



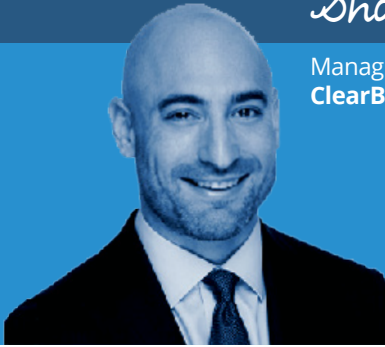
TALKING WITH



Shane Hurst

Managing Director, Portfolio Manager
ClearBridge Investments*

Talking infrastructure and inflation with Shane Hurst, Managing Director, Portfolio Manager at ClearBridge Investments* and Richard Romer-Lee, Chief Executive Officer of Square Mile.



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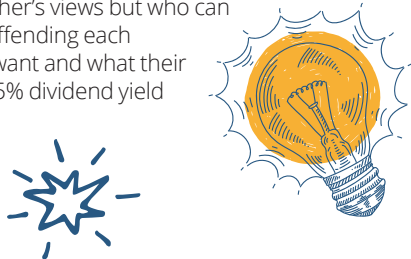
HOW DID YOU GET INTO FUND MANAGEMENT?



I started in strategy and economics at AMP having answered a job ad in a newspaper. There I met Charles Hamieh and developed a passion of understanding companies and how to invest in them. I left AMP to become an analyst at Tribeca Investment Partners – an immature industry in Australia at the time – and was given the sectors that no-one else wanted to cover. This included covering infrastructure and utilities in the Australian market. I spotted a gap in the market and took a proposal to launch a fund to the CIO. With a large client's backing we launched a fund investing in Asia Pacific infrastructure. It became clear that to access the best opportunities in companies with stable cashflows and growing dividends, the strategy should be global rather than regional. That's when I joined RARE Infrastructure with Charles some 12 years ago.

WHAT MAKES A GOOD FUND MANAGER?

Having a solid investment process which you adhere to even in tough times. The pragmatism to change your view when presented with new evidence. The ability to look through the noise and take a long-term view. Having a team who respect one another's views but who can have robust conversations without offending each other. An awareness of what clients want and what their objectives are. In the UK it is a 5% dividend yield with some capital upside.



WHO ARE YOUR CLIENTS?

We have institutional and retail clients all around the world. The former in North America, Australia, Asia and Europe, and retail clients in UK, Australia and the US. We run a single model and all portfolios are based on this. Our biggest institutional client is in the US and retail client is in Australia, followed by the UK.



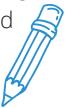
YOU LAUNCHED THE INFRASTRUCTURE INCOME STRATEGY IN THE UK FIVE YEARS AGO. WHAT HAVE BEEN THE HIGHLIGHTS?

Delivering what we set out to achieve for clients who have seen a 5% income through the cycle and growing, with some capital upside, using an unconstrained approach. In 2020, for example, we looked very different to the market and others, which served us well. We are proud of how this approach has worked over the past five years in what has been at times been a very volatile market.



WHERE ARE THE OPPORTUNITIES?

The global recovery, especially in areas like Europe, means we are seeing value emerging in roads, rail and airports. We expect these to recover really nicely over the coming years. The second area which has been highly publicised and is part of why we did well last year is the decarbonisation theme and how it flows through infrastructure and utilities.



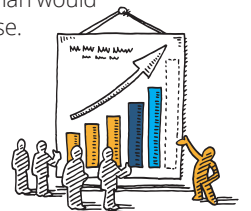
We have worked hard to understand the impact on our universe and have found companies that are leveraged to this multi-decade trend. For example, we reckon some Euro17 trillion of the over Euro40 trillion clean energy spends will go into networks and is likely to be wrapped up in regulated assets, upon which we earn a regulated return. That's very powerful. Companies like EDP will spend 5 times their enterprise value over the coming years. Utilities and infrastructure are at the forefront of the decarbonisation trend.



In future we should get far more stable outcomes from US utilities than would previously have been the case.

WHAT EXCITES YOU IN MARKETS AT THE MOMENT?

The expected returns in our portfolio are 11% per annum with a dividend yield of 5% growing at 5.5% per annum. That's very exciting!



We continue to see mispricing between private markets and listed markets. For example, in the last 6 months the US-based company Centreport sold its gas assets at a massive premium to an unlisted investor, whilst Duke sold its electricity assets at a 20% premium. There are tremendous opportunities in this sector.



HOW DO YOU CONSIDER ESG INTEGRATION AND OFFERING RESPONSIBLE OBJECTIVES?

We have spent a lot of time on this since we set out some 12 years ago. It has always been integrated, but has evolved from an externally dependent model, using a range of suppliers of information, to one that is now fully internalised. We use a scorecard-based approach covering a number of factors and try to understand the impact of these on cashflows. We do a lot of scenario testing too. These help us in how we engage with companies to understand potential issues, for example labour practices, and, in this case, any impact on operating expenses and cashflows.



WHAT WORRIES YOU?

We need to continue to evolve and improve so I mostly worry that we are doing enough to make this happen. In markets I am concerned about the potential for a policy mistake by central banks, with inflation rising. We do not want them to overreact. As an investor in infrastructure, we have the tailwind of the decarbonisation spend, and the benefit of push-back from regulators if the rate payers cannot bear the resultant increase in prices. I would worry if governments' commitment to net-zero was to change. This doesn't seem likely in Europe but there is some way to go in the US, for example.



WHAT ADVICE WOULD YOU GIVE TO THOSE STARTING OUT IN THEIR CAREER?



Back yourself – it's so important in any career and in life in general. Look at a variety of options before committing to just one. In asset management, find your own style and learn from others to improve. Think differently, be humble and surround yourself with people who are smart.

I was given similar advice at Tribeca. As a junior analyst I was told to do 10% per annum, and that getting 4-5% from dividends and another 4-5% from growth in capital, was doing well. It turns out that it was good advice.

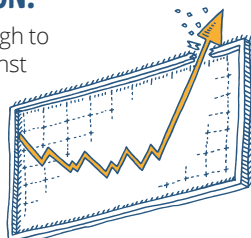
HOW IS FUND MANAGEMENT REGARDED AS A PROFESSION IN AUSTRALIA?

It is recognised as a separate and boutique industry from bankers. We are fortunate in that we are well regarded as a group. We have delivered good returns and there have not been too many mishaps where people have lost lots of money. Nor is the media overly critical. It's brutally competitive though.



ARE YOU CONCERNED ABOUT INFLATION?

No. Infrastructure utilities pass inflation through to their customers, which works as a hedge against inflation. It can create volatility in the asset class in the short-term if inflation is short-lived, but we see this as an opportunity which allows us to reposition our investments and hopefully make better returns.



WHAT HAS BEEN THE IMPACT OF COVID?

We have been fortunate in Australia in that it's an island and we have had a very limited number of cases. The policies of the fantastic state government here in New South Wales and the rather ordinary central government has meant low case numbers, but a slow roll-out of vaccines. We have been back in the office for over 6 months. The situation has actually allowed us to have more interactions as we don't need to fly to see people.



I hope the improvement to work/life balance will be permanent. The team is happier and more efficient being able to work from home a couple of days a week. There are certain circumstances which necessitate us being together, but incremental meetings do not need to be in person.

HOW DO YOU RELAX?

My family – my wife and two children – take up lots of my time. I read lots – I particularly enjoy science-fiction and great investment books. At the moment I'm reading 'The Reality Revolution' by Brian Scott, about changing the mode of how you think. I used to play electric guitar but now it's acoustic, mainly rock and country. My son has picked it up too which is great fun. I am a big sports fan, rugby league, basketball and of course cricket. Sadly, I can't see Australia winning the ICC Men's T20 World Cup later this year.



*A Franklin Templeton Specialised Investment Manager

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