

## M&G Investments

### Alex Araujo – Listed infrastructure – the great diversifier

- Infrastructure sits in a sweet spot today
- We spent two and a half years putting together an investable universe for infrastructure. We found that it participated in equity market upside with less volatility
- Infrastructure is not just about yield enhancement, but about a total return
- Infrastructure assets are highly cash generative, with strong free cash flow. They deliver a lot of that cash back to their shareholders
- The dividend yield premium is consistent over time
- The true measure of quality for these businesses over the long term will be their ability to generate dividend growth. The dividend yield on the fund is at a healthy premium to the broader market, but for us, it's an outcome rather than a target
- Infrastructure companies bounced back quickly after the last crisis. These businesses by their nature deliver profitability, cash flow and dividends and markets can't ignore that for very long
- Investors tend to define performance as going up faster than everything else, but this neglects the importance of protecting the downside in difficult markets
- This fund takes an asset class that has mainly been the preserve of pension funds, sovereign wealth funds, insurance companies and endowments – who like its sustainable cash flow streams to offset their long-term liabilities – and brings it to a retail audience
- There are long term assets so need to pay close attention to sustainability considerations
- We divide the portfolio into three main areas: traditional infrastructure assets, providing critical and essential services to the global economy – water, power, transport; social infrastructure – projects such as schools, hospitals or prisons; finally, we have 15-20% in 'evolving' infrastructure, such as payment systems. Each of these areas has different characteristics but blends together well in a portfolio

**Written by Cherry Reynard on behalf of MiP. Please note these are for reference only and should not be distributed or relied upon in any way. These are intended as a refresher of the boardroom sessions and a useful reminder for delegates. Please note that this content has not been approved by compliance teams.**