



Long or short, Hamish Mackenzie?

The Head of Infrastructure, Europe & Debt, looks at this interesting sector

Are valuations for large unlisted infrastructure businesses rising?

LONG Large, mature infrastructure businesses are currently attractive investments for institutional investors and sovereign wealth funds seeking yield. This, combined with high levels of “dry powder” (available funds) in large, global infrastructure funds and some aggressive capital deployment has pushed up valuations at the top end of the market, lowering implied returns. Investors may want instead to focus on medium-sized investments and more complex situations, where there is less competition for investment.

Should Environmental, Social and Governance (ESG) issues always be considered?

LONG Investment decisions that may result in environmental or other social issues pose a reputational risk to investors and ultimately to shareholder returns. The Deutsche Asset & Wealth Management Infrastructure team therefore evaluates potential ESG issues as part of risk management throughout the investment process. These may cover a wide range of topics – from energy, water, emissions, and waste management to labor and health & safety – and need to be considered across the whole investment lifecycle, so we can be confident about an investment’s longevity.

Will new regulations impact European life insurance companies’ infrastructure investments?

LONG The introduction of Solvency II in 2016 will affect how European life insurance companies consider infrastructure equity as an asset class. Recently, the European Insurance and Occupational Pension Authority (EIOPA) proposed reducing capital charges for infrastructure investment, something which could lead to insurance companies allocating more funds to infrastructure. There is still some uncertainty surrounding Solvency II, as proposed regulatory requirements are yet to be fully phased in, but we believe that the introduction of more stringent regulatory requirements is likely to further support, rather than discourage, these companies’ investment in infrastructure.

Can infrastructure investment be fully de-linked from political risk?

SHORT Business exposure to political developments can vary significantly from one country (and sector) to another. Such risk can have a particular impact on infrastructure-investment returns, as revenue here can be dependent on a government contract or concession, or a regulatory framework. A mature regulatory framework, supported by an independent regulator – seen in some European core markets (e.g. the U.K.) – can offer a degree of protection from political events and thus greater visibility on investment returns. Full delinking of returns from political risk is not always possible but a detailed understanding of regulation, developed through experience and often active long-term relationships with regulators, as well as of the political economy of the host country, is fundamental and can help mitigate such risk.

Are megatrends important in the short term for infrastructure investment?

LONG Aside from technological change, several other megatrends (for example involving social and environmental change) are likely to influence infrastructure investment in the medium to long term. But investors should be thinking about these factors now, due to the present-value implications of these longer-term trends.

LONG represents a positive answer

SHORT represents a negative answer

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