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Global Listed Infrastructure - Q&A with Duff & Phelps

In April and May 2018, members of Duff & Phelps' Global Listed Infrastructure team traveled to Australia, New Zealand and Europe for investment research trips. Insights from the trips are summarized below.

Australia and New Zealand

What is your outlook on transportation in Australia and New Zealand (ANZ)?

Our ANZ meetings focused on transportation and utility companies. The ANZ transportation sector is benefitting from a strong local economy and increased tourism from a growing middle class in Asia. Revenues have long term visibility and are rising on volumes as well as higher tariffs and tolls. Additionally, volume growth is driving sizable investment projects at all of the companies.

What were your key takeaways from the onsite visits?

We observed capacity constraints and toured the construction projects targeted at alleviating bottlenecks. Key asset tours included: Transurban's West Gate Tunnel construction site in Melbourne; Sydney Airport's refurbished international terminal and future Terminal 3 development; and Auckland International Airport's international terminal reconfiguration and domestic terminal redevelopment plans. The projects will earn attractive investment returns by increasing both passenger volumes through greater capacity and fees earned per passenger. The companies' primary customers (home country flagship airlines) communicated optimistic outlooks which supports revenue targets and our favorable outlook for the transportation sector. Overall, the meetings affirmed our overweight positioning in the ANZ transportation sector.

What is the state of Australia's utility sector?

Australia's utility sector continues to be dominated by political and regulatory pressure and uncertainty. High

natural gas and retail electricity prices, combined with a blackout in 2016, put the government and regulators' laser focus on the industry. The government and regulators are developing an energy policy focused on improving system reliability, customer affordability and environmental sustainability. As a result, utility companies are experiencing

downward pressure on both allowed returns and prices charged to customers as well as political pressure to make uneconomic decisions to maintain security of supply. We also observed the theme of companies looking outside their core business for growth and diversification, including investing in renewables, liquefied natural gas (LNG) import facilities and international operations. The contentious environment is expected to persist and supports our continued underweight in the Australian utility sector.

Regular site visits and meetings with management are a core component of Duff & Phelps' research process. It enables our team to gain a deeper understanding of the operating asset quality, execution of management's strategy and underlying local economic conditions.

Europe

What were your key takeaways from the onsite visits?

Our European meetings focused on transportation. Three key takeaways were: a slowing in certain economic metrics within the European transportation sector; an increase in infrastructure capacity investments; and M&A.

How would you describe the current environment in Europe and how it is affecting transportation?

Overall economic data in Europe has been positive, evidenced by healthy PMI data, declining unemployment and increasing traffic volumes. Despite this, we noted a slowing trend in retail spending per passenger, a tilt in the airport passenger mix toward low cost travel (rather than higher cost legacy

carrier travel) and moderate light vehicle (i.e. passenger cars) traffic growth. Many airports need to expand infrastructure capacity after a period of sustained passenger volume growth, but reduced passenger retail spending and lower regulated tariffs result in relatively less attractive investment returns. Unsurprisingly, companies are looking at M&A opportunities to drive growth into new markets and through synergies. In light of our research and meetings, we have a less favorable outlook for European transportation companies highly levered to retail spending and large capacity investments. We prefer companies with structural growth opportunities coming from stable returns and volume

growth as well as companies with an opportunity to capitalize on M&A synergies.

How do your research trips translate to the investment process?

At Duff & Phelps, investment research trips are a core piece of stock and sector analysis and informs the final investment decision. Our recent research trips provided valuable insights into management strategies, operations and economic conditions for the companies and sectors in our investment universe. These insights are integrated into our investment theses, valuation models and portfolio decisions.

To learn more about the Duff & Phelps Global Listed Infrastructure Strategy visit dpimc.com.

About the Author:



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Connie Luecke serves as Senior Managing Director with a career that spans 30-plus years in investment management, research, and capital markets. Ms. Luecke is the Senior Portfolio Manager for the firm's Global Listed Infrastructure Strategies and serves as the Chief Investment Officer of the DNP Select Income Fund Inc. Ms. Luecke joined Duff & Phelps in 1992 and has held the roles of senior research analyst and portfolio manager. Her research was focused on the global telecommunications and transportation infrastructure industries. She holds a BS degree from DePaul University and an MBA from Loyola University of Chicago.

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