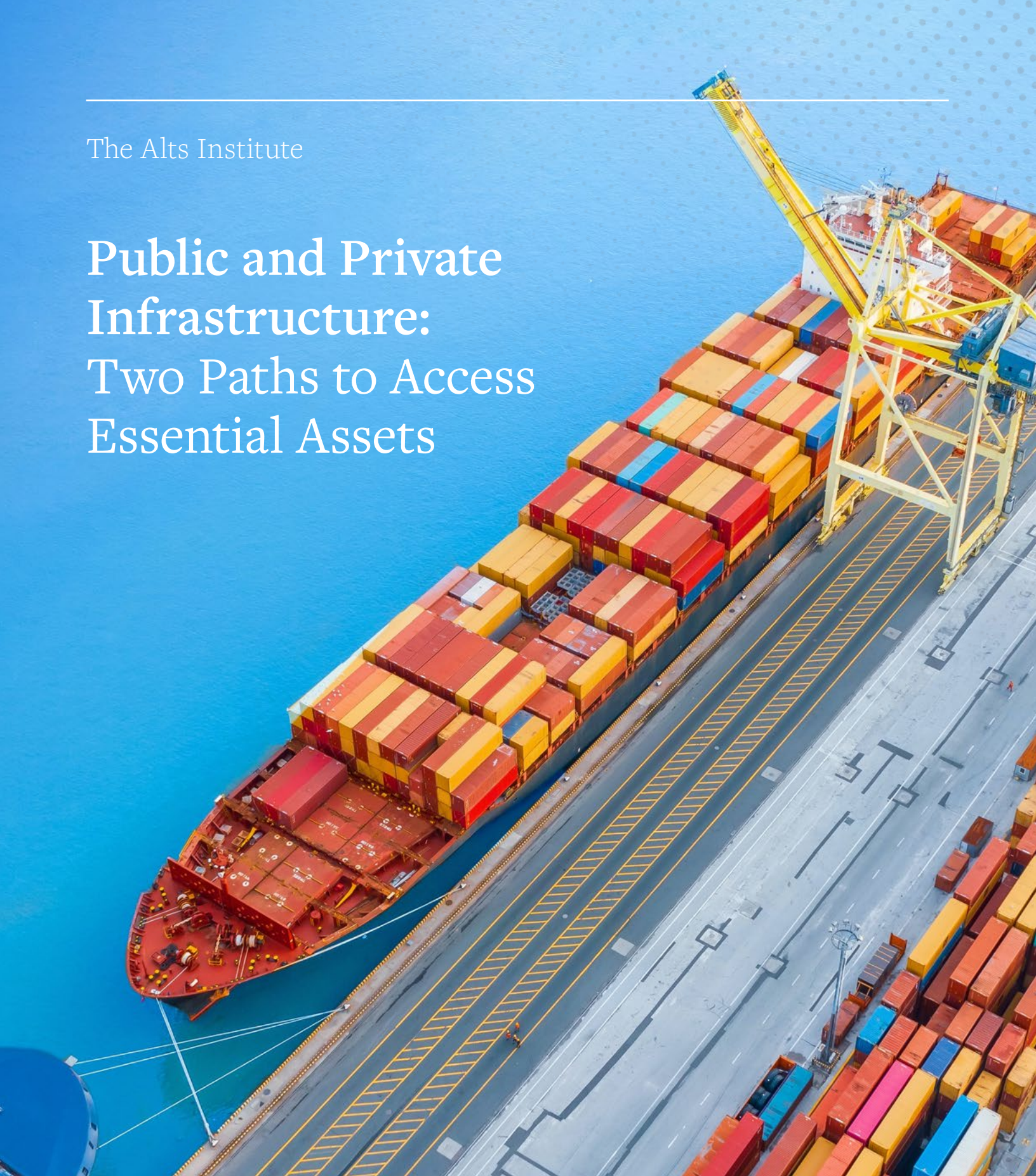

The Alts Institute

Public and Private Infrastructure: Two Paths to Access Essential Assets



Overview

Infrastructure assets provide the essential underpinnings of the global economy, moving people, goods, commodities and data to where they are needed most. The category is broad and varied: It includes everything from roads and bridges to ports and airports, utilities, and power transmission, as well as pipelines, processing and storage facilities.

Infrastructure is also evolving as new technologies and needs emerge, such as renewable power and data. Indeed, the world is in the midst of an “infrastructure super-cycle,” marked by major efforts to modernize infrastructure. We believe this trend has enormous implications for the global economy, as well as being a significant opportunity for investors.

Infrastructure investing can bring a range of potential benefits that help strengthen portfolios, including income and hedging against inflation. It is a historically resilient asset class that often outperforms other asset classes in down markets, which has helped provide investors with attractive, long-term growth.



A Tale of Two Assets: Public and Private Infrastructure

Infrastructure can be accessed through both the public and private markets. While the two approaches share much in common, and are both ways of accessing similar assets, they each have different traits and features, benefits and considerations. It is important for investors to understand how their experience with the two can be significantly different and how each could impact a portfolio.

Both public and private infrastructure have provided growth for investors over the long term, although there are periods when one outperforms the other.

Private infrastructure returns have exhibited more consistency than public infrastructure and have been able to better mitigate downside risk, even posting positive returns when global equities are down (**Exhibit 1**).

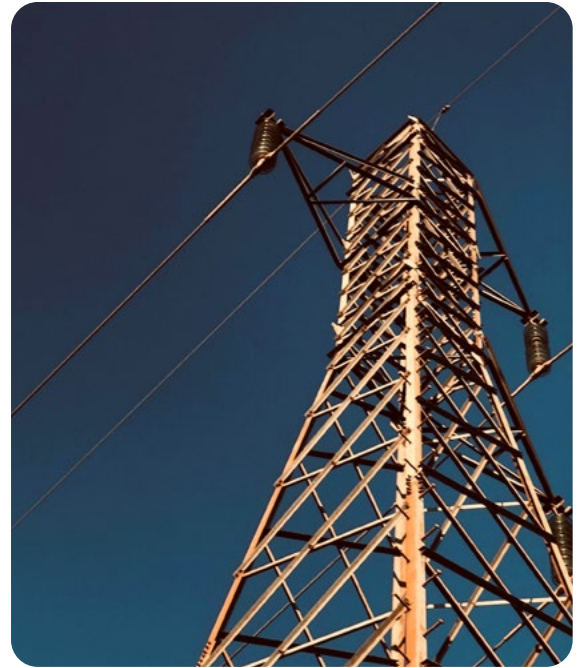
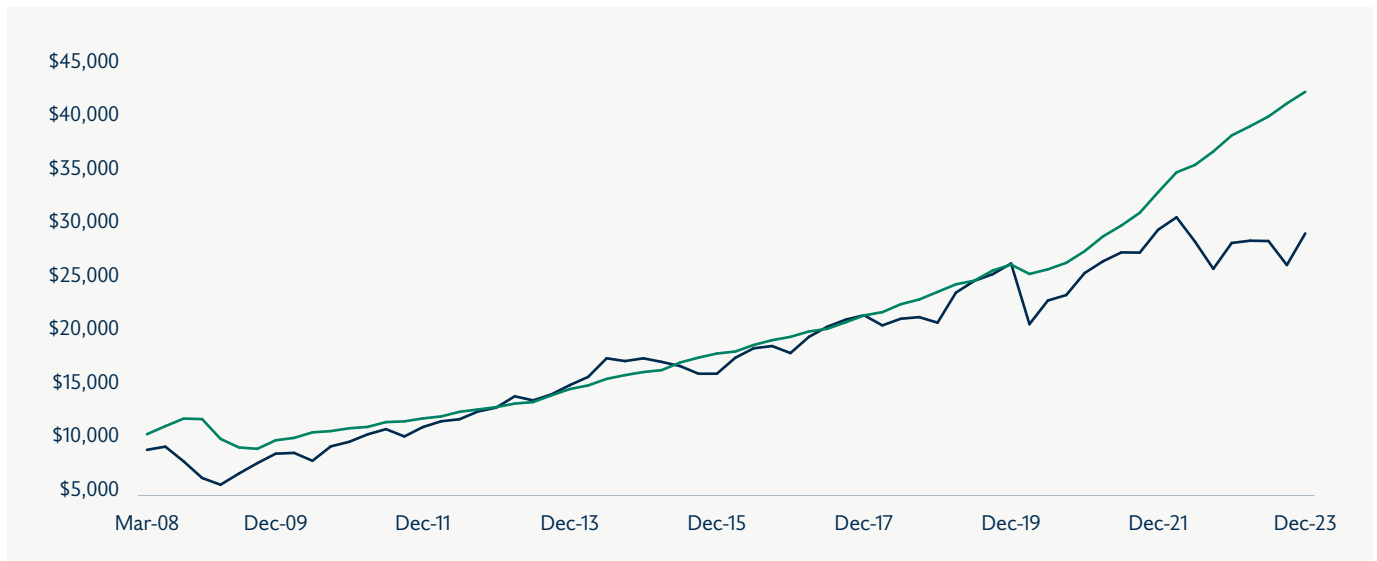


Exhibit 1: Public and Private Infrastructure Have Provided Growth for Investors

Growth of \$10,000

Public Infrastructure Private Infrastructure



Past performance is not indicative of future results. Listed Infrastructure represented by the FTSE Global Core Infrastructure 50/50 Index after December 31, 2023; data from July 30, 2008 through December 31, 2014 represented by the Dow Jones Brookfield Global Infrastructure Index. Private Infrastructure represented by the Preqin Infrastructure Index. See disclosures for full index definitions. Indexes are unmanaged and cannot be purchased directly by investors. Index performance shown for illustrative purposes only and does not predict or depict the performance of any investment. Source: Bloomberg, Preqin. Data from January 1, 2008 through December 31, 2023.

Comparing Private and Public Infrastructure Returns

We believe the performance of private infrastructure better represents the stability of the underlying assets, given the long-term investment horizon and lack of daily volatility seen in the public markets. The majority of private infrastructure quarterly returns have been between 2% and 5%. Public infrastructure returns were more variable, with both more outsized quarterly returns and more down quarters (**Exhibit 2**).

Private infrastructure is an illiquid asset class, meaning it is difficult to exit or enter quickly, in contrast to publicly traded infrastructure equities. The potential compensation for that risk is known as the “illiquidity premium,” and as the private infrastructure asset class has matured, investors have received their illiquidity premium along with a less volatile experience.

The difference in performance volatility partly reflects the nature of public equity markets. For example, publicly traded infrastructure equities are likely to be impacted by overall market sentiment. In other words, during bullish periods they generally perform well, while the opposite can hold true during bear markets. Although this impacts the ability to mitigate downside risk, it can potentially provide an opportunity for outperformance versus private infrastructure in any given period. Today, we believe public infrastructure are trading at attractive valuations.

Meanwhile, public infrastructure has provided more upside relative to global equities (**Exhibit 3**). As noted above, this largely reflects the impact of sentiment in public markets, as well as the ability to adjust positioning as conditions warrant, given liquidity. Public infrastructure has captured nearly double the upside when equity markets rally. While public infrastructure generally holds up better when public equities fall, private infrastructure actually has a negative downside capture versus global equities. Said another way, private infrastructure returns were actually positive during periods of market drawdowns.

Exhibit 2: Historically, Private Infrastructure Returns Have Been More Consistent

Distribution of quarterly returns:
2008-2023

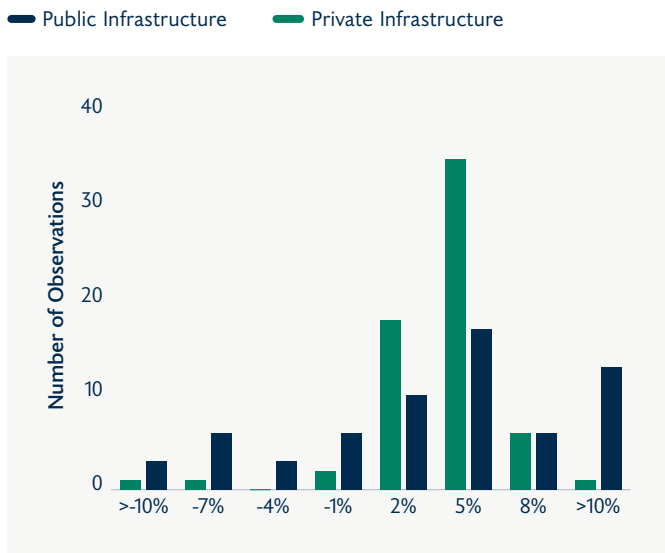
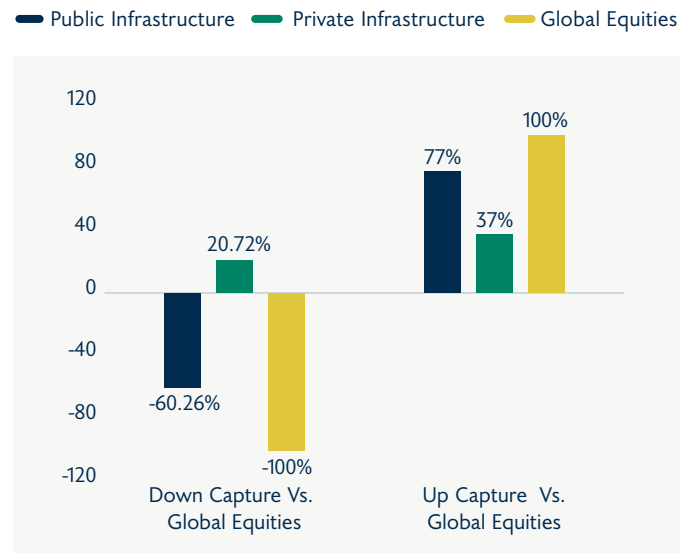


Exhibit 3: Historically, Public Infrastructure Has Moved More in Sync with Global Equities than Private Infrastructure

Upside and downside capture ratio



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Public and Private Infrastructure During Market Volatility

Public infrastructure has experienced more than twice as much volatility as its private counterparts. This makes sense, as stocks are valued daily and subject to macroeconomic factors. Meanwhile, private infrastructure managers are able to take a long-term view, aligning with the long-term investment horizon of the assets (**Exhibit 4**). As a result, short-term macroeconomic events (such as a rise in interest rates, a sharp increase in inflation, or geopolitical events) tend not to affect valuations, and therefore private infrastructure is less susceptible to market drawdowns (**Exhibit 5**).

Still, both public and private infrastructure investments have generally been less volatile than global equities with both providing potential to mitigate downside risk in portfolios. This is likely due to the characteristics of the underlying investments, which tend to be relatively stable, with revenue streams that are less susceptible to economic cycles or sudden shifts in demand.

Exhibit 4: Private and Public Infrastructure Both Less Volatile than Global Equities

Rolling 3-year volatility

Public Infrastructure Private Infrastructure Global Equities

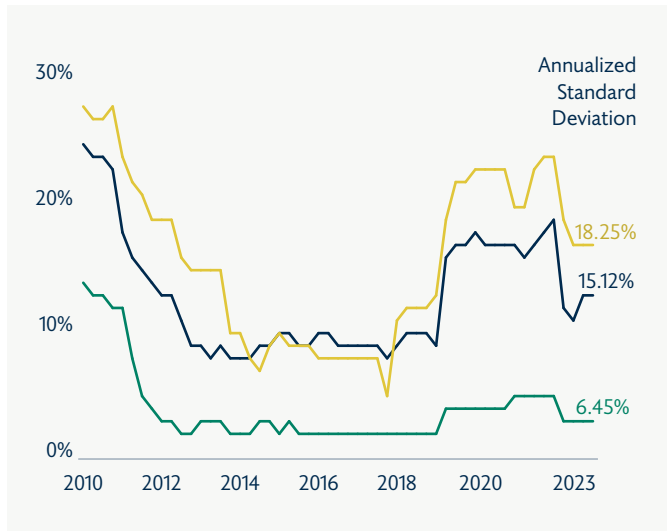
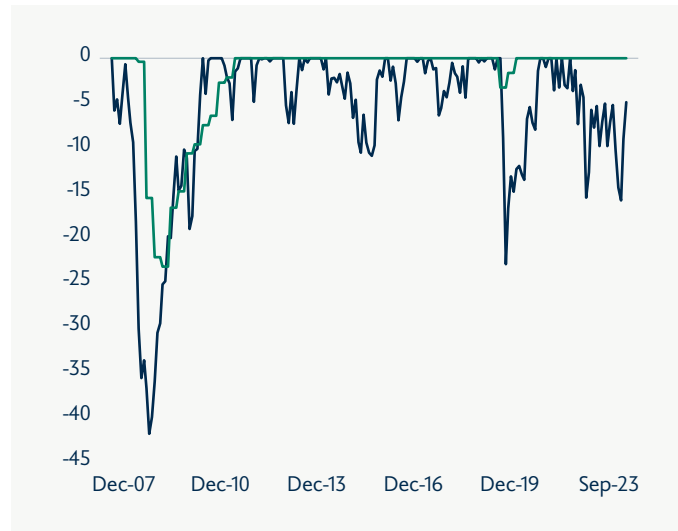


Exhibit 5: Private Infrastructure Is Less Susceptible to Market Drawdowns

Drawdown analysis

Public Infrastructure Private Infrastructure

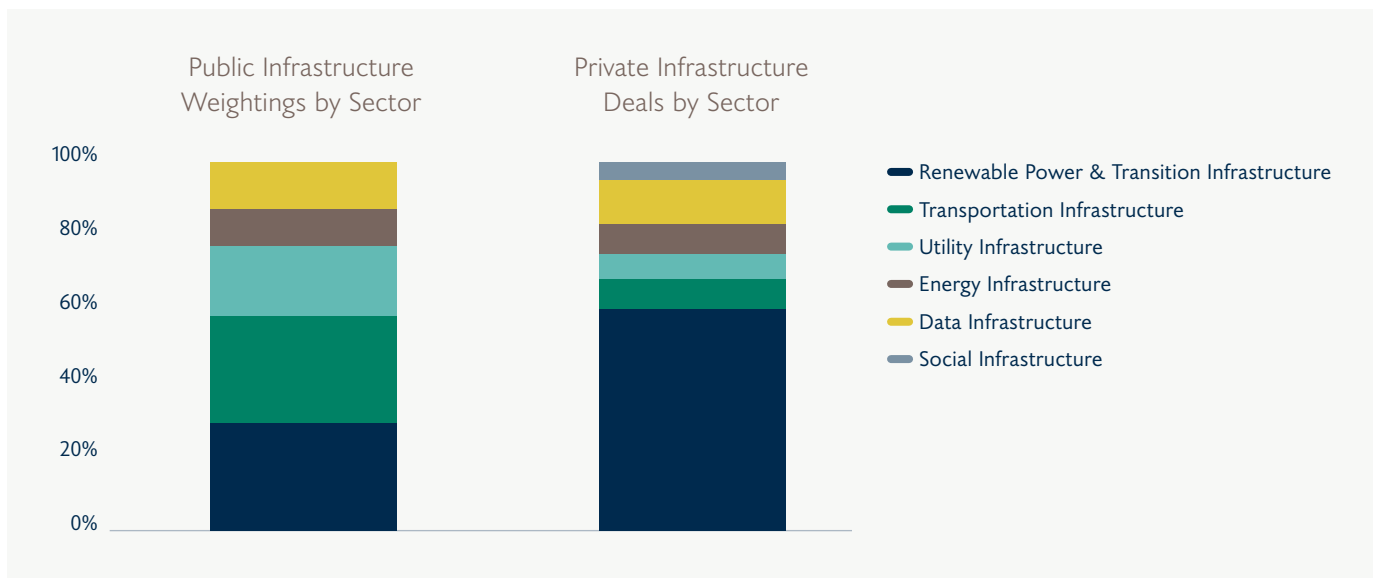


Past performance is not indicative of future results. Periods of drawdowns defined as the trough of the drawdown exceeding -10%. Listed Infrastructure represented by the FTSE Global Core Infrastructure 50/50 Index after December 31, 2014; data from July 30, 2008 through December 31, 2014 represented by the Dow Jones Brookfield Global Infrastructure Index. Private Infrastructure represented by the Prequin Infrastructure Index. Global Equities represented by the MSCI World Index. See disclosures for full index definitions. Indexes are unmanaged and cannot be purchased directly by investors. Index performance shown for illustrative purposes only and does not predict or depict the performance of any investment. Source: Bloomberg, Prequin. Data from January 1, 2008 through December 31, 2024.

Sector Differences

Private and public infrastructure also tend to have different levels of exposure to a given sector, company size or geography. Given the large amounts of capital and complexity necessary to acquire and operate unlisted assets, private infrastructure funds tend to be concentrated in a smaller number of larger assets in specific sectors or themes. Public exposures also can provide investment opportunities that are more difficult to access in a private portfolio, such as exposure to U.S. and European utilities.

Exhibit 6: There Are Differences in Sector Exposures Between Public and Private Infrastructure



Source: Bloomberg, Preqin. Public data as of December 31, 2023. Private data as of September 30, 2023, reflecting most recent data available.

Summing It Up

In our view, infrastructure investments can play a meaningful role in a client’s portfolio—potentially providing growth, income and a hedge against inflation. We believe investors can benefit from having exposure to infrastructure in their portfolio, accessing these assets via public or private markets.

Of course, how an investor incorporates the asset class into their portfolio depends on their individual situation. Investors should work with their financial advisors to review their goals, liquidity needs, investment time horizon, and risk tolerance for navigating the markets’ ups and downs.

The bottom line: Infrastructure consists of essential assets for the economy and can play an essential role in a client’s overall portfolio.



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Private infrastructure investments are subject to the risks incidental to the ownership and operation of infrastructure projects, including risks associated with the general economic climate, geographic or market concentration, government regulations and fluctuations in interest rates. Since investments in infrastructure securities, like many other types of long-term investments, have historically experienced significant fluctuations and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of these investments. Such specific market conditions could include, but are not limited to, the following: (i) demand for commodities, such as natural gas or minerals; (ii) impact of alternative technologies on our business, and cybersecurity attacks; (iii) ability to successfully identify, complete and integrate acquisitions; (iv) competition with other market participants; (v) construction or expansion or projects, environmental damage and future capital expenditures; (vi) economic regulation and adverse regulatory decisions in the countries in which we operate, including nationalization or the imposition of new taxes; (vii) supply chain disruptions; and (viii) adverse claims or governmental rights asserted against the lands used for our infrastructure assets.

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Definitions

The Dow Jones Brookfield Global Infrastructure Index is calculated and maintained by S&P Dow Jones Indices and comprises infrastructure companies with at least 70% of their annual cash flows derived from owning and operating infrastructure assets, excluding master limited partnerships (or MLPs). Brookfield has no direct role in the day-to-day management of any Brookfield-branded indexes.

The FTSE Global Core Infrastructure 50/50 Index gives participants an industry-defined interpretation of infrastructure and adjusts the exposure to certain infrastructure subsectors. The constituent weights are adjusted as part of the semi-annual review according to three broad industry sectors: 50% Utilities; 30% Transportation, including capping of 7.5% for railroads/railways; and a 20% mix of other sectors including pipelines, satellites and telecommunication towers. Company weights within each group are adjusted in proportion to their investable market capitalization.

The MSCI World Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets.

The Preqin Infrastructure Index captures the average returns earned by investors in their infrastructure portfolios, based on the actual amount of money invested. Historical data points are not recalculated as time passes, except for the latest two quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

Standard Deviation: One of the most common methods of determining the risk an investment poses is standard deviation. Standard deviation helps to determine market volatility (or deviation) of prices from the mean price.

Upside/Downside Capture Ratio measures the degree to which an investment under- or outperformed a market index.

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