

Our approach

The infrastructure market

Competitive landscape

2022 was another very strong year for fundraising in the unlisted infrastructure space, with over US\$300 billion raised in the core, core-plus and value added segments, as shown in the chart below. Fundraising has become more concentrated around successful managers, with fewer funds being raised but the average fund size rising. This makes competition for suitable larger equity investments more intense.

Macro environment

The past year has seen a structural shift in the macroeconomic environment with significant inflation, increases in interest rates and volatile equity markets. This has slowed down M&A activity and impacted stock market performance.

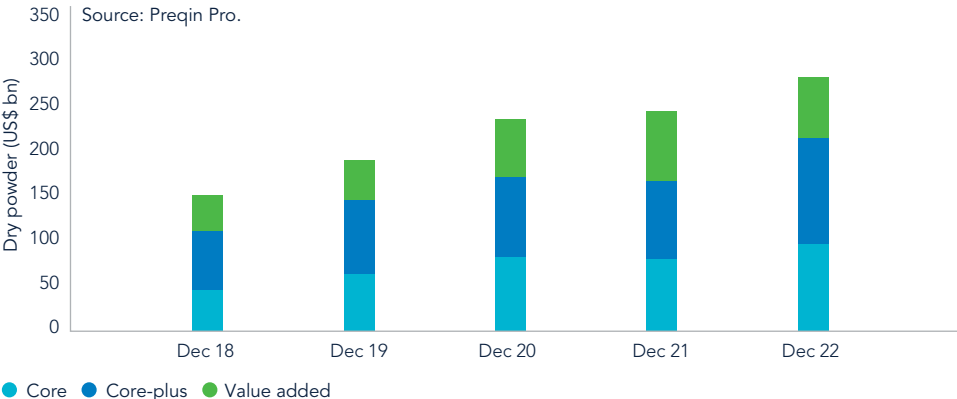
In this environment, demand for infrastructure assets typically increases due to the essential nature of the services they provide and downside protection as they can act as a hedge with revenues directly or indirectly linked to inflation.

Our portfolio companies benefit from direct contract indexation and strong market positions providing pricing power. This is partially offset by the increase in operational costs experienced by a number of those companies.

Central banks raised interest rates in response to rising inflation. The impact on our portfolio has been limited, with over 95% of our portfolio company debt either fixed rate or hedged at 31 March 2023, and with no material refinancing due before 2026.

These trends, and our response to them, are discussed in more detail within the Risk report on page 76.

Unlisted infrastructure: dry powder by primary strategy (December 2018–2022)



Interest rates	Credit	Inflation	Power prices
<ul style="list-style-type: none"> Over 95% of portfolio company debt is fixed rate or hedged at 31 March 2023 	<ul style="list-style-type: none"> No material near-term refinancing risk in the portfolio Nearly 90% of portfolio company debt matures beyond the next three financial years 	<ul style="list-style-type: none"> Portfolio returns positively correlated to inflation Balanced mix of direct indexation and strong market positions provide pricing power 	<ul style="list-style-type: none"> Energy generating assets benefitted from the high and volatile power price environment

Our approach continued

The infrastructure market continued

Megatrends

Megatrends are shaping the world around us, influencing decision making and changing the demands placed on our economy and services. Identifying the potential for change is a key driver of our investment decision making – from the businesses, sectors and countries we invest in, to the way we go about finding opportunities.

As the Company’s portfolio continues to grow, we seek to diversify our investments across a range of megatrends that will provide a supportive environment for long-term sustainable returns to shareholders. We also continually assess underlying risk factors, both when considering new investment opportunities and in managing the existing portfolio and its exposure to certain risks, such as commodity prices and foreseeable technological disruptions.

Megatrend	Investment theme	Our portfolio
Energy transition – low-carbon and circular economy	Renewable energy generation	infinis, VALOREM, attero, futurebiogas
	Electrification/energy transition	Joulz, TCR, ESI/AGT
	Shared resources	TCR, SRL
	Waste treatment and recycling	attero
Digitalisation and technology disruption	Automation, digital operations and increasing connectivity	tampnet, DNSNET, GLOBAL CLOUD XCHANGE
Demographic change	Demand for healthcare	IONISOS
Globalisation	Global trade and transport	Oystercatcher, TCR
Renewing social infrastructure	Urbanisation and smart cities	SRL

Investment themes

Renewable energy generation

There is increasing demand for energy generated from renewable sources such as wind and solar to support the energy transition. Our investments in Infinis, Attero, and Valorem all generate energy from a variety of renewable sources and their combined installed capacity has grown significantly during our ownership.

Electrification/energy transition

The transition towards a low-carbon economy is gathering pace. Rising electricity consumption is increasing the demand for related equipment and services such as those provided by Joulz, which has expanded its offering to include solar and EV charging products.



Our approach continued

The infrastructure market continued

Investment themes (continued)

Shared resources

Developed economies are experiencing a shift towards a shared resources model. This can lead to significant cost savings for users of capital intensive assets and also reduce overall GHG emissions. In the case of TCR, which provides pooled ground support equipment at airports, this has reduced the amount of equipment required.



Waste treatment and recycling

There is a trend towards increasing levels of recycling driven by regulatory requirements and consumer preferences. Attero is one of the largest waste treatment and disposal companies in the Netherlands and is benefitting from this increased demand for its services.



Automation, digital operations and increasing connectivity

Technology is developing rapidly, changing operating models and digitalising industrial processes. Business is increasingly mobile and data driven, which requires increasing levels of connectivity through digital infrastructure. Our communications infrastructure investments, Tampnet, GCX and DNS:NET, are benefitting from this increased demand.

Demand for healthcare

Increasing life expectancy and an ageing population are increasing the demand for healthcare-related services and infrastructure. Our investment in Ionisos, which provides cold sterilisation services to the medical and pharmaceutical industries, is aligned to this trend.

Global trade and transport

Businesses are seeking to increase supply resilience and achieve long-term price stability by establishing deeper, more diversified supplier bases for goods and services. This can help mitigate disruptions from extreme weather events and other localised situations. Advorio Singapore (Oystercatcher) supports its customers storing and blending the gasoline used to transport these goods.

Urbanisation and smart cities

Technology is increasingly being used to enhance the efficiency and safety of urban areas. SRL's products allow for greater control of traffic flows, which in turn reduces congestion around roadworks and improves safety.



Our approach continued

We have a positive influence on our portfolio companies.

Our influence

As active owners we seek to ensure that our investee companies are run responsibly and that they can make a positive contribution to their employees, customers, suppliers and the local communities in which they operate. This includes supporting and empowering management teams to develop resilient business strategies.

We create a culture at our portfolio companies where the Company's expectation that management teams embed sustainability into their strategy is well known.

We facilitate and encourage the exchange of best practices by portfolio companies by connecting companies that are more advanced in certain sustainability initiatives with others who can benefit from their expertise.

We seek to manage material ESG risks and opportunities during the period of the Company's investment. This includes enhancing portfolio companies' corporate governance and reporting, and encouraging

them to improve their performance over time on sustainability issues that are material to them, with a particular focus on health and safety, and climate change.

We require all our portfolio companies to measure their GHG emissions. We encourage them to identify decarbonisation strategies. This year, we asked an initial subset of our portfolio companies to develop GHG emission reduction targets that are aligned with the objectives of the Paris Agreement.

Our portfolio

Many infrastructure businesses have sustainability at their core, providing or enabling the provision of essential services to society, interconnectivity and the appropriate management of resources.

Whilst the Company does not pursue a sustainability-driven investment strategy, it does use its influence in the investments it makes, where appropriate, to seek to contribute positively to environmental and social sustainability objectives, such as transitioning to a low carbon and circular economy, enabling a healthy and safe society and fostering inclusive growth.

We believe such contributions, alongside good ESG performance of our portfolio, can protect and potentially enhance value for the Company's shareholders.

