Investing in infrastructure

Laura Blows speaks to James Dawes about how, and why, pension funds should be looking at infrastructure as an investment opportunity

"Good broadband feels like an essential utility at the moment, as much as water and electricity does while we're working from home," 3i Infrastructure chief financial officer, James Dawes says, highlighting how the definition of infrastructure assets occasionally gets additions, in our *Pensions Age* podcast, *Investing in infrastructure.*

Reasonably new entrants aside, when investing in infrastructure assets, you're typically seeking long-term and predictable cashflows. "That's why they're interesting for long-term saving vehicles such as pension funds," Dawes explains.

"As infrastructure investors we are looking for long-term, essential assets that provide sustainable returns to our investors or our shareholders. They are essential assets for businesses that we use every day. So, roads and railways, or water and energy companies, those sorts of assets. More recently communication infrastructure is another good example, particularly during the current pandemic."

During this time of Covid, infrastructure assets are proving their resilience, which can be seen in the share prices of listed infrastructure companies, Dawes adds. "There are some exceptions – airports being the obvious one – where the lockdown will have materially impacted their revenues over the past few months and there's uncertainty as to when and how those revenues will rebuild. But looking at our portfolio, our companies have continued to generate electricity, to treat waste, to provide communication connectivity; those essential activities have continued."

Looking beyond current difficult times is also a benefit to pension funds, as long-term investors.

"Infrastructure assets typically provide a good income yield and that's useful for paying pensions now, and because of the nature of the assets, that yield is long term and predictable, which is useful for paying pensions in the future," Dawes explains.

"Looking further ahead, it's hard to know which businesses will prosper in a few decades time, but if you look at infrastructure assets, they are generally here for the long term. For example, the returns from investing in water companies have come down in recent years, not least driven by the regulator, but if you're a pension fund seeking to match liabilities in 30 years time, you can be pretty sure we'll still all be needing water then."

Infrastructure investors are also able to shape the direction of infrastructure towards a greener future.

For example, 3i's infrastructure portfolio is currently developing new renewable electricity energy projects in France and the UK and building new ships to service offshore wind farms predominately in the North Sea. It has also financed construction of the new Thameslink train fleet and new mobile phone towers in the UK.

"As investors ourselves we are privileged to be able to make a big impact in the area of sustainability," Dawes says.

"We have a wide scope of influence beyond our own organisation into our portfolio companies and their management teams. We are very active and engaged investors. We sit on the boards of our portfolio companies and we work with management teams to set the direction of the businesses and drive operational improvements. We can also share best practice across our wide range of businesses," he adds.

"We think there is a strong link between investors, businesses and management teams that have high ESG standards, and the ability to achieve long-term sustainable returns."

To find out more about this subject, and to listen to the podcast, please visit www.pensionsage.com