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MEDIA RELEASE

GLI diversification achieves climate, financial objectives for super funds

Global listed infrastructure (GLI) investors need to look beyond the standard global benchmarks to make the most of net zero emissions opportunities, and achieve better outcomes under the Your Future, Your Super reforms (YFYS), according to Redpoint Investment Management portfolio manager, Toby Bellingham.

A focus on any one infrastructure benchmark will not provide sufficient diversification within GLI, with investors limiting exposure and potential investment returns, Mr Bellingham said.

"The GLI space in particular has undergone significant change in recent years, particularly with utilities, however the relevant global benchmarks representing the infrastructure universe don't adequately reflect this.

"As part of the transition pathway towards achieving net zero emissions over the next five, 10 and 20 years, investment portfolios need to be positioned to better reflect some of these changes," he said.

He said an investment approach exists which provides institutional investors, including superannuation funds, with diversified exposure to global renewables, delivering improved returns, reduced portfolio risk, and which satisfies requirements of the YFYS reforms.

"There is limited exposure to renewables in any benchmark, but particularly within the benchmark chosen under the YFYS reforms - the FTSE Developed Core Infrastructure Index. This index which contains just one stock - US-based energy company, NextEra Energy.

"If super funds assume a zero active-risk position relative to the benchmark, they will end up with a concentrated single stock that fails to capture a far broader opportunity set. It also means they are limited at a country level, which carries risk," he said.

Mr Bellingham said one investment approach to GLI is to capture the defensive growth characteristics of the infrastructure universe by creating a diversified portfolio that can be used as a core and liquid allocation to the sector.

"This way, investors can gain more diversified exposure to the potential benefits of the global transition to net zero. The approach is flexible and scalable in meeting a range of risk budgets, and substantially reduces stock and country-specific risk.

"Opportunities do exist to stay active and outperform, while also providing exposure to one of the biggest transition and investment developments in the coming years and decades. Investors are encouraged to re-evaluate their exposure to renewable investments before they miss out altogether," he said.

Mr Bellingham's comments precede the UN Climate Change Conference in Glasgow later this week, where global efforts towards reducing the impacts of climate change will be discussed by world leaders.

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