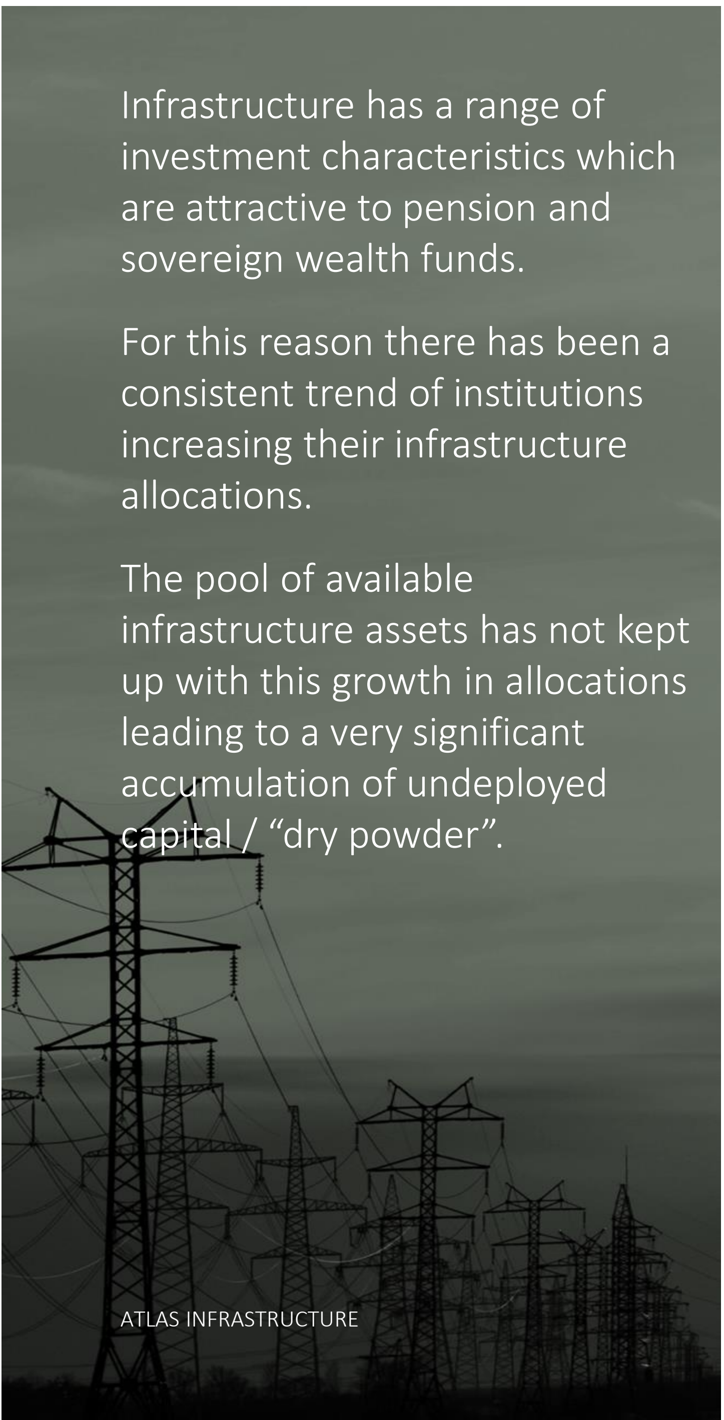
IMPLICATIONS OF UNLISTED INFRASTRUCTURE DRY POWDER FOR LISTED INFRASTRUCTURE

FEBRUARY 2019

Will the significant build up of undeployed capital in the unlisted infrastructure sector support listed infrastructure valuations through the next market correction?



Infrastructure has a range of investment characteristics which are attractive to pension and sovereign wealth funds.

For this reason there has been a consistent trend of institutions increasing their infrastructure allocations.

The pool of available infrastructure assets has not kept up with this growth in allocations leading to a very significant accumulation of undeployed capital / "dry powder".

According to data published by Preqin, as at September 2018, the private infrastructure fund market had accumulated over $160bn in undeployed fund commitments.

This value does not include capital which has been allocated to the infrastructure asset class (through a pension fund's Strategic Asset Allocation) but which has not yet been committed to funds or invested directly into infrastructure assets.

The listed equities market includes a large number of high quality infrastructure assets which are becoming increasingly of interest to private markets investors.

As evidence for this, we note that take private deals in the listed market have been on the rise – either through acquisitions of strategic stakes or through complete public to private transactions.

Few sectors in the general equity market have such a dedicated pool of capital waiting to be invested.

We believe that this "dry powder" offers listed investors two opportunities:

1. to gain exposure to possible premia from future take-over activity; and
2. to provide a back-stop to valuations should there be a correction in the equities market.

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LOWER DRAW DOWNS AND HIGHER RETURNS THROUGH THE CYCLE THAN THE BROADER EQUITY MARKET

Despite having the perception of being "boring", investment returns for listed infrastructure have been materially higher than the broader equities market over the past ten years, with lower risk.

In the last major downturn, the draw down in listed infrastructure was about 30% less severe than in general equities. The listed infrastructure sector also recovered to its previous peak in approximately half the time taken by the general market. "Boring" assets turned out to provide more satisfactory investment outcomes.

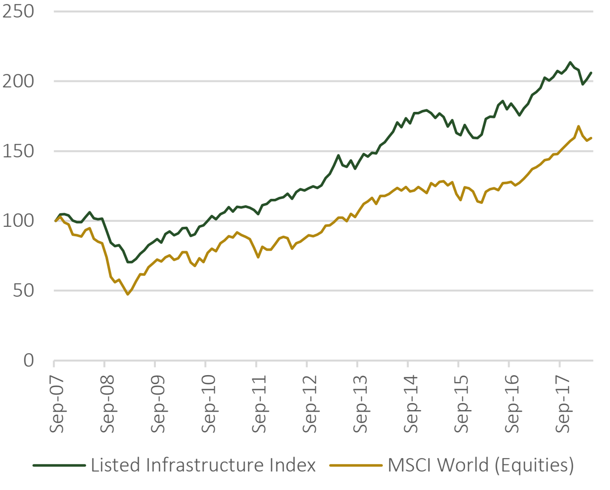
Interestingly, this draw down and recovery profile occurred in an environment with limited unmet demand for infrastructure assets. With the build up of "dry powder" and increasing allocations to the infrastructure asset class, that situation may have changed materially.

We would expect that should the same market correction occur again, private funds and other infrastructure investors will take advantage of price weakness to secure high quality assets at weak prices.

This demand might be expected to have the impact of providing a back-stop to prices in the listed market, should they fall below "fair value".

Listed infrastructure has outperformed general equities over the past 10 years

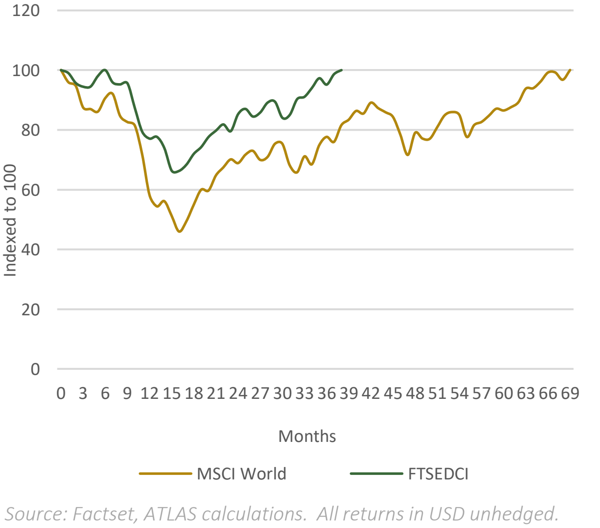
Returns indexed to 100



Source: Factset, ATLAS calculations. All returns in USD unhedged. Listed Infrastructure index is FTSE Developed Core Infrastructure Index

Lower draw down during market crisis and significantly faster recovery vs global equities

Peak to trough and then recovery during 2008/09



Source: Factset, ATLAS calculations. All returns in USD unhedged. FTSEDC is the FTSE Developed Core Infrastructure Index

STABLE ASSETS DELIVERING STABLE RETURNS

The listed infrastructure market comprises over US$2tn of high-quality infrastructure assets across a broad range of geographies and sectors. It includes over 150 companies and has numerous utility and transport assets which have become increasingly difficult to source in the private market.

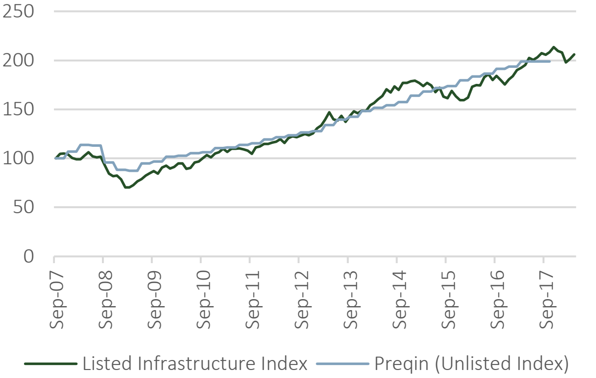
The underlying assets in the listed market have the same fundamental characteristics as those found in the private markets. This assertion is supported by the comparison of returns from listed and unlisted infrastructure, which have shown almost identical performance over the past 10 years.

Further, the listed market presents unlisted investors with a complementary investible market as shown below. For example, it offers greater opportunity in North America and parts of Europe.

Long term returns for listed and unlisted infrastructure

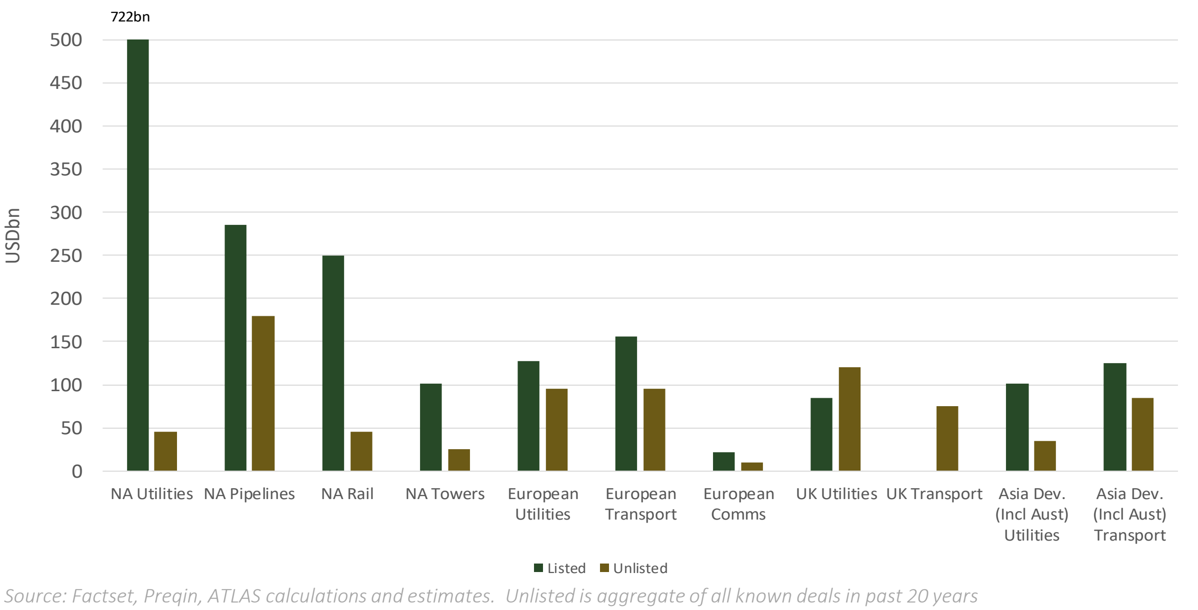
Returns indexed to 100

Preqin 6 month lagged to adjust for valuation lag



Source: Factset, Preqin, ATLAS calculations. All returns in USD unhedged. Listed Infrastructure index is FTSE Developed Core Infrastructure Index

Opportunity set by market capitalisation and transaction values



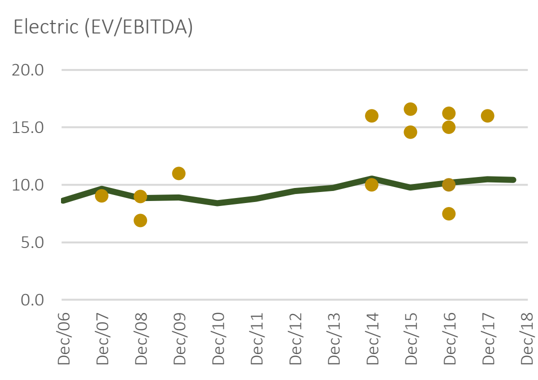
Source: Factset, Preqin, ATLAS calculations and estimates. Unlisted is aggregate of all known deals in past 20 years

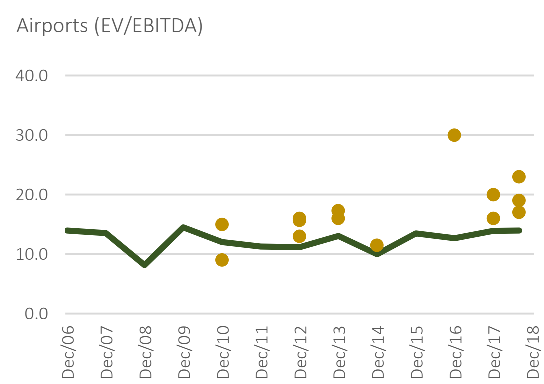
DEMAND/SUPPLY IMBALANCE FOR UNLISTED ASSETS PUSHING UP PRICES ABOVE THE LISTED MARKET

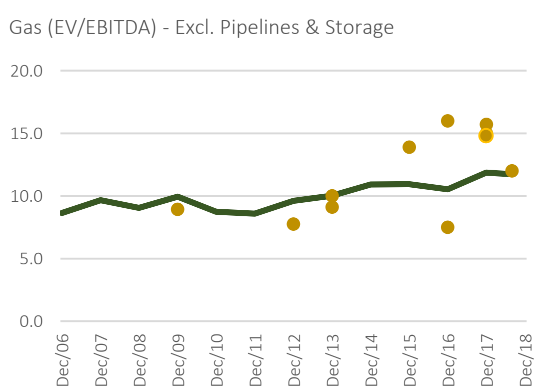
The dynamic of a strong demand for and a low supply of quality unlisted infrastructure assets has led to a material inflation of unlisted infrastructure asset prices. This has been accentuated by the low cost of capital of many of the larger institutional investors, particularly large pension funds and Sovereign Wealth Funds.

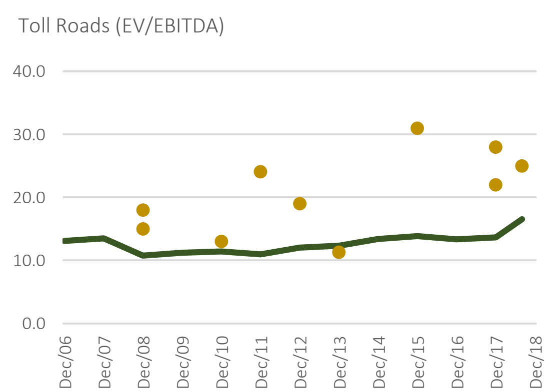
The infrequency of deals in the unlisted market makes direct valuation comparison challenging, however, the majority of transactions would suggest that the unlisted market is now materially more expensive than the listed market for the same type of assets.

The charts below show the EV/EBITDA multiples of notable transactions[1] where the purchaser is a private market participant (shown as dots), against the average trading multiples of listed infrastructure securities[2] (shown as lines).









1 Source: Inframation, Preqin, Factset, ATLAS calculations
2 Per the FTSE Developed Core 50/50 Infrastructure index

MORE UNLISTED INVESTORS FISHING FOR VALUE IN THE LISTED POND

In the past six months, we have started to see more and more interest, in the form of partial take outs or full takeovers of listed infrastructure companies, as shown below. Were the market to become even more fragile, we would expect even more of the private market's dry powder to be dedicated to acquiring assets in the listed market, which we would in turn expect to provide support to valuations. Few other equity market sectors enjoy this dynamic.

Target	Sector	Exchange	Acquirer	Close date	Offer Price Premium
Hanover Airport (part of listed Fraport)	Airport	Frankfurt	iCON Infrastructure	Aug-18	Not disclosed
Ei Towers	Comms.	Milan	F2i, Mediaset	Jul-18*	+16% to closing price on 16/7/18
Suez Water US (part of the Suez group)	Water	Paris	PGGM	Jul-18*	Not disclosed
John Laing Infrastructure Fund	PFIs	London	Dalmore Capital and Equitix	Jul-18*	+21% to closing price on 15/7/18
Enbridge's Canadian natural gas gathering & processing business	Gas	Toronto, New York	Brookfield	Jul-18*	Not disclosed
CityFibre	Comms.	London	Antin and Goldman	Apr-18*	+93% to closing price on 23/4/18
TDC	Comms.	Copenhagen	PFA, PKA, ATP and MIRA	Apr-18	+29% to closing price on 12/1/18

** Is the announcement date*
Source: Inframation

Conclusion

International pension funds and Sovereign Wealth Funds have been increasingly allocating capital to infrastructure. The capital flowing into the asset class has not been met by an equivalent supply of assets and this has resulted in both a significant build up of undeployed capital and in higher prices being paid for those assets that have come to market.

Investors who have traditionally been focused purely in the private market for assets are starting to turn their attention to the listed market, where similarly high quality companies are available. The listed market offers these investors a lower price for equivalent assets and significantly easier capital deployment.

For investors in the listed infrastructure sector, this trend provides both the possibility of a sale at a high price to an unlisted bidder or, in the event of a market correction, provides the potential that investors will acquire any assets at closer to fair value, should they fall too far in price.

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