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TRANSCRIPT: EPISODE 162
25 November 2021 (pre-recorded 15 November 2021)

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[INTRODUCTION]
Darius McDermott (DM): I'm Darius McDermott from FundCalibre and this is the Investing on the go podcast and today I'm delighted to be joined by Alex Araujo, who is the manager of the Elite Rated M&G Global Listed Infrastructure fund. Alex, good afternoon.

Alex Araujo (AA): Good afternoon, thanks for having me Darius.

[INTERVIEW]
[0:20]

DM: That's our pleasure. Nice to talk about infrastructure, it's a niche investment asset class but one which has become more and more popular I think with investors over the last few years. So let's start with utilities. That's a big part of the sort of global infrastructure universe and by utilities, I'm talking about electricity companies, gas, water, that sort of thing. I'd like to talk about how you feel impact of rising energy prices have affected utilities. And with respect to obviously our home market here in the UK, whether those price caps have meant some utilities have struggled?

AA: It's actually a complicated question because for the most part prices are a pass through for traditional utilities businesses, the price caps and the issues around natural gas prices, particularly here in the UK, are more an issue for supply companies, which we don't invest in. And as we well know, a number of those companies have failed. And of course the gas will keep flowing, the electricity will keep flowing to households, but it does highlight some structural issues in energy markets that certainly a number of our companies can capitalise upon, particularly those with natural gas infrastructure exposure Darius.

DM: So, and, you invest in those supply areas then?

AA: Not the suppliers themselves. They are simply companies that take wholesale price exposure and offer all kinds of "exciting at the time" seemingly deals to households. And as we well know those kinds of exposures have gone wrong for a number of those companies. We only invest in infrastructure businesses and in the case of utilities, those that have real physical assets, networks, whether it's transmission, whether it's low voltage networks, whether it's pipelines or water infrastructure, the real asset backed businesses that have the capability to grow their cashflow streams over time as a result of their strategically placed assets. And that's not just true in the UK. It's a global strategy so we invest in these kinds of asset backed businesses around the world.

[2:41]

DM: Okay. So another sub sector of the global infrastructure universe is transportation, an area that has been severely impacted by the pandemic. Maybe we could talk about how you get exposure. I'm pretty sure I'm going to hear the word real assets and asset exposure…

AA: Yes.

DM: But maybe tell us a little bit about transportation and with a lens to the sort of reopening trade

AA: Sure.

DM: And what are you seeing globally?

AA: Absolutely. Well, when it comes to transportation infrastructure, again, it's the real fixed assets that we invest in by way of the investments we make in the listed companies, we're talking about toll roads, we're talking about railways, we're talking about public transit and of course, airports and certain areas of transportation infrastructure of course, were severely impacted last year.

Had we been having this conversation two years ago and you'd asked me about how these kinds of assets would behave in a recessionary environment, I'd have said, oh, well, people still need to go to work and take public transit, and they still need to travel on toll roads or by air. But of course in global lockdown, passenger traffic went effectively to zero. And so these companies, the underlying assets, their utilisation was severely impacted. But of course with the advent of vaccines and economies reopening these businesses have recovered immensely. And as I sit here looking at my screen today, it's actually airport businesses that are performing the best.

In fact, interestingly on the back of such negative sentiment around some of these assets, we've had private equity start to get involved. And for example, a holding in the fund Sydney airport has received a takeover approach from a consortium of pension funds seeking to capitalize on the disadvantage valuation and accessing those very long life cashflow streams.

So it's a recovery trade, whether we're talking about airports or we're talking about toll roads or public transit. I will say that the outlook for airports is a little bit more clouded. Obviously we're encouraged by the kind of action taking place in Australia with regards to Sydney airport. But what I still lay awake at night thinking about is what airport travel or air travel looks like in the future, given the carbon footprint, given people's hesitancy to travel, it's still an open question for me, but I still will be inclined to believe these are strategic long life assets, nonetheless.

[5:18]

DM: So we touched briefly then on the pandemic, I mean, it's led to some substantial lifestyle, structural changes. Are there any structural changes or accelerations that the pandemic has caused in the global listed infrastructure space, any sort of new sectors that you think ah, that might be a really good investment for those cash flows and asset back?

AA: Absolutely. Well we've always, since we launched the strategy, had a dedicated exposure to digital infrastructure assets or communications infrastructure assets, as we sometimes refer to them. We're talking about mobile phone towers, we're talking about 5G small cells, fiber optic networks, data centers, and so on, without which there is no internet, there is no Zoom, there is no mobile communication. And, of course, through lockdown, we very rapidly increased our needs for these kinds of infrastructure assets. And they performed extremely well.

I think there has been a paradigm shift that will be somewhat permanent with more flexible working arrangements. And in some cases, digital infrastructure replacing the need for transportation infrastructure, where people choose to hold meetings virtually rather than face-to-face, at least in the short to medium term. Where we end up long-term is still an open question, but even the advent of people working from home more and more, I believe from your backdrop, you're working from home today Darius, I am as well. I will be in the office tomorrow, but it's still mix and match and digital infrastructure, if nothing else has become increasingly important to us, whether it's for work or even entertaining ourselves at home.

[7:05]

DM: An obvious follow on question then is about transaction infrastructure or payments infrastructure. I think this is again, another growing part accelerated e-commerce via, well because of the pandemic. Most people sort of saying that, you know, e-commerce got a four or five year boost and that trend is unlikely to unwind. How do you, if you do at all, go in the payment/transaction sector, are you interested in sort of companies like Square or Visa MasterCard? How do you play this?

AA: Well, exactly. We have also a dedicated exposure to transactional infrastructure. These are the backbones, the physical networks, that accommodate an increasingly cashless society. And as you put it, the significant growth in online purchasing retailing and so on. When it comes to choosing the investments, we have to remember our asset back requirement and criteria. So a company like Square or equally a PayPal or a Stripe or something like that, is more of a front end solution

DM: Right.

AA: Where we invest is in the networks themselves, which are represented by Visa MasterCard, who's oligopoly, collectively, and many markets is a result and thanks to the control of the payments networks that they have. And by that we mean fiber optic networks, data centers which are able to accommodate billions of transactions per second securely and authenticate them as we tap our cards on the readers at Pret or wherever else.

[8:50]

DM: Another obvious winner from the pandemic is logistics and warehousing, as that increased volume of e-commerce, which we touched on in the last sort of question, do you take exposure to that? Cause that's physical and presumably cash generative, do you like that space?

AA: We've not yet delved into the actual warehousing type assets. Where we get our exposure is, as I mentioned, the payments networks, number one, number two, the data centers that increasingly need more and more capacity to accommodate the growth in this area. So for one of our data center businesses, for example, the single biggest customer is Amazon. And as people consume more and more online and purchase more and more online, and Amazon has greater and greater growth, that is manifested in increasing requirements in the data center world.

And then finally those products need to get to market and railway infrastructure is part of the solution. Although we stay away from the last mile type distribution networks, because we tend not to invest in delivery companies, those kinds of things, but the physical asset backed railroads would certainly be served well by that trend.

[10:17]

DM: So maybe then just if I would just to close, I see that you're investing in evolving infrastructure. Maybe you can tell us what that means. And tell us a little bit about it and maybe whether or not that part of, not only your portfolio, but the universe for infrastructure will grow. And does that include things like blockchain and crypto, or is that not an area you're currently interested in?

AA: Well it certainly could. And evolving infrastructure is a proponent of the strategy that actually includes communications infrastructure. And I would point out that blockchain type transactions, crypto mining, some of these more frontier activities that you refer to require physical networks, communications networks, and data centers to be accomplished. We've got the payments networks exchanges in that category and royalty businesses, which take perpetual cashflow streams from physical landholdings.

But I do believe that over time, that's the area that we'll likely see more and more infrastructure exposures to the degree where blockchain requires physical infrastructure specifically for that purpose, we might get involved. Crypto again, mainly taking place in data centers, but if there's a physical infrastructure expression of exchanges or the mining itself certainly we could think about that in future.

Another area that's probably soon going to increase in prominence is certain types of medical or healthcare infrastructure with physical elements such as clinical research type facilities, which we have some indirect exposure to through our healthcare infrastructure. And I think if nothing else over the past year and a half or so, we've certainly realized the critical requirements around healthcare infrastructure and some of these clinical research type deployments, which again are physical assets.

[12:27]

DM: And then finally, finally are there any other areas which have interested you within the fund itself or any areas that actually have gone up a lot

AA: Yes.

DM: Sort of, but not necessarily last quarter, but maybe the last six months or things that you know that you've done in the fund?

AA: Absolutely. Well digital infrastructure, as you can imagine, has done extremely well. And that's been a source of capital for us to rotate into other areas such as transportation infrastructure, which became quite disadvantaged from a valuation point of view and gave us a lot of upside. I'd say the same equally for energy infrastructure. So the pipelines and storage facilities that accommodate the energy industry.

But I'd say that one of the biggest opportunities sets kind of going back to the beginning of the conversation is in the utility sector where a sector that is perceived as defensive, boring, left behind by a go-go market, offers some of the most important opportunities around the energy transition because utilities themselves are the single biggest investors in renewable deployments and so on. And so it's an exciting space. These are not your grandparents' utility names you know, enjoying monopoly power and being regulated as such, necessarily. These are growth businesses with the energy transition at their heart, companies that are transitioning themselves or companies that are deploying renewable assets. You could even start to extend the discussion into a hydrogen economy and what's required of it. The most important thing being the transportation and the storage of the actual product that I think that will ultimately land in the lap of natural gas utility businesses that already have the kind of infrastructure that can be modified, refurbished, repurposed to transport and store hydrogen, as well as natural gas.

DM: Alex, thank you very much for taking some time to talk us through infrastructure on some of its own subsectors. If you would like some more information on the Elite Rated M&G Global Listed Infrastructure fund, please do visit fundcalibre.com. And if you enjoy the Investing on the go podcast, please do remember to subscribe wherever it is you get your podcasts.