STEPSTONE

StepStone Academy
Infrastructure & Real Assets

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All data is as of October 2024, unless otherwise stated

Today's presenter

Jake Kelsall

Principal, StepStone Group

What is Infrastructure?

What is infrastructure?

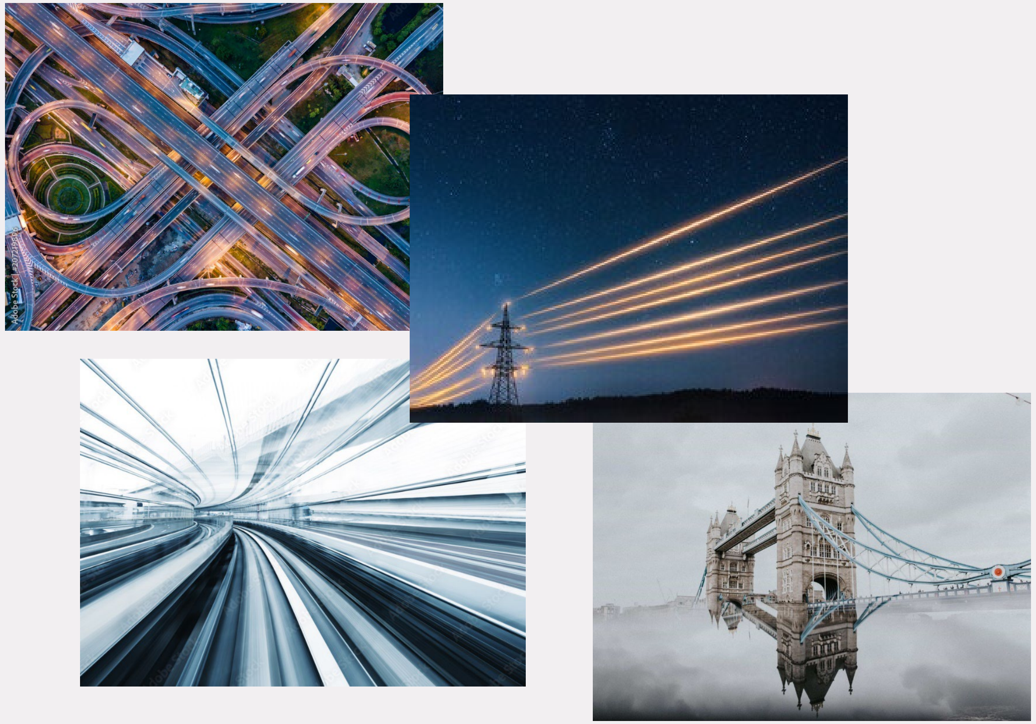
Infrastructure assets are economic and social necessities that deliver services and products needed to improve society's quality of life, social well-being and safety. The infrastructure investable universe continues to expand to include new classes such as communications and renewable energy.

Common investment characteristics

- Essential services resilient to the economic cycle
- Long-term cash flow predictability
- Contracted, regulated revenue
- Long useful life assets with relatively inelastic demand
- Potential for inflation protection
- Limited competitive pressure
- High barriers to entry

Infrastructure sector examples

- Transportation & logistics
- Telecommunications & digital infrastructure
- Energy generation, transmission and storage
- Social facilities
- Utilities
- Natural capital



Types of infrastructure investments

There are a number of different types of infrastructure investments, with distinct characteristics

GREENFIELD VS. BROWNFIELD	• Greenfield projects involve an asset that needs to be designed and constructed where no infrastructure previously existed. • Brownfield projects involve existing assets, which might require improvement, repair or expansion, but are already operational and generating revenues or have a proven operational history
AVAILABILITY OR DEMAND-BASED	• Availability-based projects include those where the government, or private offtaker procures the asset and makes periodic payments based on availability rather than usage. Exposure to counterparty risk rather than demand risk. • For demand-based projects the investor bears revenue risk.
CONCESSIONS VS. CORPORATE	• Included within concession structures are government initiatives such as PPPs. For these structures debt is typically secured on the physical asset or contracts: *cashflow lending* • Corporate entities tend to be less leveraged than concession structures and debt is typically more liquid (due to higher volumes of debt issuance in the market): *balance sheet lending*
DEBT VS. EQUITY	• Debt is usually secured on physical assets and/or contracts • Equity investors receive the remaining cash flows from projects after deducting operating costs and debt service.

Source: StepStone Analysis

‘All-Weather’ investment rationale across cycles

The key characteristics that make infrastructure attractive for investors are even more relevant in the current market environment

Downside protection

- Limited competitive pressure from monopoly positions / barriers to entry
- Essential services with relatively inelastic demand
- Long life physical assets or concessions

Diversification and reduced volatility

- Low level of correlation with traditional listed investments
- The predictable nature of the cash flows, reduced volatility and inflation-linked revenues are an essential part of a diversified portfolio

Stable return and yield

- Infrastructure represents an opportunity for enhanced and stable yield relative to fixed income and other asset classes
- The stable nature of cash flows, long-life assets and typically high EBITDA margins result in stable, cash-generative businesses

Inflation correlation and protection

- Inflation correlation is generally achieved through the underlying revenue structures and regulated frameworks
- Inelastic demand, and relatively small end-user cost, allows passthroughs across the economic cycle

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An Evolving Market

Significant need for infrastructure investment globally

$3.9
TRILLION

Global investment required per year from 2026

POWER	ROADS	RAIL	TELECOM	WATER	AIRPORTS & PORTS
$1.3 TRILLION ANNUALLY	**$1.3** TRILLION ANNUALLY	**$0.4** TRILLION ANNUALLY	**$0.3** TRILLION ANNUALLY	**$0.3** TRILLION ANNUALLY	**$0.2** TRILLION ANNUALLY

Source: Global Infrastructure Hub (G20 Initiative) – Global Infrastructure Outlook: Infrastructure Investment Needs (2017), StepStone analysis. May not add due to rounding.
Assumes 50/50 debt-equity funding split. Estimated 33.5% non-Bank/Government debt (Inframation News, StepStone analysis as of June 30, 2022).

Evolution keeping pace with societal needs

More recently, the traditional infrastructure universe has seen the expansion of the digital segment and the development of new investment categories such as energy transition and infrastructure as a service across sectors

EVOLVING INFRASTRUCTURE LANDSCAPE[1]

Traditional infrastructure	Digital & technology	Energy transition	Infrastructure as a service
Generation	Technology infrastructure	Battery storage	Safety services
Transmission and distribution	Internet of Things ("IoT")	Renewable generation, T&D, repowering	Education
Transport	Fiber	Asset development, ops/maintenance	Information security
Water		Hydrogen	Healthcare
Logistics		Carbon capture	
Waste		Carbon credits and reduction	

StepStone analysis. (1) Some of the new infrastructure segments include traditional infrastructure assets (e.g., renewable generation) but have operating profiles with different characteristics (e.g., significant capex plans devoted to transitioning platforms from coal to renewable)

Secular trends drive the investment opportunity

Digitalization
The increasing availability of data, coupled with analytics and automation requires advanced digital infrastructure.

Supply chain transformation
Global supply chains adapt to new requirements arising from new consumer preferences, e-commerce, pandemic, and geopolitical changes

Circular economy
Growing importance of sustainably using natural resources

Population growth, urbanization, and longevity
Global population is growing rapidly in particular in urban areas. Increasing life expectancies and growing middle classes lead to strong demand for social infrastructure

Decarbonization / energy transition
The focus of customers, operators and investors on decarbonization has a profound impact on all aspects of social and economic activity

Strain on public resources[1]
Governments are struggling to fund necessary infrastructure investments. Private capital needs to step in.

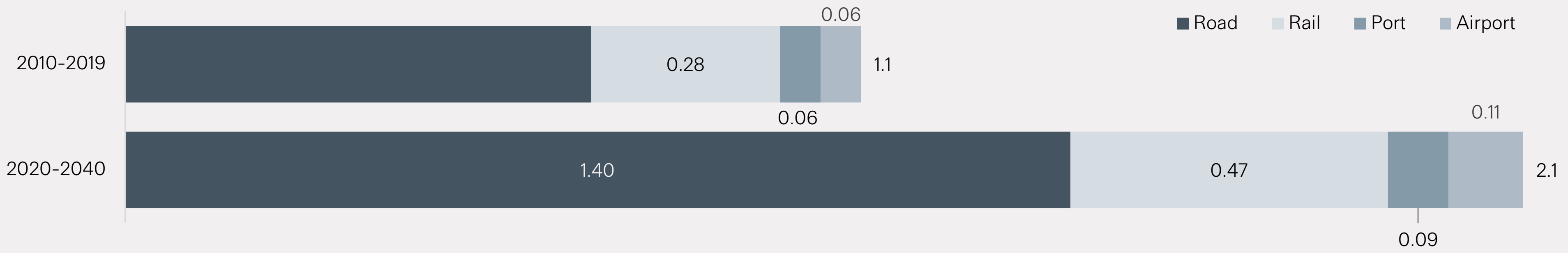
Notes:
1. Reason unrelated to broader growth that may result in increased need for private capital funding.

While investment needs in mobility and transportation are large...

Transportation-related infrastructure is expected to require over US$2 trillion of annual spend largely driven by growing demand, urbanization and required decarbonization initiatives

Average annual investment in transport infrastructure required[1]

US$ Trillions



Trends	Growing Passenger and freight transport demand[2]	• Passenger-km are expected to increase by 2.0x-2.4x from 2015 to 2050 • Freight ton-kilometers are expected to increase by 2.1x-2.6x from 2015 to 2050
	Urbanization[3]	• From ~30% of urban population in 1950 to ~55% in 2018 and expected to be ~70% in 2050

Sources:

1 .Global Infrastructure Outlook, July 2017

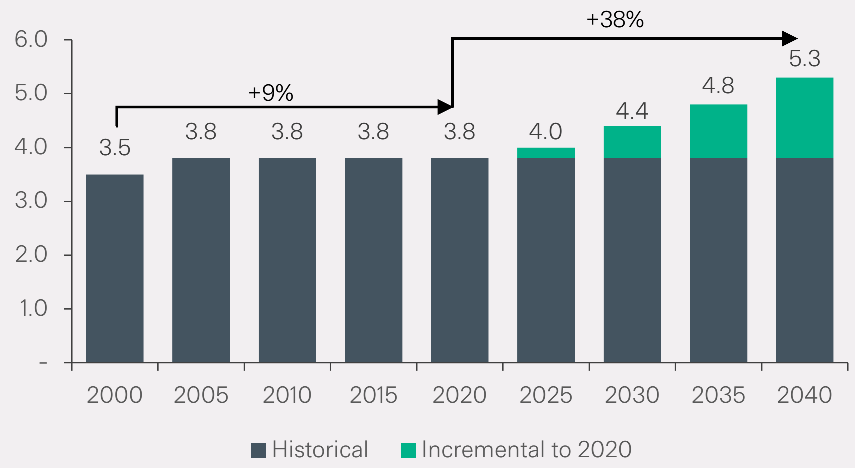
2. Statista, Urban passenger mobility demand worldwide 2050, May 2023

3. United Nations, World Urbanization Prospects, 2018

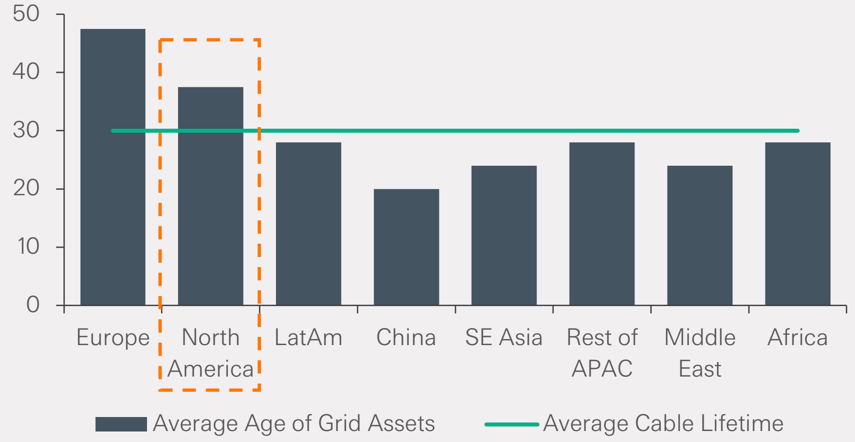
...investment needs in energy are massive...

The US energy grid is forecast to remain short electricity and will require trillions of private capital annually to avoid shortfalls and support economic growth

US Electricity Demand (thousand TWh)



Average Age of Electricity Grid Assets (years)



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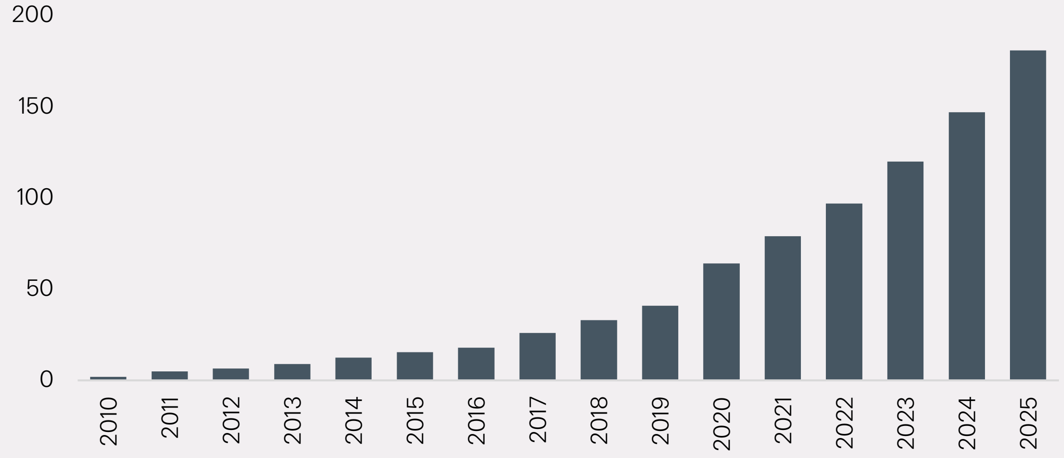
Sources: NextEra Energy, Jefferies Equity Research, June 2024

…and digitalization also requires a lot of new investments

Digital infrastructure has become a cornerstone sector strategy for many GPs

Volume of data created and consumed globally, 2010 - 2025[1]
(in zettabytes)



Exemplary infrastructure investment themes

- Roll-out of fiber networks and their upcoming consolidation
- Densifying existing towers networks and build out of small cells in populated urban areas
- Building data centers prepared for cloud computing and generative AI

Source: Statistica 2023

Why Invest?

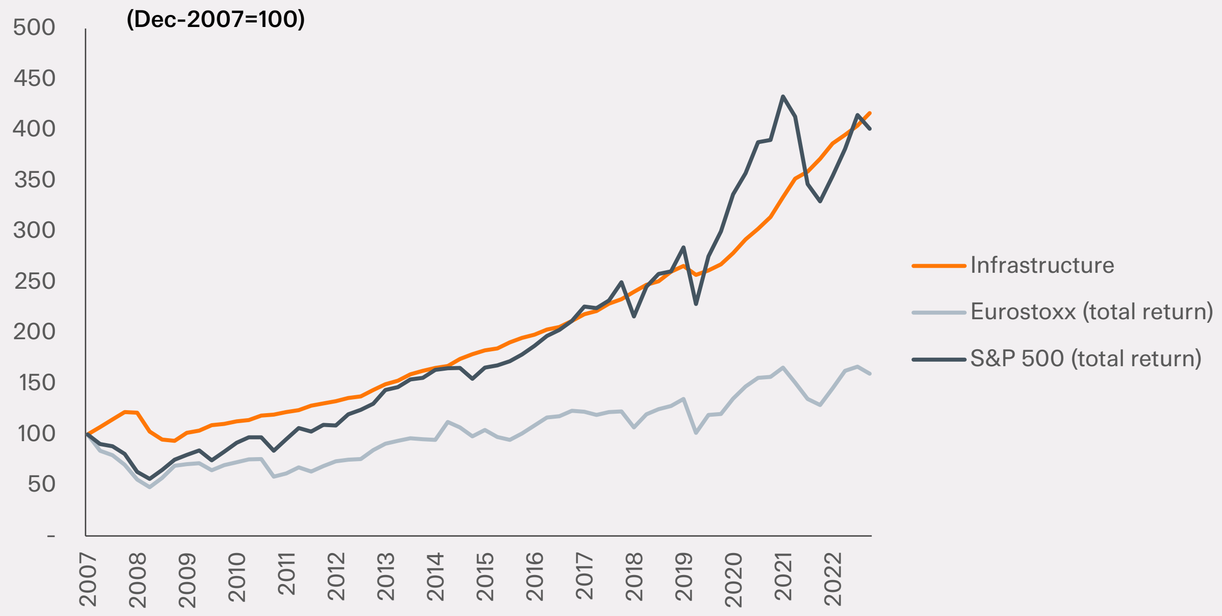
Investors globally are increasing their allocations to infrastructure & real assets as the market continues to grow rapidly

1. Attractive investment fundamentals in the current market conditions
2. Strong sectoral tailwinds driving sustained returns
3. Improved scale and quality of investment opportunities

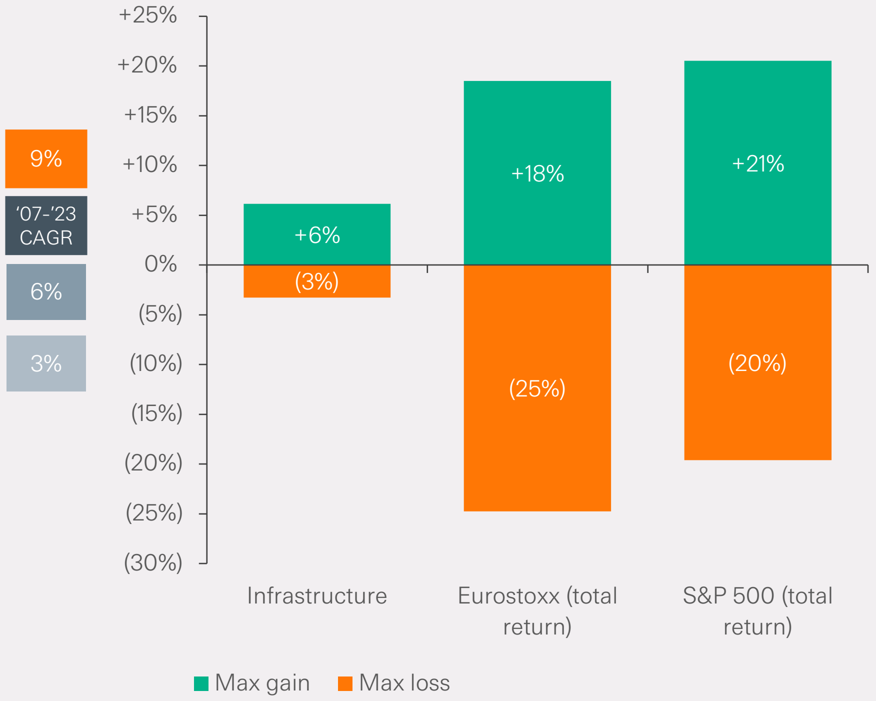
Infrastructure has so far delivered attractive returns, low volatility and downside protection...

Notwithstanding a recent challenging macro environment including a pandemic, soaring inflation and higher interest rates, the asset class has continued to outperform on a risk-adjusted basis

Infrastructure return index



10-year volatility of returns[1]



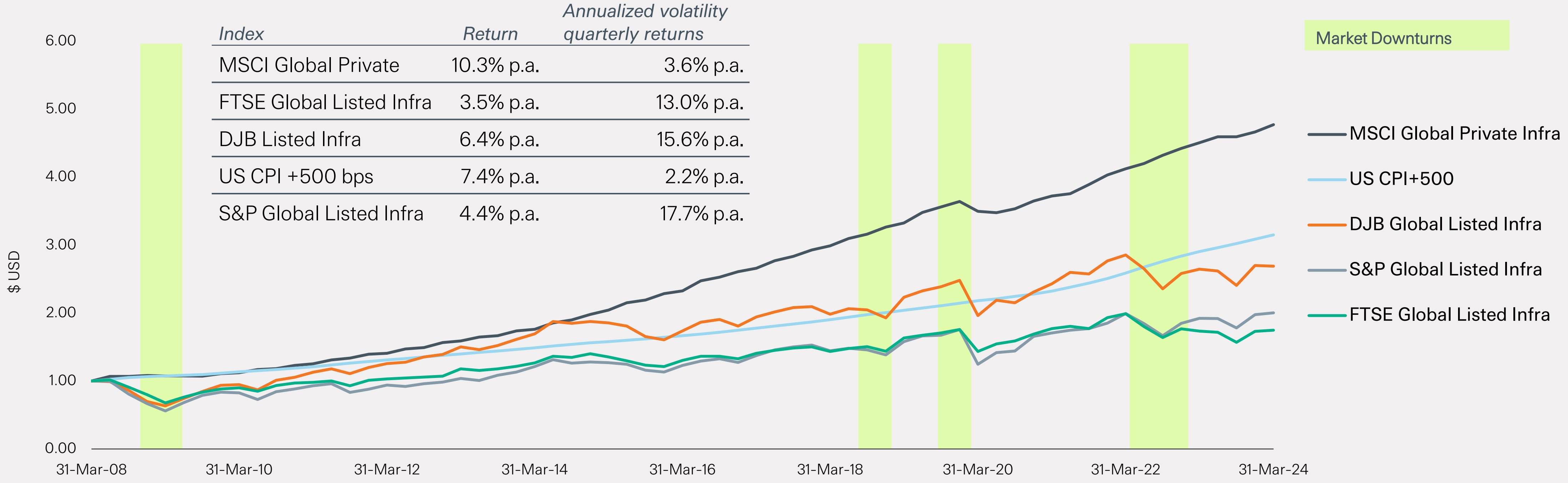
Sources: Preqin; S&P Capital IQ, StepStone analysis, as of September 2023
Note: Expressed as Standard Deviation of quarterly returns over the last 10-years; 10-years to 30 September 2023

Private infrastructure returns vs. public markets

Private infrastructure continues to outperform listed infrastructure with lower volatility

Evolution of USD invested on March 31, 2008
(Quarterly returns)

Index	*Return*	*Annualized volatility quarterly returns*
MSCI Global Private	10.3% p.a.	3.6% p.a.
FTSE Global Listed Infra	3.5% p.a.	13.0% p.a.
DJB Listed Infra	6.4% p.a.	15.6% p.a.
US CPI +500 bps	7.4% p.a.	2.2% p.a.
S&P Global Listed Infra	4.4% p.a.	17.7% p.a.



As of June 30, 2024. Source: Bloomberg & MSCI. Represents total return indices. **Past performance is not indicative of future results. Actual performance may vary.** Indices do not include fees or operating expenses and are not available for actual investment.

Low correlation compared to major asset classes

Public and private market correlations

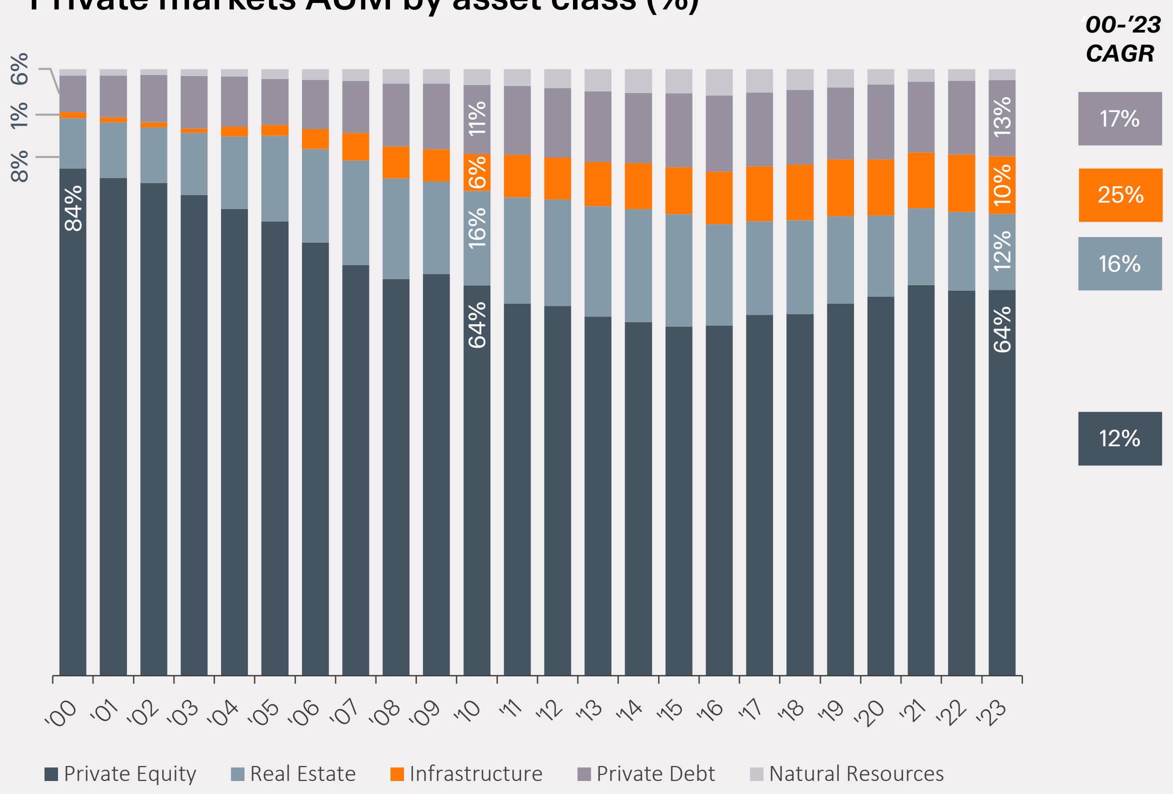
2008-2023	Global core infrastructure
Global core infrastructure	1.0
Global bonds	-0.1
Global equities	0.0
US core real estate	0.4
Private equity	0.2

Source: MSCI, Bloomberg, Burgiss, NCREIF, J.P. Morgan Asset Management. Private Equity is time weighted returns from Burgiss. Global equities: MSCI AC World Index. Global Bonds: Bloomberg Global Aggregate Index. U.S. Core Real Estate: NCREIF Property Index — Open End Diversified Core Equity component. Global infrastructure (Infra.): MSCI Global Quarterly Infrastructure Asset Index (equal—weighted blend). All correlation coefficients are calculated based on quarterly total return data for the period 6/30/2008 — 6/30/2023 (Returns are denominated in USD). Data is based on availability as of November 30, 2023. Burgiss indexes reflect private equity internal rates of return (IRR) while BNY indexes reflect public equity time weighted returns (TWR). There are material differences between IRR and TWR. IRR is the discount rate that equates the cost of an investment with the cash generated by that investment. TWR is the return produced over time by a fund independent of contributions or withdrawals. While IRR accounts for the timing and magnitude of fund cash flows, TWR eliminates the impact of the timing of fund cash flows and isolates the portion of a portfolio's return that is attributable solely to the manager's actions. Funds report unaudited quarterly data to The Burgiss Group when creating the Burgiss Manager Universe. The data is not transparent and cannot be independently verified. The Burgiss Group universe gets compiled four times a year to reflect the best data available. As part of that process, new data is added and transaction history is updated through the latest available quarter, the historical performance of the index is not fixed, cannot be replicated and will differ over time from the data presented in this communication. Burgiss' data universe captures only funds that have self-reported to the data vendor which may not be representative of the entire private equity universe and cause results to be skewed toward funds that have higher performance.
Please refer to slide 22 for a complete list of definitions for each universe.

Infrastructure is a growing segment in private markets

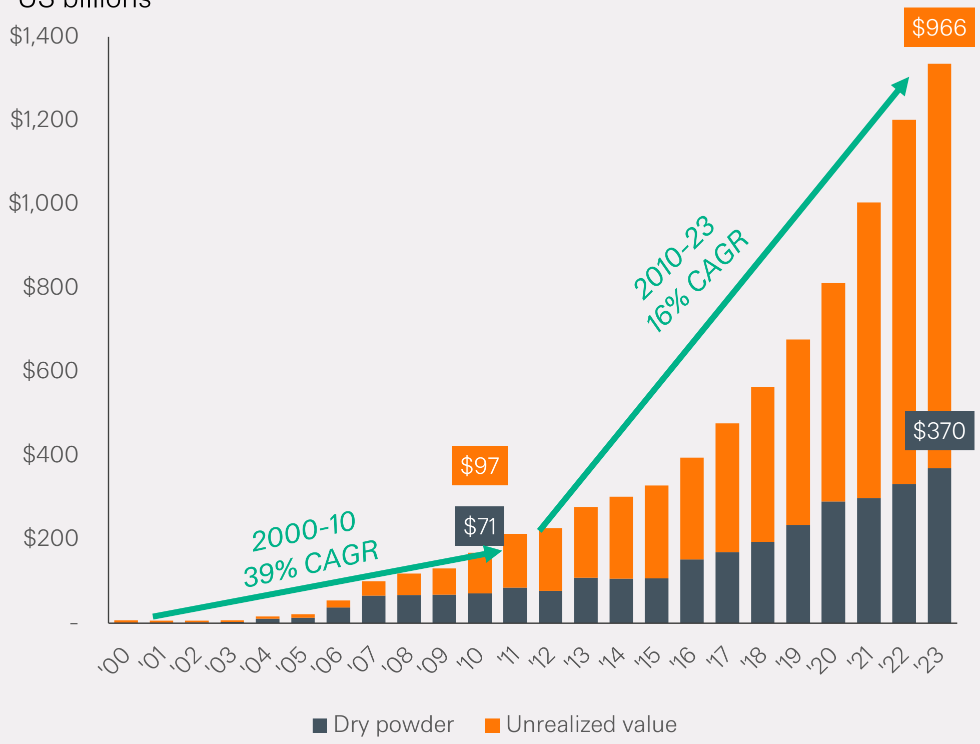
Infrastructure AUM has grown by 25% CAGR since 2000, to 10% of all Private Markets AUM. Post-GFC, capital formation increased from ~$168 billion in 2010 to ~$1.3 trillion in H1 2023

Private markets AUM by asset class (%)



Infrastructure unrealized value & dry powder

US billions



Source: Preqin 2024

In Summary

Key characteristics that make infrastructure attractive for investors are as relevant as ever

Infrastructure characteristics

Provision of essential services: Infrastructure are the backbone for basic, irreplaceable public services that support economic and social activity.

High barriers to entry: High capital costs, geographic location advantages, and contractual and regulatory frameworks, provide high barriers to entry.

Sustainable, recurring, and long-term cash flows: Infrastructure typically comprises long-life assets. Regulation or concessions can last 30+ years, with set pricing provisions over time.

Inflation-linked revenues: Contracted revenues are commonly linked to measures of economic growth such as gross domestic product or inflation.

High operating margins: Infrastructure assets are generally highly capital-intensive, with relatively low operating and maintenance expenses.

Investment rationale

- Stable and predictable income
- Inflation hedge
- Downside protection
- Reduced volatility
- Reduced correlation to public markets

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Thanks for joining!

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