M&G Global Listed Infrastructure

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by Alex Araujo, who is passionate about infrastructure investing.
- The manager has developed a thoughtful approach that is aligned with the Income team's dividend growth philosophy. He is experienced in infrastructure investing and the nuances of valuing income streams and long-term contracts.
- We believe the manager's focus on high quality listed infrastructure assets, underpinned by a focus on valuations, supports the delivery of income and capital growth.

Key characteristics and expected outcome

- The fund is differentiated compared to peers by dint of the manager's definition of infrastructure; he chooses to invest beyond the realms of traditional infrastructure (utilities, energy and transport) such that the portfolio also incorporates social infrastructure (health, education and civic) and evolving infrastructure (communication, transactional and royalty). This results in a more overt growth profile compared to peers.
- As an asset class, global listed infrastructure typically outperforms in negative markets but does not fully participate in rising markets. Given this fund's differentiated approach, we would expect its correlation to equity market direction to be higher than that of direct peers.
- Given the innate interest rate sensitivity of this asset class, a rising yield environment can be challenging for infrastructure funds.
- The manager aims to deliver an income stream that increases every year (in sterling terms), however he does not over-reach for yield and the fund pays out its 'natural' rate of income. The fund's yield could vary according to prevailing conditions and portfolio composition.
- Given the fund's specialist nature, it can be deployed as a more defensive equity allocation and/or a source of income within a portfolio.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% to 15%.

SRRI scores of 6 and 5 are most common in this sector. An SRRI score of 5 is in keeping with that of global equities and other infrastructure equity funds. The fund's more growth-orientated approach compared to peers means that it is typically more correlated to the broad direction of global equities than other funds with a specialist infrastructure mandate. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	5 October 2017
Manager(s) Since:	Alex Araujo (Oct 17)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	MSCI AC World
IA Sector:	Infrastructure

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A specialist global equity fund with a sole focus on investing in companies with high quality infrastructure assets, with a view to delivering sustainable income and capital growth over the long term. The approach is stock specific, focusing on a company's capital discipline and long-term growth potential.

Investment Team

Fund manager, Alex Araujo, has more than twenty years' experience in equity and listed infrastructure investment. He works closely with deputy manager, Nicholas Cunningham who joined M&G in 2019. They are both members of M&G's Global Equity team. The Global Equity team manages a range of value, income and thematic strategies and is headed by Dan White.

Investment Philosophy

The fund is managed for total return, with the manager seeking to grow investors' capital and to deliver an income stream that increases every year (in sterling terms) through a diversified portfolio of publicly-listed infrastructure companies. The team aims to provide investors with the favourable characteristics of the asset class, while also embracing the dividend growth philosophy which is central to M&G's Income team.

Investment Process

The bottom-up approach is focused upon a company's capital discipline and long-term growth potential. The team deploys a customised screen to identify a broad infrastructure stock universe. To be included, companies must own or control critical physical infrastructure, long-life concessions or perpetual royalties. The emphasis on physical assets is an important distinction, as they believe it creates a strategic barrier to entry. ESG considerations are integrated into the investment process to assess the unique risks associated with infrastructure assets. Firms that derive more than 30% of their revenues from coal-fired or nuclear power are automatically screened out. In addition, the fund has no material exposure to tobacco, alcohol, adult entertainment, gambling or weapons. More detailed research is then undertaken to identify those companies with a record of raising dividends through economic cycles, capital discipline and with long-term growth potential. Their investable universe is around 250 stocks.

To promote balance in the portfolio, they select stocks from three different infrastructure categories: "economic" infrastructure companies are regarded as traditional infrastructure stocks (eg utilities, energy, transport) which deliver stable dividend growth over time; "social" infrastructure stocks have similar characteristics and dividend profiles, but are orientated to longer-term contracts that tend to be inflation-protected (eg health, education, civic); "evolving" infrastructure companies offer growth opportunities and are often found in the communication segment, hence attuned to the digital world. In assessing valuation, they are pragmatic in assessing the value of future cashflow streams, considering each business on its own merits.

Portfolio Construction and Risk Controls

The fund is relatively concentrated, typically comprising 40-50 holdings. Each holding size is typically 1-4% of the portfolio. Although "economic" infrastructure companies are the mainstay of the portfolio (65-75%), there is the flexibility to invest up to 10-20% in "social" infrastructure and 15-25% in "evolving" infrastructure. This promotes diversification across different industries, geographies and infrastructure classes.

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