



European sustainable infrastructure: in a sweet spot

Ingrid Edmund, Senior Portfolio Manager

- Infrastructure is critical to a well-functioning economy and society, but not all infrastructure assets are created equal. True diversification is key to building a defensive, resilient portfolio in line with the well-established infrastructure narrative.
- Despite the unprecedented drop in economic activity and carbon emissions, global warming is not going away. The drive to accelerate the pathway to a lower carbon future has gained renewed urgency.
- Uncertainty is here to stay. The way we live, work, travel and consume has changed and is likely to have long-lasting impacts on what and how infrastructure is delivered.
- We are confident that our long-term investment thesis and strategy, which prioritise the themes of technology, disruption and sustainability, are well placed for the rapid shift in the economic order.





In a turbulent 2020 infrastructure was an apparent safe haven, proving relatively resilient. However, the unprecedented shock to the asset class across all industry sectors and geographies at the same time, in a short period of time, has provided food for thought on several issues:

Firstly, infrastructure is critical to a well-functioning economy and society, but not all infrastructure assets are created equal. For example, demand-based transportation assets such as airports and toll-roads were hit the worst. Renewable energy fared well, despite a 5% annual drop in energy demand,¹ whereas renewables outside the electricity sector such as biofuels, as well as conventional energy, suffered more from the impacts of the Covid-19 crisis. Contracted and regulated assets benefited from more stability, while digital emerged as a clear winner. The answer lies in the level of sensitivity to economic cycles, not in the label. This year reminded us that true diversification is key to building a defensive, resilient portfolio in line with the well-established infrastructure narrative.

Secondly, infrastructure continues to attract significant investor interest. If anything, the prospect of lower interest rates for even longer served to make assets that can deliver resilient cashflows even more attractive. Fund raising for the first nine months of 2020 reached \$78.5 billion, the second highest rate for that period since 2015.² Furthermore, sustainability as a whole is in vogue, with public market fund inflows totalling more than €50 billion in 2020's third quarter, or 40% of all European fund flows.³

Third, despite the unprecedented drop in economic activity and carbon emissions, global warming is not going away. The drive to accelerate the pathway to a lower carbon future gained renewed urgency. At the same time the pandemic highlighted social inequalities and fragilities in our societies. The concept of business needing a social license to operate gathered momentum, fortifying investor appetite for social investing. European governments enshrined infrastructure investment as a means to stimulate the post-Covid economy via significant green fiscal packages.

“ The pandemic has highlighted social inequalities and fragilities in our societies. The concept of business needing a social license to operate gathered momentum, fortifying investor appetite for social investing

Fourth, uncertainty is here to stay. The way we live, work, travel and consume has changed and is likely to have long-lasting impacts on what and how infrastructure is delivered. 2020 showed that even within infrastructure transitions can happen at warp speed. Digital infrastructure is a perfect example: following the mass migration to work and study from home, demand for data proliferated. This rapidly accelerated a structural

¹ <https://www.iea.org/news/renewable-power-is-defying-the-covid-crisis-with-record-growth-this-year-and-next>, November 2020.

² Infrastructure Investor; Q3 Fundraising Report 2020. <https://www.infrastructureinvestor.com/fundraising-reports/>

³ Morningstar, October 2020.





trend which has long been coming, with communication infrastructure becoming an integral part of a well-functioning economy. A survey by McKinsey⁴ estimates this acceleration in the order of three to four years is boosting the growth of data centres, for example.



***“Where do we believe we can find value in 2021 in core infrastructure?
The answer is in the huge amount of investment needed to achieve
Europe’s goal of a sustainable energy transition*”**

All of which makes us confident that our long-term investment thesis and strategy, which prioritise the themes of technology, disruption and sustainability, are well placed for the rapid shift in the economic order.

So, where do we believe we can find value in 2021 in core infrastructure which is the strategy’s focus? The answer is in the huge amount of investment needed to achieve Europe’s goal of a sustainable energy transition. The EU’s Green Deal proposes to invest in excess of €750 billion⁵ in support of this, with initiatives focused on hydrogen, heat and buildings, electric vehicle charging, energy storage and batteries. Much of the opportunity in these sectors is naturally in the mid-market.

Many are new sectors, but importantly we believe a significant source of generating alpha is to invest in transition assets – that is to say “brown” assets which provide essential social and economic services, but which have clear and ambitious aspirations to transition to green.

We are excited about the years ahead. The powerful drive for a green recovery can only strengthen our investment thesis and result in more opportunity.

⁴ <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point-and-transformed-business-forever>, October 2020.
⁵ <https://www.reuters.com/article/us-eu-bonds-environment-idUSKCN24G1HD>, July 2020.



To find out more visit
columbiathreadneedle.com



Important Information:

For use by Professional and/or Qualified Investors only (not to be used with or passed on to retail clients).

This document is intended for informational purposes only and should not be considered representative of any particular investment. This should not be considered an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services. **Investing involves risk including the risk of loss of principal. Your capital is at risk.** Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The value of investments is not guaranteed, and therefore an investor may not get back the amount invested. **International investing** involves certain risks and volatility due to potential political, economic or currency fluctuations and different financial and accounting standards. **The securities included herein are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable.** The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Threadneedle Investments (Columbia Threadneedle) associates or affiliates. Actual investments or investment decisions made by Columbia Threadneedle and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be suitable for all investors. **Past performance does not guarantee future results, and no forecast should be considered a guarantee either.** Information and opinions provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. This document and its contents have not been reviewed by any regulatory authority.

In Australia: Issued by Threadneedle Investments Singapore (Pte.) Limited ["TIS"], ARBN 600 027 414. TIS is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and relies on Class Order 03/1102 in marketing and providing financial services to Australian wholesale clients as defined in Section 761G of the Corporations Act 2001. TIS is regulated in Singapore (Registration number: 201101559W) by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289), which differ from Australian laws.

In Singapore: Issued by Threadneedle Investments Singapore (Pte.) Limited, 3 Killiney Road, #07-07, Winsland House 1, Singapore 239519, which is regulated in Singapore by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289). Registration number: 201101559W. This document has not been reviewed by the Monetary Authority of Singapore.

In Hong Kong: Issued by Threadneedle Portfolio Services Hong Kong Limited 天利投資管理香港有限公司. Unit 3004, Two Exchange Square, 8 Connaught Place, Hong Kong, which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 regulated activities (CE:AQ4779). Registered in Hong Kong under the ce (Chapter 622), No. 1173058.

In EMEA: Issued by Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority. This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it.

Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies. columbiathreadneedle.com

Issued 01.20 | Valid to 06.21 | J31065 | 3393032