

Quaero Capital's infrastructure strategy focuses on growth stocks

Mon, 24/09/2018 - 09:14

By Beverly Chandler

Swiss-based Quaero Capital, with USD2.3 billion under management, had for five years been offering its infrastructure strategy managed by [Mark Ebert](#) as part of a real assets offering, but the EUR15 million quoted infrastructure strategy has been standalone since March 2017.

Ebert says that, at the time of moving to solely infrastructure, the sector was flying high but has had a trickier passage since then. "I am overjoyed," he says. "It's allowed us to outperform everyone as it is much tougher now to do this business."

Ebert's view is that his competitors track the indices which have been largely flat for nine months but his aim is to achieve OECD inflation plus 5 per cent, to reflect the fact that most quoted infrastructure stocks are highly correlated to inflation.

"This gives us the opportunity to do what we want but we don't have to go in the same direction as everyone else. It's during a disappointing period for the index that it's interesting for us to be there," he says.

The infrastructure portfolio consists of growth stocks and Ebert avoids high yield and value stocks. "We like companies that are growing fast, re-investing in their businesses and paying out small dividends."

Appealing stocks are dictated by the macro economic environment and his top down asset allocation process.

"Major themes are GDP growth which is solid around the world right now and the only really hugely negative thing on the horizon is trade war and the strong dollar which affects emerging markets."

Ebert believes that economically sensitive high growth infrastructure is to be found in transportation. "Our biggest allocations are to toll roads, rail, airports and then high growth communications infrastructure," he says.

“Things like networks of telephone towers for mobile phones. We love those and they are high growth right now and the dynamics are affecting them positively. We do have a value idea in there too as some satellite companies are underpriced right now.”

He also invests in optical fibre installations, particularly sub-sea connections from California to Asia or New York to London.

Communications infrastructure generally is the second biggest sector in the fund. “We differentiate between phone companies because the infrastructure they use is changing radically with cable data storage and other new ideas coming through all the time. However, we try to avoid a technology exposure and none of our stocks are listed on Nasdaq.”

Quaero invests using ESG principles so there are no stocks linked with fossil fuels or nuclear power.

“We do look at firms that are generating renewable energy but that is a tough sector if you are only doing renewable generation.”

Ebert has strong views on the ETFs available in his sector. “Investing in an infrastructure ETF is one of the more stupid things investors can do because the majority of the infrastructure indices are invested in electrical generation and mid-stream oil and gas,” he says. “These are really boring industries right now and you will get no communication infrastructure or renewable energy. We are moving with the trends and looking for growth. Anyone who wants to invest in infrastructure would be wise to consider an active manager.”

Performance in Ebert’s fund is flat year to date which is competitive with the competition, he says. Looking forward, he says a lot depends on interest rates.

“Inflation looks like it is creeping up and infrastructure is correlated to inflation. If we see inflation, stocks will pick up.”

Ebert also observes that, around the world, governments are promising huge infrastructure spending with a USD1.3 trillion infrastructure spend planned in the US for starters.

The recent collapse of a bridge in Genoa with the deaths of 43 people will make other governments worry if they haven’t kept up their maintenance schedule, Ebert says.

“Governments will wake up to the fact that underinvestment in transport is fairly dangerous which will be good for that part of the infrastructure sector.”

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