MACKENZIE
Investments

# Public and private infrastructure

## Key themes

- For investors in search of growth and income-producing assets that can also stand up to inflation and help protect capital in recession-induced bear markets, infrastructure investments warrant consideration.
- These tangible, scarce, productive and less economically sensitive assets can be accessed via private and public market strategies that each bring their own unique benefits to portfolios.
- While each approach has merit, a combination of both may be ideal for investors seeking to maximize the benefits of the asset class while preserving some liquidity.

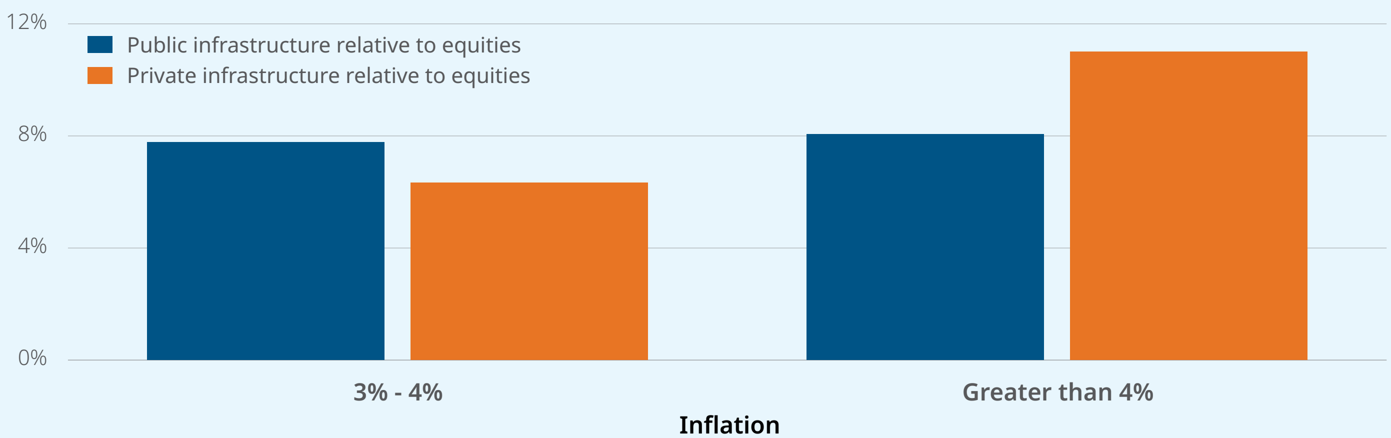
## Infrastructure overview

Infrastructure assets provide services that are essential to the functioning of society and therefore tend to produce consistent cash flows and earnings that are less sensitive to fluctuations in the business cycle than other sectors.

They range from the familiar — water utilities, pipelines, airports, roads and bridges — to more recent inclusions, such as renewable energy projects and communications infrastructure, like transmission towers and data storage facilities.

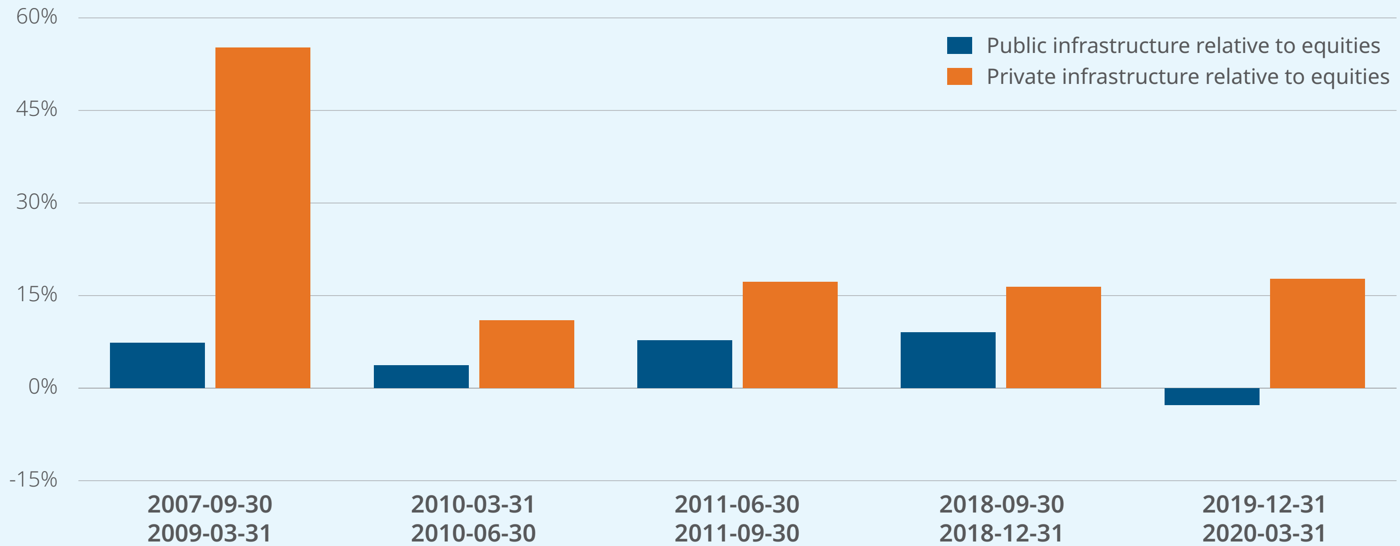
Their revenues are often underpinned by long-term contracts, and they can be linked to inflation through CPI-referenced pricing, regulated price escalators or simply via the pricing power that comes with operating in monopolistic markets. This, in conjunction with the essential nature of the services provided, makes infrastructure assets relatively resilient through market downturns and periods of rampant inflation.

**Figure 1: Infrastructure average 12-month total return relative to equities through periods of inflation**




Sources: Bloomberg, Preqin Ltd. Quarterly time series of 12M total returns from 2002-12-31 to 2020-12-31. Public infrastructure represented by the S&P Global Infrastructure TR Index before 2003-12-31; an equal-weighted blend (50% each) of the S&P Global Infrastructure TR Index and the Dow Jones Brookfield Global Infrastructure TR Index from 2003-12-31 to 2006-12-31; and an equal-weighted blend (33% each) of the S&P Global Infrastructure TR Index, the Dow Jones Brookfield Global Infrastructure TR Index, and the FTSE Global Core Infrastructure 50/50 TR Index from 2006-12-31 onward. Private infrastructure represented by the EDHEC infra300 Index before 2008-12-31 and the Preqin Infrastructure Index thereafter. Global equities represented by the MSCI World TR Index. Inflation represented by the YoY% change in US CPI.

**Figure 2: Infrastructure total return relative to equities through market downturns**




Sources: Bloomberg, Preqin Ltd. Public infrastructure represented by an equal-weighted blend (33% each) of the S&P Global Infrastructure TR Index, the Dow Jones Brookfield Global Infrastructure TR Index, and the FTSE Global Core Infrastructure 50/50 TR Index. Private infrastructure represented by the EDHEC infra300 Index before 2007-12-31 and the Preqin Infrastructure Index thereafter. Global equities represented by the MSCI World TR Index. Market downturn measured as downturn in the global equities market for the respective period.

Investor returns on infrastructure investments have generally consisted of a combination of dividends and capital gains, and over the last 15 years, total returns have been attractive relative to the broader equity market and less volatile.

| 15yr annualized | Private infrastructure | Public infrastructure | Equities | Fixed income |
|---|---|---|---|---|
| **Total return** | **9.45%** | **7.89%** | 7.33% | 4.09% |
| **Volatility** | **7.94%** | **15.76%** | 17.66% | 5.57% |

Sources: Bloomberg, Preqin Ltd. 15-year annualized returns and volatility as of 2020-12-31. Volatility measured as the annualized standard deviation of quarterly returns. Public infrastructure, private infrastructure, and global equities represented by the same indices as in Figure 2. Fixed income represented by the Bloomberg Global-Aggregate Total Return Index.

## Private versus public market infrastructure funds

Private infrastructure funds generally use investor capital to assemble portfolios of assets in which the fund has a controlling interest. Fund managers add value through sourcing and negotiating the purchase of individual infrastructure projects for the fund, by taking a hands-on approach at managing and/or improving them, and then by selling them to other investors at a higher valuation.

Public infrastructure funds use investor capital to assemble portfolios of publicly traded companies (in which they have a minority interest) that engage in business activity around the broader infrastructure sector. Fund managers can add value through actively buying and selling these companies: alternatively, diversified exposure to the entire space can be achieved through lower cost indexing strategies.

Both approaches generally benefit from the described themes, but the table below highlights some key differences:

| | Private infrastructure | Public infrastructure |
|---|---|---|
| **Liquidity** | **Lower** – Limited liquidity and structured fund exit procedures generally require a medium-long holding period on the part of the investor. | **Higher** – Daily liquidity allows for rapid entry and exit of fund positions. |
| **Volatility** | **Lower** – Unlisted holdings and private quarterly valuations mute volatility. | **Higher** – Listed securities are susceptible to daily changes in price. |
| **Control** | **Higher** – Direct ownership of infrastructure assets allows for operational control and value creation. | **Lower** – Fund managers have little influence over the actual operations of the public companies held in a strategy. |
| **Portfolio** | **More concentrated** – Portfolios tend to be concentrated in a smaller number of large projects across several sectors/geographies. | **More diversified** – Portfolios can hold a basket of 100+ infrastructure firms across sectors/geographies. |
| **Performance** | **Higher** – Value creation through direct ownership and private market deal structuring have historically produced superior returns over time. | **Lower** – Return profiles have traditionally lagged those of private funds over medium-long time horizons. |
| **Access** | **More limited** – These strategies are generally limited to the accredited and institutional investor markets. | **Less limited** – These strategies are generally accessible to everyone. |

The large scale and long-term nature of the investments made in private infrastructure funds often require investors to lock in their capital for multiple years, after which limited redemptions may be permitted at predetermined intervals. This limited liquidity and potentially limited access are the dominant factors that will restrict the use of private infrastructure in the retail investment community. For those who qualify to access the strategies and can handle some liquidity restrictions in a portion of their portfolios, private infrastructure can function very well as a long-term strategic allocation. This type of allocation may help investors seek more growth and income from their portfolios over time, while also limiting volatility (if funded through equities, or a balanced mix of equities and fixed income).

Though historically less productive and more volatile than the private variety, public infrastructure still stands up well relative to global public equity markets in risk and return space over long time horizons and tends to pay elevated dividend yields. Daily liquidity allows investors to be more tactical with their public infrastructure allocation, permitting the dialing up and down of exposure as market conditions change. This feature also allows portfolio managers to respond rapidly to changing capital needs on the part of investors. A tactical allocation funded through an investor's equity sleeve could help them better weather a short-term period of inflation or recession-induced volatility, or simply capture a higher risk-adjusted return over time as a strategic allocation.

## Mackenzie infrastructure solutions

Elevated inflation and tightening financial conditions have produced a dismal first half of 2022 for traditional stock and bond portfolios. The probability of recession in the near term has risen, and market volatility remains high.

Investors may be well served in the short and long term with the introduction of a dedicated infrastructure sleeve composed of the following two elements:

## Mackenzie Northleaf Private Infrastructure Fund – accredited investors only

- Aims to provide investors with the steady growth and long-term income potential that come with ownership of essential mid-market infrastructure assets.
- Emphasizes assets with contracted revenue streams in a targeted subset of sectors, including renewable power, communications infrastructure and concessions/transportation projects.
- Private infrastructure investments target a 10%+ net IRR and a long-term average yield of 5-7%.
- Click here to learn more

## Mackenzie Global Infrastructure Index ETF (QINF)

- Aims to provide investors with low-cost, diversified exposure to a broad basket of about 100 global infrastructure companies across various sub-sectors, with reduced correlation to other asset classes.
- Features a concentration in defensive sub-sectors within infrastructure, specifically about 80% in utilities, which can reduce volatility and offer downside protection through cyclical downturns and inflation.
- Unlike some competitor ETFs, QINF invests only in global pure-play infrastructure companies, not REITs.
- Click here to learn more



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