

NAPLES GLOBAL ADVISORS

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Infrastructure: A Critical Global Asset Class

Global infrastructure assets underpin all aspects of economic and social stability, but most of us tacitly overlook the ubiquitous impact of infrastructure in our daily lives and routines. The fuel you filled your car with likely flowed through the vast web of oil and gas pipelines permeating U.S. soil. That fuel also had to be stored and refined, most probably by a publicly traded company. The podcast you downloaded to your smart phone derived from the digital nebula harnessed within an array of cell towers and data centers. If you have traveled abroad, you may have traversed the concourses of airports owned and operated by a public company. Think of the compounding cash flows created by the sum of passenger and commercial activity within an airport. The parking fees, passenger facility charges (the airport's cut for enabling your travel – note the line item on your ticket), and carrier fees, even the preflight cup of coffee and bagel you consumed add to the revenues generated by these companies. If you are a destination skier, you may have taken a railway into the Swiss Alps. Behind the scenes is another public company profiting from the flow of travelers pursuing those sought-after slopes. Indeed, from roads and rails, power grids and airports, to communications networks and digitization, infrastructure assets allow society and the economy to function and grow sustainably.

At Naples Global Advisors (NGA), we view infrastructure broadly as the asset structure facilitating the movement of people and things, and it is through that lens we examine the public opportunity set. As investment managers, a variety of qualities attract us to infrastructure assets, which have long held a specific allocation within NGA's portfolios. The value proposition of infrastructure as an asset class derives from several appealing characteristics:

- Attractive cash flows that are stable and predictable
- Low sensitivity to swings in the economy and markets
- Low correlation of returns with traditional asset classes (including equities)
- Inflation protection
- High barriers to entry
- Low default/high credit quality businesses



Though a more modest percentage allocation within NGA's portfolios, infrastructure investments have proven their worth over time. The stable cash flow generated by infrastructure investments is a paramount consideration. Services provided by infrastructure assets are often regulated and determined by long-term contracts, thereby allowing for visibility into potential future cash flows. Moreover, the usage of critical assets such as pipelines remains relatively consistent irrespective of commodity price volatility, resulting in stable current income which can be distributed to investors.¹ Even more important, infrastructure assets often generate revenues linked to inflation through regulated pricing mechanisms with inflation escalators. This characteristic allows infrastructure investments to potentially sustain their real value over time, providing a reliable hedge against rising prices. Finally, the diversification benefits have been historically significant, and low equity correlation infrastructure assets have helped stabilize values during periods of market volatility.

You probably have not noticed the pervasiveness of infrastructure in your daily life, but it would be an oversight to disregard the benefits of this critical asset class within your investment portfolio. If you want to learn more about infrastructure and implementing this critical asset class into your investment portfolio, reach out to us at info@naplesglobaladvisors.com or by phone at (239) 776-7900.

Sources:
¹ McCarthy, Michael J. CFA, Josh Miller, CFA, Jason Neff, Eric Winkler, CFA. "Investing in Infrastructure." *Neuberger Berman White Paper*. [Nb.com/en/global/insights/whitepaper-investing-infrastructure](https://nb.com/en/global/insights/whitepaper-investing-infrastructure). May 2022.



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