IFM Investors

Our learnings from three decades of infrastructure equity investing

Learning 5

Take a conservative approach to leverage

By Kyle Mangini

Kyle Mangini
Global Head of Infrastructure

Our fifth learning is about taking a conservative approach to leverage.

Approaches to leverage can vary and are influenced by factors such as cash flow, profitability, size, growth opportunities, etc.

We take a conservative approach to leverage that fits with our strategy to deliver a product characterised by lower levels of risk. Weighted average leverage across our portfolio hovers around 30% to 35% over time, which is relatively conservative from a balance sheet perspective but drives other flow on benefits.

From a good investment to a bad deal

Over time in the broader market we've seen good companies with high levels of leverage become bad deals. These scenarios have usually involved a company with a high level of cash flow predictability, which means it's possible to put a high level of leverage in place. The company might be leveraged at both the asset and holding company levels – sometimes even at a shareholder level, too. A highly leveraged company like this is more sensitive to internal and external market hiccups that could disrupt the balance sheet.

Capital structures supporting resilience to market cycles

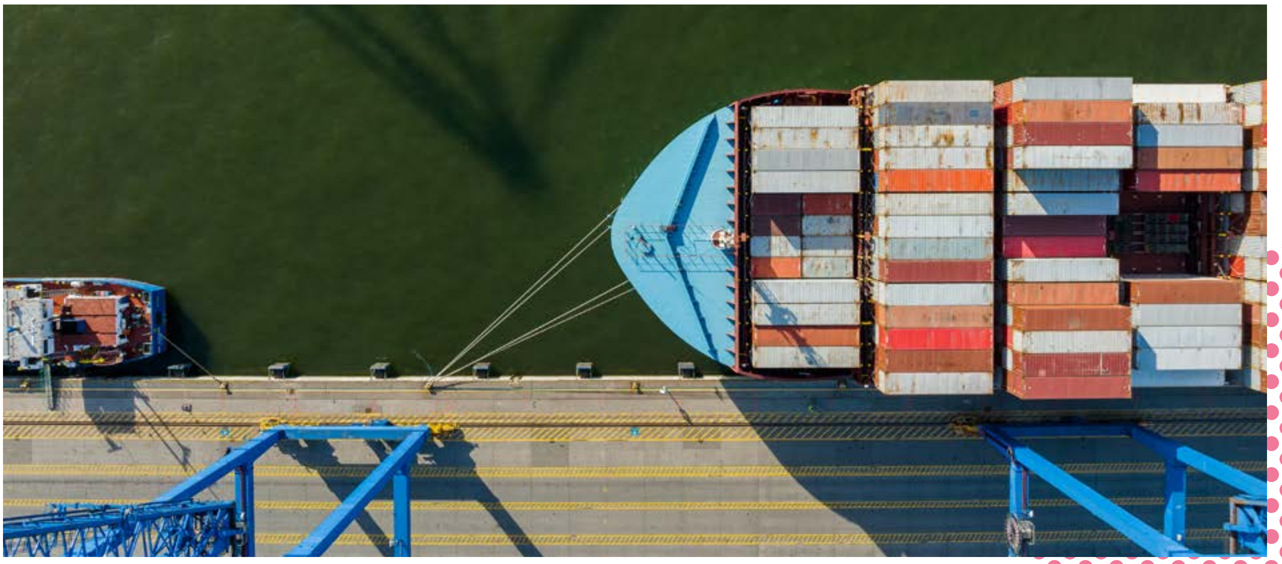
As a long-term investor investing through open-ended funds, we aim for capital structures that are resilient to market cycles. Our conservative approach to leverage means we focus on our portfolio companies issuing long-dated, fixed-rate debt while maintaining investment grade (IG) credit ratings. This approach, in addition to helping to lower risk, has helped to manage the cost of capital and mitigate the impact of rising interest rates. Further, the IG credit profile of portfolio companies can help to ensure continued access to capital even in the face of market volatility, as per the highlighted example on the following page.

A conservative approach to leverage can provide a lower level of risk over time, helping to ensure great investments don't turn into bad deals.

> **We aim for capital structures that are resilient to market cycles.**

Conservative leverage approach helping to support access to capital

A prudent leverage strategy can help maintain a portfolio company's IG credit profile and, therefore, its access to capital during times of market volatility. During the global financial crisis in 2007–2009 when markets were significantly disrupted and stressed, our portfolio companies were still able to access debt markets and refinance. An example of this is a company we held at the time called 50Hertz, an electricity transmission systems operator that was part of the grid in Germany. 50Hertz was able to tap back into capital markets because of its high credit rating.



Pictured: DCT Gdansk

UNLOCK MORE EXPERTISE →

After almost three decades of investing in infrastructure globally, we continue to focus on leveraging the learnings outlined here for the benefit of our clients and their beneficiaries. And we are still learning.

This is our fifth learning in a series of six infrastructure equity learnings.
Unlock more infrastructure expertise at ifminvestors.com.

Important disclosures

The following disclosure applies to this material and any information provided regarding the information contained in this material. By accepting this material, you agree to be bound by the following terms and conditions. The material does not constitute an offer, invitation, solicitation, or recommendation in relation to the subscription, purchase, or sale of securities in any jurisdiction and neither this material nor anything in it will form the basis of any contract or commitment. IFM Investors (defined as IFM Investors Pty Ltd and its affiliates) will have no liability, contingent or otherwise, to any user of this material or to third-parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of the information in this material. In no event will IFM Investors be liable for any special, indirect, incidental, or consequential damages which may be incurred or experienced on account of a reader using or relying on the information in this material even if it has been advised of the possibility of such damages.

Certain statements in this material may constitute "forward looking statements" or "forecasts". Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to projections of earnings, performance, and cash flows. These statements involve subjective judgement and analysis and reflect IFM Investors' expectations and are subject to significant uncertainties, risks, and contingencies outside the control of IFM Investors which may cause actual results to vary materially from those expressed or implied by these forward-looking statements. All forward-looking statements speak only as of the date of this material or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to IFM Investors or any person acting on its behalf are qualified by the cautionary statements in this section. Readers are cautioned not to rely on such forward-looking statements. The achievement of any or all goals of any investment that may be described in this material is not guaranteed.

Past performance does not guarantee future results. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.

This material may contain information provided by third parties for general reference or interest. While such third-party sources are believed to be reliable, IFM Investors does not assume any responsibility for the accuracy or completeness of such information.

This material does not constitute investment, legal, accounting, regulatory, taxation or other advice and it does not consider your investment objectives or legal, accounting, regulatory, taxation or financial situation or particular needs. You are solely responsible for forming your own opinions and conclusions on such matters and for making your own independent assessment of the information in this material. Tax treatment depends on your individual circumstances and may be subject to change in the future.

This material is confidential and should not be distributed or provided to any other person without the written consent of IFM Investors.

An infrastructure investment is subject to certain risks including but not limited to: the burdens of ownership of infrastructure; local, national and international economic conditions; the supply and demand for services from and access to infrastructure; the financial condition of users and suppliers of infrastructure assets; changes in interest rates and the availability of funds which may render the purchase, sale or refinancing of infrastructure assets difficult or impractical; changes in environmental and planning laws and regulations, and other governmental rules; environmental claims arising in respect of infrastructure acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established; changes in energy prices; changes in fiscal and monetary policies; negative economic developments that depress travel; uninsured casualties; force majeure acts, terrorist events, under insured or uninsurable losses; and other factors beyond reasonable control.

Australia Disclosure

This material is provided to you on the basis that you warrant that you are a "wholesale client" or a "sophisticated investor" or a "professional investor" (each as defined in the Corporations Act 2001 (Cth)) to whom a product disclosure statement is not required to be given under Chapter 6D or Part 7.9 of the Corporations Act 2001 (Cth). IFM Investors Pty Ltd, ABN 67 107 247 727, AFS Licence No. 284404, CRD No. 162754, SEC File No. 801-78649.

Netherlands Disclosure

This material is provided to you on the basis that you warrant that you are a Professional Investor (professionele belegger) within the meaning of Section 1:1 of the Dutch Financial Supervision Act (Wet op het financieel toezicht). This material is not intended for and should not be relied on by any other person. IFM Investors (Netherlands) B.V. shall have no liability, contingent or otherwise, to any user of this material or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of this material.

United Kingdom Disclosure

This material is provided to you on the basis that you warrant that you fall within one or more of the exemptions in the Financial Services and Markets Act 2000 ("FSMA") [(Financial Promotion) Order 2005] [(Promotion of Collective Investment Schemes)(Exemptions) Order 2001, or are a Professional Client for the purposes of FCA rules] and as a consequence the restrictions on communication of "financial promotions" under FSMA and FCA rules do not apply to a communication made to you. IFM Investors (UK) Ltd shall have no liability, contingent or otherwise, to any user of this material or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of the information in this material.

Switzerland Disclosure

This Information is provided to you on the basis that you warrant you are (i) a professional client or an institutional client pursuant to the Swiss Federal Financial Services Act of 15 June 2018 ("FinSA") and (ii) a qualified investor pursuant the Swiss Federal Act on Collective Investment Schemes of 23 June 2006 ("CISA"), for each of (i) and (ii) excluding high-net-worth individuals or private investment structures established for such high-net worth individuals (without professional treasury operations) that have opted out of customer protection under the FinSA and that have elected to be treated as professional clients and qualified investors under the FinSA and the CISA, respectively.

IFM Investors – 12 March 2024 - 3431348