FRANKLIN TEMPLETON

ClearBridge Investments

Listed Infrastructure Offers Breadth and Liquidity

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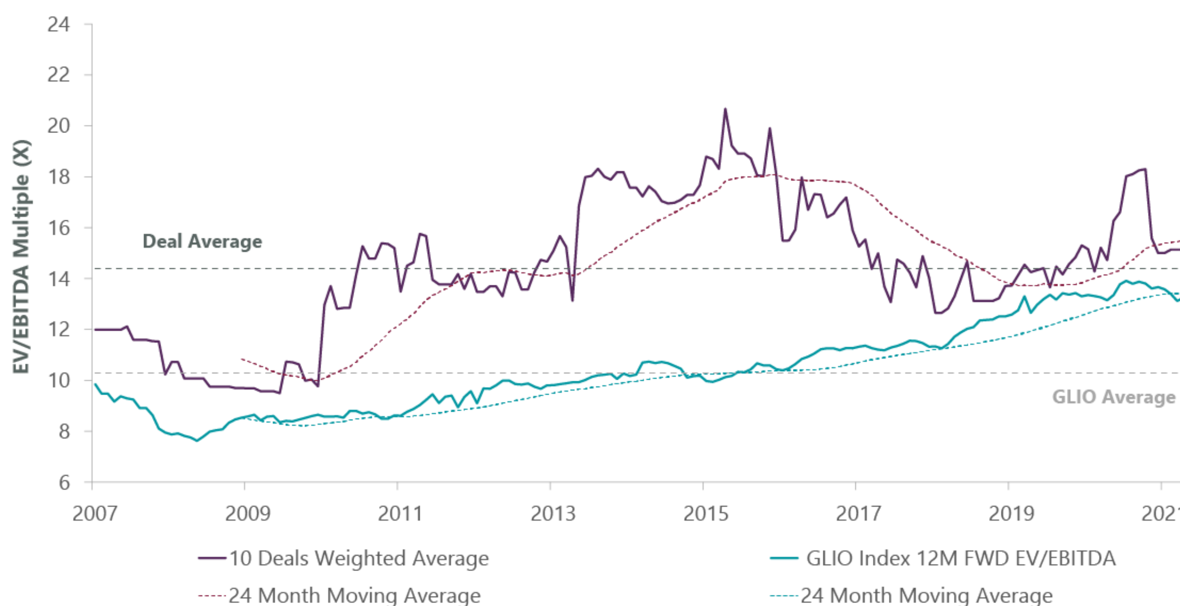
Listed infrastructure investors can take advantage of the attractive characteristics of the infrastructure asset class, such as lower volatility, inflation protection and diversification benefits, while enjoying the benefits of the listed markets such as liquidity and lower fees. Importantly, investing in the listed markets provides the flexibility for active managers to take advantage of market movements and to invest where they see value.

By our definition, the universe of listed infrastructure is over three times the size of unlisted infrastructure in general. This applies to all infrastructure asset types with the exception of renewable energy (which is around the same size as the unlisted universe) and non-core assets such as waste management and social infrastructure (neither of which are included in our definition of infrastructure). There is a large pool of favourably-regulated, well-managed utilities with high service and efficiency metrics in listed markets. (We consider regulation where returns are attractive, recovery of costs and capex is timely, and regulators work in partnership with asset owners to further develop their asset bases to be favourable.) Listed vehicles have often been the consolidator and operate these assets to generate higher returns than unlisted counterparts due to economies of scale.

Listed infrastructure also offers greater liquidity, which enables managers to take advantage of volatility in the public markets to capture value. For example, the ability to tilt to more defensive regulated utilities in a stagflationary environment — where global growth slows but inflation remains high — would be just as important as the ability to pivot to GDP-sensitive areas as growth resumes.

While infrastructure assets, regardless of whether they are listed or unlisted, exhibit the same characteristics and operating cash flows, listed markets misprice infrastructure assets in the short term, creating valuation discrepancies at the security level. Listed infrastructure offers the possibility to take advantage of market mispricings, or situations where we identify conditions that might lead to company margin expansion or compression. This might also play out at the regional level, given changing political and regulatory regimes. The U.S. currently has $300 billion of unlisted “dry powder,” or private capital seeking infrastructure investment opportunities. This capital is at present paying a premium for listed assets, showing the attractiveness of listed infrastructure (Exhibit 1).

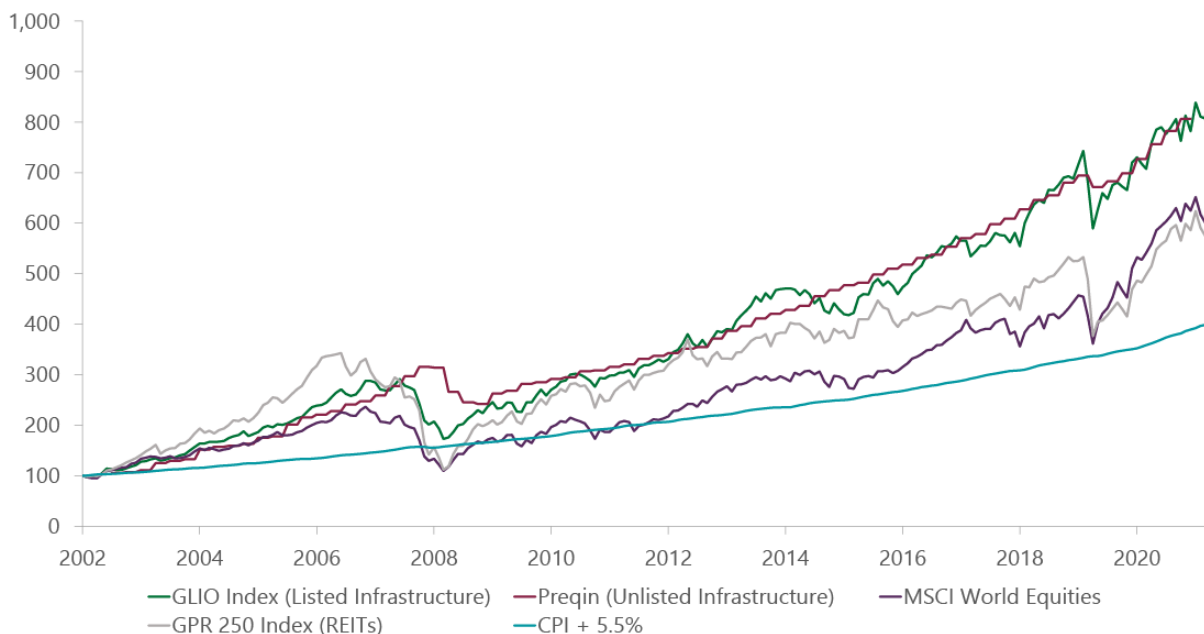
Exhibit 1: Listed Infrastructure Trading at Lower Multiples than Private



As of Dec. 31, 2021. Source: Inframation/GLIO. Purple line: rolling weighted average EV/EBITDA of the latest 10 developed market asset deals in utilities, energy transportation, renewables, transport and telecom infrastructure (covering ~$650 billion in deals). Blue line: GLIO listed infrastructure index weighted average 12-month forward EV/EBITDA of constituent companies.

Listed infrastructure's universe breadth and liquidity advantage also make it an effective complement to an unlisted infrastructure allocation, offering similar long-term returns but with more flexibility. Comparing the returns for the Preqin Infrastructure Index (a proxy for unlisted infrastructure funds) with returns for a broad global listed infrastructure index maintained by the Global Listed Infrastructure Organization (GLIO), we find long-term returns of listed and unlisted infrastructure to be similar (Exhibit 2).

Exhibit 2: Listed and Unlisted Infrastructure Returns Similar Over Long Term



As of Dec. 31, 2021. Source: GLIO monthly total returns, Wilde/Preqin (unlagged), MSCI ACWI Index monthly total returns, GPR 250 Index monthly total returns, OECD G7 CPI. Indexed to 100.

Accordingly, our approach to company valuation mirrors that used by unlisted infrastructure investors and centers around the belief that, over time, the underlying value of assets is reflected in long-term cash flows. Many generalist investors take a shorter-term view, however, which can create market mispricings. These differences provide clear investment signals, allowing our investment team to position portfolios that generate long-term infrastructure returns.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Equity securities are subject to price fluctuation and possible loss of principal. Fixed-income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed income securities falls. International investments are subject to special risks including currency fluctuations, social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Investments in infrastructure-related securities involve special risks, such as high interest costs, high leverage and increased susceptibility to adverse economic or regulatory developments affecting the sector. In addition to other factors, securities issued by utility companies have been historically sensitive to interest rate changes. When interest rates fall, utility securities prices tend to rise; when interest rates rise, their prices generally fall.

Franklin Templeton and our Specialist Investment Managers have certain environmental, sustainability and governance (ESG) goals or capabilities; however, not all strategies are managed to "ESG" oriented objectives.

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