Infrastructure Strategic Outlook 2024

2024 Market Update

IN A NUTSHELL

— The infrastructure market is expected to remain under pressure from the new interest rate environment, but infrastructure has absorbed higher rates well in comparison to other asset classes. Given strong cash generation and expectations for rates to fall to more manageable levels, we do not expect major repricing in the unlisted infrastructure market.

— The infrastructure market has begun to stabilise and 2024 should see a return to stronger fundraising and transaction activity. With economic conditions still challenging, it will remain important for assets to demonstrate downside protection as well as the ability to quickly adapt to prevailing economic conditions.

— The midmarket opportunity set remains compelling given the ready pool of large cap investors needing to deploy capital into new assets, as well as the higher returns on offer. While we believe that the energy transition and digitalisation will remain two of the major areas for capital deployment for infrastructure investors, we note Transport assets could be an area of increased activity in 2024 as assets kept off the market since the pandemic begin to emerge. In both the U.S. and Europe political risk remains a key area to monitor.

Infrastructure Strategic Outlook 2024

Evolving market appears set for recovery, albeit under the pressure of higher rates.

The well-documented slowdown showed signs of coming to an end as 2023 drew to a close, with 2024 likely to be a significantly more positive market for fundraising and transactions across the unlisted infrastructure market. The higher interest rate environment has been partially absorbed by the infrastructure asset class to date and we continue to believe there will not be a broad-based repricing event in the market. Total return performance will be under pressure as different infrastructure business types attempt to balance the negative impact of higher risk-free components of their discount rates against what has been a robust period for cash generation. Lower returning equity strategies are comparatively less attractive in this environment, which may drive growing interest in infrastructure debt and higher-returning equity strategies. Given trends in investor allocation decisions, mega-funds will continue to attract capital and many managers will aspire to raise ever larger funds, which should create opportunities for midmarket investors to develop and grow assets to satisfy increasing demand for larger assets.

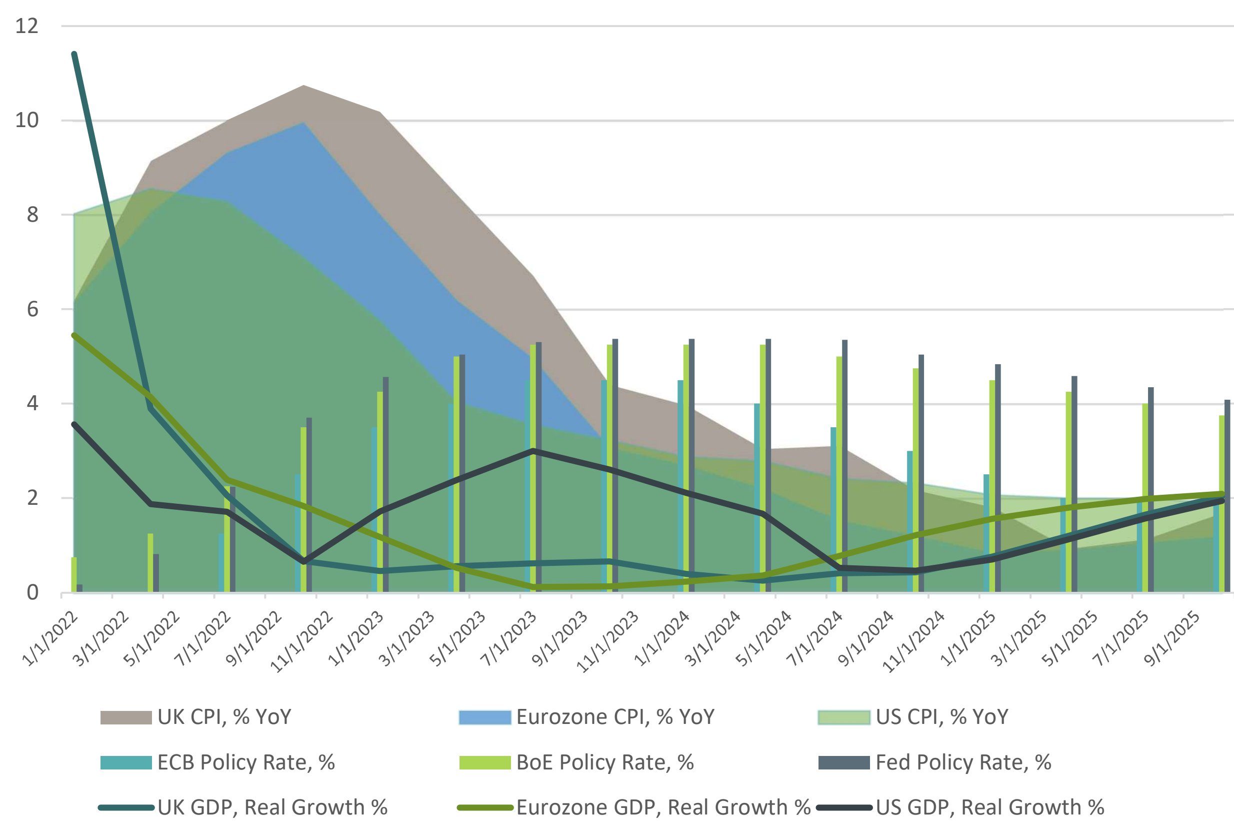
1 / Macro Update

Forecasts remain changeable. Economic growth is expected to be capped by higher rates and inflation shocks should not be ruled out.

1.1 Interest Rates In Focus

Economic forecasts have altered significantly over the course of 2023. Gross Domestic Product (GDP) growth was more resilient than expected, driven primarily by wage increases and consumer demand, despite the combination of high inflation and interest rates. Another low-growth environment is forecast in 2024, with the spectre of recession in the US, UK and some European markets remaining. Crucially for infrastructure assets with inflation linkage, inflation levels are expected to fall across Europe and the US, meaning there will likely be less of a lift to earnings than was the case in 2023. Coupled with softer demand due to subdued GDP growth and the higher costs of financing for those assets which need to refinance in the short-term, the macroeconomic environment will continue to test infrastructure in 2024. However, overall we expect the market to be more stable than it was in 2023.

Chart 1: Real GDP Growth, Consumer Price Index and Central Bank Policy Rate, %



Source: Oxford Economics, December 2023. Note: Q4 2023 onwards represents forecast data. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions, and hypothetical models that may prove to be incorrect. Investments come with risk.. YoY=Year on Year.

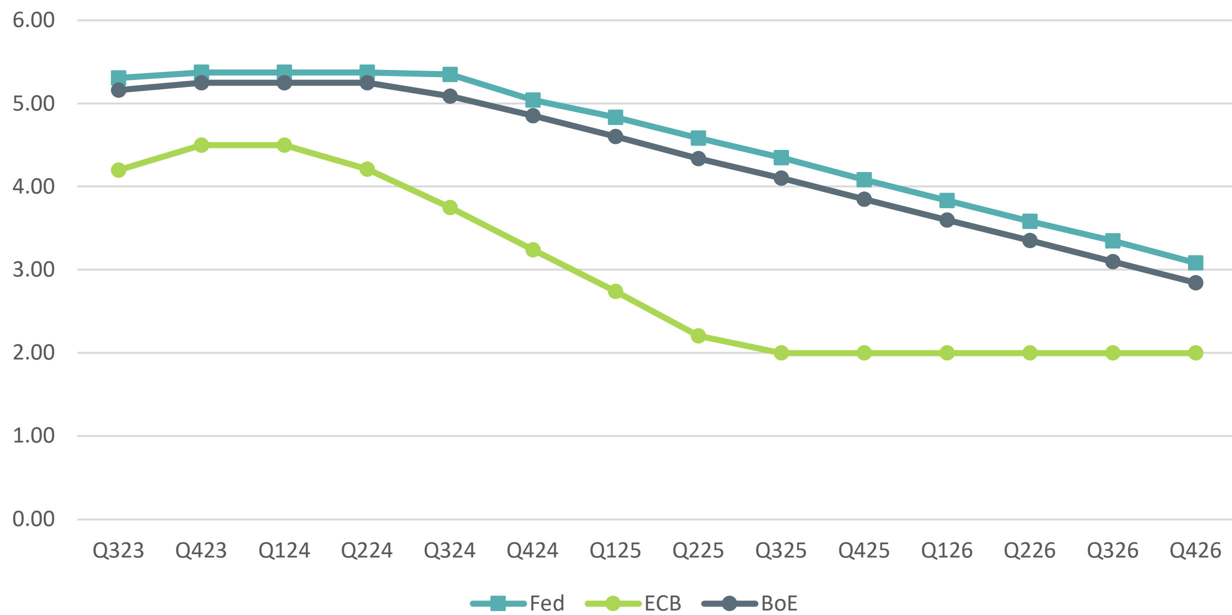
Table 1: Europe Economic Forecast Snapshot

		2024	2025
France	CPI, % YoY	1.98	0.98
	GDP Real Growth, % YoY	0.58	2.02
	Government 10Yr Bond Yield	2.75	2.54
Germany	CPI, % YoY	0.97	0.36
	GDP Real Growth, % YoY	-0.1	1.5
	Government 10Yr Bond Yield	2.28	2.14
Italy	CPI, % YoY	1.74	1.55
	GDP Real Growth, % YoY	0.52	1.18
	Government 10Yr Bond Yield	4.13	4.08
Netherlands	CPI, % YoY	1.57	1.81
	GDP Real Growth, % YoY	0.79	2.27
	Government 10Yr Bond Yield	2.54	2.36
Spain	CPI, % YoY	2.5	1.74
	GDP Real Growth, % YoY	1.29	1.75
	Government 10Yr Bond Yield	3.3	3.19
United Kingdom	CPI, % YoY	3.19	1.6
	GDP Real Growth, % YoY	0.47	1.47
	Government 10Yr Bond Yield	4.03	3.86

Source: Oxford Economics forecasts. December 2023. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions, and hypothetical models that may prove to be incorrect. Investments come with risk.

Ultimately the pace and scale of interest rate cuts will be crucial to inflation levels, the strength of economic growth, and the performance of the infrastructure asset class. Central banks will need to continue to manage a delicate balancing act to ensure wage growth and economic shocks – such as those seen in events across the Middle East in 2023 – to not revive inflationary pressures, requiring further rate hikes. At the same time, there is growing recognition that in many markets inflation has now fallen faster than expected and economic pressure from high debt servicing costs are painful, with job losses beginning to rise. Cuts to policy rates are currently expected to start in Q2/Q3 2024, although discourse is increasingly shifting to potential earlier cuts. Against this pressure to cut, the Federal Reserve, European Central Bank and Bank of England have all remained steadfast in their communication of the requirement to ensure inflation is fully tamed, making earlier interest rate cuts less likely.

Chart 2: Central Bank Policy Rate, %



Source: Oxford Economics, December 2023. Note: Q4 2023 onwards represents forecast data. Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, opinions, and hypothetical models that may prove to be incorrect. Investments come with risk.

The prospect of rate cuts and a more accommodative long-term interest rate suggests that pressure on long-term assets such as infrastructure should be short lived. There has been significant attention on the increase in the short end of the yield curve, but infrastructure – as a long-dated asset – should in most cases be concerned with the movement of long-term borrowing costs, the movement of which has been significantly less dramatic.

2 / Market Update

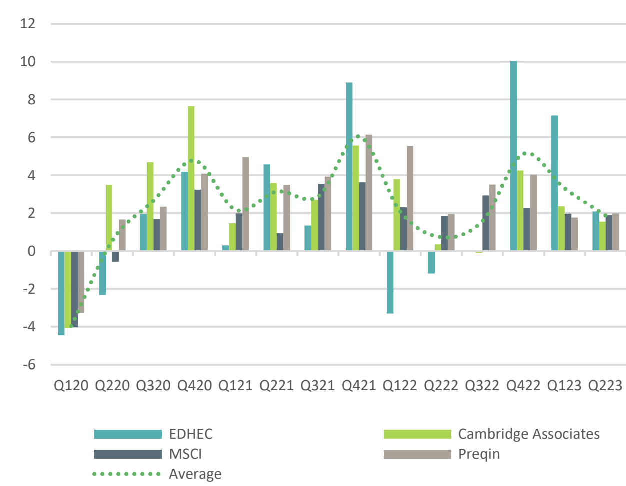
Unlisted infrastructure equity has continued to perform well over 2023, although the pressure of the rate environment has been felt by those assets unable to counter higher discount rates with stronger cash generation.

2.1 Performance Under Pressure

At the time of writing, total return performance for unlisted infrastructure equity in 2023 looks set to continue to demonstrate the asset class's capacity to deal with difficult macroeconomic circumstances favourably. Looking at the EDHEC Infra300 Unlisted Infrastructure Equity Index, year-to-date total returns stand at 10.45% as of November 2023. Full-year 2022 total return for the same benchmark stood at 8.1%, showing that – despite 2023 market conditions – infrastructure's performance remained robust.

Q2 2023 data – the latest available for other infrastructure benchmarks – paints a slightly less positive picture for year-to-date returns, although at the same point in time the Infra300 was showing 7.3%. The MSCI Global Quarterly Private Infrastructure Asset Index and the Cambridge Associates Infrastructure Index both show a total return of 3.9% in their Q2 2023 release, while Preqin's Infrastructure Quarterly Index reported 3.7%. All benchmarks for unlisted infrastructure are calculated based on different constituents and report at the fund level or asset level, but ultimately tend to track one another over the long term (Chart 3). Based on our analysis, there are also similar levels of volatility across the different benchmarks, albeit inconsistent (see Table 2), demonstrating why the CPI+ method is still common across the market for benchmarking[1]. For research purposes, the EDHEC data allows for a more granular analysis of performance both from a sector and geography perspective, but also allows for analysis of strategies and returns components.

Chart 3: EDHEC Unlisted Infrastructure Equity Total Return Indices, Rebased to January 2020 (LHS), Infrastructure Benchmark Quarterly Total Returns, % (RHS)



Source: Left - EDHECInfra, December 2023. Right – EDHECInfra, MSCI Private Assets, Cambridge Associates Private Benchmarks, Preqin Pro, LHS/RHS = Left-Hand Side/Right-Hand Side

[1] CPI+ is a common form of performance benchmarking for infrastructure investors whereby assets are expected to deliver a return above the level of the consumer price index, given infrastructure's ability to link earnings to the level of inflation.

Table 2: Private Infrastructure Benchmark Volatility

	Preqin	MSCI	Cambridge Associates	EDHEC
10-Year Annualised Volatility	3.16%	3.38%	10.72%	10.13%

Source: DWS Infrastructure Research, December 2023. Timeframe of analysis: June 2013-June 2023.

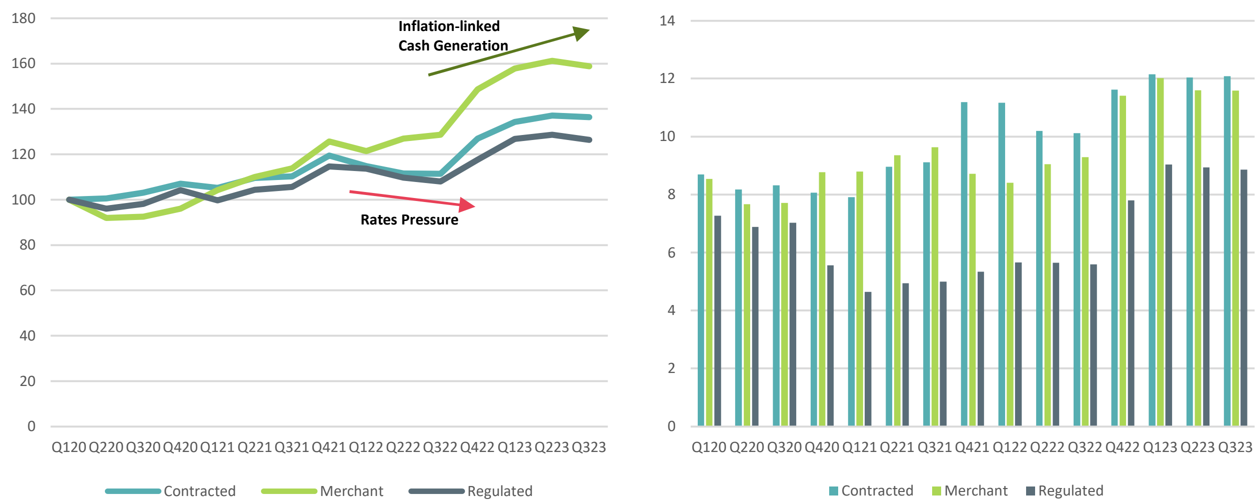
Concerns over a repricing event in infrastructure were top of mind during 2023, particularly given the dramatic movements seen in Real Estate markets; however, the infrastructure market has not seen a similar downward correction. Using the higher frequency monthly EDHEC data, which is based on modelled estimates of the performance impact of market conditions such as interest rates, it is possible to see how infrastructure has absorbed the higher rates and the extent to which this has impacted performance. This is particularly evident when assessing performance based on business type, where there were negative quarterly returns across regulated and contracted assets as interest rates rose (Chart 4).

Concurrently, it is also possible to see how higher inflation-driven income then began to feed through, pushing total returns back to positive territory. In the recent years of volatile macroeconomic conditions, there has continued to be an investment performance benefit for assets which have contracted revenue streams, as they typically enjoy attributes such as secured offtake and inflation-indexation. In 2024, we expect slower growth and lower inflation to bring to an end the strong outperformance of merchant assets seen in recent years.

Some of the higher levels of income generated by infrastructure in the recent higher inflation environment will be required to service higher debt costs and thus will not be beneficial from a return perspective. However, the earnings outlook for infrastructure – ultimately a long-term asset class – remains positive. As interest rates begin to fall, the negative impact on valuations and performance resulting from recent market conditions will likely prove to be transitory. To date, anecdotal evidence shows that discount rates have thus far not fully adjusted and it is our expectation that only when Q4 2023 asset valuations are reported will a clearer picture of the extent the impact of higher rates on valuations emerge and the market reflect what has been seen in the EDHEC benchmark data.

Chart 4: EDHEC Unlisted Infrastructure Equity Total Return Indices By Business Type (100=2020) (LHS) & Income Return, % YoY (RHS)

Source: Inframetrics, December 2023.



Source: EDHECInfra, December 2023.

For the most part, higher discount rates – where required depending on the unique business profile of each infrastructure asset – have been adopted as part of regular valuation processes. In addition, the ability of many infrastructure assets to capture inflation resulted in a boost to cash balances. As such, we do not expect the overall market to move in a downward correction. Furthermore, while we have seen substantial discounts in public infrastructure markets across certain sectors, which in turn has created pressure for private markets to reprice, listed infrastructure benchmarks have recovered strongly over Q4 2023. This should reduce expectations for private markets to require repricing to reflect market sentiment, which appears to have been short term. At the time of writing, the Dow Jones Brookfield Global Infrastructure Index has given a total return over Q4 2023 of 11.2% and a year-to-date performance of 4.4%, thus recovering much of the negative price movement seen over 2022 and 2023[2].

Looking ahead, the focus on entry point timing with respect to the infrastructure market is likely to remain, as investors are expected to remain cautious about the prospect of a price correction and consider the positive impact of a low entry point on an asset's performance over the hold period. Core assets are in particular focus, given the likelihood that businesses coming to market could be attractively valued, as these assets are typically regulated businesses which have been less able to offset higher discount rates with adjusted business plans or newly reviewed regulatory periods. Current holders of Core assets also face comparatively less attractive returns in a market where infrastructure debt offers a return potentially above 7%[3], with fewer options than Core+ or Value Add-style assets to maneuver business plans to boost returns. Considering the market as a whole, and the significant amount of capital being raised in the Core space which will likely make any Core auction process extremely competitive, the decision to miss an investment cycle in anticipation of significantly discounted assets materialising may pose only a marginal benefit to performance.

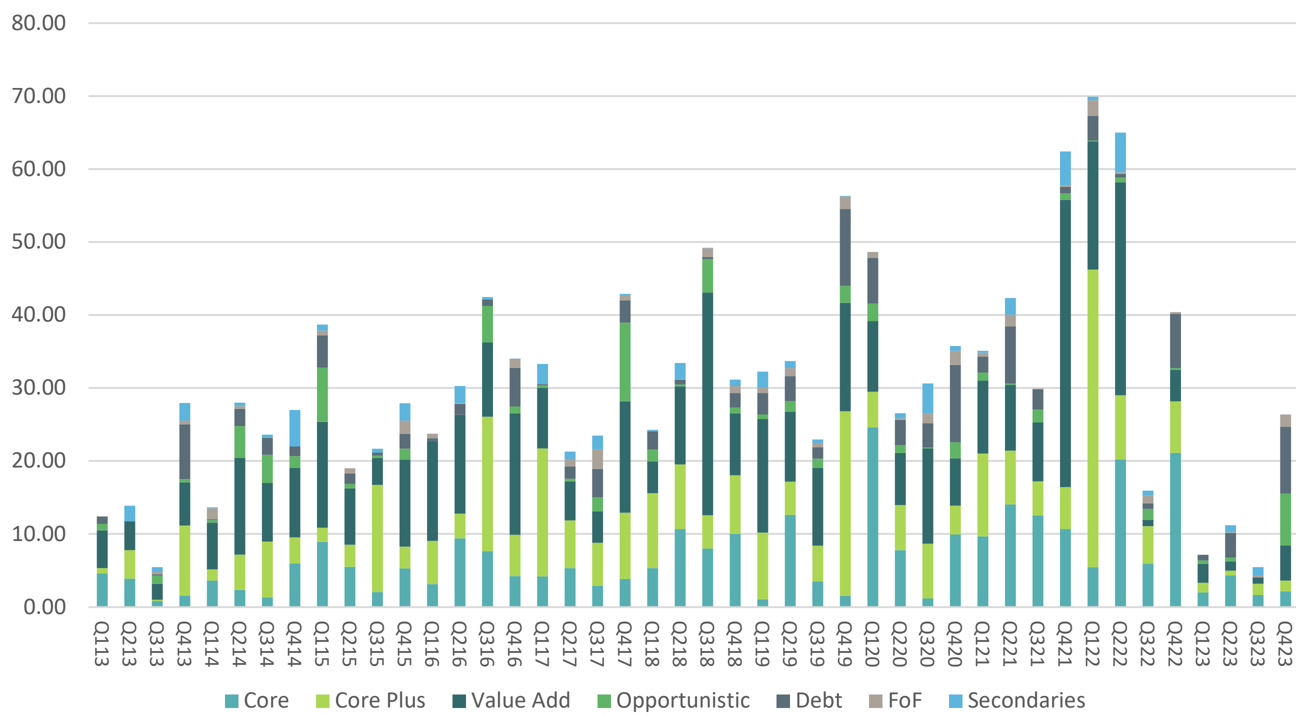
[2] Bloomberg, 22/12/2023
[3] EDHEC Global Infrastructure Debt, Expected Returns for Floating Rate Infrastructure Debt, 90th Percentile – 7.6%. Source: EDHECInfra

2.2 Fundraising Continues To Evolve

At the time of writing, fundraising for unlisted infrastructure in the fourth quarter of 2023 was higher than the rest of the year combined. This is indicative of both the challenges funds in the market have faced over the year in reaching their target size in what has been the most challenging year for fundraising in a decade, but also improving levels of comfort investors have with the market and their allocations heading into 2024.

With the denominator effect as well as caution around the consequences of continued interest rate hikes impacting fundraising in the first half of 2023, infrastructure investors continued to wait on the sidelines for calmer conditions to prevail. This also likely led to concerns over first-close risk, whereby even investors that planned to make allocations to infrastructure in 2023 were cautious to commit early given the lack of fundraising momentum that might result in a prolonged delay to capital deployment. Further, with inflation and higher rates also having also increased business costs, new funds deploying capital will have experienced deeper J-curves, further creating reason for caution.

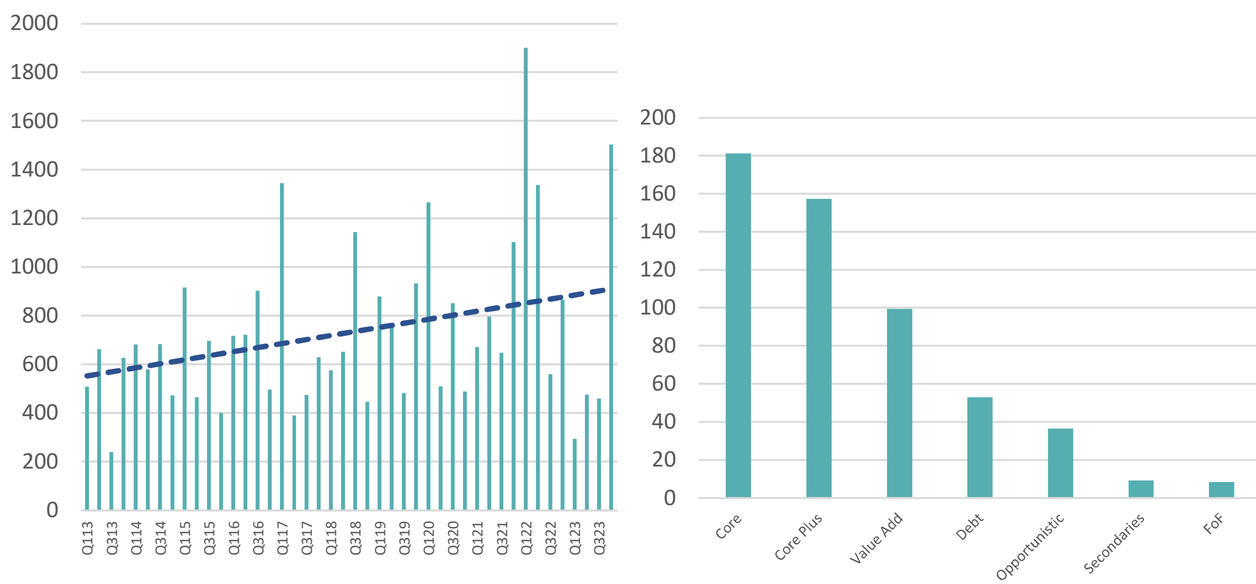
Chart 5: Infrastructure Fundraising By Strategy, USDbn



Source: Preqin Pro, December 2023. Note: Q4 2023 shows data up to 12/19/2023. FoF = Fund of Funds.

In this environment we have seen a continued concentration of investors into larger funds, with the average fund size in Q4 (at the time of writing) reaching the second highest on record[4]. Driving this trend is a preference for limiting the number of manager relationships (along with the potential fee benefits as a result), as well as a perception that larger funds, targeting larger assets, present a more understood returns profile in a risk-off environment. That said, the higher risk-free rates now available also saw infrastructure investors look towards higher returning strategies, with Value Add seeing a boost to funds raised in Q4 2023 as investors looked to supplement their lower returning Core strategies with higher returning strategies in order to seek higher total returns from their infrastructure allocations. Furthermore, a greater share of Value Add funds relative to Core offer more sector-specific strategies, allowing investors to tap more directly into popular thematics, including energy transition and digitalisation[5].

Chart 6: Average Quarterly Fund Size, USDmn (LHS) & Aggregate Target Size of Funds In Market By Strategy, USDbn (RHS)

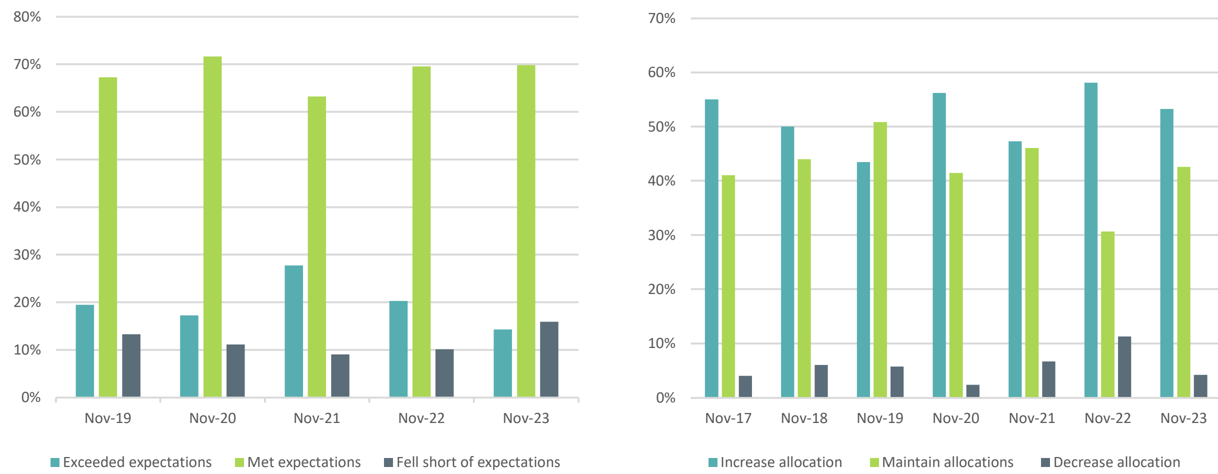


Source: Preqin Pro, December 2023.

Overall, appetite for infrastructure exposure remains robust with Preqin's November 2023 survey of investors concluded that the overwhelming majority of respondents are satisfied with the performance of infrastructure as an asset class and plan to either increase or maintain their allocations.

[4] Preqin Pro, December 2023.
[5] Realfin, January 2024

Chart 7: Investor Perceptions of Infrastructure Performance, Last 12 Months (LHS) & Investor Expectations For Infrastructure Allocations Over Long-term (RHS), % of Respondents



Source: Preqin Investor Survey, November 2023.

Infrastructure's fundraising momentum should recover in 2024. Infrastructure performed robustly over recent years of macroeconomic volatility and – with the recovery of listed markets reducing denominator pressures, as well as the continued underperformance of other real asset classes as well as the strong pipeline of capital deployment opportunities across greenfield and brownfield assets – investors are expected to return to the infrastructure market.

Looking at funds currently in the market, Core strategies are looking to raise USD180bn (Chart 6), which – combined with the continued growth and success of mega-funds – suggests that the large-cap, Core segment of the market will continue to be intensely competitive. This will be especially the case if there is a perception that potentially good value assets need to be offloaded in the near term. Given the amount of capital in the Core segment and the limited number of assets that present truly Core-style returns, we also expect that there will be a renewed focus on Core+, midmarket strategies with a view to not only securing higher returns, but also having a ready market of buyers for the scaled-up and de-risked assets at the time of disposal.

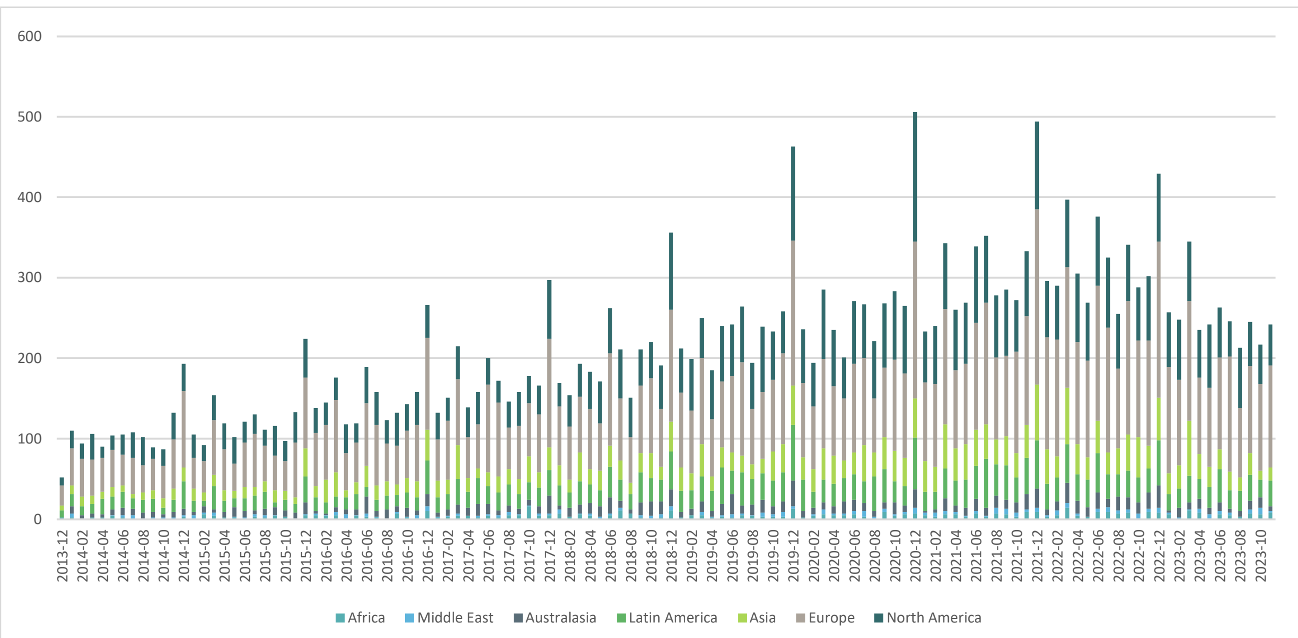
For Value Add fundraising, competing factors present a more mixed picture. There has been a recent tendency to focus on digital and renewable energy assets which – due to the increased focus on valuations across these sectors, which have also already received a significant influx of capital – may compel investors look elsewhere in future. However, the requirement for higher returns and the potential to scale businesses benefitting from strong secular tailwinds across the breadth of the energy transition and digitalisation themes will likely see investors continuing to seek more diversified Value Add strategies.

2.3 Transactions Stabilising

Transaction activity across the private infrastructure market in 2023 remained below the levels seen in 2021 and 2022. The higher rate, slower growth environment resulted in a relatively consistent degree of caution across every region and sector, reducing the number of assets brought to market. However, transaction data as of November 2023 shows signs of stabilisation in the number of deals closing, which aligns with the improvement in fundraising and greater ease around the outlook for interest rates.

While still the strongest area of activity in terms of volume of deals closed, the Renewables sector saw the most dramatic slowdown in deal volume over 2023 as the market was subject to a confluence of negative factors – namely pressure on returns from higher rates and higher development costs – resulting in even greater caution than that seen across the wider market. From a regional perspective, Europe, North America and Asia all experienced notable slowdowns in activity, although Europe has seen momentum building since September 2023 when the decline in activity reversed.

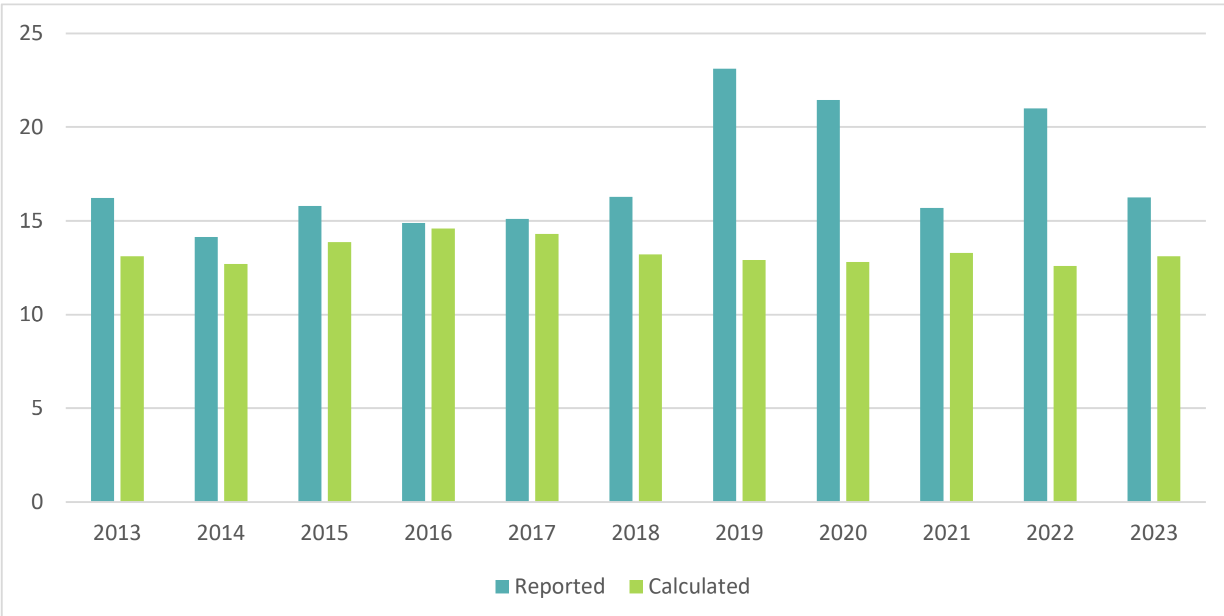
Chart 8: Monthly Closed Infrastructure Transactions, Volume



Source: Infralogic, December 2023.

For infrastructure transactions which did close over 2023, we have witnessed a drop in the average EV/EBITDA multiple, underpinning our view that the market has already begun to absorb the higher rate environment and that the pause in the market over 2023 has let certain sectors such as digital and energy transition cool. The higher rate environment has seen business plans altered and earnings forecasts come under pressure – for merchant assets in particular – as well as driving greater scrutiny of sectors with high capex, platform rollout strategies. However, rather than leading to a significantly discounted market, multiple levels have instead come back into line with both historical EV/EBITDA averages, as well as those based on book values of assets, as calculated by EDHEC (Chart 9). Historically, there has been stronger alignment between the multiples achieved in transaction deals and those based on the book value of assets.

Chart 9: EV/EBITDA Multiples – Reported Closed Infrastructure Transactions vs Book Value Calculation.



Source: DWS, Infralogic, EDHECInfra, December 2023. Note: Calculation data based on Mean EV/EBITDA data for Global Infrastructure EDHEC Valuation Ratio data. Reported data based on aggregated averages derived from over 900+ transactions with EV/EBITDA data available.

There will continue to be upwards pressure on these multiples given the limited number of assets and a growth in sector-specific strategies requiring certain assets to be targeted. However, we expect this to be most keenly felt at the Core end of the market. There is a relatively stable number of assets available in the Core space when compared to the growth in capital deployment opportunities in the Core+ and Value Add segments as newer infrastructure sectors make their way into portfolios. The slowdown in the market over 2023 has ultimately reset what buyers are willing to pay for assets with a greater degree of risk, which should limit valuations in sectors with higher risk from escalating into uncharted territory.

3 / Investment Outlook

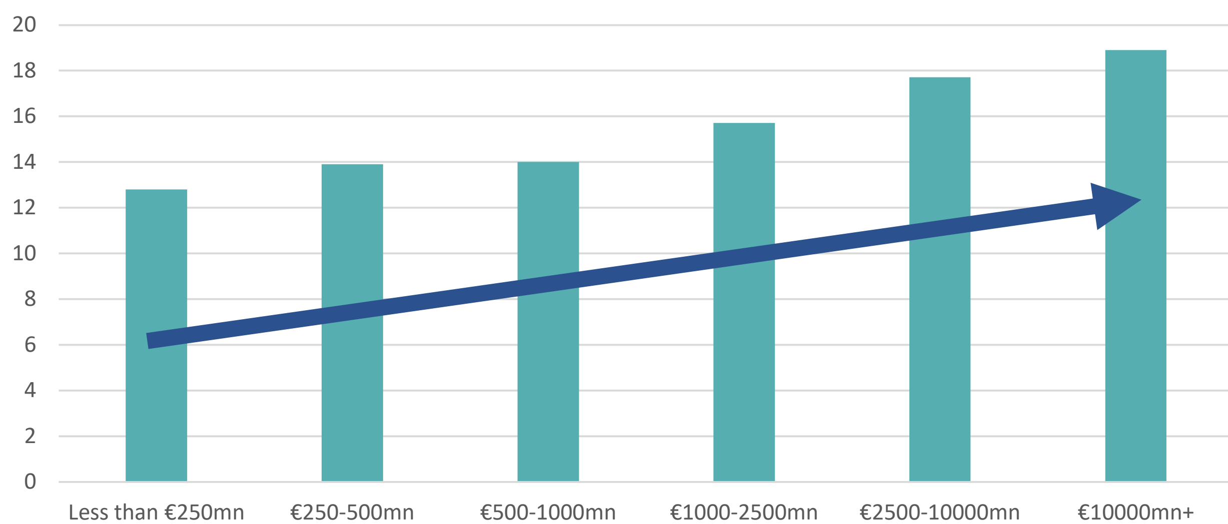
As the global infrastructure market begins its recovery, securing good value for investors will be a top priority. In a market where large investors are becoming more dominant, we believe the midmarket offers a compelling investment case, presenting opportunities across a wide variety of business profiles, sectors, and levels of return. 2024 should also see the return of many transportation opportunities to the market as investors seek to make asset realisations delayed since the pandemic. Political risk is ever present, but we note that elections in 2024 could make the policy environment in key markets more fragile.

3.1 Midmarket Presents Good Value

As discussed in the fundraising section of this report, there has been growth in average infrastructure fund size. We believe there are a range of compelling factors that have aligned to create positive momentum in the midmarket space which can not only provide investors with the low-volatility, uncorrelated returns expected from the infrastructure asset class, but also a higher level of returns as assets are scaled-up. Finally, at the point of disposal, there is a ready market of buyers given those larger funds now in the market need to write larger tickets. There are three key factors underpinning this strategy:

Good Value Entry and Exit Points: Based on analysis of closed transactions over the last decade, EV/EBITDA multiples are lower in smaller infrastructure businesses and increase along with the size of transactions. With strong performing Core+ and Value Add infrastructure funds able to achieve net multiples in excess of 2x, it is possible to shift assets up this EV/EBITDA multiple scale and benefit from exiting a large cap business.

Chart 10: EV/EBITDA Multiples, By Transaction Value



Source: DWS, Infralogic, December 2023. Note: data based on aggregated averages derived from over 900+ transactions with EV/EBITDA data available.

Higher Returns: It is also possible to secure higher levels of return over the course of a hold period in the midmarket, benefitting from the availability of businesses which can generate income but also have a growth profile. The market also offers access to less-mature infrastructure sectors with higher risk premia. Available data for quantitively comparing returns between large-cap and mid-cap infrastructure businesses is limited, but it is possible to use the EDHEC Midmarket data to draw some conclusions.

- The EDHEC Infra100 Core index represents the 100 largest infrastructure businesses with a Core returns profile, which represents assets whose expected return are less than the median expected return (first two quartiles in the distribution) of the entire EDHECinfra universe.
- The EDHEC Infra100 Midmarket index represents the 100 largest assets within the middle segment (between 33 and 66 percentiles) of the market by the total assets of the companies in the EDHECinfra universe.

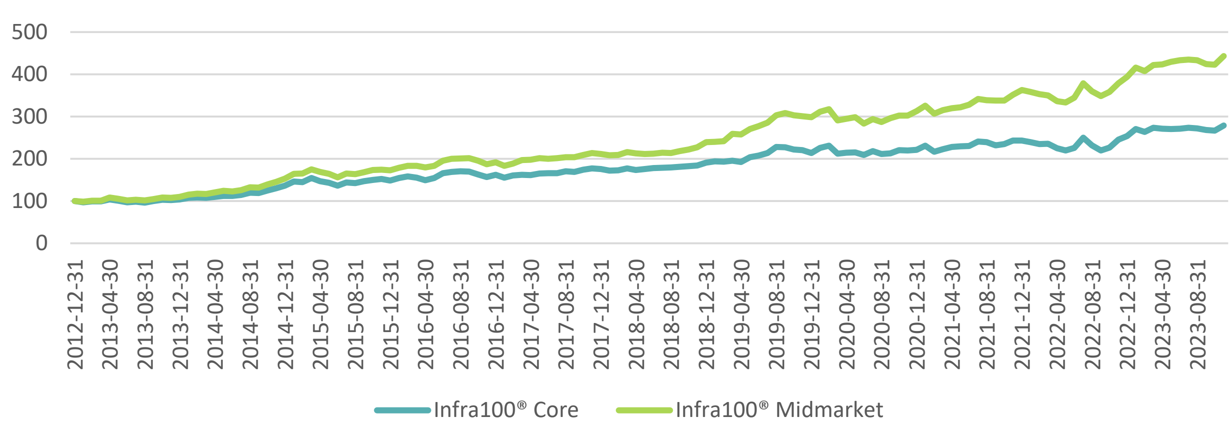
While imperfect alignment (some assets within the Core index may fall into the midmarket category, given that it is the 100 largest Core assets), this should represent mainly large cap businesses. The Infra100 Midmarket has a consistent outperformance from a total return perspective, driven not only by strong capital return (i.e., growth of asset bases) but also by levels of income growth comparable to that of the Core index.

Table 3: Infra100 Core, Infra100 Midmarket - Capital Return and Income Return, %

	Capital Return						Income Return					
	2017	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021	2022
Infra100 Core	1.49	0.89	5.8	-0.65	4.19	-4.72	6.98	7.36	6.45	3.93	5.69	9.34
Infra100 Mid-market	3.67	5.3	16.27	-2.2	8.19	0.26	6.66	7.74	8.37	7.02	7.76	8.42

We have also noted in our Alternative Fuels research paper[6], returns are often higher when invested in sectors which are experiencing significant scaling. As seen with solar and wind markets, as regulatory landscapes have matured, investment has increased, resulting in the consequent maturing of the renewables industry. As the risk profile of these sectors improved and the asset sizes increased, the returns on offer have been compressed. This process represents the transition from mid- to large-cap assets and from midmarket investors to large infrastructure funds.

Chart 11: EDHEC Infra100 and Infra100 Midmarket Unlisted Infrastructure Equity Indices, Rebased to January 2013



Source: EDHEC Scientific Infra, December 2023.

[6] https://www.dws.com/en-gb/insights/global-research-institute/transforming-european-energy-alternative-fuels/

Larger Pool Of Assets: Since January 2022, there have been around 1,868 infrastructure transactions under EUR2,500mn, while just 123 deals in excess of that value[7]. Core assets by their nature typically enjoy strong monopoly positions, partly due to the fact that there are very few alternatives to using them. Other styles of assets often need significant intervention to create similarly strong market positions to build an infrastructure-returns profile. As a result of this market scarcity, Core assets are highly in demand, which is intensified by the requirement to deploy the significant capital raised in recent years in the Core space. This is encouraging such investors to seek new assets. To satisfy this demand, in 2024 we expect to see more Core+ assets – which are more common in the midmarket segment – transitioned into new Core profile assets.

Risks are likely to be higher in the midmarket. Data suggests that the midmarket presents a more positive risk-adjusted return than Core infrastructure assets, with comparable maximum drawdowns and similar 10-year volatilities. However, such businesses are likely to involve a higher level of active asset management given the requirements for significant capital expenditure or business growth to scale the asset. This makes manager selection a crucial part of a midmarket allocation.

Table 4: Infra100 Core, Infra100 Midmarket – Risk Metrics

	Sharpe Ratio			Annualised Volatility			Max Drawdown		
	3YR	5YR	10YR	3YR	5YR	10YR	3YR	5YR	10YR
Infra100 Core	0.64	0.72	1.03	12.44	11.56	10.62	-12.08	-12.08	-12.08
Infra100 Midmarket	1.2	1.42	1.42	11.14	10.87	10.47	-8.05	-10.54	-10.76

Source: EDHEC Scientific Infra, December 2023.

[7] Infralogic, December 2023. Note: Excludes transactions with no Deal Value data.

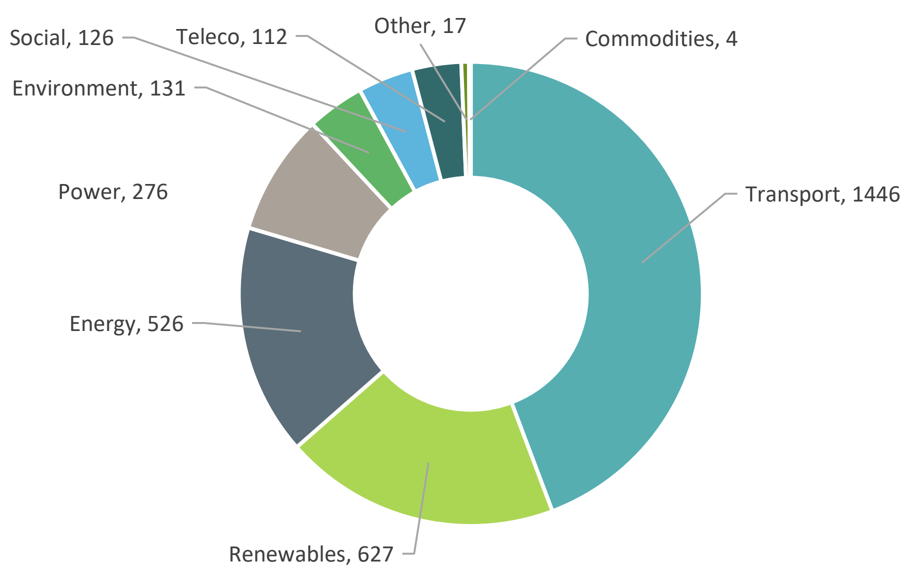
3.2 Transport Activity To Increase In 2024

Tailwinds across all major infrastructure investment themes have improved over 2022 and 2023 following both the Covid-19 pandemic and the European energy crisis. The energy transiation, decarbonization, supply chain resilience, public transportation, demographic change and digitalisation remain the long-term investment trends that will guide infrastructure investors.

Within these themes, in 2024, we expect to see owners of assets in the transport sector eager to realise assets which have been impacted for a number of years by market dynamics. Transport infrastructure assets were some of those most impacted by the Covid-19 pandemic, as movement by large parts of the global population were restricted and trade flows were disrupted. This highly irregular event has increased the risk perception towards the transportation sector despite the fact that, in many cases, trade volumes and passenger numbers for assets are approaching or have surpassed pre-2019 levels. For example, the latest Airport Council International quarterly report forecasts 2024 will surpass 2019 passenger traffic volumes, with 9.4 billion people travelling by plane[8].

As a result of multi-year disruption, Transport accounts for the largest share of the value of assets in the pipeline of deals in the global infrastructure marke (Chart 11). Transport also accounts for the second highest volume of live deals, behind Renewables.

Chart 12: Live Transactions By Sector, EURbn



Source: Infralogic, December 2023.

While transportation assets are returning to pre-pandemic levels of demand, we also note multiple thematic tailwinds that could be significantly value-accretive to more traditional infrastructure businesses. The ongoing focus on boosting domestic industrial capacity and reorientating supply chains will create demand for transport assets and the potential for more greenfield opportunities in regions like Europe and the U.S. However, the larger opportunity set may stem from the growing requirement for the transportation sector to expedite its own decarbonisation. As identified in our Transforming Transportation paper[9], the transport sector has yet to make significant strides to lower its carbon emissions. Through aligning assets with clear decarbonisation targets, so called brown-to-green strategies could not only position assets well for future disposal when more investors themselves will have to

[8] https://aci.aero/2023/09/27/latest-air-travel-outlook-reveals-2024-to-be-a-milestone-for-global-passenger-traffic/
[9] https://www.dws.com/en-gb/insights/global-research-institute/transforming-transportation/

report their own carbon profile, but also often expand the asset base through investment into new facilities such as refueling or charging capacity.

3.3 Political Risk Remains Key Concern

In the 2023 Infrastructure Strategic Outlook, we highlighted that political risk would be a theme impacting the market. This presented in the form of fractious labour relations and strengthening regulatory scrutiny due to the cost-of-living pressures. As these themes continue to play out, we are also monitoring elections which are approaching in 2024. The energy transition is increasingly caught up in a divided political landscape, which may increase risks for infrastructure investors. While there are costs associated with the energy transition, a growing political discourse has conflated these costs with the costs related to other issues, such as the Russia-Ukraine conflict. Similar political narratives are also being used to promote traditional thermal generation like coal and gas.

Given that renewable energy now generates some of the cheapest electricity available in many markets, we view it unlikely that electoral outcomes would result in actual substantive policy change. It is also unlikely that the consensus around the long-term benefits of the energy transition would falter, but rhetoric can be damaging towards investor perceptions of policy stability. In this context, we would note the continued benefits of the European infrastructure market and its foundation based on consensus-driven policy making. While on an individual market level we may see electoral success for candidates which have stated their intention to rollback support for the energy transition, it is unlikely that the European Union, which ultimately is the political level at which much of European energy and transportation policy is set by directives, would shift away from the energy transition. Furthermore, as the EU provides significant financial support to infrastructure investment across the region, this gives further assurance to investors that policy changes in Europe are less likely to impact opportunities in infrastructure. Given the opportunities we have previously indentifed for infrastructure investors to play a role in transforming the European economy, policy continuity in the region is of significant importance[10].

[10] https://www.dws.com/en-gb/insights/global-research-institute/a-framework-for-european-transformation/

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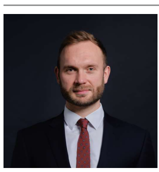

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