Listed infra is a sector bet

Frédéric Blanc-Brude doubles down on why he thinks listed infrastructure – in its current form – should not be called a new asset class

OPINION
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IN YOUR RECENT roundtable *Fake infra? They beg to differ,* you report critical reactions to our *Financial Times* viewpoint and peer-reviewed research on the issues created by the growth of listed infrastructure and the claims that it can deliver market outperformance and even similar risk-adjusted performance to unlisted infrastructure. We argue that these claims are false and unsurprisingly are not to the taste of listed infrastructure managers.

Through their comments, your roundtable participants highlighted the fact that they choose to hold investment beliefs about listed infrastructure completely *a priori* and without any empirical proof.

They say that "infrastructure by definition is a well-diversified asset class", leaving little room for discussion or analysis. Likewise, they argue that listed infrastructure "is a really young asset class" and that the past 20 years of data are insufficient to draw meaningful conclusions, especially because of post-crisis monetary policy. We must therefore conclude that listed infrastructure managers have never seen data that actually support their investment beliefs, which must therefore be held *a priori.*

Another, more serious, argument put forward is that infrastructure has "clearly different fundamental drivers". The question for a large, well-diversified investor then becomes: is this a new exposure that I did not have access to before?

All the statistical tests we ran conclude that this not the case: listed infrastructure stock returns are driven by combinations of risk factors found across stock markets (in this case, mostly the market, size and momentum factors) and accessing these risk factors through an ad hoc industrial filter is not the best or cheapest way to invest in equities for investors.

Ultimately, investors who choose to invest in listed infrastructure need to do so while considering that listed infrastructure is not representative of a new asset class that would provide a gain in diversification in a global portfolio allocation.

Nor should they consider that listed infrastructure is a source of better long-term, risk-adjusted returns, such as the consensual long-term rewarded factors in the equity asset class. These factors – i.e. value, momentum, low volatility, mid-cap – have been documented in academic literature that justifies their usefulness from a theoretical and empirical point of view.

From the serious studies that we and others have conducted, 'listed infrastructure' today should be considered a sector bet that is part of a tactical choice or an opportunity to access alpha with all the limitations that academic research and empirical studies have raised in terms of persistence of alpha.

The final argument made to support the claim that listed infrastructure is unique is that it is popular and growing fast. This should instead be a source of concern. When an ill-defined theme becomes fashionable, the core of the investment proposal can easily be diluted (there currently is no definition of what constitutes a listed infrastructure product by stock market regulators). Instead, we note that the large majority of investors in listed infrastructure are retail clients – perhaps not the best-equipped crowd to understand what is being offered under the label 'infrastructure'.

As for delivering the much sought-after 'infrastructure investment narrative', we note that listed infrastructure indices have a 20 percent tracking error with indices of unlisted infrastructure equity (Bloomberg: EIPEE) with a 20-year track record.

To be clear, we believe in the potential of infrastructure debt and equity investment for asset owners. We also see no reason why – in principle – some of the products used to access the characteristics of underlying infrastructure assets could not be listed on public markets.

But today's 'fake infra' will disappoint. It is comparatively expensive and will leave investors without the promised low-risk, stable, inflation-linked returns. As a result, it could give a bad name to infrastructure investing in general and undo years of efforts to educate investors, convince regulators and support public policies that aim to involve asset owners in the long-term financing of the economy. ■