CAPITAL EDITION

THE INSIDE WORKINGS OF AN INVESTING RULEBOOK

The head of the global equities team at AMP Capital has little hesitation when asked what the key to investing is.

WHY WE'RE INVESTING IN TECH STOCKS IN THE 2020s

COVID-19 has compounded a truth of the 2020s for investors: technology bears a far greater influence on societal functioning and our portfolios than it ever has.

FINDING THE RIGHT FIT WITH INFRASTRUCTURE DEBT

Private infrastructure debt is growing as an asset class and investors are recognising its value in asset allocation, particularly in the current climate.

MAY 2020
ISSUE 08

CAPITAL EDITION

Managing Editor
Rachael Dickinson

Senior Editor
Katarina Taurian

Contributors
Giuseppe Corona
Andy Gardner
Andrew Jones
Celine Kabashima
Adam Kirkman
James Maydew
Julie-Anne Mizzi
Diana Mousina
Simon Steele

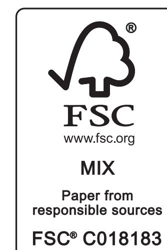
Photography
Nic Walker

Design
Mark Maric

Subscriptions
clientservices@ampcapital.com

Important note: While every care has been taken in the preparation of these articles, AMP Capital Investors Limited (ABN 59 001 777 591, AFSL 232497) makes no representation or warranty as to the accuracy or completeness of any statement in them including, without limitation, any forecasts. Past performance is not a reliable indicator of future performance. Performance goals are merely goals. There is no guarantee that the strategy will achieve that level of performance. The information in this document contains statements that are the author's beliefs and/or opinions. Any beliefs and/or opinions shared are as at the date shown and are subject to change without notice. These articles have been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. They should not be construed as investment advice or investment recommendations. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives, financial situation and needs.

This document is solely for the use of the party to whom it is provided and must not be provided to any other person or entity without the express written consent of AMP Capital.



Letter from the Managing Editor

Welcome to the latest issue of Capital Edition. I hope you are well, safe, and starting to see the light after what has been a deeply unsettling few months. As testing as this period has been, I hope you find comfort in knowing that an end to the COVID-19 pandemic is coming, and recovery is inevitable.

For me, time has felt like it's moving at a different pace in 2020. At speed and with precision, we've had to mobilise as a global community to act on government instruction and set up radically different working arrangements. For the first time in many of our lives, we've worried about food and basic supplies, and haven't been free to move far beyond our homes.

Going through an event like this for the first time has brought home a clear message from AMP Capital's investment teams: think for the long term. This period has been distressing and confusing, but it's temporary, and we can start to see that now. Acting on a temporary position is a sure way to jeopardise the long-term goals.

In this issue of Capital Edition, we speak to the global equities team about the investing rulebook they adhere to, which doesn't fret at short-term market disruptions. Head of global equities, Simon Steele, explains how and why his team have such a precise strategy. Portfolio manager in the global equities team, Andy Gardner, also speaks to the long-term structural trends he is backing in technology for the 2020s – which, if anything, are proving themselves more convincing in the advent of COVID-19.

Giuseppe Corona is also a long-term thinker. From when he was a young boy, he had ambitions which stretched beyond his native Italy, and ultimately his drive brought him to the position of AMP Capital's global head of listed infrastructure. He shares his story and his greatest career learnings after life in Palermo, Rome, New York, Milan and London.

This month, our leaders also share how their teams and some of the assets they manage on behalf of clients have transformed to cope with the pandemic before easing into recovery. For one, James Maydew and the global listed real estate team have stress tested some long-used principles created by the Navy SEALS. Others, like global head of social care Julie-Anne Mizzi, explain how some infrastructure assets have transformed into command hubs and others have acted as care facilities for the children of essential workers.

Finally, our senior economist Diana Mousina also takes a look at how markets are tracking worldwide, as countries start to pass their peaks in infection.

As always, I would love to hear from you, stay well. □

Many thanks.

Rachael Dickinson
Managing Editor, AMP Capital

Rachael.Dickinson@ampcapital.com

Craig Keary
Director, Asia-Pacific Region
+61 403 447 675
Craig.Keary@ampcapital.com

Boe Pahari
Global Head of Infrastructure Equity and Director, North West Region
+44 776 055 7948
Boe.Pahari@ampcapital.com

AUSTRALIA

Marsha Beck
Managing Director, Australia
+61 412 917 518
Marsha.Beck@ampcapital.com

ASIA EX-JAPAN

Brian Lee
Senior Director
+852 9623 2655
Brian.Lee@ampcapital.com

CHINA

Judy Ye
Chief Representative
+86 10 6510 2125
Judy.Ye@ampcapital.com

JAPAN

Kenson Wong
Managing Director, Japan
+81 3 3212 7170
Kenson.Wong@ampcapital.com

NEW ZEALAND

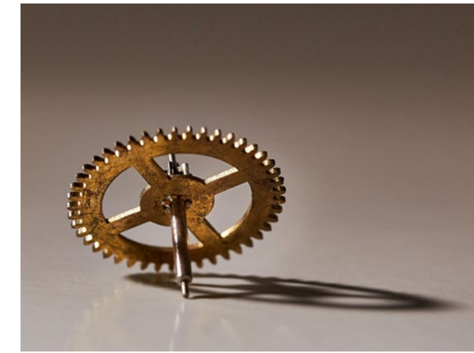
Bevan Graham
Managing Director & Chief Economist, New Zealand
+64 21 490 155
Bevan.Graham@ampcapital.com

THE AMERICAS, EUROPE AND MIDDLE EAST

Tim Smith
Head of Distribution
+16 463 790 366
Tim.Smith@ampcapital.com

Simon Joiner
Chief Operating Officer
+44 776 996 5167
Simon.Joiner@ampcapital.com

Features



6

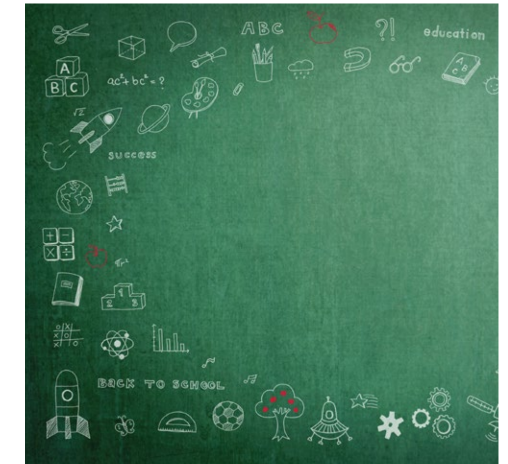
The inside workings of an investing rulebook
The head of the global equities team at AMP Capital, Simon Steele, has little hesitation when asked what the key to investing is.

18

Giuseppe Corona
AMP Capital's head of global listed infrastructure shares the life story which has earnt him a reputation among his peers as disciplined, determined and ever dapper.

22

How infrastructure assets have become frontline responders
As a manager of infrastructure on behalf of clients, AMP Capital has worked with government to temporarily transform some of its portfolios into frontline responders.

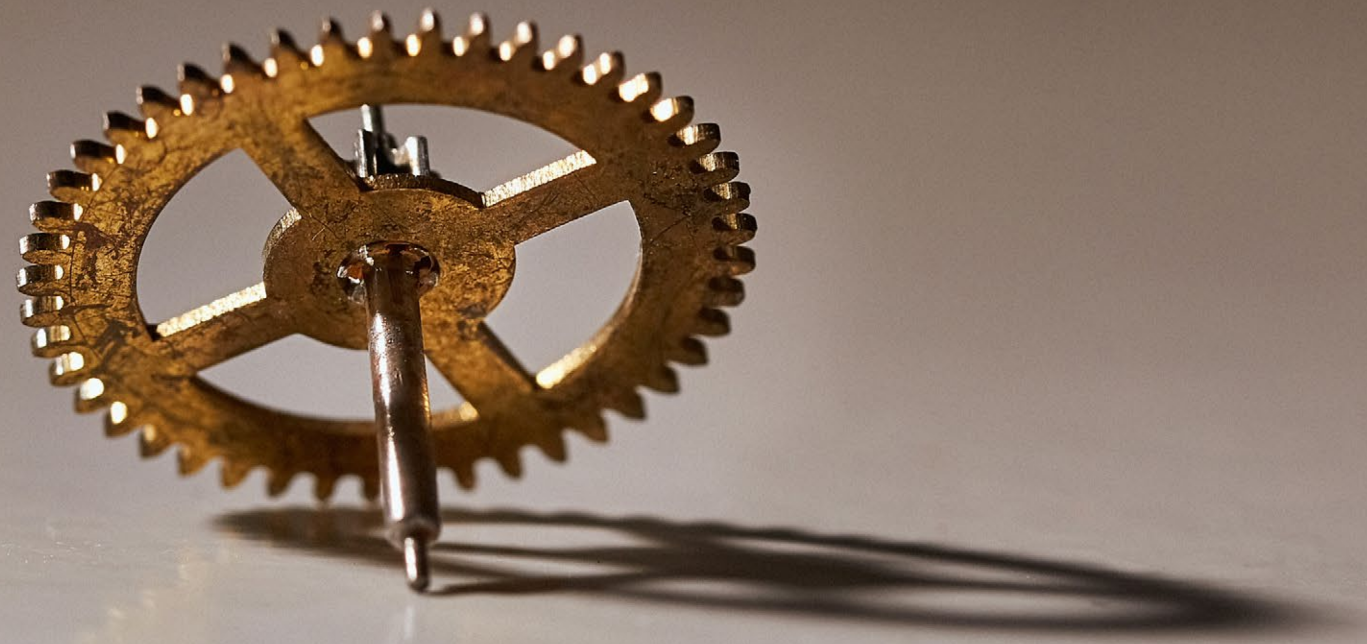


12

Why we're investing in tech stocks in the 2020s
Markets moving into freefall during COVID-19 has compounded a truth of the 2020s for investors: technology bears a far greater influence on societal functioning and our portfolios than it ever has.

24

The state of play with investment markets
Here, Diana Mousina explores how markets are tracking worldwide as we move towards post-pandemic recovery.



The inside workings of an investing rulebook

Simon Steele – educated, articulate and British – has little hesitation when asked what the key to investing is.

Story by SEAN AYLMER

"Find and understand a company that can genuinely and persistently compound its wealth, almost regardless of the environment. That will give you higher returns and a defensive quality."

Fair enough. Sounds reasonably straight forward.

It isn't.

Steele is the head of global equities for AMP Capital and has one of the trickier jobs at the global investment manager – screening hundreds of stocks across geographies and industries, trying to find companies that will outperform in the long-term, while avoiding those that underperform.

His starting point is simple.

"My fundamental belief, and there's plenty of empirical evidence of this, is that markets are inefficient over the longer term, but not necessarily over the shorter term. Long-term, markets are inefficient – always have been and remain so."

"It means that investors with a genuine long-term mindset have an exploitable edge. If you can assess value over a time frame that is longer than the average holding period, you have an advantage."

"The empirical evidence behind this is that over the long term, returns are principally driven by the change in value markers, which are earnings, dividend or cash flows. Over a 10-year period, anything between 85 per cent and 110 per cent of total returns are explained by the increase and receipt of these cash flows," Steele says.

"In the short term, that relationship is completely reversed. Over a six-month period, the majority of total shareholder return is explained by changes in valuation."

His logic is hard to fault. In the very short term, earnings and dividends haven't had a chance to compound, so there's no reason why they should they explain a significant portion of one, two or three month returns. But in those time periods, as seen recently, equity markets can easily move 10, 12 or 15 per cent.

In other words, short-term volatility is explained by changes to earnings multiples subscribed to stocks.

With such a starting point, it's not surprising that at the core of Steele and his team's philosophy is investing for the long-term. He is surprised that stock analysts don't think in longer time frames.

"Look at the availability of analysts' estimates for the S&P500. We have lots of 2020 estimates available, and 2021 estimates. But we have nothing for five years. It's just not in people's mindsets."

"This, in part, causes investors to hold stocks for too short a period of time", he says.

"Investors with a genuine long-term mindset have an exploitable edge. If you can assess value over a time frame that is longer than the average holding period, you have an advantage."

The 'long-term' is a very fluid notion. Is it five, 10 or 20 years?

"Our time horizon with data has been five years or more, because no-one wants to wait more than five years," Steele says. "But equally you shouldn't be investing in equities unless you've got that time horizon because you are just going to take on more risk than the fundamentals can deliver. The shorter your time frame, the more speculative it is."

"We hope there are companies that we will stay with way longer than five years."

An argument against such a pick-and-stick philosophy is that companies eventually revert to the mean?

"If markets were efficient, a company shouldn't be able to earn more than the cost of equity in the long term," Steele concedes. "But some companies can do it. Amazon has been doing it for decades. Adobe has been doing it for two decades."

"There's a fundamental economic belief that high returns fade down over time, and low returns move up. And that is statistically true on average. But there are businesses out there that haven't faded down after 20 years. And there are bottom companies that haven't gone up.

"Persistent high returns is a real economic fact. Our philosophy is about beating the fade. Can we find persistent, high economic rents for the long term?"

Steele regularly uses economic terms to talk about investing. One of his favourite phrases is 'economic rent'. The term's precise meaning depends on the philosophy of economics being discussed, but broadly it refers to what a provider of a good or service receives in excess of what he or she should receive in a perfectly competitive market. Steele and his team are constantly seeking high economic rents.

Critical to any company's success is cash flow, Steele says, and it's central to investment decisions.

"When a company lets you down, it's because cash flow is disappointing," he explains. "And when you get a company that goes to near zero, it is almost certainly because cash flows weren't there or weren't sustainable for one reason or another." >

"Our time horizon with data has been five years or more because no-one wants to wait more than five years. But equally you shouldn't be investing in equities unless you've got that time horizon because you are just going to take on more risk than the fundamentals can deliver."

"We are looking for compounding cash flows. Given that the long-term performance is driven by fundamentals, not valuations, what we need to do is find superior compounding of cash flows with as little risk as possible," he says.

Steele characterises his search for superior compounding cash flows in a company as a stool with a comfortable cushion on top. The three legs of the stool are the pillars of the framework that enable compounding of cash flows at a superior rate.

"The first leg is competitive advantage. Easy to say but not easy to deliver. We think of competitive advantage as the driving license. It enables a company to print higher economic rent year in, year out. It's rare and it's sacrosanct."

"The second leg is capital allocation. It's the responsibility of management and a nod to governance. Management has the licence and is the driver of the machine. How are you going to drive with that licence? You have stewardship of this economic surplus you have created."

Management, Steele says, is part of this second leg, but is an intangible. He wants management to make decisions based on long-term outcomes. "We want companies that are genuinely thinking about the future, so they are aligned with our view of shareholder value."

The first two legs, combined, are a value-creating machine.

"But the machine needs fuel and that's the third leg. We call it runway for growth, and it is the positive structural shifts in the economy. It's the new economy that provides the tailwind to allow the compounding machine to spin."

"The benefits of the runway for growth is that it enables re-investment and compounding to come through, and it also gives some cyclical protection. While we can't take cyclicality off the table completely, we can provide some cyclical immunity by trying to find pockets of growth that are structural."

Steele uses the example of robotic surgical procedures. Will the number of procedures fall if economies went into recession? Not for long , because embedded into the healthcare economy are structural reasons for those procedures to increase.

"The reasons are around productivity, and reducing costs and better patient outcomes. A growing cohort of surgeons are now trained in robotic surgery... and will use robotics surgery as a default, as opposed to laparoscopic surgery."

Atop the three legs is what Steele calls a comfortable cushion, which is a way of describing his preference for stability over lumpiness.

"There are a lot of companies out there that can create an enormous amount of wealth over a five-year period or more, but have a lot of volatility along the way. We will dismiss companies if they're too lumpy and the ride isn't stable enough for us," Steele says.

"This predictability speaks to the relationship between the provider of a product or service and their customers. Is it a highly-valued, ongoing relationship or is it lumpy?"

The three-legged stool with a comfy cushion is the rulebook and he and his team relentlessly apply it. It doesn't augur well for some more traditional sectors, where economic rents are contracting.

"I think about areas of the economy, like financials and energy, where it's really difficult to invest because there is a structural headwind in the make-up of economic rents," he says. "We are attracted to structural trends... and find the old legacy areas unattractive."

Steele is unapologetic, pointing out that throughout history, technology has been at the heart of disruption.

"It's technology that has enabled economic growth, that has enabled productivity. The industrial age was a massive transformation based on technology. It's no different today, though I acknowledge the shift is faster than it was."

The rulebook doesn't pay deference to many of the traditional categorisations of investing.

"We are completely benchmark agnostic," he says. "Diversification for us means extracting economic rents from different customers, different business models and different end markets. We think of geography not in terms of where they are domiciled, but in terms of where they get economic rents from."

"It has nothing to do with how much we have in resources versus technology. That's not what diversification means to us."

"The two most dangerous ingredients in my industry, which I've seen, are complacency and arrogance. The two together are just lethal, incredibly toxic."

"The language of a good company is consistent across industries, across geographies. There really is no difference. People ask whether the translation from a UK to global mandate is difficult. It's not. It is more like being in a bigger sweets shop."

Disciplined investing needs a team all following, and importantly, believing in the same philosophy. How do you find those individuals?

"The first thing you have to do is be incredibly selective about the person you employ. I want seasoned, experienced investors that are genuinely philosophically aligned but bring cognitive diversity. You've got to be someone who is prepared to accept respectful challenge and thrive on it."

The long-term rulebook allows investors like Steele and his team to look past volatility of recent months.

"The questions for us is through an economic lens: is there anything we need to consider about the quality, trajectory, or the stability and durability of our economic rents, given the environment?"

"Some of what we are seeing now is dislocation from fundamentals, but some of it is an absolute expression of the fundamentals. I have no doubt in my mind that there will be a significant earnings contraction in 2020."

Steele has been in financial markets for more than 25 years. His career hasn't always been prosperous. When he was working as a small caps fund manager in mid-2001, his firm closed.

"I was in a bit of a predicament. I had no job. A baby had just arrived. We had a big mortgage and it was weeks before 9/11. I look back on that and think being humble wasn't a bad thing."

"The two most dangerous ingredients in my industry, which I've seen, are complacency and arrogance. The two together are just lethal, incredibly toxic. Being humble helps me keep balanced. I look over my shoulder every now and then to make sure those characteristics haven't crept in."

So why does he keep doing what he does? "We are empowered and entrusted to manage someone else's capital and the most important decision we make is to invest their money for the long term. We could be holding on to it for 10 years or more. It's an honour and privilege to be able to do that." □

Why we're investing in tech stocks in the 2020s

Markets moving into freefall during COVID-19 has compounded a truth of the 2020s for investors: technology bears a far greater influence on societal functioning and our portfolios than it ever has. We spoke to portfolio manager in the global equities team, Andy Gardner, about the trends he's backing for the coming decade.

Story by SIMON ANDERSON

An enormous leap forward in global communications. The inexpensive replication of information and news. Ideas that spread around the world. The democratisation of thought.

No, not the internet. The printing press, invented some 500 years earlier.

Our rapid adoption of communications technology, smart phones and cloud computing are just the latest in a long line of technological advances that have swept through history.

In fact, the world has undergone a technology revolution every 40 to 60 years since the industrial revolution began in 1771[1], from steam power and railways to steel and electricity to cars, roads and aviation.

Each revolution brought sweeping economic and technological change. They spawned new business models and created waves of new entrepreneurs. They also displaced old industries, triggered speculative bubbles and sometimes brought social and political upheaval.

Still, the impact of the information communications technology revolution is arguably the greatest ever.

And one thing in particular is undeniable: technology bears a far greater influence on our daily lives and investment portfolios than it ever has.

This impact can be seen in the disproportionate success of companies, individuals and investors that have embraced technology compared to those who are yet to do so.

But what happens next in the story of technology and revolution? And how can investors navigate things as we enter the 2020s?

The global equities team at AMP Capital has developed a 'wealth creation framework' that captures the characteristics that enable companies the best possible chance of compounding cash flows at a higher rate and with a more stable trajectory.

The foundation of the framework is the idea that disruption is not new, but has in fact been a feature of the economy for centuries.

1. Carlota Perez, full reference and more information in '*Tech in the 2020s*' whitepaper, Andy Gardner, AMP Capital

"We believe that when all these components align with a structural tailwind to growth, then the magic of compounding occurs, and a genuinely great investment is unlocked."

The team remind themselves of Jeff Bezos' famous statement, that seeking to understand what will change in future is almost never as important as seeking to understand what will remain the same.

"What Jeff is saying is that business strategy should focus on goals which are eternal truths regardless of which technology or trend comes by along the way," says Gardner.

The AMP Capital global equities wealth creation framework has four factors:

1. Competitive advantage: a company must have an edge over the competition that will stand the test of time, from pricing power to intellectual property.
2. Runways for growth: a company must benefit from enduring growth tailwinds that won't be held up by market cycles.
3. Capital allocation: capital discipline and good governance is very important to wealth creation, as it takes skill and commitment to reinvest wisely for the long-term benefit of the business and shareholders, whether that be to reinforce the competitive advantage or give back to shareholders.
4. Predictability: a company must demonstrate stable cashflows that can reliably and persistently create wealth over a long period of time.

"The most important requirement of all is to generate high and sustainable returns on capital over a long time frame," says Gardner.

"We believe that when all these components align with a structural tailwind to growth, then the magic of compounding occurs, and a genuinely great investment is unlocked."

The framework has helped identify a number of areas of investment within the technology sector for the AMP Capital team to focus on.

First, enterprise technology is preferred to consumer technology. In general, enterprise technology has greater barriers to entry and exit, longer and more predictable product cycles and lower regulatory risk.

"It's also increasingly moving towards a recurring revenue model, which helps improve the stability of cashflows," says Gardner.

"In contrast, consumers tend to be incredibly fickle, more transactional in their relationship, and commonly switch from one brand or fad to another."

He says that switching that has long been a feature of consumer hardware. People swapping cameras and TVs as new technology emerges has now become a feature of consumer applications, such as content, social media, and gaming, as our attention moves skittishly from, for example, Facebook to YouTube to Spotify to Instagram to TikTok to Netflix and so on.

Second, software is favoured over hardware.

"We estimate that software now captures close to 40 per cent of revenue dollars, compared to just five per cent in 1980," says Gardner.

"And there is still a substantial amount of revenue that is still to shift."

Higher rates of growth and margins are in part attributable to the low marginal costs associated with software growth, along with its rapid scalability, and its pervasiveness as it begins to permeate nearly all industries.

Indeed, it is difficult to see growth flagging for big tech as they have a long runway ahead of them. Gardner outlines three areas in particular that he sees will continue to account for most of the growth.

The first is digital advertising, which is estimated about 50 per cent penetrated today and growing at 15 to 20 per cent a year. Over the next four to five years though, digital advertising should begin to mature and account for 70 per cent of the advertising market.

The second is ecommerce – and it's an even bigger opportunity.

E-commerce, the activity of buying and selling over the internet, represents just 10 per cent of commerce today and has the potential to reach 30 per cent by the end of the decade, growing at around 10-15 per cent a year.

It's a huge prize but potentially a slower burn given the physical investments required in distribution centres and delivery. >

"We estimate that software now captures close to 40 per cent of revenue dollars, compared to just five per cent in 1980."

The third opportunity – cloud computing – is possibly the biggest and fastest growing of the three.

Cloud computing is the provision of data storage and computing power over the internet. Cloud computing is estimated to account for 25 per cent of the market for enterprise IT workflows, with potential to reach 70 per cent penetration by the end of the current decade. Cloud is growing at 20 to 25 per cent per annum.

"Cloud, and the software applications which are built on top, are likely to be the biggest drivers of profit-pool shifts within the technology sector itself, taking share of wallet away from spending on hardware," says Gardner.

The outlook for big technology is not entirely free from risk of course. Some technological advances are pushing the limits of regulation, especially in privacy, while some technology companies are running up against competition and anti-trust limitations.

While the big technology companies and trends are quite exciting, they are generally quite well understood by investors.

In contrast, the AMP Capital global equities team prefer to participate in a number of trends and companies that are not well represented in the indexes.

Examples include the increasing application of simulation technologies in the production and maintenance of industrial and consumer products, or the mission-critical software used in the design, development and verification of increasingly complex semiconductor chips.

They also believe that some of the most attractive areas for investment are in technology companies that sit outside the traditional sector-classification standards. Healthcare is a great example of this.

Healthcare has been slower than many industries to adopt technology, partly because it deals with a high regulatory burden.

Gardner highlights the difference between the rising cost of healthcare and the falling prices of whitegoods, clothing and cars as examples of the uneven distribution of the productivity dividend of technology.

"On a like-for-like basis, the cost of a TV has fallen a whopping 97 per cent since 1998. You get substantially more now, for less," he says.

"On a like-for-like basis, the cost of a TV has fallen a whopping 97 per cent since 1998. You get substantially more now, for less."

You can read more on this topic in Andy Gardner's whitepaper, *Tech in the 2020s.*

"Ultimately, we want the highest-quality medical decisions being made as accurately and efficiently as possible."

"But healthcare is over 225 per cent more expensive."

Now, as healthcare's adoption of technology gathers pace, society could be set to reap the greatest dividends yet from technology and innovation.

While many fear jobs being replaced by automation, Gardner expects 'augmentation' – the confluence of data and technology combining with human work – to shape the future.

"Ultimately, we want the highest-quality medical decisions being made as accurately and efficiently as possible," he says.

"Capturing all medical records electronically will allow patient histories, test results, and relevant information to be available for analysis. Applying big data and machine learning to these data sets will enable a patient to compare their specific condition more precisely to thousands – if not millions – of other patients who have experienced the condition before, allowing more accurate and precise treatment.

"It will also allow for changing roles, enabling the nursing workforce to be more effective in frontline delivery and providing physical and emotional assistance to patients, and gives highly trained, and higher cost, GPs, doctors, and physicians the time to focus on more complex and specialised care needs where their impact can be greatest."

One of the key applications that the team is excited about is robotic surgery, which today accounts for less than two per cent of all surgical procedures. Robot-assisted minimally invasive surgery can result in better working conditions for the surgeon, reduced blood loss, lower complications, reduced length of stay, and quicker recoveries.

As compounded by the home schooling enforced by COVID-19, education is another industry with potential. As it stands, higher-education costs are 183 per cent higher than 20 years ago – and textbook prices are up 150 per cent – again indicating that digital technology has not yet lifted productivity.

"The concept of a teacher standing in front of a room full of students – all of the same age, who are forced to listen and respond to direction, at the same time and pace, seven hours a day, five days a week, for 12-plus years – is being turned on its head," says Gardner.

"Customised and collaborative learning, which can be done almost anywhere and any time, enabled by technology are some of the ways in which education is set to change in the coming decade."

Within the industrial economy, robotics and automation offer the biggest potential for change.

Automation is of course common in many industries. But the confluence today of sensors, machine vision and artificial intelligence are suddenly offering great leaps in capability, from warehouses enabling companies to pick, pack, and ship products for ecommerce and to the 'Internet of Things'.

The 'Internet of Things' – already known to millions by the acronym IoT – is the emerging combination of sensors and internet-enabled devices. By the end of the decade, there could be 500 billion connectable devices up from 30 billion today[2].

"All of this will be wrapped up and connected by software which provides the glue that sticks it all together," Gardner says.

"Most intriguingly, it will become both ubiquitous yet largely invisible – it will be 'always on', operating in the background, constantly gathering data and making decisions on our behalves."

One thing is certain as we move through the 2020s: delivering strong, risk-adjusted returns will require a targeted approach.

Attractive returns will be found in specific technologies and industry verticals that are different to the growth drivers of the last decade.

And above all, individual company fundamentals will matter more than ever. □

2. Cisco, full reference and more information in *'Tech in the 2020s'* whitepaper, Andy Gardner, AMP Capital

Giuseppe Corona

AMP Capital's head of global listed infrastructure shares his life story which has earnt him a reputation among his peers as disciplined, determined and ever dapper.

Story by SEAN AYLMER
Pictures by NIC WALKER

Giuseppe Corona is staring at his phone when spotted in the foyer of the AMP Capital headquarters at Sydney's Circular Quay. It's early morning Australian eastern time, but late-night London time, where his wife and daughter live. Connectedness is a constant for a business commuter who spends much of his time away from home.

He glances up, recognises me, smiles and shakes my hand. He's relatively softly spoken, with a noticeable Italian accent. We walk towards an automatic door and he steps aside so I can enter. When we sit, he pours me a cup of water, notwithstanding I'm asking him for the favour. Corona is, if nothing else, always courteous and attentive.

"I had an internship at JP Morgan when I was still at university," Corona explains. "The director of the office was an old-style investment banker. He always arrived impeccably dressed. He told me never to put my hands in my pockets. He showed me that I needed to be respectful. He taught me how to speak to clients. He said whenever you turn up at a client meeting, be at the top of your game."

But the most important lesson he learnt during that internship, Corona says, was that he had a job because of the clients. It's a lesson that has stuck with him.

Corona was born and educated in Palermo, Italy. He won a scholarship to St John's University. The school is the largest Catholic university in New York, but it also has a campus in Rome. He graduated in 1999 and moved straight to the big apple, into a job with investment bank Bear Stearns. >

"I loved New York. From a professional standpoint, it was the very best place to work. Bear Stearns was a blue-collar investment bank and it was a meritocracy. I had a great career there. I started as an intern and ended up as a managing director seven years later. And personally, my wife and I had a great time living in New York."

"Of course, there were some significant events during that period, particularly 9/11. That impacted both of us and was a catalyst for some frank conversations. We decided we didn't want to spend the rest of our lives in New York. My wife re-located to Milan in 2003, but it took me a few years to move back."

"Bear Stearns provided me with great opportunity and so I used to commute between Milan and New York. It came to an end when Bear Stearns came to an end in 2008. That was quite a humbling experience."

"I went back to Italy and looked for a job. I went from a city where I had a network to a place where no-one knew me."

Corona eventually got a job in a Swiss investment bank, then as a sell-side analyst at BNP Paribas in Milan. For him it was like starting over. He had to build a new foundation. At BNP, he dealt with AMP Capital's infrastructure funds. Eventually he was asked to interview for a job.

"Bear Stearns was a blue-collar investment bank and it was a meritocracy. I had a great career there. I started as an intern and ended up as a managing director seven years later. And personally, my wife and I had a great time living in New York."

"I like to invest money and I want to win. I really do like doing that in my job. But what motivates me is winning to deliver the best outcomes for clients."

"The interview process was in January and February 2012. I got the job in March and had to relocate to London. Only problem was my wife was six months pregnant."

"We made it work. My wife was very supportive. She had been in banking so understood its demands. Again, I commuted, this time between Milan and London. Two years later the family moved to London. It was hard but if I look back, it was worth it."

Work and family are constant competitors for many globe-trotting executives. Corona says you need to work at satisfying both. "I like swimming with my daughter. That's what we do together. I was born on February 5, so my zodiac sign is a water one. I love the water and so does my daughter."

"We travel together as a family. I don't get sick of airplanes and there's an island in the middle of the Mediterranean where we spend our (northern) summer."

Corona's career has gone from generalist to specialist. Like fund managers who have been in the industry for long enough, he has experienced the highs and the lows of investing, and of career development. It was when he was offered the job at AMP Capital that he realised he needed to specialise in an asset class such as infrastructure.

"I wanted to be in an asset class that was destined to grow and was going to attract investment. It was clear that given demographics and the ageing population, infrastructure was an asset class that was expanding."

That's how he ended up as AMP Capital's head of listed global infrastructure. He agrees he's ambitious, but not about building personal wealth.

"I like to invest money and I want to win. I really do like doing that in my job. But what motivates me is winning to deliver the best outcomes for clients."

Investing is a lifelong learning experience for Corona.

"My very first portfolio manager at Bear Stearns taught me how to look at a stock and how to analyse a company. He wasn't the perfect investor. He made mistakes. But he was very disciplined in determining whether a business model was any good."

"I've worked with incredibly talented people and have learnt from others in both a positive and negative way. Sometimes the people who do the wrong thing teach you something," he says.

Corona has a methodology in finding and investing in companies.

"First we look at the quality of the underlying assets. Because infrastructure is such a global business, you need to look at the quality of regulation in the jurisdiction the asset is operating in. What's the quality of the contracts they've signed? For example, if you are buying an airport, you really want to know the government's rules around the airport, exactly how that airport operates and the economics of the business."

"Then you look at the quality of the company, which might be different from the quality of the assets. You think about management. You think about key stakeholders."

"You think about sustainability factors, like the environment, diversity and corporate governance."

"And you look at valuation, because at the end of the day we are investors. Investing is all about capturing the dislocation between what we think the company is worth, and what the company is trading at right now."

"At the end of the day our job is a privilege. Our clients trust us with their retirement money, and we need to allocate that money after doing very detailed due diligence. We need to make sure that level of trust between us and our clients is not broken." □

As a manager of infrastructure on behalf of clients, we've worked with government to temporarily transform some of our assets into frontline responders. Here, we take a look at three of our assets that are part of these efforts.

JULIE-ANNE MIZZI
Head of global social care, AMP Capital

For nations who chose to close their schools during the COVID-19 pandemic, the debate that gripped Australia over school closures in March and April may have been perplexing. At a time when thousands of other businesses were shuttering their doors against the pandemic, on government orders, why was the Australian government so insistent that schools remain open until the Easter break, and then re-open for term two as soon as possible?

For parents who have recently had the pleasure of juggling their work schedules with home schooling, the answer is more obvious: schools serve a vital function in our economies that goes well beyond education, freeing up our workforce to be more productive during the school day.

We often discuss essential infrastructure – those assets that society can't do without during a crisis, and it turns out that schools are a big one. A number of assets owned and managed by AMP Capital's various infrastructure related funds are fulfilling essential roles as Australia deals with COVID-19, giving our business a crucial role in supporting frontline efforts to respond to the pandemic.

AMP Capital schools projects

AMP Capital has responsibility for facility operations and maintenance at 35 schools across New South Wales, Victoria, South Australia and South-East Queensland, as Public-Private Partnerships (PPPs) with their respective governments.

The schools' projects have all been working closely with state education departments to meet a highly variable and unusual set of needs around the lockdowns, including extended or altered holiday periods, and changed class sizes, composition and locations.

Facility managers subcontracted by AMP Capital have stepped up to the plate with deep cleans of school premises, the provision of hand sanitiser for classrooms, and more frequent cleaning of high-use areas such as toilets and staff rooms.

Australian teachers are juggling online and in-person teaching admirably through a very trying period for their students, and AMP Capital is proud to support their work through our facility management.

Royal North Shore Hospital

Australia's medical and nursing professions also have a vastly changed set of working needs now than was the case before the pandemic, and hospital facility managers are having to adapt accordingly.

In 2015, AMP Capital purchased the Royal North Shore Hospital and Community Health Services Public Private Partnership, and in the process taking over management of one of Sydney's most respected and highly-essential health assets.

In response to the pandemic, we have assisted in the conversion of de-commissioned facilities into additional clinical areas, including a new purpose-built, 40-bed COVID-19 recovery ward, at a cost of $15 million. We also have facilitated requested changes to allow conversion of other areas, such as non-essential research facilities to allow them to be utilised by frontline medical workers, including those responding to the COVID-19 pandemic.

Our own management team on site were happy to vacate their offices and find alternative accommodation in order to provide additional space for emergency health executives.

Throughout the process of optimising the hospital's response to the pandemic, we have been eager to provide the flexibility and prioritisation required by NSW Health, even to the extent where it was necessary to fast-track processes outside of the existing contract to make sure that the necessary changes were implemented in time.

"Schools serve a vital function in our economies that goes well beyond education, freeing up our workforce to be more productive during the school day."

We also waived first rights on the associated construction work, instead utilising the resources of Health Infrastructure NSW, in order to meet these delivery timetables. Ventia, our subcontractor, made their tradespeople available and mobilised resources to work with Health Infrastructure to construct the new areas quickly.

In co-operation with our retail tenants on site, we have worked to ensure that the essential workers in the hospital continue to have access to basic amenities, while balancing the financial needs of the retailers themselves, including the provision of rent relief where required.

Finally, in recognition of the extraordinary difficulties staff face in commuting safely to and from the hospital and the need for them to avoid public transport wherever possible, we've worked with the NSW government to facilitate free staff car parking across the hospital site.

Optus Stadium

The state-of-the-art, 60,000 seat Optus Stadium is the newest and most advanced facility of its kind in Australia, and AMP Capital is proud to be a partner in its ownership, on a 25-year concession through to 2033.

Although the football codes have shut down for the interim, the stadium has been heavily utilised by Western Australia (WA) Police as a crisis management centre, as part of their response to the pandemic. Within the facility, directions handed down from the State Emergency Management Committee are converted into workforce planning and operational guidance for officers on the ground. Legally, the utilisation of the site by the WA government for these purposes was facilitated by AMP Capital lodging the alternate use as an 'intervening event', under the contract for the concession. The stadium is one of four centres being utilised by the state government to coordinate and command the state of emergency, and is at the heart of the state's efforts to track cases and ensure quarantine compliance.

In order to accommodate its alternate use, BGIS, our facilities maintenance subcontractor, was instructed to convert the space from entertainment facilities to a crisis centre, a task which included additional wiring and reconfiguration. AMP Capital's subcontractors are also providing additional security on site during the period.

Essential infrastructure over the immediate and longer term

The three examples listed above demonstrate clearly the role of well-built and soundly managed infrastructure assets in society's response to a crisis of this magnitude. Of course, these are not the only assets subject to immediate demand at the present moment. Assets concerned with essential utilities such as electricity and water are to a large extent insulated from an economic downturn, particularly in those countries where manufacturing has continued. Assets that support a nation's telecommunications networks, such as fibre, towers and data centres find themselves subject to increased demand as remote working, learning and socialisation becomes the new norm.

On the other hand, patronage for certain infrastructure assets connected with transport and accommodation may in many cases be materially affected. This is not necessarily bad news for the owner, as revenues for some of these infrastructure assets are contracted over the long term.

This essential nature of infrastructure assets can provide the asset class with strong defensive positioning through unsteady economic conditions. And in the cases above, the community is also clearly and significantly benefiting from constructive partnerships with private investment at a time of immense need. □

Lessons in running a global listed real estate business from home

A long-running team strategy for the global listed real estate function at AMP Capital is facing its biggest test yet, and it's proving a winner.

Story by SIMON ANDERSON

James Maydew is on the phone from his home in Sydney, where he like many has been holed up since early March.

AMP Capital's head of global listed real estate leads an investment team of 14 from around the globe who have the job of investing A$6.5 billion worth of clients' money into listed real estate stocks.

He put himself in a voluntary two-week isolation after returning to Australia from the United States in early March – and his team has been working remotely since early March in London, Chicago and Sydney and as far back as January in Hong Kong. These moves were well ahead of government shutdowns aimed at combatting the spread of COVID-19.

"One of the benefits of having a global team is we have a team in Hong Kong who provided early insight to what was going on the ground in China and across Asia and what was required to contain this health crisis."

"As a result, we were very early making the decision that governments globally may not be sufficiently quick enough to prevent this from becoming a huge issue."

It's a situation common across countries, cultures and workplaces as the global pandemic reaches a crescendo. Managers worldwide are scrambling to maintain business as usual amid a rapidly-changing environment, working with remote teams of professionals who are being forced to work from home, sometimes for the first time in their careers.

Many workplaces have embraced flexibility in recent years, but the new normal of all staff working from home all the time is novel for almost all large corporations.

It comes at a cost – the fleeting interactions and corridor conversations that make up knowledge sharing in a normal office environment quickly balloon to long email chains and repeated, extended video calls when everyone is remote.

Maydew has one quick tip for keeping things sane: "You have to be really careful not to just fill the diary with noise," he says. "There's so much volatility that you could easily fill every waking hour with a conversation about intraday market moves or COVID-19 speculation. But that's not helpful."

Instead, he prefers to maintain the work practices that made a team successful before the crisis unfolded.

Maydew practices a management discipline called decentralised command, adapted from the Navy SEALS, the elite sea, air and land forces of the US military.

The SEALs often operate in small groups that have the autonomy to adapt their mission to changing conditions. While their objective remains constant, the teams are authorised to react and change tactics as needed.

Maydew's team has long run a similar model.

"The team know what their objective is. But they are the specialist on the ground, and they are best positioned to make decisions in real time within their region," he says.

The centrepiece for his team is a weekly global call with the entire team – in Sydney, Hong Kong, Tokyo, London and Chicago.

This has been going on long before the crisis and will remain long after it ends.

"Everything in the portfolio has to come through me as a central decision point, but we are able to make real-time decisions very quickly on the ground across the world and then feed them immediately into client outcomes," he says.

Maydew stresses the importance of maintaining the balance between work and life, especially when there's no longer any physical separation between the two.

He reminds his team to remain healthy, eat well, exercise and take breaks regularly. "Above all, spend some time with family and loved ones," he says.

"Try to create some boundaries in the day and in the week, so when the opportunity presents itself to switch off, you can spend some quality time with the family and try to get some downtime."

The presence of family itself – and especially children who are being forced into home schooling across the world – is making it even trickier for professionals to work from home.

Maydew recognises that it works differently for everyone, but an environment where physical areas are marked for work can help.

"Perhaps you see your kids in the morning, and then say goodbye and go into whatever room you need to do your day job, but come out for regular breaks to see them," he says.

This maintenance of normality even extends to Friday afternoon drinks.

"Our US team did a virtual happy hour a couple of Fridays ago," he says.

"One of the most manic weeks ever in markets but they still found the time to think it through, put it in the diary and then honour that by getting together virtually and having a drink to celebrate the end of the week. Just to catch up. I thought that was awesome."

Maydew acknowledges he and his team are in a somewhat privileged position with the capability to work remotely without affecting the work they do.

"That's the beauty of what we do. You don't need to be in an office. We have access to technology, market pricing... it's very manageable."

Given Maydew and his team were early to see the coming crisis, they are also hoping to be early to see the signs that signal the world and markets return to normality.

"Hopefully, the containment of people's movements continues to slow the growth of the virus," he says.

"We then need to see the transmissibility drop for this to get under control in the near term, but finding a vaccine is the solution".

"When we start seeing lower transmissibility translate into the numbers, then that's when we're going to have greater confidence, but we are very aware of risks of further waves of infection and the economic consequences, so we remain cautious." □

"Our US team did a virtual happy hour a couple of Fridays ago... to celebrate the end of the week. Just to catch up. I thought that was awesome."

The state of play with investment markets

Here, we take stock of the global response to COVID-19, and its impact on markets and the broader economy.

DIANA MOUSINA
Senior Economist, AMP Capital

USA

At the time of writing in early May, the US has approximately one million diagnosed coronavirus cases and 50,000 deaths, more than a quarter of those reported worldwide. In some of the areas affected earliest, such as New York and Washington State, the daily death toll appears to have reached an inflection point, while in other heavily populated states – notably Illinois, California and Massachusetts – it continues to increase. Despite these recent improvements, New York is losing more of its citizens to this disease on a daily basis than any other region in the world.

Although new daily reported cases in the country have plateaued for the past three weeks, the US remains one of the countries most affected by the COVID-19 pandemic, yet states are already moving to end lockdowns and re-open their economies. On Monday 27 April, Georgia began to ease its restrictions only three weeks after implementing a state-wide 'stay at home' order. Oklahoma and Alaska took similar steps, and a host of other states are considering following suit. Even New York governor, Andrew Cuomo, has indicated that restrictions in that state may be relaxed from the middle of May.

Messages from the White House have been mixed, and the move to lockdowns is largely being driven by the states. By all indications the re-opening will be no different.

How have equity markets reacted?

The Dow Jones is down 19% on February's record highs, but in mid-March had fallen 37% off that mark. The slide lasted a month, from the final week of February and was marked by intense volatility. The single-day fall of 13% on 16 March was the worst since Black Monday in 1987.

Outlook

The large volume of corporate earnings reported in late April will give a clearer picture as to how the downturn is affecting individual companies. Values should be held up by the Federal Reserve's purchases of corporate bonds under their quantitative-easing program.

From a macro perspective, AMP Capital believes the US jobless rate is likely to hit 20%, with 26.5 million Americans having sought unemployment benefits since the middle of March.

AMP Capital's estimate of a 6% hit to GDP for 2020 tallies with the IMF's projection of -5.9% growth, with the latter projecting a rebound of 4.7% in 2021, with output for that year still below 2019 levels.

Europe

After a disastrous start, continental Europe is finally having some success in turning the pandemic around, with new cases declining slightly by the day in Spain, Germany, France and Italy. The Italians marked 4 May as the day to start winding back their strict lockdown regime, while the Spanish have moved already, allowing children outside to play once per day.

It may be a far cry from a resumption of normality, but considering the death toll of the past two months, it's a welcome sign of confidence from policy makers as to the virus' trajectory.

In both Germany and France, new cases have declined to less than 2,000 per day, less than half of what was recorded at the peak of the outbreaks in those countries. Others are even more advanced; new cases in Austria and Norway having recently fallen to less than 100 per day.

The UK is not quite as far along the infection curve, but new cases appear to have plateaued at around 5,000 per day. However, Prime Minister Boris Johnson, who has himself recently recovered from the virus, has stated that lockdown measures will remain in place for weeks and perhaps months to come, underscoring the severity of an outbreak responsible for more than 20,000 deaths in the country.

How have equity markets reacted?

Major European indices have generally followed the US markets, reaching a nadir in the order of -35-39% of their peak in mid-March before recovering to -23-27% at the time of writing in early May.

Outlook

The ECB estimates that the pandemic will slash between 5% and 15% of EU GDP over the rest of the year. The Bank of England is even more pessimistic, with one of their leading policymakers recently opining that the economic shock could be the worst in several hundred years, although predicting a near-complete recovery if the virus was eliminated.

Asia

The story in Asia over the past months has been the relative success of efforts to contain the second wave of the virus. To this end, China has fared reasonably well, with new cases in that country recently falling below 20 per day, the lowest since the outbreak was first recorded, with most of these new cases coming from returned travellers.

Despite some early success, Japan and Singapore are both dealing with the resurgence of the virus, in the latter case due to an explosion in cases amongst the Lion City's 200,000-odd strong migrant worker community.

A number of others who enjoyed early success in tackling the epidemic have been able to sustain this performance,

"New York is losing more of its citizens to this disease on a daily basis than any other region in the world."

including South Korea, where reports of new cases have fallen below 10 per day.

The major question mark surrounds India, whose government on 24 March implemented the world's largest lockdown program. Originally intended to last for 40 days, the restrictions have since been extended. The large proportion of Indians who rely on a daily wage make an indefinite lockdown infeasible, and the country's leaders will be hoping for a rapid improvement in the country's rates of infection before they are forced to relax these restrictions.

How have equity markets reacted?

In keeping with the virus' apparent origins in China, and earlier spread of the outbreak in that country, the major Chinese indices recorded falls from late-January, down 7-9% on the first day of trading after the Lunar New Year holiday on 3 February. By the first week of March, they had regained most of these losses, but followed world markets down on the back of the global shutdowns. The SSE is currently trading at around 10% below its January highs.

Other large Asian markets followed a more global pattern, with the major Japanese, Korean and Singaporean indices all falling by 30-36% from late February to mid-March before recovering to a level 15-21% below their highs of early 2020.

The Hang Seng followed a similar pattern, although proportionally, losses were substantially lower, perhaps due to the index already trading at low multiples before the crisis.

Outlook

The IMF is still predicting Chinese GDP to grow through 2020, albeit at a much-reduced rate of 1.2%, down from 6% in their January forecast. Official figures from the National Bureau of Statistics show that the economy contracted 6.8% over the March quarter, the first such decline since 1992.

Japan's economy was already sputtering prior to the crisis, having shrunk at an annualised rate of 6.3% over the December quarter, its worst result in six years. The postponement of the Tokyo Olympics is likely to inflict further pain. As a whole, the IMF is predicting that Asia will not record any economic growth for 2020, the worst such result in 60 years[1].

Australia and New Zealand

Australia and New Zealand were early movers at various stages of travel restrictions, with Australia one of the first to implement a ban on international arrivals on China, on 1 February, and New Zealand closing its borders completely on 16 March. Combined with internal restrictions on movement, the measures have been a resounding success. Australia's daily report of new cases is veering towards the single digits, despite one of the most comprehensive testing regimes in the world, and New Zealand announced on 27 April that they had eliminated community transmission of the virus.

In the last week of April, New Zealand moved to re-open some non-essential businesses, sending almost half a million New Zealanders back to work. A number of Australian states are also moving to ease their own restrictions, and there is discussion around re-opening the border between the two countries.

How have equity markets reacted?

In a similar fashion to other Asian markets, the Australian and New Zealand stock exchanges slid significantly, in the order of 30% or more, through late February to mid-March, before recovering some of their losses.

Outlook

AMP Capital believes that GDP for 2020 will fall in Australia by 6% and in New Zealand by 7.2%, before rebounding in 2021. This aligns with the Reserve Bank's projections for Australia, with RBA Governor Phillip Lowe describing it as "the biggest contraction in national output since the 1930s." It's expected that 800,000 Australians have lost their jobs in the pandemic[2], with the nation's unemployment rate tipped to hit 10%. □

1. https://www.cnbc.com/2020/04/16/coronavirus-imf-forecasts-zero-growth-for-asia-economy-in-2020.html
2. https://www.theguardian.com/australia-news/2020/apr/21/about-800000-australians-lost-their-job-in-the-first-three-weeks-of-coronavirus-restrictions

The history of slavery is marking a grim milestone, but change is coming

Slavery is a term often associated with colonial periods of the 17th and 18th centuries. Unfortunately, we have never known so many people to be affected by it, with over 40 million individuals worldwide forced into various forms of modern slavery on any given day[1,2]. Companies worldwide can expect associated policy, legislation and disclosure frameworks to continue to evolve to address this pervasive human rights challenge.

Story by ADAM KIRKMAN
Head of ESG, AMP Capital

1. https://www.un.org/press/en/2018/gashc4244.doc.htm
2. https://www.theguardian.com/news/2019/feb/25/modern-slavery-trafficking-persons-one-in-200

Modern slavery is, as the United Nations describes it, a 'grave human rights' issue often exacerbated by power inequalities. It includes exploitive practices such as slavery and servitude, forced labour, debt bondage, deceptive recruiting, child labour, human trafficking, forced marriages and sexual offences. Around 71 per cent of individuals affected by modern slavery are women and girls, often shackled by the norms and forces of poverty, cultural acceptance and discriminatory laws[3]. A quarter of people enslaved are children[4].

About half of enslaved victims are in forced labour industries, including mining and domestic services. The remainder of those victims are often forced into sex, marriage and child slavery.[5]

Unless 9,000 people are freed from slavery every day – and current numbers are well below this – we have no hope of eradicating it this decade[6]. Hundreds of years of history tell us a reliance on goodwill and charitable efforts don't do enough to curb the growth of modern slavery. Decisive, worldwide policy action is what's necessary.

The hidden problem

Dr James Cockayne, director of the Centre for Policy Research and head of UN-led research project Delta 8.7, said modern slavery is effectively a product of the way the world works. He describes modern slavery as a "feature, not a bug" of the global political and economic system. This means our daily operations and supply chains, without many even being conscious to it, accept and perversely encourage slavery.

It is a hidden, everyday problem that many of us don't realise we're part of. Laptops, computer and mobile phones are the products considered most at risk of having modern slavery in their supply chains, with garments and 'fast' fashion coming in second. So what you're reading this on now, and what you're wearing, could well be a product of modern slavery.

For the United Nations, solutions need to be global and system-wide, given the overlapping nature of supply chains and trade set-ups. This would address one of the fundamental issues with modern slavery – even where there is a willingness to eradicate, steps are misguided. Dr Cockayne found there is a mismatch between where modern slavery occurs, and where governments worldwide are spending and acting to solve it.

Fixing the system involves companies worldwide

As at the end of 2019, most forms of slavery occur in the private sector, and about half of all countries have yet to criminalise it[7]. As such, there is enormous potential and power in policy and action which encourages the private sector to better understand and address modern slavery risks through their supply chains. Some of the key policy changes driving action in developed economies include Modern Slavery disclosure laws in the UK and more recently in Australia. These laws require annual reporting by businesses of actions taken to identify and mitigate modern slavery risks.

This mandatory action is, without question, the right thing to do. Increasingly, separate to any legislative requirements, our clients are also seeking greater transparency on how and where their funds are being invested. This is a reflection of sentiment in the broader market which applies to companies worldwide. Research from Morningstar indicates shareholders are demanding more disclosure on issues related to human rights, as reflected in proxy seasons last year.[8]

Within our business, we have a modern slavery project team, who are charged with assessing, reporting and educating the teams at AMP Capital, and ultimately, the stakeholders we work with. Their areas of focus include the supply of goods and services for our day-to-day operations and the investee companies and assets we manage and own on behalf of our clients.

Our ambition continues to stem beyond what's mandatory by law, as we seek to play a leadership role by active participation in various industry working groups, sharing our insights globally, and helping craft guidance to educate investors about how their decisions can help mitigate modern slavery risks. It's reasonable for companies to expect that what we're seeing now, with this legislation in operation in the UK and Australia, is just the beginning. Understanding, identifying and preventing modern slavery in business operations is likely to increasingly be a mandatory part of operations.

Acting with a big picture goal to eradicate modern slavery shows the potential of the investment industry's force for good in the world, and its ability to contribute to a stronger, fairer society for all of us. ☐

Top five products at risk of modern slavery imported into the G20

1. Laptops, computers and mobile phones: $200.1 billion.
2. Garments: $127.7 billion.
3. Fish: $12.9 billion.
4. Cocoa: $3.6 billion.
5. Sugarcane: $2.1 billion.

Source: Global Slavery Index. All figures are in USD.

Milestones for the AMP Capital modern slavery project

2019 in review

- Publishing our modern slavery 'position' and 2019 UK Modern Slavery Statement.
- Raising awareness of modern slavery issues with investment teams.
- Engaging investee companies in high-risk sectors.
- Launching a supplier code of practice and risk assessment tool.
- Tightening our due diligence and procurement screening processes.
- Adding contract clauses into our service agreements.

What's in the pipeline?

- Undertaking further deep dives across the business to better understand risk.
- Establishing grievance and remediation channels, KPIs and reporting dashboards of risk control effectiveness.
- Delivering a BAU management model in collaboration with AMP.
- Responding to Australian Modern Slavery Act guidance.
- Publishing AMP Capital's next Modern Slavery statement by June 30.

3. https://www.un.org/press/en/2018/gashc4244.doc.htm
4. https://news.un.org/en/story/2019/11/1050931
5. https://news.un.org/en/story/2019/04/1035751
6. https://news.un.org/en/story/2019/04/1035751
7. https://news.un.org/en/story/2019/11/1050931
8. https://www.morningstar.com/articles/943448/proxy-season-shows-esg-concerns-on-shareholders-minds

Finding the right portfolio fit with infrastructure debt in the 2020s

Private infrastructure debt is growing as an asset class and investors are recognising its value in asset allocation, particularly in the current climate. Here, we explore options for allocating infrastructure debt to an asset class and portfolio fit.

Story by

CELINE KABASHIMA
Senior investment specialist, infrastructure debt, AMP Capital

ANDREW JONES
Global head of infrastructure debt, AMP Capital

Real assets

A real assets portfolio may include allocations to real estate, infrastructure equity, and other physical assets such as commodities and natural resources (e.g. timber and agriculture). Allocations within this bucket are said to be tangible investments with intrinsic value due to their physical properties.

Investors may include private subordinated infrastructure debt in a real assets allocation as they share similar attributes such as:

- Physical assets with intrinsic value
- Can serve as a hedge against inflation
- Low correlation with traditional asset classes (equities and bonds)
- Long-term horizons
- Illiquid asset class

These characteristics drive the overall asset allocation to real assets, which is generally a decision based on risk/return trade-offs and liquidity profile. The risk/return profile of the real assets can range widely depending on whether it is an equity or debt investment.

Additionally, the illiquid nature of this strategy may make private subordinated infrastructure debt an appropriate fit as investors would be taking a long-term view (seven to 10 years or more) in these investments. Subordinated infrastructure debt would be driven less so by macro-economic conditions than property investments, which tend to be more cyclical and sensitive to market environment.

Another benefit of private subordinated infrastructure debt in this allocation is its low correlation with the other real asset investments as well as with the broader multi-asset portfolio. From this perspective, we believe that private subordinated infrastructure debt provides diversification benefits and is an attractive complement to the real asset allocation and the multi-asset portfolio.

Infrastructure

As explored in a 2016 paper from AMP Capital, '*Subordinated Infrastructure Debt – The Time is Now*', some investors may decide to separate their Infrastructure allocation from their real assets allocation. Within an infrastructure portfolio, which typically is mostly infrastructure equity investments, subordinated infrastructure debt can serve a variety of roles depending on an investor's existing portfolio and investment strategy. For those investors who are seeking the low volatility, high-yielding cash flows of core infrastructure assets, but >

who find difficulty deploying capital at attractive return levels in the current highly competitive environment, subordinated infrastructure debt presents as an alternative.

Annual yields in subordinated infrastructure debt are around eight to 10 per cent with total net returns in-line with or even exceeding those of core equity[1]. For those with exposure to higher returning value-add infrastructure equity strategies, subordinated debt can complement and drive cash yield across the portfolio on a blended basis. Value-add infrastructure equity funds will typically target lower cash yields in the first part of the fund's life as capital is reinvested to drive business growth. Pairing such an investment with a high-yielding infrastructure debt strategy can help ensure the portfolio is highly cash generative from the outset.

Adding infrastructure debt to an infrastructure equity allocation can also serve to help balance the risk profile. Infrastructure debt tends to have much lower volatility (albeit due to lack of mark-to-market) than infrastructure equity investments and can offer more defensive characteristics to the portfolio. In a stressed market environment, subordinated debt ranks ahead of equity and will be less impacted by market shocks. Therefore, an infrastructure debt allocation can be a nice and more balanced complement to an infrastructure equity allocation.

Alternatives

Alternatives can be a 'catch-all' category that encompasses all assets that are unlisted and illiquid. A typical alternatives allocation can comprise of hedge funds and private equity investments, but it can also include infrastructure and private debt. The role of an alternatives allocation is to provide diversification relative to traditional asset classes (equities and bonds) and deliver attractive absolute risk-adjusted returns.

Investors who look to their alternatives allocation to be a diversifier, could consider private subordinated infrastructure debt as a defensive allocation due to its low correlation and low volatility characteristics. It can be grouped with more defensive hedge fund strategies that are relative value in nature and alternative beta type of strategies.

On the other hand, investors who are seeing high risk-adjusted returns from their alternatives allocation may look at private subordinated infrastructure debt for its higher yield and illiquidity and complexity premia.

"Adding infrastructure debt to an infrastructure equity allocation can also serve to help balance the risk profile."

These types of alternative investments may include 'growth' strategies including private equity, mezzanine debt, leveraged buyouts and directional hedge funds. These strategies typically target mid to high-teen returns in which case, private subordinated infrastructure debt may fall short of these risk/return expectations.

The benefit of including private subordinated infrastructure debt within an alternatives allocation, is the low correlation compared to other alternative strategies within the bucket, and compared to the broader diversified portfolio. We think private subordinated infrastructure debt should be considered a 'defensive' alternatives investment whose main purpose is to help diversify the alternatives allocation as well as the broader multi-asset portfolio.

Private debt

We believe that private debt has been a growing allocation to investors' portfolios in recent years[2]. It is also sometimes referred to as private credit, alternative credit or enhanced fixed income. Within private debt, the subcategories can include corporate private debt or asset-backed lending strategies. Within corporate private debt strategies, the focus is on cash flows of the borrower to secure the loan, while asset-backed lending strategies are secured by collateral on real estate debt, infrastructure or other assets such as aircrafts.

The private-lending strategies can be in the form of private senior loans or private non-investment grade loans (subordinated or mezzanine loans) and can range in size from middle market to upper-middle market. Private lending in both senior and junior debt became much more active off the back of the global financial crisis as banks pulled away from lending activity due to risk constraints and regulatory pressures.

Another key characteristic of private debt is the unrated and illiquid nature of the strategy which is the source of illiquidity premiums. The structure of private debt strategies is similar to private equity allocations – they are typically closed-end funds with around four year investment periods followed by a four to six-year harvesting period.

Given these characteristics, we can see how private subordinated infrastructure debt could be a sensible allocation within a private debt portfolio. It may offer returns comparable to corporate and other asset-backed lending strategies, with relatively low correlation, as the drivers for return on subordinated infrastructure debt are largely independent from those seen broadly in direct lending portfolios. Namely, loans are typically provided to a ring-fenced, bankruptcy-remote entity and secured on a second lien or similar basis against an individual asset or a portfolio of specific assets. The majority of loans are at a variable rate, with call protection of three to five years. The underlying assets are backed by either long-term contracted cash flows with investment grade off-takers, or regulator-determined tariffs. This insulates assets from market movements, driving down correlation with other more cyclical sectors.

Additionally, private debt strategies in general may be prone to market cyclicality. There may be certain times over a market cycle where some of these strategies are expected to perform better than others. For example, an investor can be more opportunistic with timing a distressed debt strategy after a severe market downturn and invest in debt at cheaper levels. On the other hand, strategies such a middle-market direct lending have a larger opportunity set in a pro-cyclical market where liquidity and deal flow is high. We believe that private subordinated infrastructure debt can be more consistent and resilient throughout a market cycle than other private debt strategies given its lower default rates and the fact that loans are backed by long-term contracts with high-grade off-takers in noncyclical industries.

Therefore, an allocation of subordinated infrastructure debt within a private-debt allocation could be viewed as a long-term investment opportunity that offers diversification and resilience compared the traditional and publicly listed allocation of your portfolio.

Fixed income

The fixed income allocation generally includes investments in liquid and public markets such as treasuries, corporate credit (e.g. investment grade or high-yield debt) or sovereign credit (e.g. emerging market debt). The main drivers of a fixed income allocation are the yield and lower volatility of the investment. Investors who may consider private subordinated infrastructure debt as part of their fixed income allocation sometimes look to the allocation as a liability match from cash flows. They are not necessarily allocating to the space to generate outsized risk/returns, but rather for stable cash yield.

However, due to the illiquid nature of private subordinated infrastructure debt, we would not generally consider it a typical allocation in the traditional fixed income bucket.

Conclusion

Different institutional investors will consider a potential investment in subordinated infrastructure debt from different asset allocations. Infrastructure debt can play a valuable role in diversifying an investor's overall portfolio while providing an attractive source of risk-adjusted returns and cash yield. For more information about AMP Capital's research on this topic, you can read our latest whitepaper, *'Using Infrastructure Debt in a Diversified Portfolio.'* □

1. As at February 2020. These returns are merely estimates. There can be no assurances or guarantees that the strategy will achieve the target returns. Past performance is not a reliable indicator of future performance. Source: AMP Capital.
2. Source: AMP Capital research 2020

About AMP Capital

AMP Capital is a global investment manager offering private market and public market solutions to clients, with a strong focus on ESG.

Our home strength in Australia and New Zealand has enabled us to grow internationally, and today we have operations in Dubai, China, Hong Kong, India, Ireland, Japan, Luxembourg, the United Kingdom and the United States. With over 250 investment professionals working in 17 locations around the world, we're able to deliver the capabilities and investment solutions that help our clients achieve their financial goals. We also collaborate with a network of global investment partners, leveraging our shared capabilities to provide greater access to new investment opportunities.

We are entrusted to manage A$200 billion[1] in assets under management on behalf of our clients, across a range of single sector and diversified funds. We work with more than 300 international clients and manage almost A$19 billion in assets on their behalf[1].

Direct real estate

With a heritage spanning over 50 years, we actively manage real estate across all stages of the cycle. We realise true value for clients through the investment management, property management and development of a portfolio of some of the most iconic shopping centres, industrial estates and office buildings, from Australia's first skyscraper to the transformational Quay Quarter Sydney development.

Direct infrastructure

Backed by a truly global infrastructure platform, we're able to capture what we consider to be the best investment opportunities from around the world. It's earned us a name on a global stage, and a place as one of the top 10 infrastructure managers worldwide[2].

With 30 years' experience, we bring a breadth of insight that spans energy, power, transport, utilities, airports, seaports, communications infrastructure, social infrastructure, aged care and more. The combined expertise of close to 100 infrastructure investment specialists also allows us to cover all aspects of capital structure giving our clients more investment options for their future.

Public markets

Our well-established public markets business, including fixed income, listed equities and multi-asset solutions, requires shifting from traditional actively managed products to a specialist active offering of targeted solutions which meet specific client needs. Our public markets team remains focused on delivering investments that match our client's needs as we manage A$203.1 billion[3] across our global fixed income, multi-asset solutions, Australian equities, global listed real estate, global listed infrastructure and global equities solutions.

ESG and responsible investment

We believe considering ESG factors provides greater insight into areas of risk and opportunity that impact the value, performance and reputation of investments we make on behalf of our clients.

We recognise that all investments we make have a purpose and a wider impact and it's up to us to help make it a positive one for our clients and the global markets and communities in which we invest.

By looking at what we do as part of a bigger picture, we've developed a portfolio of responsible investment options for our clients. We are one of the first investment managers globally to sign the UN-backed Principles for Responsible Investment (PRI)[4]. Many of our funds have been recognised for their ESG performance. We continue to challenge and evolve our thinking, our processes and product offerings to meet our clients' growing expectations, partnering with them as they too look to fulfil their own goals and commitments to responsible investing. □

1. As of 31 December 2019. Represents draw down amount on a fully funded basis
2. Willis Towers Watson Global Alternatives Survey 2017
3. Data as at 31 December 2019. Note: AMP Capital AUM includes a 15% share of CLAMP AUM (AUD $7.3b).
4. www.unpri.org

MAY 2020
ISSUE 08

AMP CAPITAL