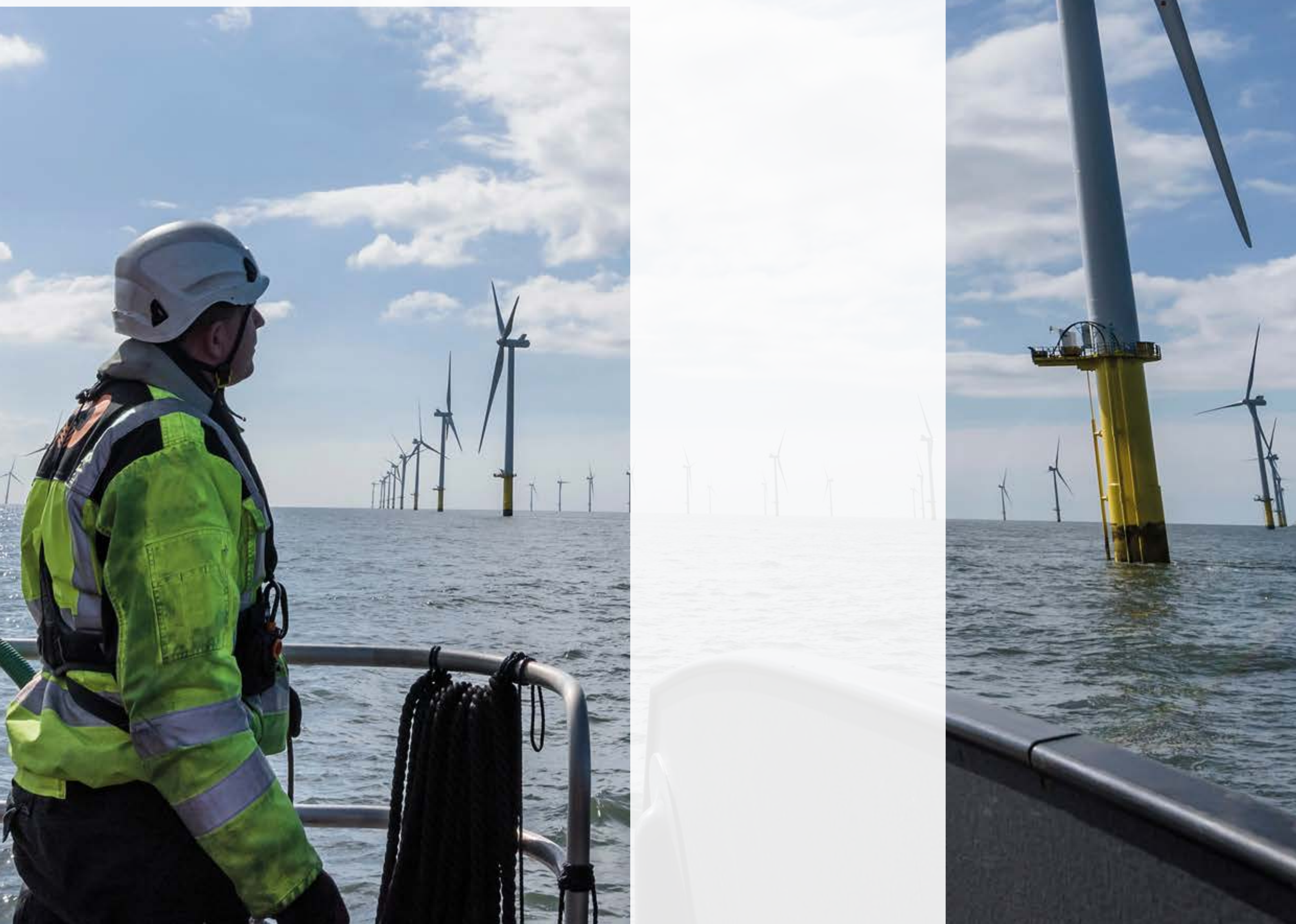
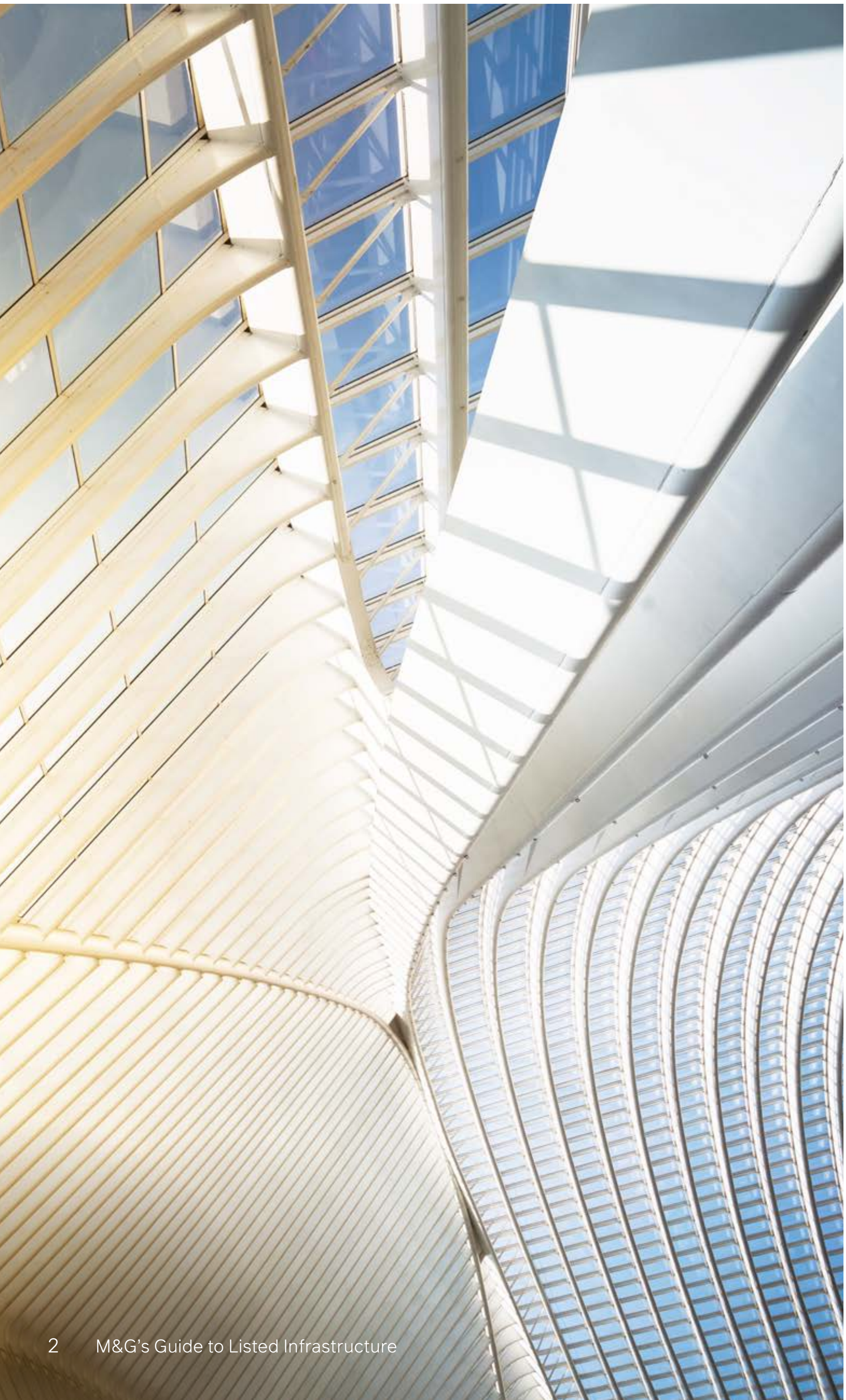
For Investment Professionals only.

M&G's Guide to Listed Infrastructure



Infrastructure holds an important place in the fabric of modern society, serving as the backbone of the world economy. As such, we believe that the stable and growing cashflows generated by the asset class have an equally important part to play in investors' portfolios. In this guide we aim to provide an overview of infrastructure investing by defining the asset class, highlighting the characteristics of the listed universe and outlining the benefits they can bring to long-term investors.



What is infrastructure?

Infrastructure, in its broadest sense, refers to assets associated with the provision of essential services for the functioning of global society. Utilities such as electricity, gas and water are the most obvious examples of critical physical infrastructure, alongside transportation networks such as toll roads and railways, as well as transport hubs including ports and airports. These types of businesses typically enjoy the following characteristics:

- Long-life assets governed by long-term contracts
- Inflation-linked revenues
- Stable and growing cashflows

The predictable nature of these cashflows is highly suited to long-term investors who are looking for a reliable income stream with the capital value supported by a solid asset base.

The value of the fund's asset will go down as well as up. This will cause the value of your investment to fall as well as rise and you may get back less thank you originally invested.

What do we mean by infrastructure?

At M&G, we apply a carefully considered approach to defining the listed infrastructure asset class. We will only invest in businesses that own or control critical physical infrastructure, long-life concessions, or perpetual royalties. These are companies we rely on in our everyday lives – from the moment we wake up in the morning to the moment we fall asleep at night. Many of our daily routines are backed by the presence of a physical infrastructure network whose services enable the modern world to run smoothly. Often without knowing it, we are touching them several times a day.

An essential part of your day

What is our investment universe?

Definitions vary, but we focus on physical assets in infrastructure because the physical aspect usually provides a strategic barrier to entry. This is a crucial distinction. We choose not to invest in service providers such as telecommunications operators, or companies involved in the engineering and construction of infrastructure where access to capital is more likely to determine competitive advantage.

Infrastructure, however, is rapidly expanding beyond the traditional realm of utilities, energy pipelines and transport – which we call economic infrastructure. In order to capture the full breadth of the asset class and the qualities it has to offer, we invest in three distinct infrastructure categories:

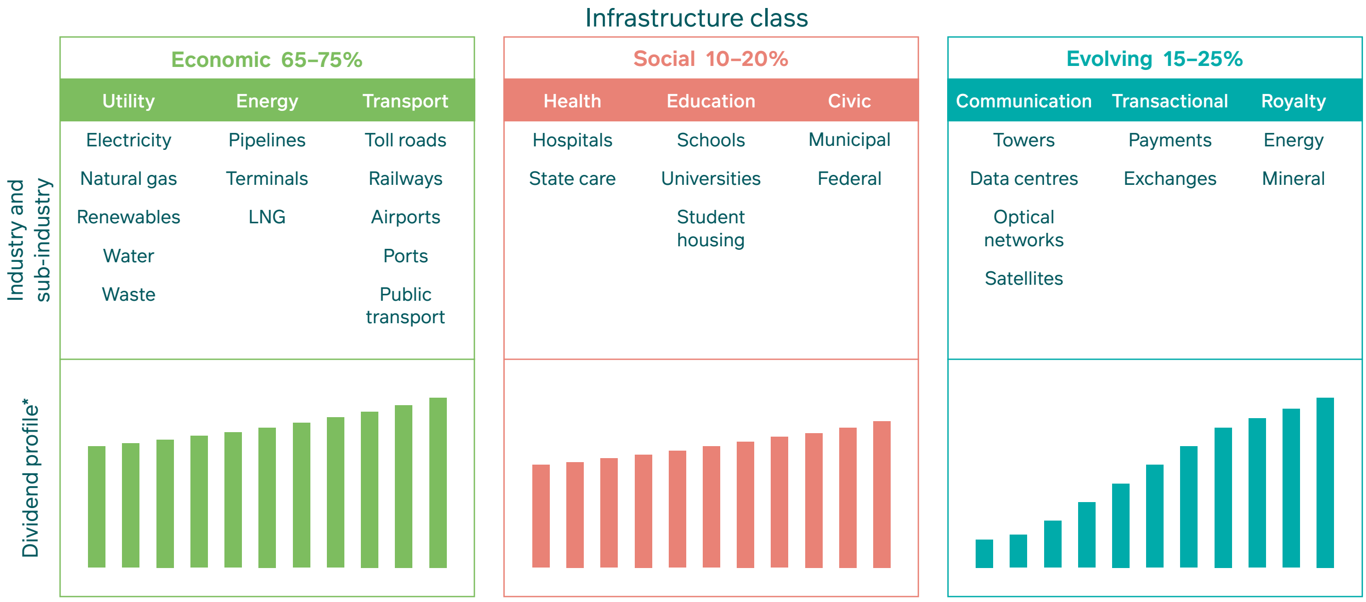
- Economic
- Social
- Evolving

Social infrastructure covers facilities for health, education and civic services. This infrastructure class offers similar defensive characteristics to the economic sphere albeit with a different asset base which provides diversification benefits.

Evolving infrastructure, by contrast, adds a unique profile. The growth opportunities in this segment from communication infrastructure, transactional and royalty companies inject a new dimension to an asset class which has stability at its core. Creating a balanced portfolio from these three infrastructure classes is an effective way to ensure diversification.

Our investable universe is global and includes companies from emerging markets, which gives us the flexibility to pursue the best investment opportunities, wherever they are in the world. Emerging markets are generally more sensitive to economic and political factors, and where investments are less easily bought and sold.

Expanding the universe to capture long-term growth



A stable, dependable foundation... augmented by growth

Source: M&G, 2021. *Expected annual dividend increase, for illustrative purposes only.

Evolving 15-25%
Why listed infrastructure?

The favourable characteristics of infrastructure can be accessed in different ways, but the attractions of investing in listed infrastructure companies include:

- Liquidity
- Infrastructure access for retail investors
- The potential for higher yield and lower volatility relative to global equities

Direct investment in unlisted assets is very much in the domain of institutional investors who can exercise long-term control at the expense of short-term liquidity in private markets. Listed infrastructure, on the other hand, provides retail investors with the opportunity to benefit from the attractive features of infrastructure investment with a scalable strategy afforded by the liquidity inherent in publicly traded equities. The asset class has also demonstrated lower volatility and limited downside during market shocks.

Why M&G (Lux) Global Listed Infrastructure Fund?

Key information on the fund	
Fund Manager	Alex Araujo
Launch date	5 October 2017
Fund Size	$711.17 million (30.04.21)
ISIN USD A Acc.	LU1665236995
ISIN USD A Dist.	LU1665236722
SFDR classification	Art. 8

The M&G (Lux) Global Listed Infrastructure Fund is a high conviction fund holding 40-50 companies that exhibit strong and growing cashflow dynamics. As a result of these characteristics, we expect dividends from these companies to have the potential to increase sustainably over the long term.

Through the consistent application of this approach, the fund aims to provide:

- a combination of capital growth and income to deliver a return, net of the ongoing charge figure, that is higher than that of the MSCI ACWI Index over any five-year period; and
- an income distribution that increases every year in sterling terms

Sustainability considerations encompassing Environmental, Social and Governance (ESG) issues are fully integrated into the investment process.

Diversification is designed to be a key feature of the fund. We have made a conscious decision not to benchmark ourselves against listed infrastructure indices which typically have a disproportionately high exposure to utilities. This bias can lead to performance mirroring bond proxies, which will be challenging in an adverse environment of rising interest rates and higher bond yields. We believe a listed infrastructure portfolio can do so much more if we broaden the universe to capture its full diversity. By investing beyond the traditional realm of economic infrastructure (utilities, energy pipelines and transport) and diversifying into social (health, education and civic) and evolving infrastructure (communication, transactional and royalty), we aim to provide a balanced portfolio which showcases the best attributes that listed infrastructure has to offer.

The fund is managed with a long-term investment horizon, consistent with the long-life nature of infrastructure assets, and follows a disciplined investment process to deliver on its performance objective. Valuation is a key consideration in stock selection to ensure the fund is focused on good investments, not just good companies. Additionally, the assessment of ESG issues is an integral part of the investment process. Incorporating ESG ensures that the assets and businesses we are investing in are sustainable and therefore commercially viable over the long term. Coal-fired power and nuclear power exposure are strictly limited on this basis for economic reasons.

The value of the fund's asset will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee the fund will achieve its objective and you may get back less thank you originally invested.

The fund can be exposed to different currencies. Movements in currency exchange rates may adversely affect the value of your investment.

The fund holds a small number of investments, and therefore a fall in the value of a single investment may have a greater impact than if it held a larger number of investments.

ESG information from third-party data providers may be incomplete, inaccurate or unavailable. There is a risk that the investment manager may incorrectly assess a security or issuer, resulting in the incorrect inclusion or exclusion of a security in the portfolio of the fund.

Why now?
Is fiscal stimulus supportive?

Governments around the world have announced huge fiscal stimulus packages in response to COVID-19, including higher spending on infrastructure, which may provide a favourable backdrop for the asset class. Our long-term approach is not reliant on fiscal expansion continuing or government initiatives having an immediate impact on economic growth, but we are also conscious that this type of dynamic has the potential to drive strong performance for listed infrastructure.

In the US, President Biden has announced plans to commit more than $2 trillion on infrastructure programmes to repair, modernise and expand America's ailing infrastructure networks. Europe's economic rescue package stood out for its green agenda, with sustainability central to the recovery plan. 'Next Generation EU' has a clear policy of promoting renewable energy and clean transport, as well as the renovation and efficiency of buildings and infrastructure to support a more circular economy. Digital infrastructure is another area receiving more investment as Europe strives to improve connectivity in a digital age, with the rapid deployment of 5G networks high on the priority list. Companies exposed to these structural growth trends have the potential to prosper to the benefit of its stakeholders, which include employees, shareholders and broader society.

Fiscal stimulus is likely to remain a topical issue until the global economy is on a firmer footing, but it is also important not to lose sight of the fact that listed infrastructure is a beneficiary of powerful trends which we believe are likely to be more enduring. Thematic tailwinds such as renewable energy, clean transportation and digital connectivity are likely to persist for many decades to come, in our view.

What are M&G's credentials in infrastructure?

Alex Araujo
Fund manager
M&G (Lux) Global Listed
Infrastructure Fund

Alex Araujo, fund manager of the M&G (Lux) Global Listed Infrastructure Fund, has more than 25 years' experience in the financial markets with a focus on equities and listed infrastructure in particular.

M&G has a long history of investing in infrastructure, primarily through M&G Infracapital which invests in private equity, and the infrastructure debt team which invests in both public and private markets. Listed infrastructure is the most recent addition to an established expertise and there is ongoing dialogue between the various teams having a common interest in the asset class. M&G manages more than $49.0 billion in infrastructure assets (as at 31 December 2020).

Collaboration is a key aspect of M&G's culture and the sharing of information gives us a broader understanding of the asset class. □

The fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

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Please note that these websites have not been reviewed by the SFC and will contain information about funds that are not registered with the SFC.

M&G Investments