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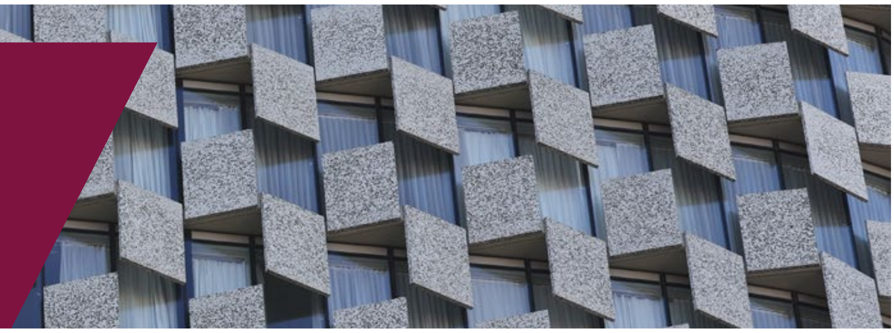
May 2021

Core infrastructure



Middle-market opportunities in 2021

Benefits of infrastructure

The infrastructure asset class continues to attract strong interest from investors. Many are drawn by the wide range of opportunities across the energy, transportation, utilities and digital sectors with the potential for long-term stable returns and strong yield. In addition, the prolonged period of low interest rates is forcing asset managers to consider alternatives to fixed income. This includes infrastructure investments as they share a number of the same fundamental characteristics. In 2020, unlisted infrastructure funds raised approximately €71 billion. This was below the record of €99 billion raised in 2019 but high relative to historical levels.[1]

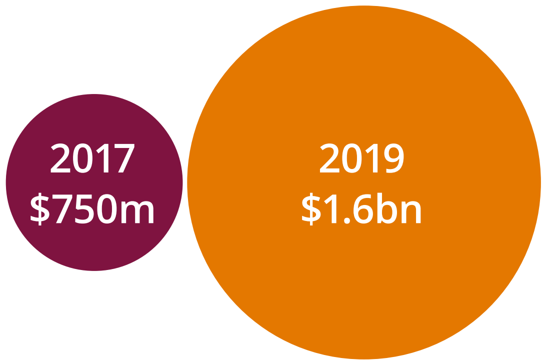
Given the ongoing challenges relating to Covid-19 and its impact on markets, many core infrastructure assets have become even more attractive to investors. Such assets have delivered robust performance during the pandemic and are well-positioned to continue to do so in the challenging economic environment that will inevitably follow. Typically, infrastructure is able to generate sustainable, long-term yields as the assets are underpinned by regulation or long-term contracts. Infrastructure also benefits from strong downside protection, which limits volatility for investors. Furthermore, infrastructure assets span multiple sectors, frequently with high barriers to entry and strong market positions often providing essential public services, which support their defensive characteristics.

> "Given the ongoing challenges relating to Covid-19 and its impact on markets, core infrastructure assets have become even more attractive to investors."

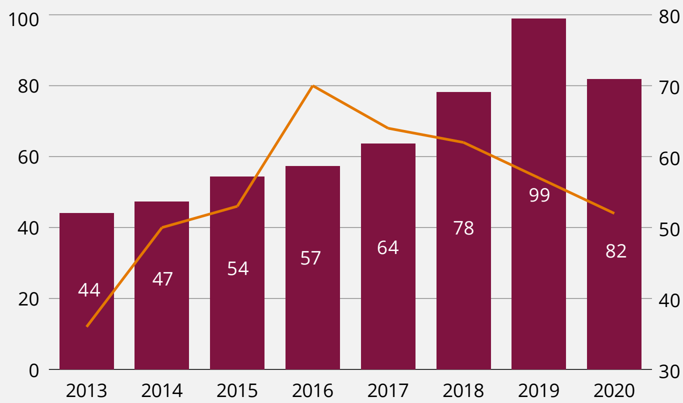
Growth in infrastructure

Given infrastructure's growing popularity, the size and number of funds in the market have increased. The average unlisted infrastructure fund size has increased from $750 million in 2017 to $1.6 billion in 2019.[2] In particular, the volume of capital that large, global fund managers are raising is driving the change.

In addition, the European infrastructure market has continued to attract many large sovereign wealth funds and public pension managers leading to increasing competition at the large-cap end of the market.



Strong fundraising for infrastructure



Amount Raised (€bn) | Number of funds

Source: Inframation news - Analytics, May 2021 (data based on period 2013 - 2020).

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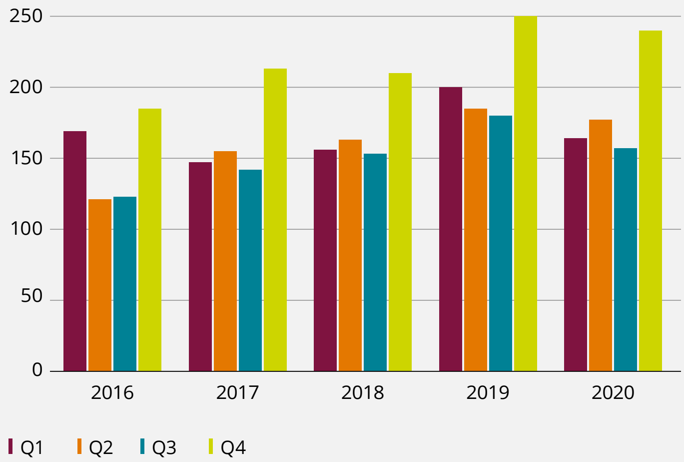
[1] Inframation news, March 2021.
[2] Inframation news, March 2021.

Infrastructure deal flow

Despite a slow start to the year due of Covid-19, activity picked-up towards the end of 2020. Investors committed $161 billion[3] to European infrastructure across greenfield and brownfield opportunities. This compares with $151 billion in 2019.[4]

The number of European deals to reach financial close[3]



Source: Inframation news, March 2021 (data based on period 2016 - 2020).

Greater demand and competition

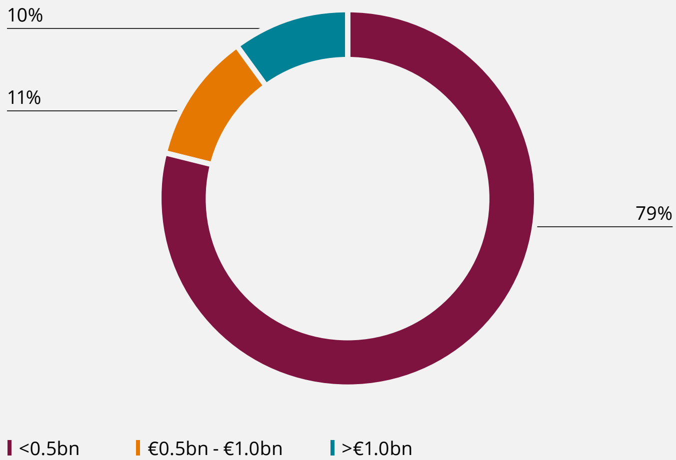
As a result of the large amounts of capital flowing into the asset class, we have witnessed increased levels of competition – particularly for larger transactions. Recent large deals in Europe have been for 'trophy' assets in the utilities or transportation sectors which tend to attract high levels of competition.
The strong demand and the availability of cheap debt financing have led to high valuations, especially for large transactions (over €1 billion). For example, a large state pension fund bought a minority stake in Peel Ports; and a large-cap infrastructure manager acquired a minority stake in Fastfiber, Altice's Portuguese fibre optic network. Both acquisitions had an entry multiple over 20x earnings before interest, taxes, depreciation and amortisation (EBITDA).

> "The strong demand and the availability of cheap debt financing have led to high valuations, especially for large transactions (over €1 billion)."

Middle-market opportunities

In contrast, the middle market still provides ample opportunity to find value across a broad spectrum of opportunities. Furthermore, there are more transactions in the middle market, where the level of competition is lower enabling investors to deploy capital at more attractive prices.

Deal flow for small, mid and large-cap assets (%)



Source: Inframation news, March 2021 (data based on period March 2018 - Feb 2021).

Deal flow in the middle market has continued to robust. The Core infrastructure team at Aberdeen Standard Investments (ASI) completed two investments, in Europe and in different sectors, during the latter part of 2020. We also completed further six investments in 2019. Deal certainty in this area has often proven just as important to a seller as the price, and a partnership can often be key to unlocking value.

We continue to look at opportunities across a range of sectors. This includes rail-rolling stock where we expect the liberalisation of the European rail market to provide significant opportunities to introduce new fleets of passenger trains across the continent. This builds on the success of the rolling-stock platform we have built in the UK over the last four-to-five years, alongside our strategic partner Rock Rail.

We also expect demand for renewable assets to continue to grow. Markets like the UK, France and Germany are already well-established and returns have been compressed, particularly for operating assets. However, there remain significant opportunities in the renewables sector in Iberia, Italy, and Central and Eastern Europe. ASI is already the largest private owner of ground-mounted solar photovoltaic plants in Poland, with significant potential to grow the investment through the purchase of additional plants from local developers. We believe that the investment offers better risk-adjusted returns than, for example, a similar project just over the border in Germany. Furthermore, we continue to see strong demand for digital infrastructure, given the traditional working environment has been disrupted by Covid-19.

3 Inframation news, March 2021.
4 Includes brownfield, greenfield and refinancings. [Data is for 2020 but specific data can be found whenever the user wants from the website].

The future of infrastructure

Uncertainty remains and there are undoubtedly a range of political and macro uncertainties that need to be closely monitored during the course of 2021. Despite this, we are excited by a strong pipeline of mid-market core infrastructure opportunities across a range of sectors and geographies. Demand remains strong for infrastructure – particularly assets that can offer downside protection, which is leading to increased competition, particularly at the large-cap end on the market, however, we continue to see value and the ability to generate attractive returns for our investors in the mid-cap space.

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