

Talking Points

Growth in infrastructure – September 2021



Tommaso Albanese
Head and CIO, Infrastructure

Investors look to themed infrastructure strategies

Green energy, digital & telecommunications, transportation

In the following interview, Tommaso Albanese, Head and CIO of the UBS Asset Management (UBS-AM) Real Estate & Private Markets (REPM) Infrastructure business, discusses the key themes affecting infrastructure today.

In recent years, REPM has seen significant growth. What has changed since you began heading this business area?

When I took over as head of UBS-AM's Infrastructure business in 2017, I realigned REPM's focus on the evolving market environment. This has resulted in solid growth over the past four years. In fact, we pretty much doubled the capital raised and deployed. We now have close to USD 6 billion in committed capital between direct infrastructure funds and mandates.

We have more than USD 2 billion on the debt side, with a European focus on high-quality middle market transactions. These often require more in-depth credit analysis and structuring, but they also produce attractive returns versus market comparables. Our equity platform has more than USD 3 billion in high-income, traditional middle-market infrastructure, predominantly in the US and Europe, with fast deployment along defined investment themes.

Which markets are you focusing on, and why?

Our investment proposition has been to provide an attractive income-type return from what is a resilient asset class, with a particular emphasis on middle market deal origination and sustainable trends. The focus is on having recurrent annual income, rather than on capital appreciation at exit. The infrastructure asset class, which is composed predominantly of defensive, stable income-generating assets, is well placed for this strategy.

Is now a good time to invest in infrastructure?

Infrastructure provides quite an attractive opportunity when compared with other alternative asset classes. Infrastructure has a much more stable cash flow and is typically able to generate a predictable annual income return higher than today's fixed-income options.

How do you define infrastructure, and has the COVID-19 pandemic impacted this definition?

The definition of infrastructure is evolving with the market. It is more than just bridges, motorways and power plants. It now also includes clean energy, fiber networks and data centers. The COVID-19 pandemic accelerated some secular macro trends – decarbonization, digitalization and the demographic changes that have affected consumer behavior in such a way to impact infrastructure.

If COVID-19 had led to a global economic recession, history would have been a good predictor of how different segments of the infrastructure sector would have reacted based on their respective risk characteristics. In other words, regulated assets, such as toll roads and utilities with the defined revenues – i.e., core — would have outperformed assets more dependent on expanding economies, such as telecommunication infrastructure.

Instead, the pandemic and resulting economic disruption, with many of those core assets, particularly in transportation, have seen revenue more than halved and valuations severely affected. Therefore, having fundamental core infrastructure characteristics was not enough. The COVID-19 crisis has definitely called into question how we assess risk in certain segments of the infrastructure market.

What are some of the trends currently shaping the infrastructure-investor landscape?

Our research group has identified three significant trends, which have been building for a while but were accelerated by COVID-19: energy transition, digital infrastructure and social infrastructure. New non-core infrastructure investments, which benefit from a combination of technological development and sustainability needs, have increased as demand has grown.

For example, during the past 12 months, we have invested about USD 1 billion of equity capital into rural fiber in France and Germany and clean energy in Italy, as well as wind farm repowering and a telecom tower network in the US. These investments benefit from a secular macro shift, but also offer essential assets with predictable cash flow. Although COVID-19 has definitely accelerated the trends that made these deals attractive, our research had already placed us in a position to capitalize on them. We were already focusing on renewables, fiber and telecom. We saw this coming and were ready.

Why are you focused on middle markets?

We are seeing a surge of private equity firms raising huge funds of USD 10-20 billion to enter the infrastructure market. To efficiently deploy their capital, they need to focus on mainstream deals in the USD 500 million to USD 1 billion range. In reality, the best investment opportunities are in the small to medium-sized market segment, those in the USD 50-200 million range, require time, expertise and local market knowledge to be analyzed and executed. By focusing on complex situations in the small-to-middle markets, investment can be sourced with limited competition, but still with attractive returns.

What types of investments are you specifically making to take advantage of the current market?

Investors are getting more mature and sophisticated. They are now seeking more theme-focused strategies as opposed to going for generic, diversified portfolios. One of the more attractive themes is green-energy transition. It is linked to the reduction of climate change and ensuring a safe, reliable and affordable energy supply. It requires significant investment across various sustainable energy sources, including wind, solar, biogas and hydrogen. As part of this theme, we are also seeing interest in energy storage, which is becoming a big focus for investment, particularly when energy production is distant from a grid or the consumers' location.

Another theme revolves around digital and telecommunication needs. We are seeing rapidly growing infrastructure opportunities to address the increasing volume of data transmission. A sweet spot in this subsector is the expansion of fiber networks in middle-market rural areas. Data centers are part of this subsector, as well. In this case, we like to aggregate multiple sites to deliver strong risk-adjusted returns. When we look at telecom towers, we focus on local region dominance while taking advantage of the growth in 5G.

Active ESG asset management
is the new frontier for direct
investment in infrastructure.

Lastly, we come to transportation. Transportation assets, such as airports, ports and toll roads, were hit hard by the COVID-19 pandemic. This could potentially create a liquidity risk and drive the need for restructuring or recapitalization of such assets. This process could generate interesting investment opportunities for private capital because, ultimately, the business model will have to be changed. However, transportation businesses provide very essential services for the economy. Thus, these are all areas that I feel we can add value in the next few years.

Do you see the Sustainable Finance Disclosure Regulation (SFDR) as a game changer for the ESG investor landscape?

ESG will be a main driver for infrastructure markets in the next few years, as more investors want to know the impact that investments have on climate change, CO₂ emissions and local communities. These topics have been a concern in Europe for quite some time, but it is now expanding across the world.

Once implemented, this SFDR regulation will be an important milestone for the market. Each infrastructure asset is different from the others by nature, and, therefore, it is difficult to apply standardized reporting and measurement frameworks to all assets. In our case, using external ESG consultants, we have developed initiatives to measure the carbon footprint and help to identify measurable KPIs for each investment.

Our framework is specifically in alignment with the new SFDR regulation. We have made a commitment to improve the KPIs over the asset's holding period. We believe investors want this. Active ESG asset management is the new frontier for direct investment in infrastructure.

Note: All data as of 30 June 2021, unless otherwise mentioned. Past performance is not a guarantee for future results.

For more information, please contact:

UBS Asset Management

Real Estate & Private Markets (REPM) – Infrastructure

Tommaso Albanese
+44-20-7901 5523
t.albanese@ubs.com



Follow us on LinkedIn

To visit our research platform, [scan me!](#)



www.ubs.com/repm-research

This publication is not to be construed as a solicitation of an offer to buy or sell any securities or other financial instruments relating to UBS AG or its affiliates in Switzerland, the United States or any other jurisdiction. UBS specifically prohibits the redistribution or

reproduction of this material in whole or in part without the prior written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any errors or omissions. All such information and opinions are subject to change without notice. Please note that past performance is not a guide to the future. With investment in real estate/infrastructure/private equity (via direct investment, closed- or open-end funds) the underlying assets are illiquid, and valuation is a matter of judgment by a valuer. The value of investments and the income from them may go down as well as up and investors may not get back the original amount invested. Any market or investment views expressed are not intended to be investment research. **The document has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.** The information contained in this document does not constitute a distribution, nor should it be considered a

recommendation to purchase or sell any particular security or fund. A number of the comments in this document are considered forward-looking statements. Actual future results, however, may vary materially. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class, markets generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund. Source for all data/charts, if not stated otherwise: UBS Asset Management, Real Estate & Private Markets. The views expressed are as of September 2021 and are a general guide to the views of UBS Asset Management, Real Estate & Private Markets. All information as at September 2021 unless stated otherwise. Published September 2021. **Approved for global use.**

© UBS 2021 The key symbol and UBS are among the registered and unregistered trademarks of UBS. Other marks may be trademarks of their respective owners. All rights reserved.

