A unique opportunity in infrastructure

3i Infrastructure aims to deliver long-term sustainable returns through investing in some of the biggest trends shaping our world, such as the energy transition and digitalisation.

3i Infrastructure is different in the world of infrastructure investment trusts. Rather than investing in finite-life concessions likes roads or bridges, it invests in a diverse range of real companies providing essential services. Once invested, the trust actively manages its portfolio companies to create value. This approach has delivered the strongest performance record amongst infrastructure investment trusts since its IPO in 2007.

What's the approach?

3i Infrastructure provides public market investors with access to a portfolio of private infrastructure businesses across a variety of megatrends, sectors and geographies. Its aim is to deliver to investors a return of at least 8 to 10% per year over the medium term through a mix of income and capital growth. It also has a progressive dividend policy and has grown its dividend per share every year since its IPO in 2007.

What's performance like?

The trust has outperformed its return target since IPO, delivering a total shareholder return of 12% per year, comparing very favourably with the 6% return for the FTSE 250, its benchmark index.

This is a great track record, but it should be remembered that past performance should never be used to predict future returns.

How does it invest?

3i Infrastructure invests in high-quality companies providing essential services that it believes will benefit from long-term megatrends, including the energy transition, digitalisation, demographic change and upgrading ageing infrastructure.

Once invested, the trust takes an active management approach. The investment management team sits on the boards of all its portfolio companies and is very engaged with those portfolio management teams, helping them maximise value creation, driving strategy and supporting organic growth or M&A.

For example, when it invested in the Danish business, ESVAGT, which provides wind-farm maintenance and offshore platform support vessels, almost all of the business was based around North Sea oil and gas. Since then, the company has invested heavily in supporting the offshore wind sector and today that represents more than 70% of its forward contract book.

In TCR, 3i Infrastructure's airport ground support equipment business, the trust transformed a European champion into a global business, active in the US, Australasia and the Middle East, through organic growth opportunities and executing a number of acquisitions.

But the trust does more than just buy and build. It has a track record of successful exits which have generated strong additional returns from the portfolio.

Is there an example?

3i Infrastructure acquired its interest in Attero - the leading operator in the Dutch waste treatment and recycling market - in 2018. Following its proven active management approach, the trust developed the company, investing in business areas such as new electricity generation, plastics recycling, anaerobic digestion and composting facilities.

During the trust's ownership, Attero's earnings before interest, tax, depreciation and amortisation (EBITDA) doubled. On selling the company last year, 3i Infrastructure made 2.7 times its money on the investment - an internal rate of return (and method of measuring annual investment returns after deducting investments in the assets) of 23%.

What about megatrends?

The trust has built its portfolio around four long-term growth drivers – the energy transition, digitalisation, demographic change and upgrading ageing infrastructure – positioning its portfolio to perform across the economic cycle.

For example, in the energy transition, its businesses which develop and operate renewable energy projects, such as Infinis and Future Biogas, should continue to deliver returns even in a recessionary environment. And in digitalisation, its companies Global Cloud Xchange and Tampnet, which provide fibre-optic connectivity, are benefitting from increased demand even when GDP is not growing as fast as expected.

The returns earned from these assets allow 3i Infrastructure to invest further in its companies and pay investors an attractive dividend. Management is aiming to pay an 11.9p dividend per share for its current financial year. That's an increase of nearly 7% year on year, funded by income from its portfolio companies. The dividend, and the costs of running the trust, are fully covered by that income. Based on the current share price, the trust offers a dividend yield of 3.7%, part of its target annual return of 8% to 10% per year.

As 3i Infrastructure's key growth megatrends unfold, if it has made the right investments it has the potential to continue its positive performance.

For more information, visit 3i-infrastructure.com/

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Performance data:

Reference to the performance of 3i Infrastructure plc is to its annualised total shareholder return since IPO on 13 March 2007 to 31 December 2023. (Reference data sourced from Bloomberg)

Reference to the performance of infrastructure investment trusts is to the Association of Investment Companies' (AIC) Infrastructure sector. (Reference data sourced from Bloomberg)

Regulatory disclaimers:

This article does not constitute advice regarding the suitability of investments. Should you require financial advice you should consult a suitably qualified financial adviser.

The value of investments and any income from them can go down as well as up and you may get back less than you originally invested. Past performance is not a guide to future performance.