Finding Resilience During a Pandemic: Global Infrastructure

Around the world, nations have taken unprecedented action to flatten the spread and duration of the COVID-19 pandemic. While these initiatives have led to improved health outcomes across many countries, there are still other nations in the earlier stages of virus transmission. As we navigate potential future waves of the virus, we maintain conviction in the income resilience exhibited within our alternative investment strategies.

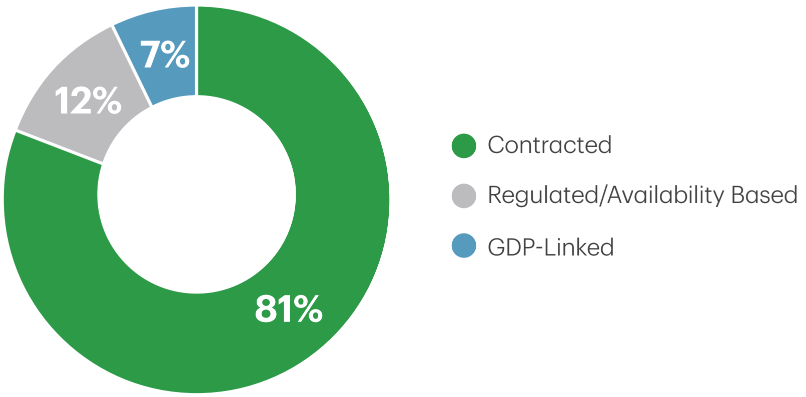
In this paper, we highlight opportunities and strategies across the infrastructure asset class that we believe will provide resilience through the pandemic.

Global Infrastructure

2020 ushered in the largest global crisis in a generation with the spread of COVID-19 and physical distancing measures enacted worldwide. These measures have impacted the global economy and markets, putting stress on all asset classes. Infrastructure, by definition, are assets that provide essential services to the economy, somewhat insulating them from the shut-down of non-essential businesses. However, infrastructure as an asset class has a wide and expanding definition, and not all infrastructure is created equal. We believe the resilience of infrastructure through times of stress is dependent on a number of factors, including stability of cash flow, organic growth and high-quality management. As part of your multi-asset portfolio, we believe these factors are essential to infrastructure providing diversification, return enhancement and inflation protection.

Infrastructure assets require significant upfront capital expenditure, are designed to operate for multiple decades, and are often strategically situated with key access to the economies they serve. Infrastructure investors require highly predictable revenue to justify the significant investment, and this revenue can come in a number of different forms: from regulated revenue, to long-term contracts, to GDP-linked or usage revenue. Each one varies in how predictable the revenue of the asset will be. Regulated revenue or long-term contract payments are often set for decades with dependable counterparties providing significant resiliency to the asset in times of stress. GDP-linked or usage revenue depends on individual customers, such as planes through an airport or cars on a toll-road. These revenues can fluctuate and, given the unprecedented nature of the pandemic response, GDP and usage linked assets have seen the greatest stress with volumes being down 50-70% in some cases. The TD Greystone Infrastructure Fund[1] (the "TDG Infrastructure Fund") focuses on stable and growing cash flow. To this point, the TDG Infrastructure Fund entered 2020 with 93% of its revenue contracted and/or regulated, as shown in **Figure 1**, limiting the cash flow impact of the pandemic and helping stabilize overall investment programs.

Figure 1: Revenue Profile of the TD Greystone Infrastructure Fund

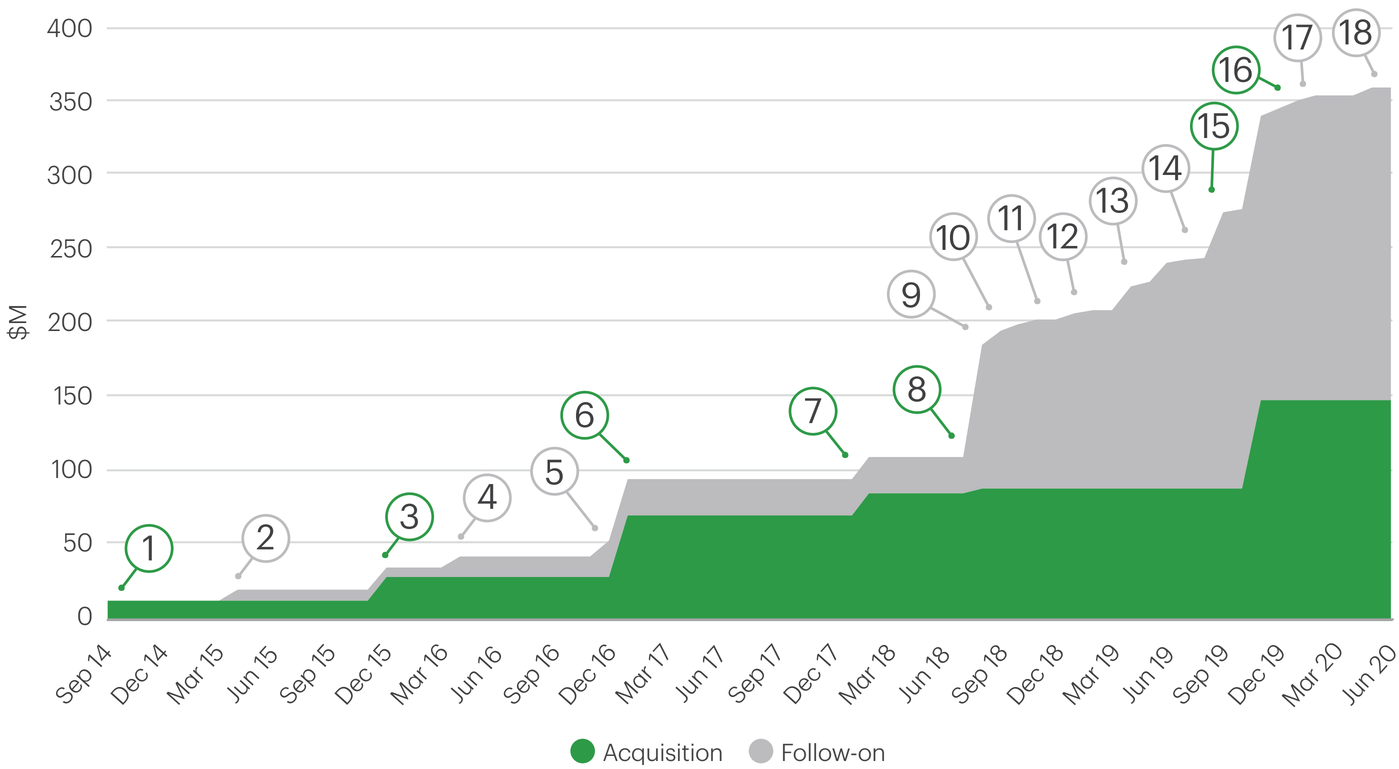


Source: TD Asset Management. As at Jun 30, 2020.

[1] The TD Greystone Infrastructure Fund (Canada) LP and the TD Greystone Infrastructure Fund (Canada) LP II (the "Feeder Funds") invests in units of a master fund, the TD Greystone Infrastructure Fund (Global) LP (the "Master Fund"). The Master Fund invests in the allowable infrastructure investments outlined in its Investment Policy.

Infrastructure investments can grow either through acquisition of existing projects or through the construction of new projects related to existing investments, also known as organic growth. The TDG Infrastructure Fund employs a platform approach for organic growth, where it invests in companies that develop, build and manage infrastructure projects in a specific sector. This provides the opportunity to deploy capital into new infrastructure development projects, allowing for efficient investment of capital outside of competitive auctions for new assets, and ultimately providing access to early stage proprietary infrastructure projects that can potentially enhance returns. In a period of uncertainty with significant restrictions delaying new transactions, such as the environment we face today, this pipeline of proprietary deal flow provides the TDG Infrastructure Fund with a competitive advantage to continue to grow, as shown by the grey area in **Figure 2**.

Figure 2: Organic Follow-on Transactions in the TD Greystone Infrastructure Fund



1. Silicon Ranch Corporation (United States)
2. Silicon Ranch Corporation (United States)
3. Ballycadden Wind Farm (Ireland)
4. Silicon Ranch Corporation (United States)
5. Silicon Ranch Corporation (United States)
6. Rabbalshede Kraft AB (Sweden)
7. Crowsnest Pass Power Plant (Canada)
8. CDN Airport Development LP (Canada)
9. WCSB Power (Canada)
10. Rabbalshede Kraft AB (Sweden)
11. WCSB Power (Canada)
12. Silicon Ranch Corporation (United States)
13. CDN Airport Development LP (Canada)
14. Rabbalshede Kraft AB (Sweden)
15. CT Service Plazas (United States)
16. AB PowerLine (Canada)
17. WCSB Power (Canada)
18. CDN Airport Development LP (Canada)

Renewable Energy (Solar) | Renewable Energy (Wind) | Transportation (Highway Service Centres) | Power Generation | Transportation (Airports)

Note: Equity deployed for the infrastructure strategy comprised of the TD Greystone Infrastructure Fund (Global Master) L.P., the TD Greystone Infrastructure Fund (Canada) L.P. and the TD Greystone Infrastructure Fund (Canada) L.P. II.
Source: TD Asset Management.

Within our platforms, local management teams are responsible for the day-to-day operations of the infrastructure and for future development. While the TDG Infrastructure Fund is global, infrastructure is a local business that requires understanding of local permitting processes, contracting opportunities and local stakeholders. Having specialized management teams focused on specific sectors in specific geographies not only provides us with the best management of existing projects, but also enhances the opportunity for growth. Given pandemic-related border crossing restrictions, having teams on the ground — where our assets and developments are located — is an important feature of the TDG Infrastructure Strategy, as highlighted in the following case study.

A Case Study in the Resilience of Infrastructure: Canadian Airport Developers LP

With the closing of international borders and restrictions on non-essential travel, airports and air travel have been among the hardest hit businesses during the pandemic. Infrastructure investors with direct exposure to airports have seen write-downs of 30% in these usage-based investments, while air traffic is down over 70%.

In 2018, the TDG Infrastructure Fund invested with the Rice Group to form Canadian Airport Developers LP, an investment platform focused on developing behind-the-fence airport logistics facilities and hangars. This unique investment provides our strategy with stability of income through long-term lease contracts that do not depend on non-essential passenger travel at the airport, and are instead leased with fixed-base operators and logistics providers. In addition, the Rice Group has worked with TD Asset Management Inc. on a number of investments across real asset funds, and is an example of the wide reaching relationships available to the TDG Infrastructure Strategy that is bolstering the ability to acquire and manage new developments, again facilitating reliable and non-competitive organic growth. To date, the TDG Infrastructure Fund has made investments at 3 international airports that provide income independent of non-essential travel, and recently completed construction of a hangar at Toronto Pearson International Airport. Given the essential nature of these facilities, and that they are relatively insulated from the disruption in passenger traffic, we have not seen any write down in values, effectively ring-fencing the income from the wreckage of the Covid-19 pandemic, while airport investments have seen valuation decreases in excess of 10% globally.[2]

Conclusion

The economic consequences of the COVID-19 pandemic continue to unfold and, unlike previous crises, there are direct impacts to real assets in the form of income disruption due to government-imposed restrictions on business activity. For alternative investment managers, portfolio construction, asset quality, managing relationships and risk management are critical factors in navigating the current environment. Moreover, during this pandemic, there are areas of the market that continue to provide enhanced income stability, capital preservation and income growth potential.

Ultimately, the role of real asset investments within an investor's total portfolio mix remains steadfast in providing attractive income, lower correlation and improved diversification with other asset classes, translating into higher expected risk-adjusted returns for total investment programs. ■

Infrastructure

[2] EDHEC Infra: Lessons from COVID-19 Lockdowns, June 2020.

Resilience

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