Contactus@
ausbil.com.au

ausbil

Infrastructure Earnings: More growth for less volatility

Research & Insights

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Ausbil Investment
Management Limited
ABN 26 076 316 473
AFSL 229722
Level 27
225 George Street
Sydney NSW 2000
GPO Box 2525
Sydney NSW 2001
Phone 61 2 9259 0200

Global equity allocations offer investors exposure to international diversification, and the potential to access broader growth opportunities. This is why global equities are a key part of any long-term investor's strategic asset allocation. However, a subset of global equities, global listed infrastructure, offers all the same benefits while also providing the potential for stronger long-term earnings growth and less volatility.

Tim Humphreys
Head of Global Listed Infrastructure

10 minute read

Key points

- Global listed infrastructure is showing up as a significant opportunity on relative valuation measures compared to global equities.
- Earnings growth for essential listed infrastructure is relatively more consistent than global equities and, on average, higher at 6.3% compared to 4.7% for global equities on our 25-year sample, and with significantly less volatility.
- Interest rate normalisation and the start of monetary easing in 2024 have created a supportive environment for the reassessment of the relative value of infrastructure earnings.
- Now could be an opportune time to consider a tactical allocation to essential infrastructure, and establish a growing strategic allocation to the sector for its earnings and stability benefits.

Jonathan Reyes
Co-Head of Global Listed Infrastructure

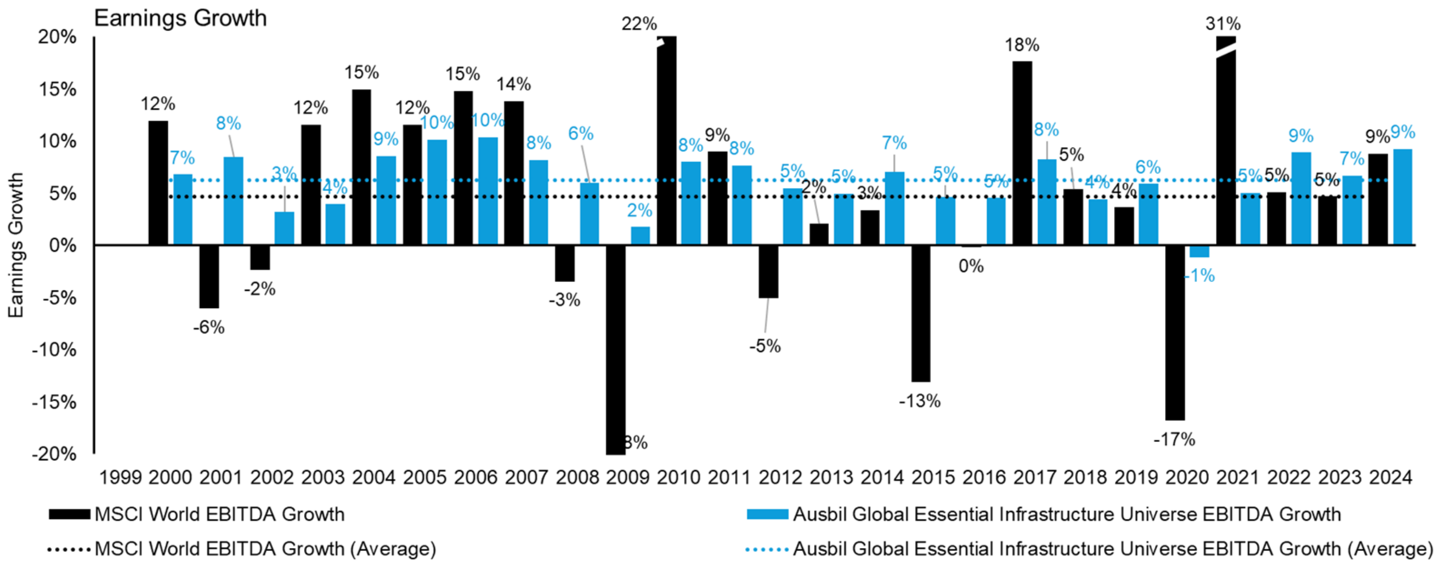
Infrastructure's earnings growth has outperformed global equities

Infrastructure is recognised for generating steady cash flows and a typically lower level of volatility in earnings than global equities. This is based on the fact that cash flows from essential infrastructure assets are generally long term and more predictable than general equities. This is the theory, but how does it play out in the facts? Figure 1 compares annual earnings growth for global equities (MSCI World) with that of global listed infrastructure (Ausbil's Essential Infrastructure Universe).

Natasha Thomas
Portfolio Manager -
Energy and Communications

Paul Johnston
Portfolio Manager - Utilities

Figure 1: Infrastructure earnings growth is relatively more consistent than for global equities



Source: Ausbil Essential Infrastructure Universe as at end 2024. Global Equities data from MSCI World Index.

Looking back over 25 years, the narrative plays out, with global listed infrastructure delivering an average annual earnings growth of 6.3% versus 4.7%. The earnings growth for global listed infrastructure is relatively more stable than that of global equities in the data, and demonstrates less variability in earnings (Figure 2).

Figure 2: Infrastructure has a narrower range of earnings and return, but a higher average performance

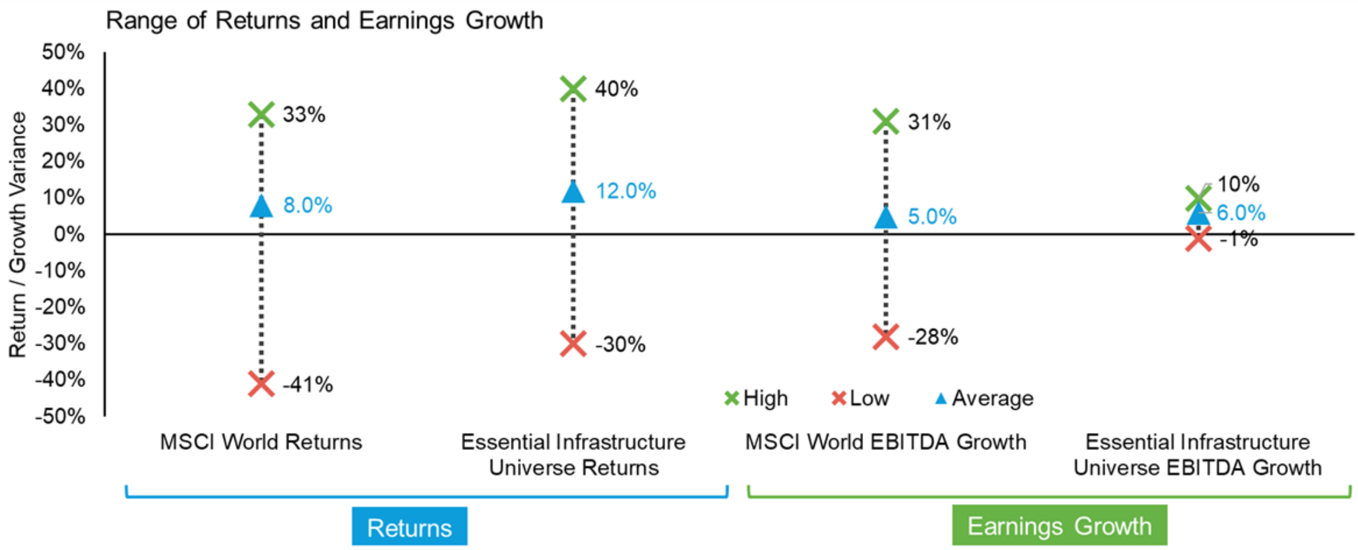
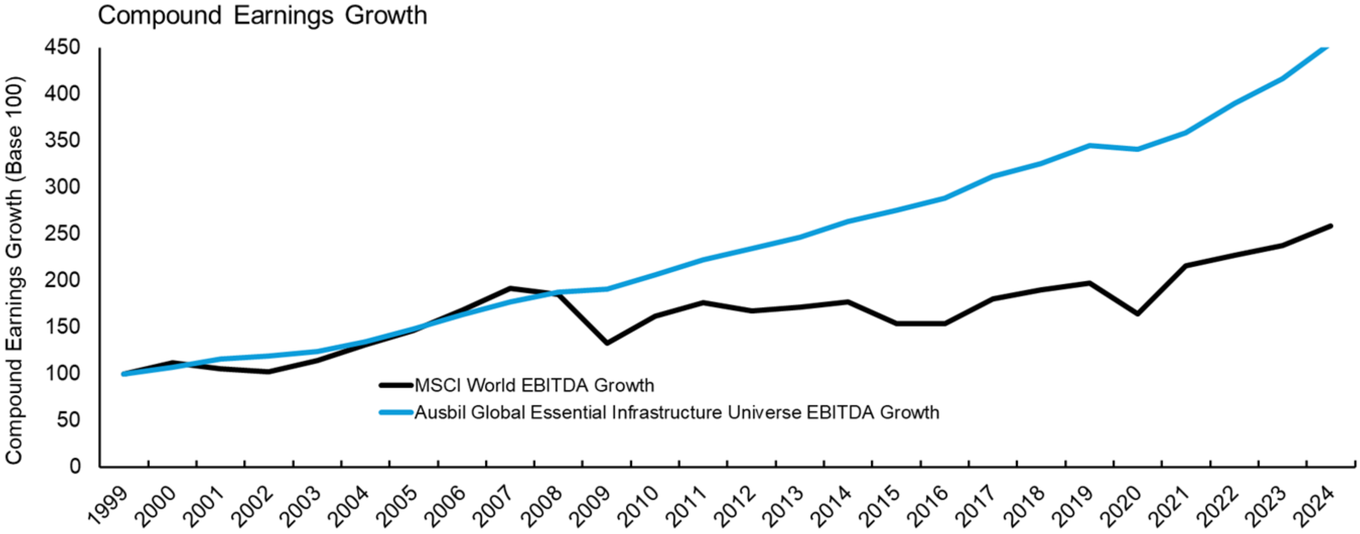


Figure 2 compares the average total returns for global equities and global essential infrastructure on the left, and their earnings growth on the right, from the 25-year sample. From the comparison of earnings on the right, it is evident that infrastructure has exhibited a higher average return, and a narrower range of returns than global equities. Volatility is inherent for global equities, and the expectation is that with more conservative assets and long-term cash flows, infrastructure demonstrates less volatility, playing to the defensive nature of the sector. At Ausbil, we often describe essential infrastructure earnings as ‘trying to hit the ball down the middle of the fairway’, which seems to be the case for infrastructure earnings growth over the last 25 years, as shown in Figure 2.

Infrastructure's earnings growth advantage compounds strongly over time

While the difference in average annual earnings growth between global equities and infrastructure seems relatively nominal, 6.3% versus 4.7%, on a compound basis, the difference grows to be quite significant over time, as illustrated in Figure 3.

Figure 3: The compound difference in earnings growth is significant over time



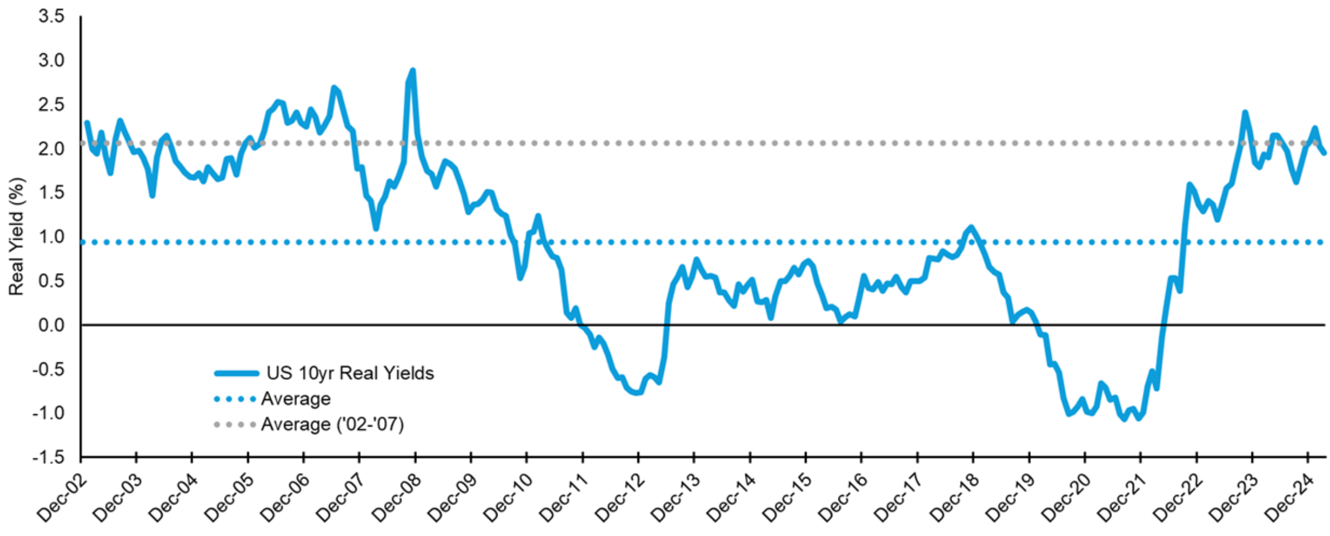
Source: Ausbil Global Essential Infrastructure Universe as at end 2024. Global Equities data from MSCI World Index.

The difference in the earnings growth path for global infrastructure turns out to be significantly more than global equities, with global infrastructure earnings delivering an end level of almost twice that of global equities over the last 25 years. So how does this translate to total returns?

Recent events have conspired to make infrastructure far more attractive

More recently, since the global pandemic of 2020/21, global equities have outperformed their earnings growth profile, particularly, with the added tailwind of the Magnificent 7 (Apple, Amazon, Google, Meta, Nvidia, Microsoft and Tesla) performance. By contrast, global listed infrastructure experienced a greater impact by the rapid rate normalisation that came in 2022 and 2023 as central banks sought to reverse emergency rates and combat the spiking inflation which followed the largest stimulus of all time unleashed during the pandemic. This is because of the relatively stable and longer-term cash flow profiles of infrastructure compared to global equities. The shock to real interest rates (Figure 4) from the rapid normalisation presented a headwind for infrastructure assets as it impacted the valuation of their long-term cash flows.

Figure 4: The shock to real interest rates that roiled infrastructure is set to subside



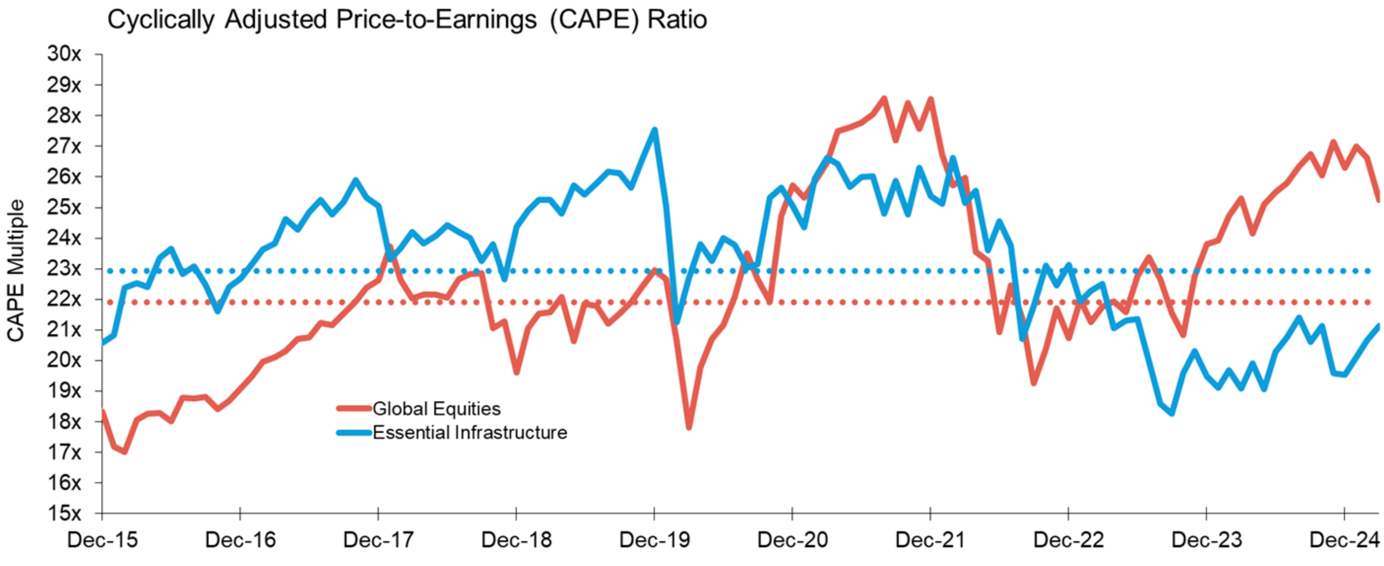
Source: Ausbil, Bloomberg. US 10yr real yields as represented by H15X10YR Index, Inflation expectations as represented by USGGBE10 Index as at March 2025.

However, real yields on the US 10-year Treasury have risen by approximately 300bps since the COVID-era lows, and are now aligning with the pre-GFC long-term average (Figure 4). Quantitative easing between the GFC and just prior to the pandemic artificially depressed real yields, then COVID arrived and real yields fell even further, to around -1%. The market was not factoring these real yields into valuations, and then the sharp spike up to 2% in 2022/23 (the generally accepted non-crisis long-term average) temporarily deflated the valuations for the longer-term cashflows of infrastructure assets relative to shorter duration equities. We expect real yields to stabilise at around 2%, with most of the re-normalisation already behind us, which will see reflation in the value of future cash flows in addition to their overall earnings growth outlook, becoming a tailwind for infrastructure valuations.

The current valuation opportunity in global essential infrastructure

Infrastructure is cheap when evaluated using the CAPE (Cyclically Adjusted Price-to-Earnings) ratio, also known as the Shiller PE ratio (Figure 5). From analysis of the CAPE ratio, historically, global listed infrastructure has traded at a price-to-earnings premium relative to the broader market (around 23x versus 22x for the market). Currently, infrastructure is trading at a discount to the market (with a CAPE ratio of around 21x vs 25x for the market), based on the Shiller PE ratios. While Shiller PE is generally considered less responsive for general equities as it looks at 10-years of earnings rather than just one year, as with a traditional P/E ratio, the CAPE ratio provides a more appropriate basis when comparing the long earnings profiles of infrastructure assets. The CAPE ratio also helps to remove the vagaries of the cycle.

Figure 5: Global listed infrastructure is cheap on a P/E relative basis



Source: Ausbil, Bloomberg, March 2025. The Cyclically Adjusted Price-to-Earnings (CAPE) ratio, also known as the Shiller PE ratio, is a valuation metric that uses a 10-year average of inflation-adjusted earnings to assess a stock or market's long-term valuation, smoothing out the effects of economic cycles.

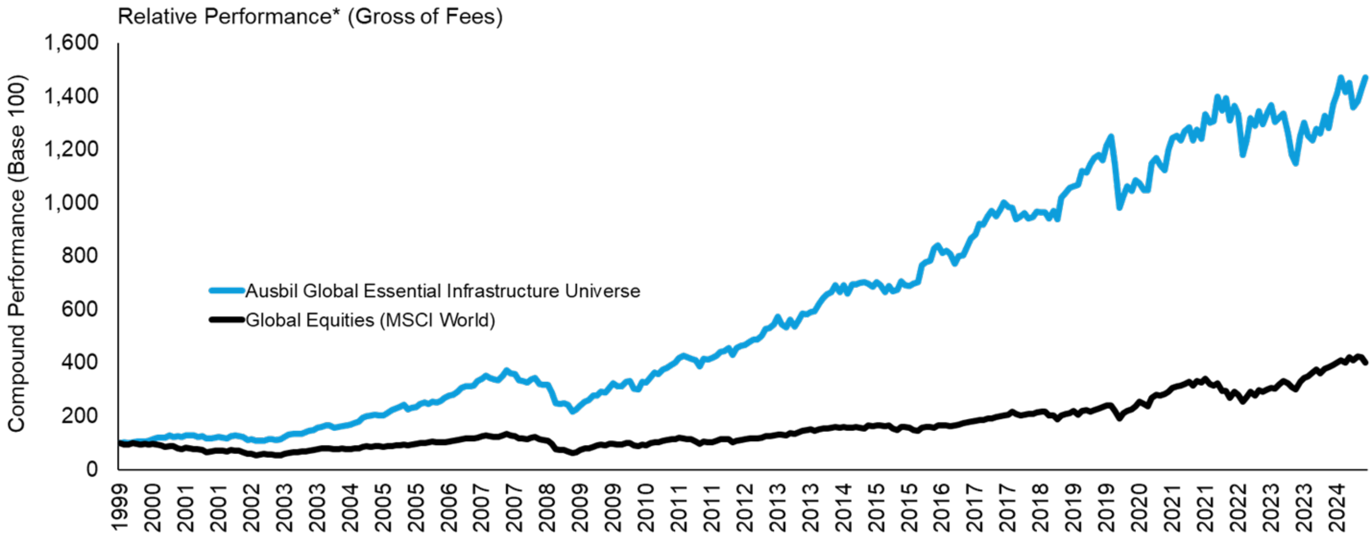
What we have now is a disparity in earnings growth and valuation. Global equities are relatively expensive compared to their earnings growth path, whereas essential infrastructure seems relatively inexpensive for its earnings growth path. Based on the principle of mean reversion, one would expect both to retrace towards their long-term averages over time. We believe that the market has been overly pessimistic on the earnings potential for listed infrastructure and has not fully adjusted to the post-monetary tightening conditions. For this reason, we anticipate some valuation retracement as the earnings outlook for global listed infrastructure is good, well above long-term averages for FY25 and FY26. This suggests that the current environment may present a tactical opportunity to increase allocation to essential infrastructure, and to build a long-term strategic position in the sector.

From a performance perspective, how does essential infrastructure compare with global equities? The compound benefits of higher earnings growth for essential infrastructure relative to that for global equities seem to contribute into long-term outperformance for infrastructure (Figure 6).

About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly-owned subsidiary of New York Life Insurance Company. As at 31 May 2025, Ausbil manage over $20.1 billion in funds under management.

Figure 6: Long-term relative performance: Essential infrastructure vs. global equities



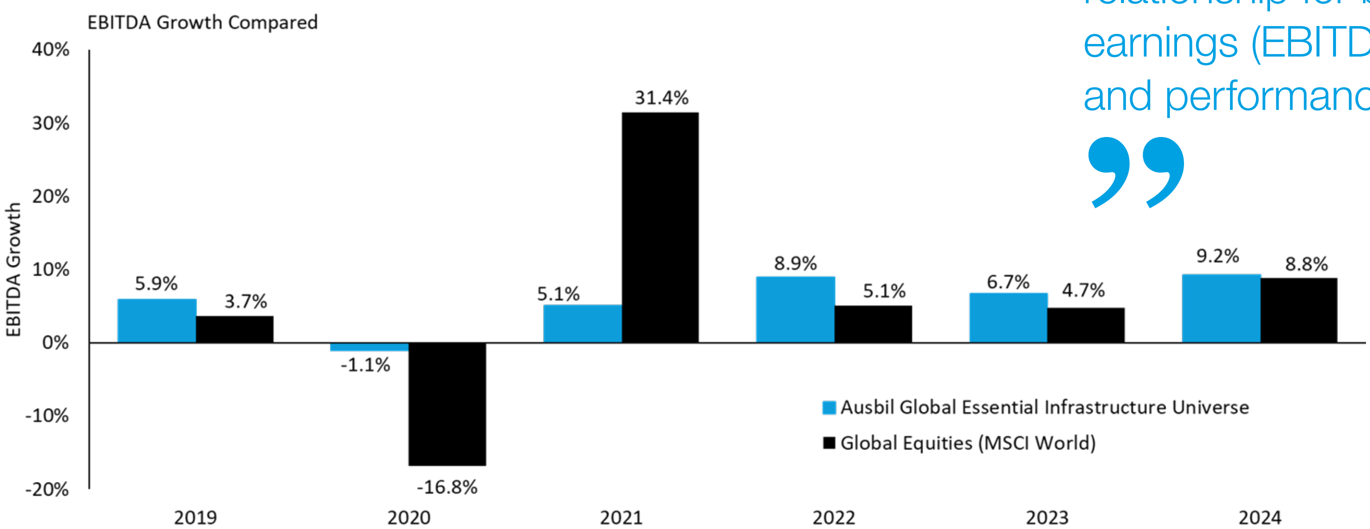
*Relative gross performance for illustrative purposes. Note that the Ausbil Essential Infrastructure Universe is our total investable universe and is not the portfolio for the Ausbil Essential Infrastructure Fund which comprises a subset of our preferred companies in the Ausbil Essential Infrastructure Universe.

Source: Ausbil Essential Infrastructure Universe as at end 2024. Global Equities data from MSCI World Index as at end May 2025.

However, the experience since the global COVID-19 pandemic caused a temporary change in the long-term relationship for both earnings (EBITDA) and performance. This has set up significant opportunity in the asset class relative to global equities. EBITDA growth since the global pandemic has seen infrastructure growth lag global equities, though not by much, at a +5.8% average growth rate for essential infrastructure and +6.2% for global equities. Figure 7 illustrates the EBITDA growth path from 2019, the last normal year before COVID, and the post-pandemic recovery path.

> “The experience since the global COVID-19 pandemic caused a temporary change in the long-term relationship for both earnings (EBITDA) and performance”

Figure 7: EBITDA growth compared since COVID

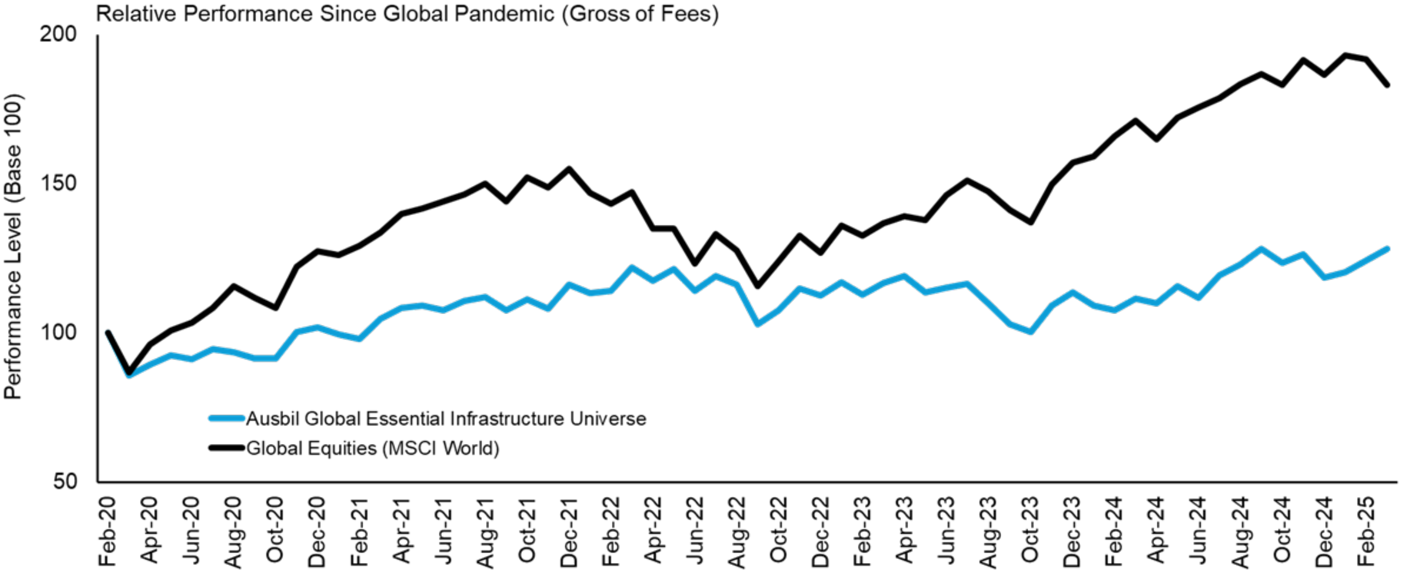


Source: Ausbil Global Essential Infrastructure Universe as at end 2024. Global Equities data from MSCI World Index as at end May 2025.

During the pandemic, lockdown measures impacted many infrastructure assets – for example airports that had to close and toll roads with no cars from rules forbidding people from leaving their homes. While this impacted earnings (EBITDA), in 2020 during the pandemic, essential infrastructure EBITDA actually only fell -1.1%, whereas global equities EBITDA fell -16.8%. Essential infrastructure demonstrated notable resilience in both assets and cash flows with none of the Ausbil Essential Infrastructure Universe suffering any major credit events during the pandemic.

Further underscoring the resilience of essential infrastructure earnings is the fact that in the six years covered by Figure 7, EBITDA growth achieved by essential infrastructure exceeded that delivered by global equities in five of those years. It was just the major EBITDA rebound by global equities in 2021 that beat infrastructure, but this was due to the end of lockdowns, the massive tailwind of stimulus and the release of vaccines. What has happened since 2021 is that essential infrastructure has returned to delivering higher EBITDA growth as it steadily reverts towards the long-term average. As discussed above, the performance of essential infrastructure (Figure 8) was impacted not just by the pandemic, but also the long normalisation of real interest rates which had been at, or around, emergency settings since the Global Financial Crisis in 2008, and again even lower in negative territory during COVID in 2020.

Figure 8: Recent essential infrastructure total return performance



Source: Ausbil Global Essential Infrastructure Universe as at end 2024. Global Equities data from MSCI World Index as at end May 2025.

From Figure 8, it is evident that in the temporary displacement of essential infrastructure, the long-term performance relationship where essential infrastructure had outperformed global equities (Figure 6) was reversed. However, we see evidence that this is reverting once more, signalling that the great interest rate normalisation is complete; that global equities are significantly expensive relative to global essential infrastructure (Figure 5); and that inflation is now within the target band for the Federal Reserve, so the value of relative future cash earnings growth is increasing for essential infrastructure. We believe that these key indicators are suggesting that essential infrastructure is in the process of reverting towards its long-term average, which typically sees higher average EBITDA growth than for global equities. We think this bodes well for a retracing in price and total returns for the essential infrastructure sector relative to global equities.

The outlook for global listed infrastructure is positive

Global listed infrastructure is showing up as a significant opportunity on relative valuation measures compared to global equities, and on its strong earnings growth profile. Infrastructure earnings growth is relatively more consistent than for global equities and, on average, higher at 6.3% compared to 4.7% for global equities based on our 25-year sample. The compound difference in earnings growth is significant over time, at almost 2x for global essential infrastructure compared to global equities. Listed infrastructure earnings growth also shows significantly less volatility than for general equities. Interest rate normalisation and the start of monetary easing in 2024 have set the scene for a rerating in the relative value of infrastructure earnings. Now is an opportune time to consider tactically allocating to essential infrastructure and establishing a growing strategic allocation to the sector for its earnings and stability benefits.

“Global listed infrastructure is showing up as a significant opportunity on relative valuation measures compared to global equities, and on its strong earnings growth profile”

More information

For more information on Ausbil's Global Essential Infrastructure Investment Funds (unhedged and hedged) visit **www.ausbil.com.au**. To access our current investment performance information, please click on the following links:

- **Ausbil Global Essential Infrastructure Fund – Unhedged**
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Contact Us

Institutional

Adrian Amores
Head of Global Distribution
Phone 0435 962 052
Email adrian.amores@ausbil.com.au

Fawaz Rashid
Senior Manager, Global Institutional Distribution
Phone 0401 830 483
Email fawaz.rashid@ausbil.com.au

Wholesale

Marko Matosevic
Southern Region Sales Manager
Phone 0431 340 553
Email marko.matosevic@ausbil.com.au

Syvanna Croyden
Manager Investment Research and Consulting
Phone 0466 501 590
Email syvanna.croyden@ausbil.com.au

William Orr
Business Development Manager, NSW, Wholesale Clients
Phone 0402 620 188
Email william.orr@ausbil.com.au

Andrea McGarry
Business Development Manager, QLD & NT, Wholesale Clients
Phone 0411 465 426
Email andrea.mcgarry@ausbil.com.au

Michael Peros
Business Development Manager, VIC, Wholesale Clients
Phone 0401 430 426
Email michael.peros@ausbil.com.au

William Dobson
Business Development Manager, SA, Wholesale Clients
Phone 0411 899 901
Email william.dobson@ausbil.com.au

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