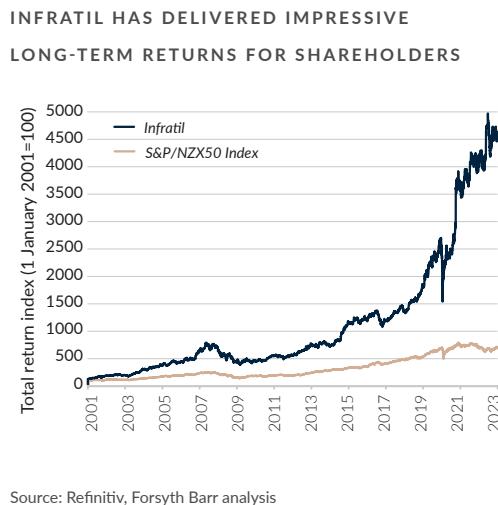


focus

Infratil: An Infrastructure Forerunner



Infratil was founded by the late Lloyd Morrison in 1994 to invest in and manage infrastructure assets critical to the New Zealand and Australian economies. It was one of the world's first listed infrastructure funds. Infratil's initial focus was on energy and airports. Today, its investment portfolio has broadened to include renewable energy, transport, healthcare, telecommunications, and data centres across New Zealand, Australia, and around the world. Over the past nearly three decades Infratil has delivered a highly impressive 18.7% p.a. return for shareholders. **We talk to Infratil's CEO, Jason Boyes.**



Infratil isn't your typical company. It's an externally managed investment company. Perhaps we could start with, what do you view as the purpose of Infratil? What is it trying to achieve for investors?

What Infratil is has probably changed a little bit over time. Today I think it provides investors with defensive growth. In our portfolio there should be a core that's not going to let anyone down. We should also provide exposure to interesting growth opportunities that are not readily accessible for investors, which will change over time depending on what is happening around the globe.

Infratil is a good place for people to think about storing and growing long-term, even inter-generational, wealth given infrastructure assets are very long dated. Infratil operates in private markets. These assets are quite illiquid which lends itself to a long-term focus.

You mention that the investment universe changes over time. How do you go about identifying attractive opportunities? Where do you see the attractive opportunities today?

You have to start with your core capability and experience. We have a long history in energy, and now digital infrastructure. Because we're already in these types of assets we should have an advantage in spotting the next thing on the horizon, and there's a bias to new ideas in those spaces.

The next question is then, what else is there?

Over our 30-year history themes have come and gone. There are cycles. Areas grow, a lot of people and capital pile in. Maybe the risks become better understood or actually become lower, and then the returns come down.

If we want to maintain our target return, 11–15% per annum over the long-term, you always have

to have your eyes open for what is the next thing. We do a bunch of primary research, listen to external research and opportunities, and think about where long-term growth trends are emerging.

Inevitably you're reasoning by analogy. We've seen what's happened with energy or digital infrastructure. If you can see similar changes and trends in other areas, you become more confident. From that you consider and generate ideas.

And you asked, where do we see the opportunities?

Yes, today. Where is your focus? You have the existing portfolio. But what else are you looking at locally or globally?

The existing portfolio still dominates our thinking. Not so much the existing assets, although they're definitely important but those sectors.

The areas we're thinking about which we don't have in the portfolio today are largely in the energy space. Beyond solar and wind, which we're in in a big way, are things like carbon capture, hydrogen and sustainable aviation fuels. Maybe the small modular reactor, and storage technology. It's a space we know really well. It's really hard to access in a meaningful way. Those kind of new technologies I think are really interesting.

In the digital sphere, the themes of security and the geopolitical impacts are interesting. The potential bifurcation of the internet and even trade plays really well with the strengths of our assets. Also with being from New Zealand, a Five Eyes nation. There's a whole set of potential ideas there which are interesting.

If you look historically there are investments you made that were opportunistic, the likes of Z Energy and Vodafone, and others that you originated such as Tilt or Longroad. Looking forward, should we expect more to be originated, that seems to have been the direction of late. Or will it ebb and flow depending on opportunities?

It will definitely ebb and flow. It's sort of a build versus buy question. We build when we feel it's too expensive to buy. We buy when we think there's value. Because we've had some good success building we're not so afraid of it.

We built Longroad, because we had built Tilt, we thought we knew how to do it, even though it was in a new market. We had bid on a number of renewable developers in the US over the prior two years and we were way off on value. We're just rational.

Will that be the case going forward? I don't think so. It's quite an interesting moment. There's uncertainty around interest rates, a lot of dry powder, but questions about valuation. Processes are dragging on for longer. So I think the next nine to 12 months could be an interesting period to buy.

Some of these technology opportunities, like a hydrogen or carbon capture, are likely too expensive in the market. A lot of hype tends to surround those types of assets. You're probably going to build anything like that.

If you look back over Infratil's history, it was initially New Zealand focused then became Australasian focused, and now it's much more global. How do you get confidence that you've got appropriate insight, due diligence capability, and personnel as you've become a much broader geographic business?

We do a few things.

When we move offshore – I think Australia is close enough, we've got as many people in Australia as we have in New Zealand – so beyond ANZ we tend to stick to areas where we've already had success at home, where we feel we've got strong capability, so renewables with Longroad, data centres with Kao. That's one thing that gives us confidence.

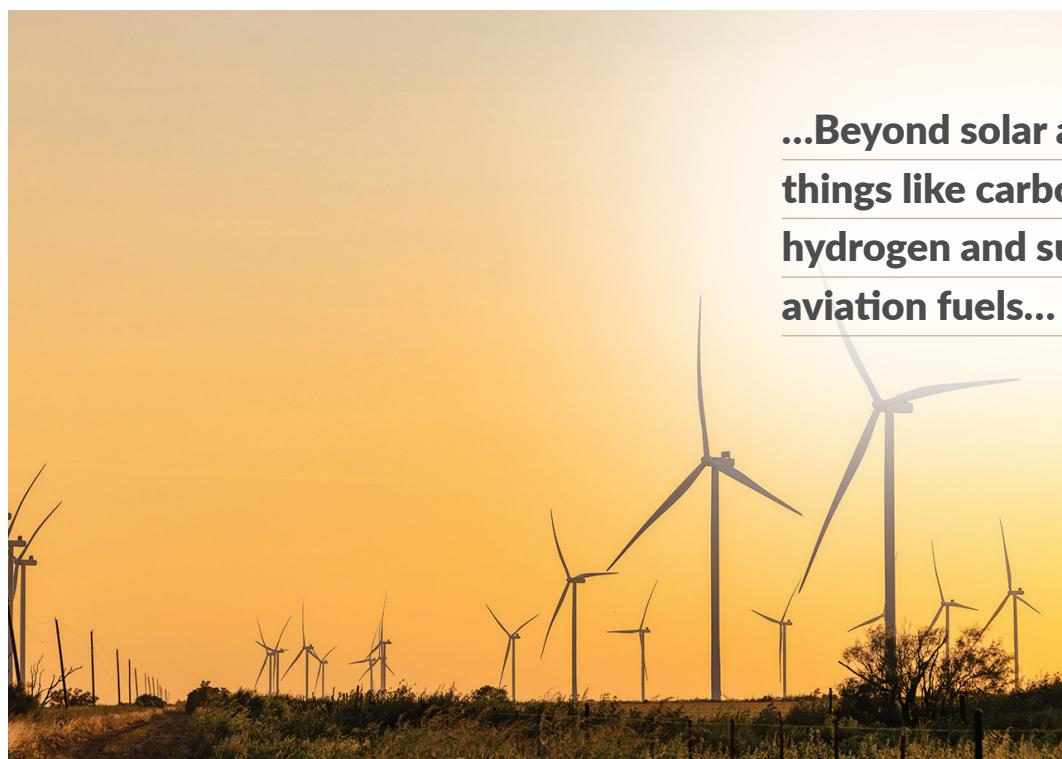
In the background Morrison & Co has a strategy to become a globally relevant infrastructure manager. It's been building its capability in these markets. We have bigger offices around the world now, 15 or so people in New York and the same amount in London.

When you're building those offices there are things that are important. You want local knowledge and experience, but you also want to carry your culture with you because we are a people heavy business. We've deliberately built those offices with a roughly half-half mix, people from this part of the world who can carry our culture, our investment process, the way we work with them, and then blend it with people who are experienced on the ground.

We also spend a lot of time looking at things. We don't rush in. In the last few years when we've executed away from home we've avoided multi-party processes, we've almost always been in bilateral negotiations. It's taken a lot longer, a year or more for almost every single deal we've done offshore, but you build a lot of confidence through that process.

For the people who aren't familiar with Morrison & Co can you outline the capabilities and resources that sit within the organisation?

It's a good question. Not many people know. I think it was a conscious decision to keep Morrison & Co in the background by those who



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founded it, Lloyd, Lib and Duncan, but it's an important part of what you get if you buy an Infratil share.

Morrison & Co is a privately owned investment manager. It's owned by the staff, and largely the estate of Lloyd Morrison, the founder, which is where the name comes from. We established Infratil and we provide all the investment management services. We decide which investments to make, and put them to Infratil's board. We manage the investments, we work on the boards of those companies and with management teams. We decide whether we think an asset is becoming mature and should be sold.

Morrison & Co is about 180 people now. We are centred in New Zealand and Sydney. We also have offices in New York and London, and a smaller one in Singapore. We only do infrastructure investment, and we only ever have, which is reasonably unusual. All we talk about all day is things that are infrastructure, or infrastructure-like.

We manage mainly unlisted infrastructure assets. Infratil was, for a long time, Morrison & Co's only client. Then in the early 2000s we ended up investing for the New Zealand Super fund as well. That was our first client beyond Infratil.

Since then Morrison & Co has become a manager of infrastructure assets for multiple clients. We have a lot of clients who are Australian superannuation funds. Most of these organisations want lower risk infrastructure assets than Infratil, so it doesn't necessarily conflict with Infratil. But it is additive, because we see across the infrastructure market and better understand the trends. Particularly for Infratil where one source of returns is building infrastructure that is higher risk, de-risking it, and then selling it to those who want lower risk infrastructure. It provides a lot of insight into the areas where Infratil should be investing today for future returns.

You talked to a spectrum of infrastructure. In the past you've invested in assets where people have said, "I'm not sure if that is actually infrastructure or not". How do you define the infrastructure universe in which you can invest in?

We look for three things to be an infrastructure-like category.

We're looking for businesses with a defensive core. A business that will reliably produce a high single digit return through most economic scenarios. You can look at Wellington Airport or Manawa's electricity assets, those assets should

reliably produce a single digital return. Even parts of our growth assets should have that.

In the early days of infrastructure people were looking for natural monopoly assets, like an airport, pipeline, or transmission grid, that was never going to get over-built or replicated. Over time people have got more comfortable with the idea that a defensive asset doesn't necessarily have to be a natural monopoly. We look for something we're confident can provide that core return.

Then we're looking for an ability to commit additional capital to generate attractive compounding returns. That's interesting for a couple of reasons. One, just the power of compounding. And two, when you're generating internal development opportunities, you tend to not be competing with as many people as you would, say, in an auction for an asset. You also have a lot more discretion over the timing. If you look at an airport, for example, adding a hotel or a car park will provide compound growth over time.

The last thing we're still looking for is exposure to a long-term growth trend. These assets are illiquid, we can't just sell them tomorrow. They tend to be inherently long-dated assets. You might be stuck with them for a long time, so you want to know they're exposed to some sort of long-term growth trend. So those are the three main characteristics we look for. They're a bit abstract, but they're kind of the bottom lines.

Are there any jurisdictions that are particularly attractive or more interesting? Most of our investors are local, so how does New Zealand stack up relative to the international opportunities?

New Zealand is definitely attractive from a core, cash flow returning perspective. It's more tax efficient for our investors if we're distributing New Zealand tax paid income, so that's quite good. There are certain market structures in New Zealand that can be quite attractive. We felt that with Vodafone for example.

New Zealand does struggle a little bit in some areas right now. For example, renewable energy development. When you have something like the Inflation Reduction Act in the US, it's actually really hard to justify putting a dollar in New Zealand, or even in Europe, because the returns in the US are very attractive. The rest of the world needs to react to what the US has done to try and counteract the massive gravity now pulling investment toward the US.

Another challenge of investing in New Zealand is that it can be competitive. You've got many Australian investors here, so it can be quite hard to find attractive pricing.

The scale of opportunity here can also be difficult for us. At Infratil's size, for an investment to be meaningful it has to be \$1 billion-plus. There's not a lot of those around in the sectors we like, with the growth opportunities to hit our return targets. Outside of software, it's quite hard to find something in New Zealand that would have the size and upside potential compared to what's available in a bigger economy. If you're taking the risk building a growth business, you're better off doing that in a bigger market where the payoff is going to be more meaningful.

The world has changed a lot in recent times. You touched on rising tensions between China and the West, and rising interest rates. We've had the pandemic, a war in Europe, and multi-decade high inflation. Have those events changed your view on Infratil's opportunities, or how you manage the business?

I would say it has made us more cautious about borrowing to buy in this environment. There's a lot of equity money out there to be deployed, whereas we would be borrowing a chunk if we were to invest. We are more cautious of adding debt to buy until valuations match a reasonable view of where interest rates and inflation sit.

There are geopolitical risks and opportunities that you need to think about. I feel like coming

from New Zealand, and a bit out of Australia, it gives us credentials to talk about things like data security, which is what CDC Data Centres and the regulatory regime that surrounds it has been built on. Within Five Eyes countries there'll definitely be a bigger focus on those sort of assets only being owned by people from those regions. That's something that could produce opportunities for us.

You've talked about your various platforms. The most recent one is imaging or digital health. What was the process that led you to entering this space? How did you scan the landscape and land on that?

It really began back when we entered the retirement sector. We had been looking outside our core for what could be the next interesting area for Infratil. The aging population and the needs of an older population have been something we'd looked at for a long time. We asked ourselves, how do we get exposure to that?

Our investments started with Metlifecare when a stake came available. We acquired 20% of Metlifecare, but found we couldn't get to 100%. We sold that and moved our investment to RetireAustralia.

Work continued behind the scenes. We looked at some hospital businesses. They didn't quite work for us for various reasons, usually scale, but we also weren't sure about returns. We took what looks like a pause, but we were actually



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still interested. Then it became clear that there was a series of imaging businesses that would likely be coming to market. Consolidation in the industry was going to happen quite quickly. We felt they'd benefit from scale, and the ability to add new technologies. It was an overlap of thematic thinking and then waiting for the opportunity to emerge.

We think we are de-risking the industry through consolidation which means it could lower the risk to the point where other types of capital providers become interested. It's exposed to organic underlying growth through an aging population. And there's an ability to continue to deploy capital by building out new clinics, and making the technology and services more widely available throughout the community rather than people having to travel miles to a hospital. It looks a little bit like data centres and renewable energy in a way. You find a good site, you build a clinic, and you build up patronage and a solid cash flow. That looked a lot better than the hospital businesses we'd looked at.

Thank you Jason, are there any final thoughts or comments you'd like to leave with our investors?

I'm really optimistic, I think it's a really interesting time for Infratil. It's an interesting period to be investing right now, with uncertainty around valuations. Our mindset is to try and take advantage of this period before people realise that the underlying themes have not gone away, in fact they're accelerating.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.



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