



PUBLIC POLICY, POPULIST POLITICS & COVID-19

Will infrastructure be the centrepiece by which governments stimulate their economies?



Agenda

Shorter term, COVID-19 impact and response:

- likely nature of government stimuli
- ESG and COVID-19, social licence to operate
- short and long of public sector response...

Longer term, populist politics and public policy direction:

- substantial private market funded Infrastructure
- what to watch for investors

Shorter Term, COVID-19 Impact & Response



Will Infrastructure Be The Centrepiece Governments Stimulate Their Economies With?

Yes, but there are some subtleties...

Near-term stimulus will be about getting people back to work

- ❖ hundreds of small projects dotted around the country
- ❖ focused on SMEs and local communities
- ❖ highly cyclical – contractors, engineering, aggregates, materials, local labour, etc.

Bigger opportunity is longer-term direction of public policy and populist politics

- ❖ climate change has been and will continue to drive infrastructure investment
- ❖ toward net zero by 2050 creates a significant target and accelerates investment
- ❖ variations on the Green New Deal thematic around the globe.

Response to COVID-19 & ESG Implications for Corporates & Shareholders

ESG vs Sustainable Investing

‘ESG’ investing has **morphed into a broader ‘Sustainable’** movement

- ❖ Heavy focus on the ‘E’
- ❖ COVID-19 is bringing ‘S’ and ‘G’ considerations to the fore

RARE’s sustainable approach has included ESG pricing since inception, but similarly has evolved

- ❖ Longer-term impacts on cash flows
- ❖ Adjustment to the cost of capital
- ❖ Deeper engagement with all stakeholders

Stakeholders vs Shareholders

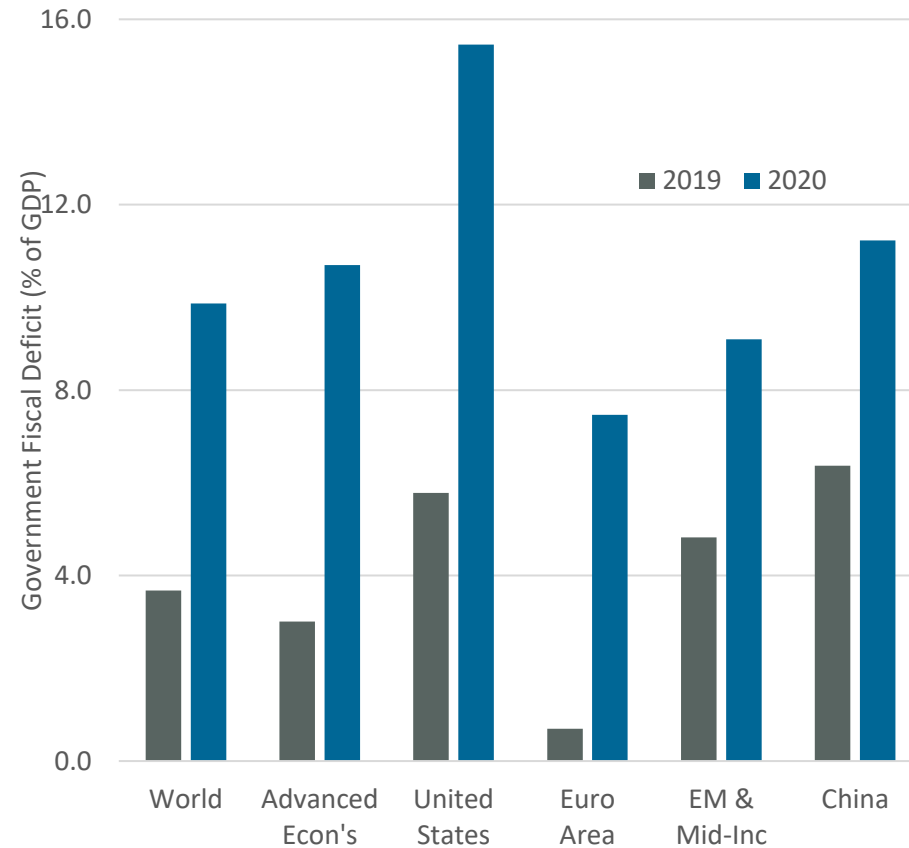
COVID-19 has accelerated the trend towards **Stakeholder Capitalism**

- ❖ Retooling to make PPE, providing goods/services to stakeholders free of charge, executive remuneration
- ❖ Government support will likely be exchanged for implicit or explicit erosion of shareholder rights

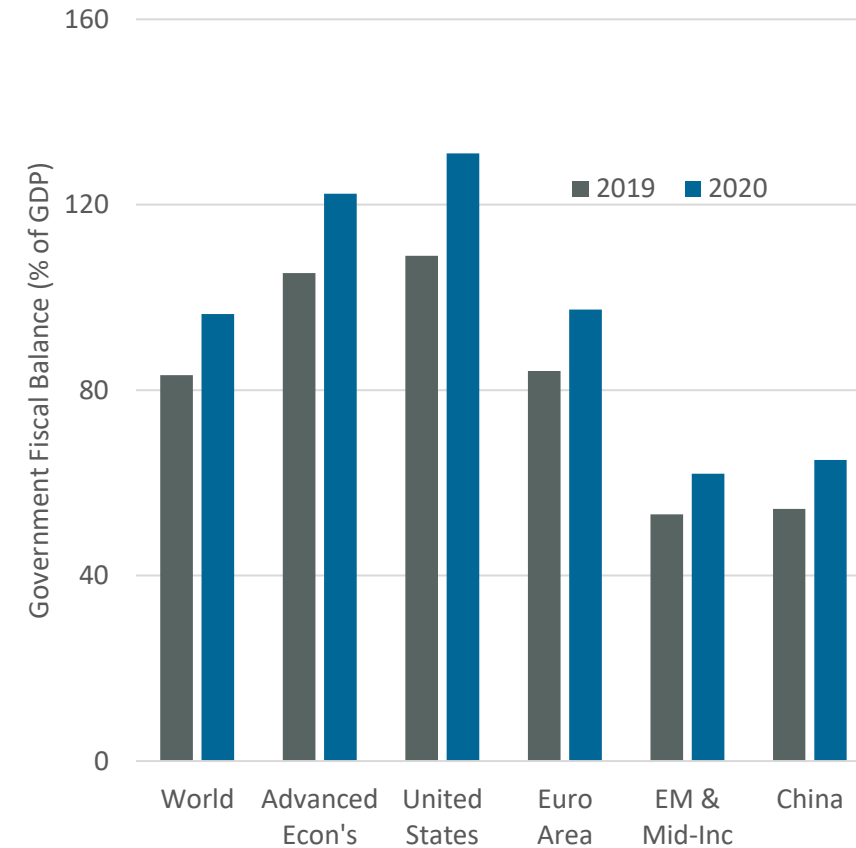
Infrastructure is uniquely positioned to manage this transition - has been doing so for years in balancing contracts with government (toll road companies) and regulatory stakeholders

Short-Term Government Response to COVID-19 Crisis, More Debt...

Government Fiscal Deficits (as %GDP)



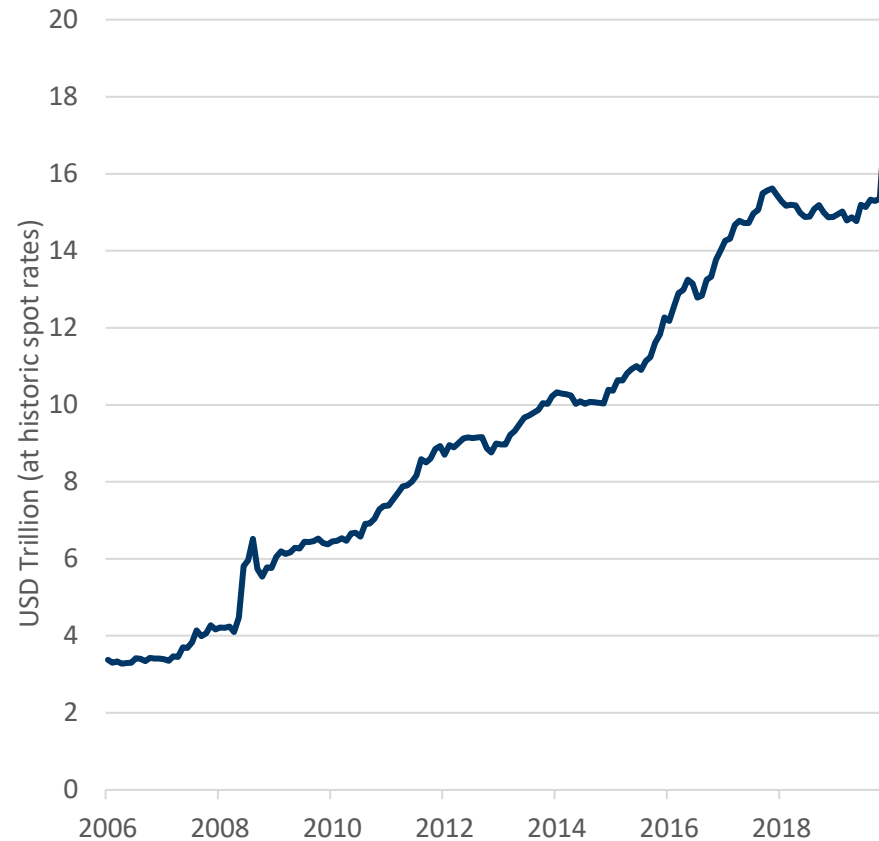
Government Debt (Gross, as %GDP)



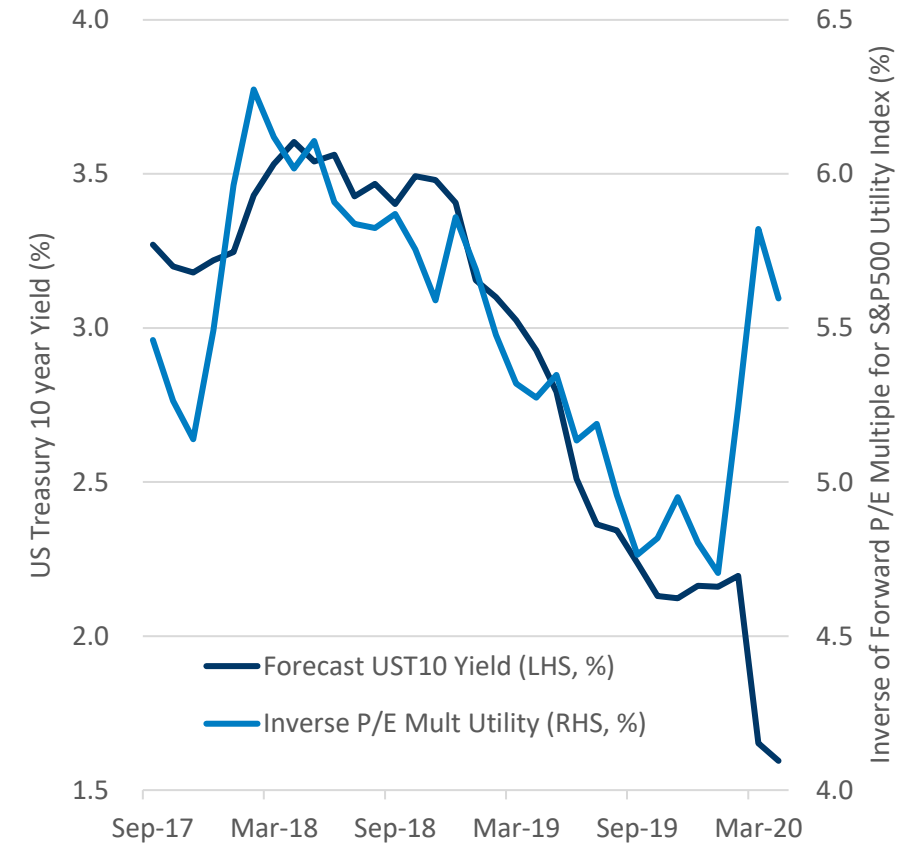
Longer-Term Impact of More Debt at Governments and Larger Central Bank Balance Sheets

Central Banks Balance Sheet Growth 2006-20

Fed, ECB, BOJ, PBoC and BOE (USD, trillion)



Forecast UST10 Yield vs Inverse Utility P/E



Longer Term - Populist Politics & Public Policy



The Push: Importance of Climate Change to the Population of Voters...and Customers

Australian Voter Attitudes (ABC, Feb 2020)

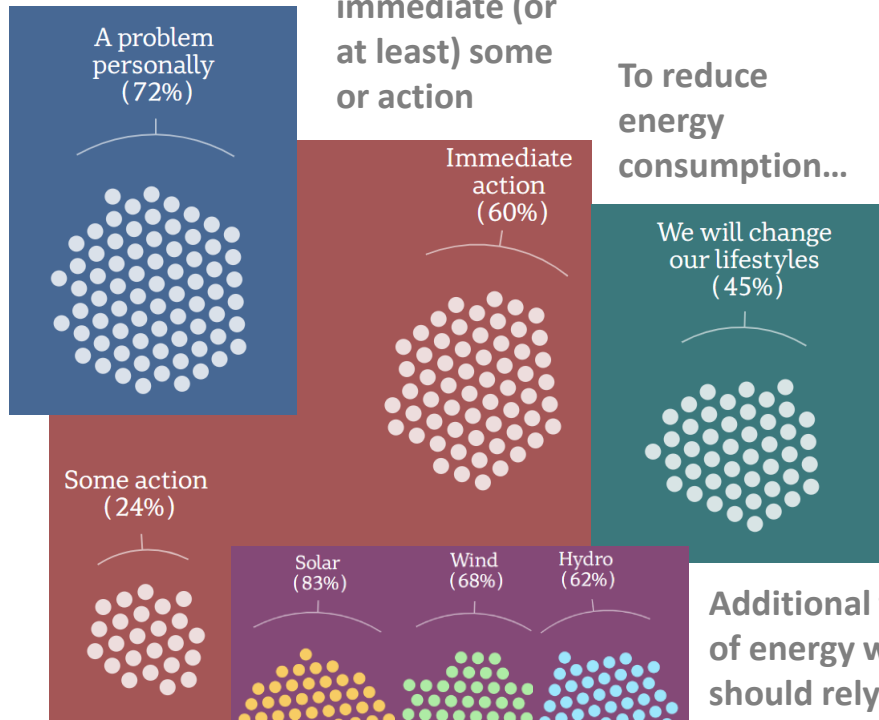
Out of 100 people in Australia, climate change is...

And 84% want immediate (or at least) some or action

To reduce energy consumption...

We will change our lifestyles (45%)

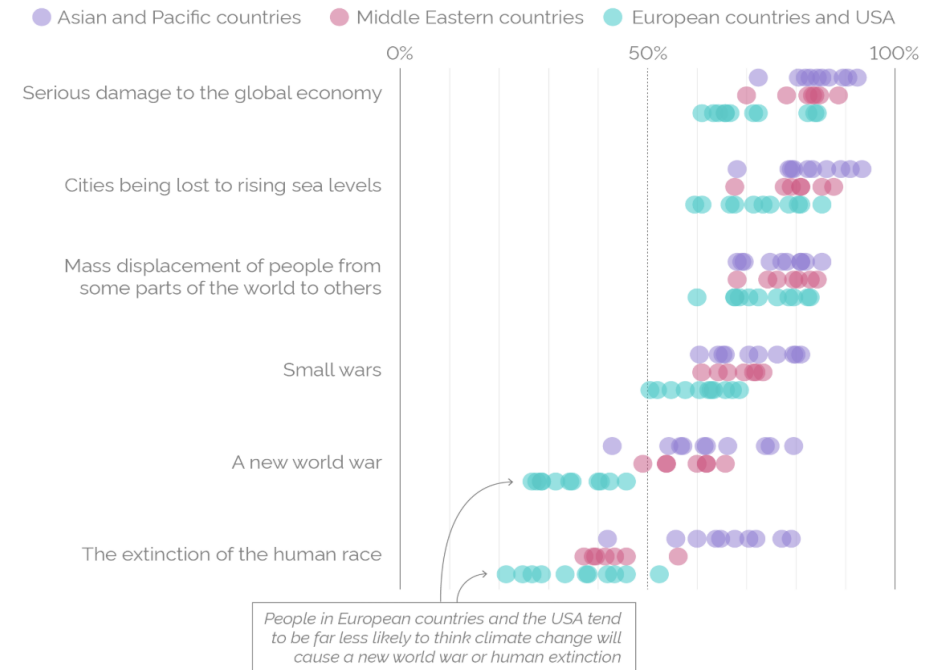
Additional types of energy we should rely on...



Global Attitudes (YouGov, June-July 2019)

A majority of people in 28 countries think climate change is likely to cause serious economic damage, destroy cities and start wars

How likely do you think it is that climate change will cause each of the following?
% in each country who said "very likely" or "quite likely"



YouGov

11 June - 22 July 2019

Global Momentum Building for Climate Action...

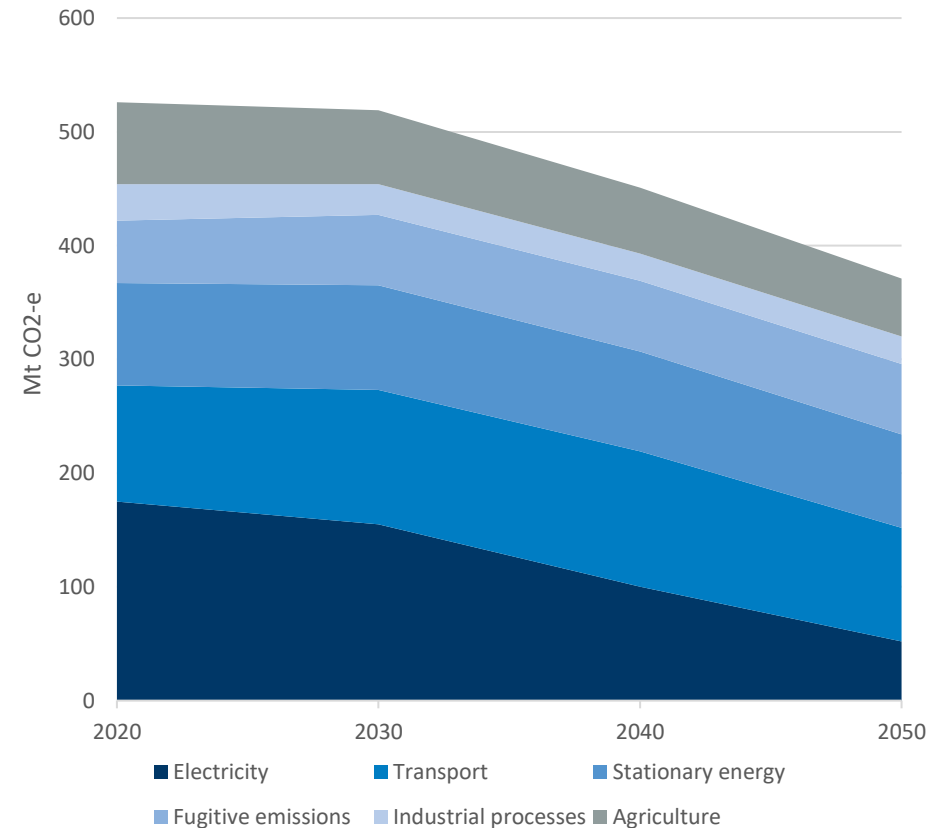
Toward Net Zero By 2050

Act local, but think global...

- ❖ Expect a significant global push for commitment to zero emissions by 2050
- ❖ Multiple states and corporates have committed to 'net zero' targets (in many cases despite national opposition)
- ❖ We are beginning to see policies that will change the infrastructure investment landscape
- ❖ The challenge is significant. Infrastructure should be the easy part – the technology is largely there, its just a case of investment and build time!

Australia's Emissions Forecast (BAU scenario)

Emissions (Mt CO₂-e)



Green New Deals: Blueprint for Future Infrastructure Investment Programmes

Brief History

Phrase first used in 2007 by Thomas Friedman writing for NYT

Picked up by Green political parties around the world

- ❖ United Nations published Global Green New Deal in 2008
- ❖ Green New Deal resolution introduced to US Congress by Markey/AO-C in 2019 (see right)
- ❖ Major feature in UK Labour manifesto for 2019 election
- ❖ Resurrected by the Greens in Australia in 2020

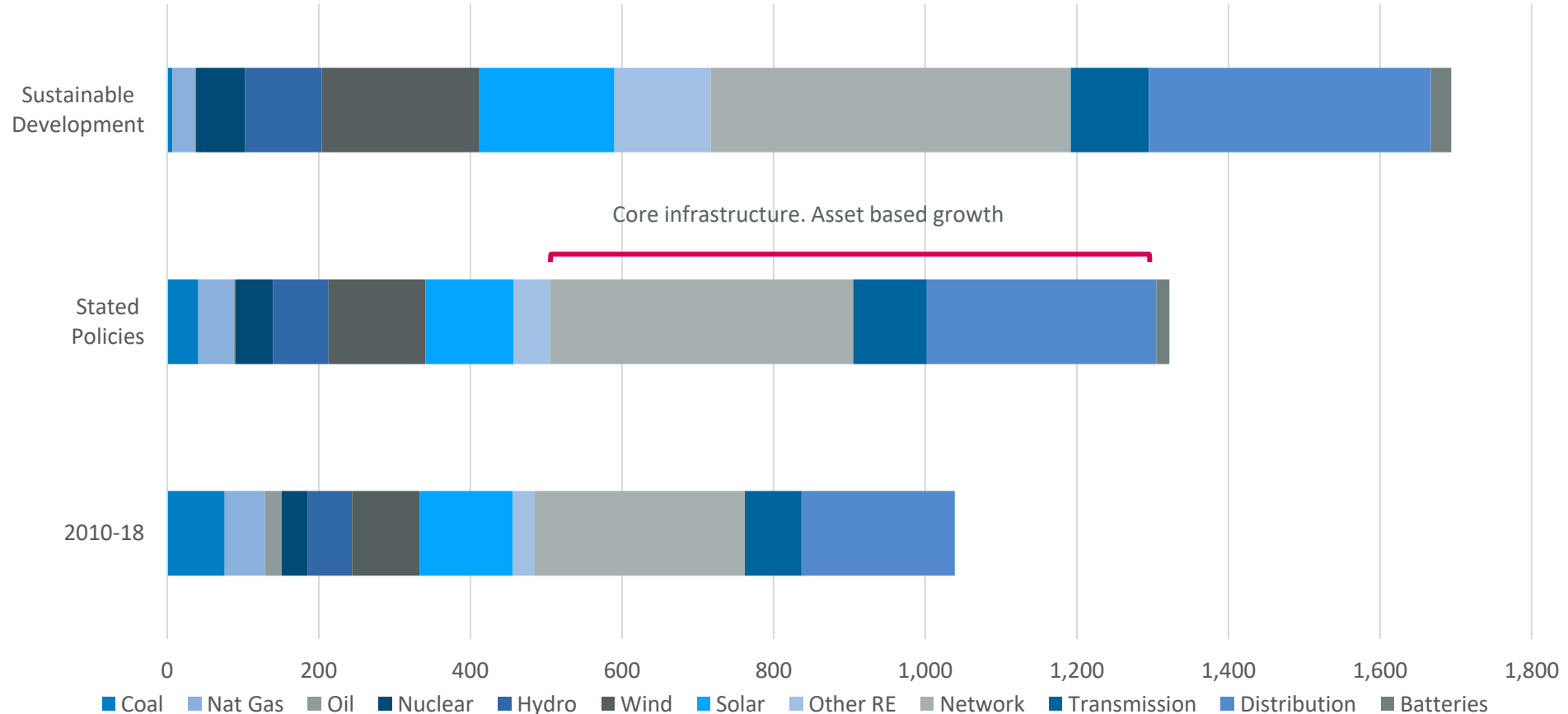
Components of US Green New Deal (2019)

- ❖ Universal basic wage – guaranteed jobs
- ❖ Providing everyone with – health; housing; education, economic security; and clean water, nature, air and food
- ❖ Repair & upgrade infrastructure, including reducing pollution & GHG emissions, build affordable smart grids
- ❖ Upgrade all buildings to maximum efficiency
- ❖ Overall transport – zero emission vehicles, public transport, high speed rail
- ❖ Massive growth in clean manufacturing
- ❖ Eliminate pollution from agriculture

How Big Could This Be?

Trillions of Infrastructure Investment (Per Annum!)

Global Annual Average Power Sector Investment (USDb, constant 2018 dollars)



Investor Alert - Generally Climate Change Beneficial for Infrastructure

...But Watch Asset Level Risks

Stranded asset risk

- ❖ Generally climate change will change the way we use infrastructure, not the infrastructure itself...
 - ❖ AEVs have been forecast to result in an 8-fold increase in light-vehicle capacity on Toll Roads
 - ❖ However, generation and the pipeline sector may be challenged as energy sources and grids evolve

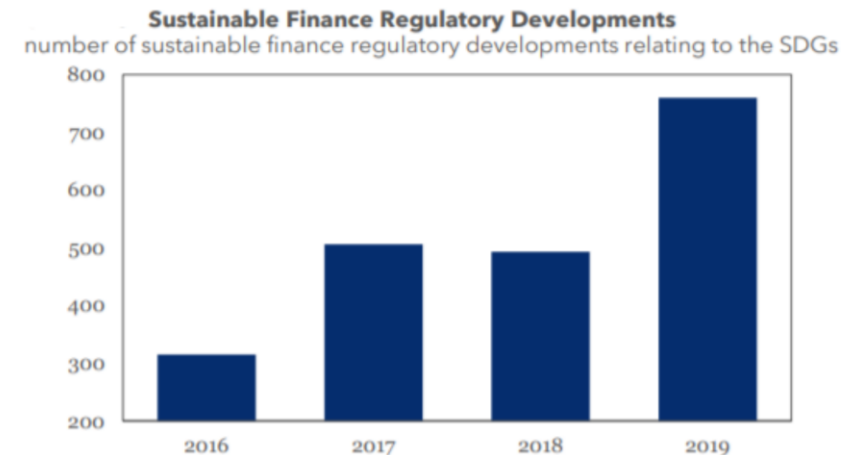
Greenfield risk

- ❖ Building of infrastructure may carry significant risk. Investors should demand a higher cost of capital or return
- ❖ Riskiest time in greenfield infrastructure development is when the asset is first opened for use – the ramp up...
- ❖ Asset risk reduces as maturity is reached – lower operational and financing risk

Climate change – capex, but also attitudes

- ❖ Asset based growth - adaptation of networks, mitigation of climate risk
- ❖ Evolving attitudes (and potentially regulation) for example **Flight shaming... Commuter rail... Reshoring supply chains**
- ❖ Lower carbon emissions given reduced transport distances, but may require a **re-alignment of infrastructure**

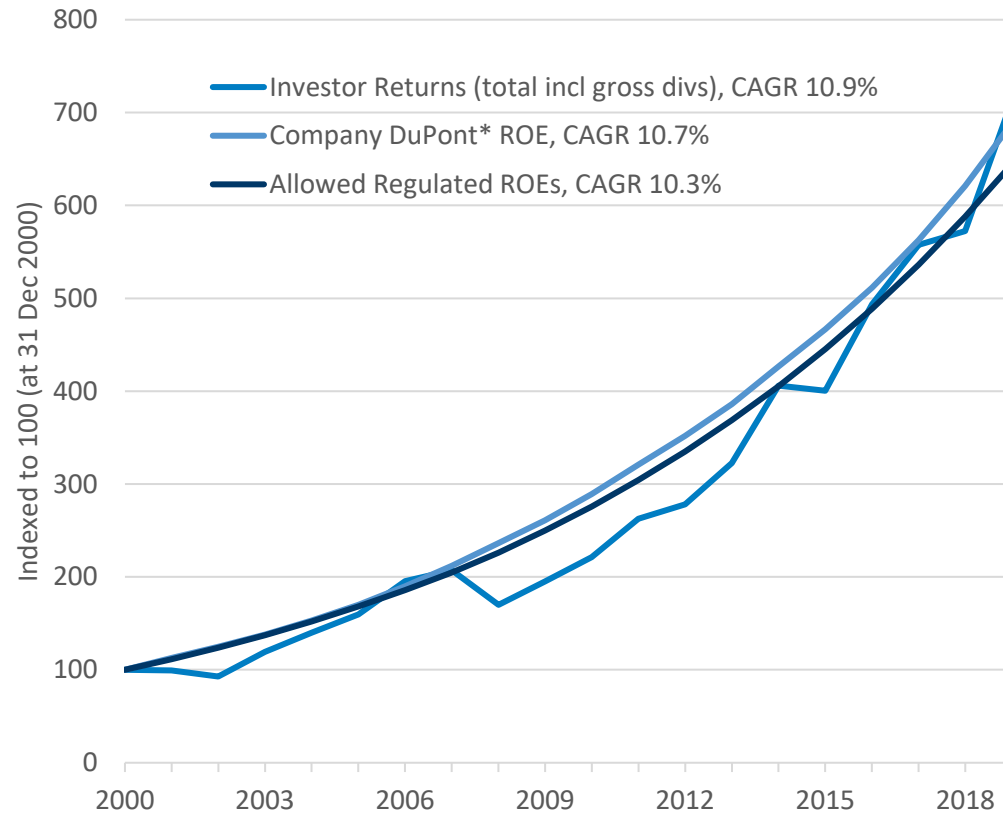
Public policy risk



Investor Alert: Psychology Leads Us To Underestimate Investment ...But Watch Returns Also

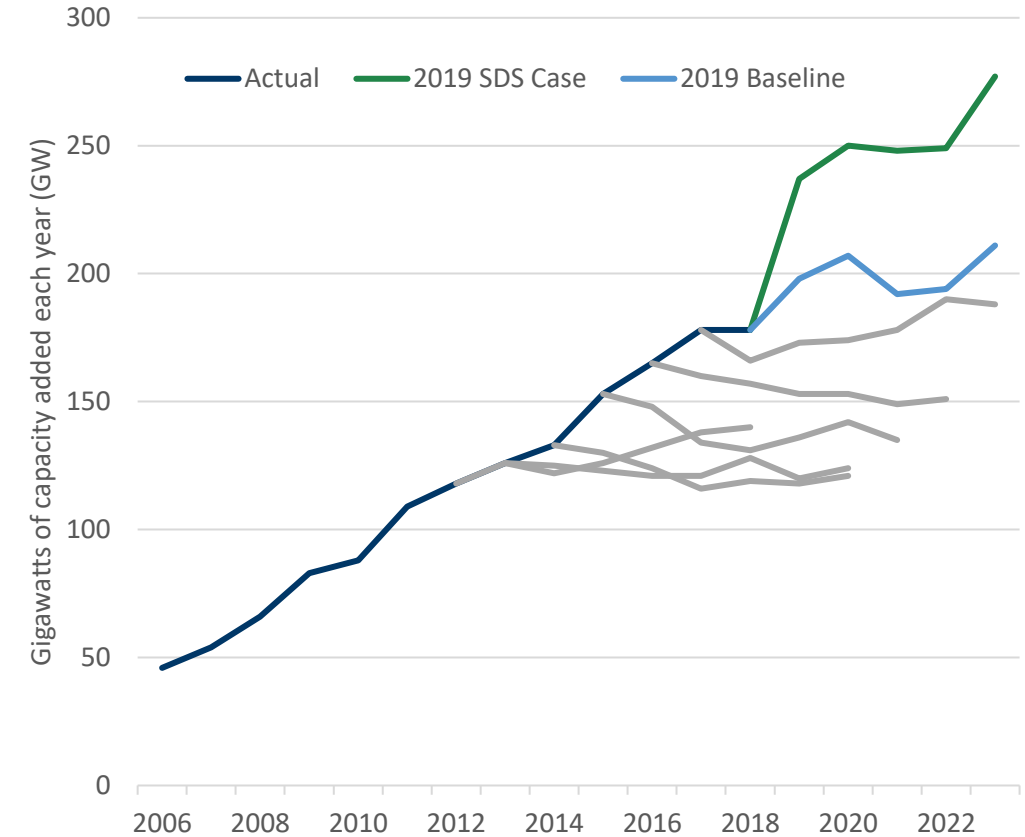
North American Electric Utilities

Allowed ROEs vs Reported ROEs vs Investor Returns



Renewable Capacity Actual Growth vs Forecast

2019 Forecasts vs Prior Years



RARE's Integrated Approach to Sustainable Investing

Three-Pillar Sustainability Framework

Valuation

- ❖ Fundamental cash flow impacts are modelled – positive and negative
- ❖ Comparison of global regulatory approaches
- ❖ Industry wide themes are applied consistently across companies (overseen by sustainability committee)

Risk Pricing

- ❖ Sustainability issue exposures and management/mitigation actions are assessed
- ❖ Scoring reflects actions over five year investment horizon
- ❖ Relative scoring across sub-industries
- ❖ A lower hurdle rate is applied to top sustainability performers and vice versa

Engagement

- ❖ Ongoing engagement with boards & management
- ❖ Controversy monitoring
- ❖ Voting at company meetings
- ❖ Interaction with regulators, policy makers and other stakeholders
- ❖ Engagement with third-party ESG experts

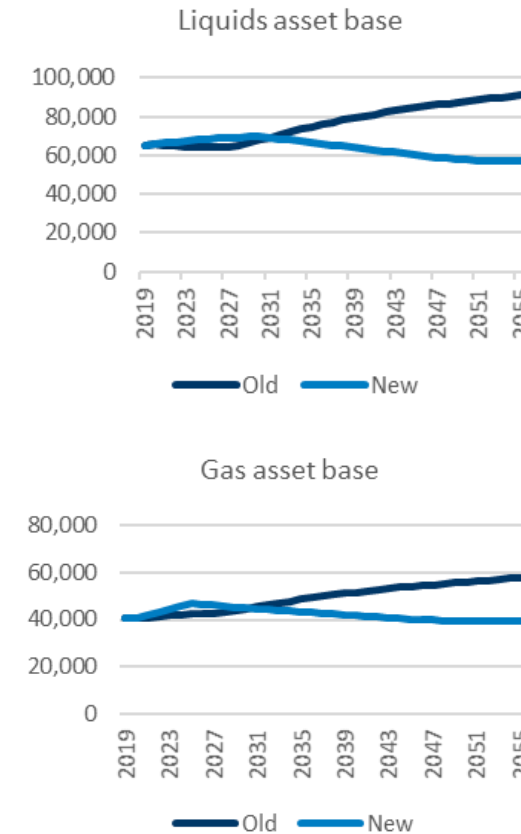
RARE's Incorporation of Sustainability

Example – North American Pipelines

Key Research Findings / Changes

- ❖ Forecasts to 2040
 - ❖ Winners: Renewables, 7-9% p.a. CAGR
 - ❖ Neutral: Gas, 1-2% p.a. CAGR
 - ❖ Losers: Coal -5.0% p.a. CAGR
 - ❖ Losers: Oil -0.7% p.a. CAGR
- ❖ Assumptions adjusted –
 - ❖ Reduced our growth capex assumptions and longer-term returns lowered (*case by case basis*)
 - ❖ Terminal value approach – Gordon growth to 1.0x EV/Book for pipelines and infrastructure, ultimately results in declining asset base long term

Enbridge Asset Base Growth (CADm)



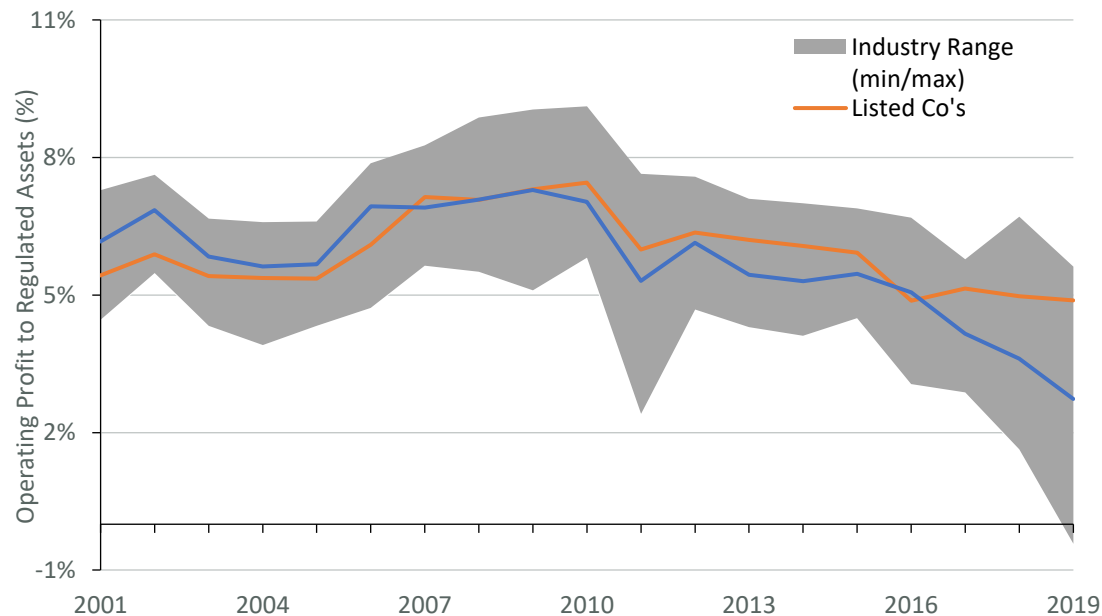
RARE's Incorporation of Sustainability

Example – UK Water

Sustainability is driving the asset base and returns

Increased cash flows given sustainable asset base growth and operational incentives and...

Lower discount rates given better than average ESG ratings and quality of management teams.



UK Water, customer experience ratings¹

WATER

90%

Satisfied with what is provided by companies

72%

Satisfied it is value for money

SEWERAGE

85%

Satisfied with what is provided by companies

75%

Satisfied it is value for money

ENERGY

87%

Satisfied with what is provided by companies

71%

Satisfied it is value for money

CCWater Water Matters Annual Tracking Survey (5,158 total customers surveyed)

Source: CCIWater, England and Wales, Apr 2018 - Mar 2019

Frontier Economics Nov 17 report to assess productivity changes in the sector:

“Customers are now 5X less likely to experience unplanned supply interruptions and companies have reduced leakage by 1/3...”

“The water companies are now 64% more productive than they were under nationalisation.”

Where Does That Leave Us?



Conclusions

Shorter Term

- ❖ COVID-19 response by corporates, governments and central banks is changing the game for investors
 - ❖ stakeholders over shareholders (therefore invest where stakeholder/shareholder balance been struck),
 - ❖ private sector investment will be front/centre,
 - ❖ as costs of capital (and therefore returns) decline further, invest in growth (increasing asset base...)

Longer Term

- ❖ Climate change action – it's not just voters but also customers – will drive a target of net zero by 2050
 - ❖ Massive infrastructure investment required at a time that governments can ill-afford the spending – creates opportunities for the private sector, regulatory safe guards and investment models already tested
- ❖ Liquidity to be more valuable in managing risks for investors – stranded assets, policy risk – and enhancing returns from core infrastructure

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- ❖ Institute of International Finance, Sustainable Finance Policy & Regulation <https://www.iif.com/Publications/ID/3782/Sustainable-Finance-Policy-Regulation-The-Case-for-Greater-International-Alignment>

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