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Listed infra: the asset class that wasn't?

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Not everybody thinks assets available through the stock market provide the same benefits as their private counterparts.

In a whitepaper released earlier this week, Australian fund manager AMP Capital makes the case for listed infrastructure by describing it as an "untapped growth opportunity," highlighting the benefits it can offer investors in the form of stable, reliable and growing cash flows.

"Global listed infrastructure is still a relatively new asset class but because of its versatility it can play a number of roles in a balanced portfolio," AMP Capital's global head of listed infrastructure Tim Humphreys said in a statement. "It offers defensive growth, attractive yield and also offers appealing diversification qualities, presenting a largely untapped opportunity for investors."

Two listed infrastructure professionals – Franklin Templeton's Wilson Magee and CBRE Clarion's Jeremy Anagnos – presented similar arguments during a roundtable discussion Infrastructure Investor hosted last month, which you will be able to read shortly in our September issue.

AMP Capital, which also invests in unlisted infrastructure, released its whitepaper to coincide with its support of the Global Listed Infrastructure Organisation, a new trade association launched in July whose objective is to raise awareness of the benefits of listed infrastructure among investors.

Not everybody seems so enthused by listed infrastructure, however. In a paper released in June, EDHECInfra, the infrastructure research unit of the French business school, stated its disagreement in stark terms when it argued that "there is no listed infrastructure asset class".

"When you talk about an asset class you are referring to a group of assets that tend to be more correlated with each other and less correlated with the rest," EDHECInfra director Frédéric Blanc-Brude told Infrastructure Investor.

"Listed infrastructure tends to be very high volatility, very highly correlated with the market; not at all what you think infrastructure should be like as an investment."

The findings come after a one-year study that used 22 listed infrastructure proxies to determine whether listed infrastructure has the potential to create diversification benefits for investors. The tests were conducted for global, US and UK markets covering the past 15 years.

"We tested 22 proxies of listed infrastructure and found little to no robust evidence of a 'listed infrastructure asset class' that was not already spanned by a combination of capital market instruments and alternatives of a factor-based asset allocation," Blanc-Brude and co-authors Tim Whittaker, associate research director at EDHECInfra, and Simon Wilde, senior managing director at Macquarie Capital in London, wrote in the paper.

There was one exception to the findings, however: five stocks, listed on the London Stock Exchange, which buy equity tranches in PPP projects that receive availability payments and have no demand risk.

"These five companies own about 250 projects. While they're small – their market capitalisation is £5 billion [$6.6 million; €5.8 million] – they are a window into quite a large bucket of projects," Blanc-Brude explained. "They basically have the characteristics that you'd expect from infrastructure, which is much lower risk than the market, very low correlation with the market and high dividend pay-outs."

According to EDHECInfra's study, focusing on the underlying contractual or governance structures that tend to maximise dividend payouts and pay dividends regularly is effective in reaping diversification benefits – certainly more than simply investing in companies based on their SIC code and on whether a proportion of their revenues are generated from the infrastructure sector.

"So you could conclude that there's something special out there with infrastructure but it's mostly not available through the stock market, so it's difficult to proxy," Blanc-Brude said.

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