infrastructure market.

Are listed infrastructure assets still at a discount to private assets and broader equities?

Yes, and the gap has widened this year. We are beginning to see transactions again and private equity groups are paying prices that are 20-30%, or sometimes 40%, higher than comparable assets in the listed infrastructure market. Relative to global equities, global listed infrastructure is at its widest discount on an EBITDA multiple basis since right after the global financial crisis. Resilience of earnings and stability of cash flows have been on display, but the market has been fixated on other areas of the equity market – namely the high-growth tech names. We speak to institutions globally and are seeing an increasing number of new allocations to the listed infrastructure market – taking advantage of this discounted opportunity.

Finally, what gives your team an edge in the listed infrastructure space?

We are fortunate to be part of the CBRE global platform, which has tremendous resources solely focused on real assets. While my team operates in the listed infrastructure markets, we also have a 22-strong private infrastructure capability and we closely

collaborate. We believe this allows us to extract an information advantage in terms of the opportunity set, the return potential and understanding the risks within the market.

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