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focus

Investing in the **Infrastructure of Tomorrow**

Forsyth Barr speaks with Morrison about the infrastructure needed for a more digital and electrified world, and where it is finding opportunities.

Interview with ***Tim Skerman,*** Head of Listed Investments, and ***Stephen Jordan,*** Portfolio Manager, Morrison.



TIM SKERMAN



STEPHEN JORDAN

FORSYTH BARR 90 YEARS



> **...Alongside roads, airports and utilities, [infrastructure] increasingly includes the assets needed to run a more digital and electrified economy...**

FUND

Morrison High Conviction Listed Infrastructure Fund

STRATEGY

A portfolio of global listed infrastructure companies, including utilities, airports, communications networks and data centres.

HOLDINGS

Typically 20–30 companies

ACCESS

New Zealand PIE, with hedged and unhedged currency options.

Why this strategy matters

Infrastructure is changing. Alongside roads, airports and utilities, it increasingly includes the assets needed to run a more digital and electrified economy: data centres, electricity grids, renewable generation, and communications networks. At the same time, much of the infrastructure we already rely on is ageing and needs to be upgraded or replaced.

Morrison is a New Zealand-founded specialist infrastructure investor that manages around US$30 billion across public and private markets. It is best known for its long association with Infratil. Over its 38-year history, much of Morrison's work has been in private infrastructure: buying a significant stake in, or control of, businesses that are not traded on a share market. That allows close involvement in how assets are run, expanded, and financed, but the investments are generally less easy to buy and sell.

The Morrison High Conviction Listed Infrastructure Fund takes that experience into listed markets. It invests in a focused portfolio of publicly listed companies that own and operate infrastructure assets around the world, giving investors access to a wide set of opportunities. Morrison believes this direct ownership experience provides deeper insight into how infrastructure assets operate, the challenges they face, and the opportunities to create value over time.

A specialist approach to listed infrastructure

> ***How is the listed fund different from Morrison's private infrastructure investments, including Infratil?***

Tim Skerman: Infratil typically takes influential or controlling positions and builds value in businesses. The listed strategy looks globally for companies exposed to many of the same long-term trends.

Listed markets give investors access to opportunities at a different scale and in different parts of the value chain. Infratil, for example, has invested successfully in CDC Data Centres, while the listed portfolio can invest in very large global operators with connected data centre portfolios such as Equinix. The theme may be similar, but the exposure is complementary.

> ***What qualifies as infrastructure in the range of companies Morrison considers?***

Stephen Jordan: We do not define infrastructure simply by industry. Instead, we consider how each business operates and earns money. We look for businesses that provide essential services, face little direct competition, and generate relatively stable and predictable income. Some businesses also have protection from inflation. For example, regulations or contracts may allow them to increase prices as costs rise. Others may be able to raise prices because they have a strong competitive position.

The traditional universe includes transport assets such as airports, ports, roads, and rail; communications assets such as towers and fibre; and utilities providing water, gas, and electricity. The universe evolves as technology and society's needs change. We favour proven infrastructure technologies and do not take early-stage technology risk simply to gain exposure to an attractive theme.

> ***How does Morrison's experience as an owner and operator help assess listed companies?***

Stephen Jordan: Infrastructure usually involves a tangible asset supported by contracts or regulation, which gives us a firmer basis for assessing cash flows and value. The listed team can also consult more than 80 Morrison investment professionals with direct infrastructure experience. When we assess an airport, for example, we can speak with colleagues who have run one rather than relying only on company management and broker research.

Tim Skerman: That asset-level knowledge helps us test assumptions about operations, contracts, spending on building, maintaining or upgrading assets, and risk. It can also help us identify stable, long-term earnings similar to traditional infrastructure before they are widely recognised by the market or included in an index.

From long-term trends to a focused portfolio

> ***How do you turn long-term themes into a portfolio of typically 20–30 companies?***

Tim Skerman: We begin by asking what society needs, which problems capital can solve, and where infrastructure is required. We examine the relevant businesses involved at each stage, how demand and asset values may develop, who the best owners are, and how risk changes as a sector matures.

We then conduct detailed company research, meet management, test the thesis across Morrison's team, and anchor the investment in an estimate of what the company is worth. We also ask how the equity market is likely to recognise that value.

> ***Which themes are having the greatest influence on the portfolio today?***

Stephen Jordan: The most powerful development is the shift to cleaner energy and a more digital economy coming together. In Europe, investment is being driven by energy security, high energy prices, and the desire to rely less on imported energy. In the United States, the dominant driver is rapidly growing power demand from AI, data centres, and the world's largest cloud-computing companies.

Tim Skerman: In Europe, we express this mainly through regulated electricity transmission needed to connect renewable generation and strengthen energy independence. In the United States, additional electricity generation and transmission are required, so we favour utilities that can both develop new generation and deliver electricity to customers. Rising investment can increase the value of the assets on which these utilities are permitted to earn a return, supporting earnings growth.

AI, power demand and the energy transition

> ***Where do you see the most durable infrastructure opportunities arising from AI?***

Tim Skerman: We distinguish infrastructure from the equipment inside it. Semiconductors may benefit from shortages and rising margins, but they do not generally have infrastructure's long-term contracted cash flows. The more enduring constraint is likely to be power and the infrastructure needed to deliver it.

Greater AI adoption requires more data centres, electricity generation, transmission infrastructure, and grid connections. The opportunity also extends to shared data centres where multiple customers rent space and supporting services, as well as fibre networks. We focus on the long-lived physical assets and contracted cash flows underpinning the AI build-out rather than short-cycle equipment demand.

> ***Where are the clearest opportunities in the energy transition, and what risks do you avoid?***

Stephen Jordan: We prefer investments that make economic sense without relying on a particular political outcome. Grid reinforcement is a good example: renewable generation and electrification cannot proceed without stronger networks, and a more efficient grid can lower costs for consumers.

We assess each jurisdiction's resources, market structure, technology, subsidy requirements, and how easily and reliably projects can be completed. We look for a credible regulatory history, limited arbitrary intervention, and durable support for investment. Infrastructure capital may be committed for several decades, so stability matters.

Does nuclear power feature in your outlook?

Tim Skerman: Nuclear is attracting renewed attention as a low-carbon power source because data centres need reliable, around-the-clock power and renewable generation is intermittent. However, new conventional plants can take around a decade to build and have a history of cost overruns. Small modular reactors may eventually offer a faster and more flexible option, but the technology and regulatory pathway are still developing.

Nuclear may be important in the future energy system, but it is not currently the portfolio's clearest near-term opportunity. In many markets, the more investable need is additional generation, stronger transmission, and better grid connectivity.

Risk, resilience and portfolio role

Infrastructure is often described as defensive. What are the principal risks investors should understand?

Tim Skerman: The three broad risks are regulation, interest rates, and commodity exposure. We assess regulation asset by asset and jurisdiction by jurisdiction. Contracts or regulation can reduce direct commodity exposure, although commodity prices may still affect demand for transport and other infrastructure.

Interest rates affect both the cost of borrowing or raising money and the value placed on businesses whose cash flows are expected well into the future. We incorporate current market pricing for future interest rates into our valuations while recognising that listed share prices can be more volatile than underlying asset values in the short term. We manage technology risk by remaining within our expertise and favouring proven technologies.

What role can the fund play in a diversified client portfolio?

Tim Skerman: Listed infrastructure provides exposure to tangible, essential assets with income expected to continue for many years, inflation protection, and structural growth. Its role is best assessed over a medium-to-long investment horizon, allowing the economics of the underlying assets to emerge.

The development of AI is expected to be disruptive to many industries in the coming years. Infrastructure assets tend to be resilient to technological disruption and are more commonly beneficiaries or enablers of change. In today's markets, this can help diversify client portfolios.

Listed infrastructure is not immune to equity market shocks and can decline with the broader market. Over time, however, the underlying assets continue to provide essential services, and markets can reward the cash-flow growth and value creation they deliver.

Compared with private infrastructure, listed infrastructure can generally be bought or sold each business day. This makes it easier to adjust a portfolio and provides diversified exposure to infrastructure companies around the world.



...renewable generation and electrification cannot proceed without stronger networks...



What investors may be underestimating

> *Looking five to ten years ahead, what part of the infrastructure landscape is most likely to be underestimated?*

Tim Skerman: The scale of maintenance and replacement investment. Governments have underinvested in essential infrastructure for many years, while many public balance sheets are stretched. Ageing water, electricity, and transport systems still need to be maintained, modernised, and made more efficient, creating a larger role for investment from private-sector investors.

Stephen Jordan: AI could magnify that requirement. If adoption and productivity benefits materialise, economies may need multiples of today's power, data centre, and communications infrastructure. Much of the near-term pipeline is already planned or queued, providing unusual visibility towards the end of the decade.

Tim Skerman: Some assets now being developed strategically by large cloud-computing companies may ultimately become long-term, contracted assets generating stable cash flows. Over time, these assets may be better suited to specialist infrastructure owners with a lower cost of borrowing, potentially creating new listed investment opportunities within the next five years.

> *What is the key point you would like New Zealand investors to understand about the fund?*

Tim Skerman: Morrison is a New Zealand-founded infrastructure specialist with 38 years of experience and a global presence. Our direct involvement across the sector helps us assess the value of the underlying infrastructure assets. It also helps us identify opportunities arising from long-term economic and social change and apply a consistent investment approach.

The fund applies that experience in a carefully selected portfolio of global listed companies, drawing on detailed knowledge of infrastructure assets to assess opportunities and risks.

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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