M&G Global Listed Infrastructure Fund

Top 10 holdings

Fund Manager – Alex Araujo

FOR INVESTMENT PROFESSIONALS ONLY

April 2019

- *A modern and balanced approach, which invests beyond the traditional sphere of 'economic' infrastructure (utilities, energy, transport), diversifying into the 'social' (health, education, civic) and 'evolving' (communication, transactional, royalty) categories of the asset class.*
- *A disciplined strategy with a resolute focus on dividend growth to deliver on the fund's objective of providing a rising income stream.*
- *A potential diversifier for our clients' portfolios by benefiting from the favourable characteristics of listed infrastructure, namely premium yield and lower volatility relative to global equities, while capturing the growth opportunities in the asset class.*

For any past performance mentioned below, please note that past performance is not a guide to future performance.

The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.

The fund holds a relatively small number of investments and, as a result, may experience larger price rises and falls than a fund which holds a larger number of investments.

Enel

Infrastructure class: **Economic**
Industry: **Utilities**
Country: **Italy**

- Integrated electricity and gas utility with a diversified business model generating more than half of group cashflows outside Italy. Significant presence in the growth markets of South America and a beneficiary of urbanisation in the region.
- Renewable energy is a key driver of growth. Enel is a leading advocate of sustainable energy and is actively increasing renewable installed capacity at the expense of thermal. The company expects 62% of power generation in 2021 to be emission-free, up from around 48% in 2018.
- Digitalisation of networks is a key feature of the strategy, with Enel playing a central role in the development of electric mobility in Italy. The company is undergoing a five-year plan to install 14,000 charging stations and provide comprehensive coverage across the country.
- Strong commitment to returning cash to shareholders, with dividend growth over the next three years expected to be a minimum of 9% pa on average. If the company delivers on its strategic targets, the growth rate accelerates to 12%.
- We initiated the position in June 2018 when concerns about the political situation in Italy led to indiscriminate selling in the Italian market, particularly in the more interest-rate sensitive sectors. Enel's business is not confined to the domestic market and we saw the sentiment-driven weakness as a buying opportunity. The stock was purchased on a historic yield of more than 5% with double-digit growth in the dividend.

Past performance is not a guide to future performance.

Vinci

Infrastructure class: Economic
Industry: Transport
Country: France

- A collection of high-quality, long-life transportation infrastructure assets, which epitomises the attractions of infrastructure as an asset class.
- Leading operator of motorway concessions in France and significant international expansion by way of its airports business. Vinci bought a majority stake in London Gatwick Airport in December.
- Organic growth driven by traffic volumes (toll roads tied to GDP, airports benefit from structural growth in Asia/emerging markets) and pricing (inflation linked).
- Acquisitive growth in airports, backed by a strong balance sheet.
- Listed airport companies remain on a significant discount to the high multiples paid in the private market by pension funds for single assets.
- Strong free cashflow generation and sound capital allocation principles. The dividend rose 9% in 2018 after a 17% increase in the previous year.

Past performance is not a guide to future performance.

Franco-Nevada/PrairieSky Royalty

Infrastructure class: Evolving
Industry: Royalty
Country: Canada

- Enduring assets generating long-term cashflows by virtue of royalty mineral rights held into perpetuity. An established business model that has its origins in the 17th century when Charles II granted land rights for the entire watershed of Hudson Bay.

- Unique business model with high margins, zero debt and minimal capital requirements to fund growth. Almost all distributable cashflows returned to shareholders.
- PrairieSky is exposed primarily to oil & gas, while Franco-Nevada is more exposed to precious metals.
- Leverage to production volumes and inflation protection by way of commodity prices. Minimal operational risk and no current or future environmental liabilities.
- Favoured by pension funds with a long-term time horizon, misunderstood by the broader market and its short-term perspective.

Orsted

Infrastructure class: **Economic**
Industry: **Utilities**
Country: **Denmark**

- A shining example of a beneficiary of the structural trend towards renewable energy.
- World leader in offshore wind deployments and the leading operator in the UK. Wind farms elsewhere in Europe are located in Denmark, Germany and the Netherlands, with growth opportunities further afield in the US and Taiwan.
- Strong growth in the underlying industry, with offshore wind being the fastest-growing form of renewable power generation. Offshore wind is vastly superior to onshore, with the evolution of technology and rapid cost reduction making the energy source increasingly accessible.
- Potential to expand its geographic presence by applying its technical expertise on a global scale. Market leadership brings economies of scale and the balance sheet is in fantastic shape.
- We bought the stock in December 2017 once the company had established its dividend policy and divested its upstream oil & gas assets. Payout ratio target of 30% has room to go higher, even with significant capex deployment.

Edison International

Infrastructure class: **Economic**
Industry: **Utilities**
Country: **US**

- Integrated Californian utility with a bias towards grid and transmission, and limited exposure to power generation.
- Growth driven by the need for safety in existing networks and the investment required to ensure reliability.
- California's low carbon objectives provide another key avenue of growth, encompassing grid modernisation, transportation electrification, electric vehicle charging and energy storage.
- Potentially exposed to the liabilities associated with Californian wildfires (inverse condemnation), but the company has provisions in place and we feel does not face disproportionate financial risk based on the events of 2017 and 2018. Although Edison's share price has been vulnerable to fears of uncertainty, the situation is different to the well-documented demise of PG&E.
- Strong commitment to sustainable dividend growth and has a track record of raising the dividend for 15 consecutive years.

Unite Group

Infrastructure class: **Social**
Industry: **Education**
Country: **UK**

- Leading provider of student accommodation in the UK, with most of the portfolio tied to top universities.
- Favourable market dynamics with record student numbers, particularly from overseas. Higher education in the UK remains highly competitive in global league tables.
- Strong demand for quality accommodation in an undersupplied market.
- Growth from higher rental income, development pipeline, university partnerships and operating efficiency.
- Strong growth in the business has been reflected in robust dividend growth. The dividend rose 28% in 2018 after a 26% increase in 2017.

Past performance is not a guide to future performance.

CoreSite/Equinix

Infrastructure class: **Evolving**
Industry: **Communication**
Country: **US**

- Owners and operators of data centres and beneficiaries of the structural demand for data globally, driven by e-commerce, cloud-based applications, connected devices, IoT etc. Belonging to a critical segment of the digital economy.
- An indirect way of accessing the growth potential of FAANGs whose business models are reliant on data centres for their own growth and success.
- Physical assets with high barriers to entry. Location is key for the customer.
- Security, reliable power supply and functionality are also mission critical. Visa experienced a network failure in June 2018, resulting in millions of transactions being declined, all because of a glitch at one of its data centres.
- Both companies are classified as REITs and can be susceptible to negative sentiment when interest-rate sensitives are out of favour. Our investment case is based on the structural growth in the industry, which is reflected in strong dividend growth from the individual companies.

Past performance is not a guide to future performance.

Ferrovial

Infrastructure class: Economic
Industry: Transport
Country: Spain

- A paragon among the investment opportunities available in the listed infrastructure universe. A collection of high-quality, long-life assets which typifies the underlying exposure we are trying to access.
- The company is based in Spain, but the biggest contributor to group cashflow is the ETR 407 toll road in Toronto, arguably the best infrastructure asset in the world, with unregulated pricing and a 100-year concession life with more than 80 years remaining. Also owns and operates four UK airports: London Heathrow, Glasgow, Southampton and Aberdeen.
- Leading innovator in the industry, introducing new concepts such as automated billing on ETR 407 and dynamically priced managed lanes on the LBJ highway in Dallas.

M&G
April 2019

Please note that the fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

Further risks associated with this fund can be found in the fund's Key Investor Information Document.