GCP Infrastructure Investments Ltd: Q&A with Investment Adviser

Phil Kent, Investment Adviser of GCP Infrastructure Investments Ltd, answers questions on the capital allocation policy, investment opportunities, share price performance, and cost disclosure.

Key take-outs:

- The Company aims to execute a £150m capital allocation policy, with £38.2m already disposed of and a pipeline exceeding £150m.
- Ambitious UK renewable energy targets include 60GW offshore wind, 50GW solar PV, 30GW onshore wind, and 10GW of low-carbon hydrogen by 2030.
- The share price disconnect stems from rising interest rates, which increase discount rates, debt costs, and competition from traditional fixed-income assets.
- Double counting in cost disclosure regulations has caused confusion and reduced investment in some cases.
- Challenges persist with investment platforms continuing to require outdated cost disclosures.

Capital allocation policy

Do you expect to fully execute on the targets laid out in the capital allocation policy, and what is next for the Company once it has completed its stated aims?

To facilitate the aims of the policy, the Investment Adviser has been focused on executing disposals and refinancing processes to realise the £150m capital target. The Company's disposals total £38.2m at the end of 2024, with a pipeline of additional disposals in excess of £150m. We have experienced consistent delays across transactions throughout the year, with processes taking longer than expected across all sectors. However, the Board and the Investment Adviser remain committed to achieving the stated aims of the capital allocation policy as quickly as possible.

The capital allocation policy was developed in conjunction with shareholders to help address the disconnect between share price and NAV. Once the Company has executed on the stated aims of the policy, the Board will re-evaluate its position based on the price at which shares are trading. If there is a material discount thereafter, the Board will evaluate the merits of continuing to return capital to shareholders against the risks of decreasing the Company's scale. Nevertheless, we, and the Board remain optimistic about future investment opportunities.

The new Government has made encouraging commitments to decarbonisation that will require significant investment across the UK. A heightened interest rate environment also offers the opportunity to take materially reduced risk to achieve the same level of return or capture elevated returns from new technologies that will form part of the Government's decarbonisation mandate.

Investment opportunities

Where does the Investment Adviser see attractive opportunities in the UK infrastructure market?

The UK infrastructure market finds itself in a far better position than it was at this time last year, with aggressive ambitions for deployment of renewables: 60GW offshore wind, 50GW solar PV, 30GW onshore wind, and 10GW of low-carbon hydrogen capacity, and decarbonisation of the electricity grid by 2030. This comes alongside policy support in a number of new sectors, including a cap and floor scheme for long-duration energy storage, and ambitions for four industrial carbon capture and storage clusters sequestering 20 to 30 million tonnes of carbon dioxide per year by 2030.

The Company is well placed to benefit from a transitioning subsidy landscape and has a track record of being an early mover in new sectors, particularly through its focus on debt. Significant policy developments will be required in the next decade to support widespread decarbonisation across existing sectors (wind and solar), but also across a broad spectrum of industries including heat, transport, industry, and agriculture. There are attractive opportunities to benefit from enhanced returns in new technologies before yields compress, which is an approach the Company has a legacy of executing. Fundamentally, the ambitions stated will require levels of investment that have not previously been seen, and this will stretch liquidity in the market, providing further investment opportunities for the Company.

Share price performance

What do you believe has caused the disconnect between share price rating and NAV?

There are several reasons for the discount between the share price and underlying NAV. One of the most significant reasons is the current interest rate environment, as increases in base rates have fed through to discount rates, which has caused valuations to decrease. This has increased the cost of debt, with many investment companies relying on leverage for capital deployment programmes and to enhance returns. At the same time, investors have seen an attractive opportunity to reallocate into traditional fixed income such as government and corporate debt.

We now find ourselves in a position where central banks have started to cut interest rates, and we hope that as this progresses the relative attractiveness of listed investment companies increases.

The increased interest rate environment has highlighted areas of stress within some investment companies, where shareholders have focused on valuations, highlighting a lack of uniformity in methodology. In a handful of isolated cases, flaws in certain approaches have caused contagion across a whole asset class, such as social housing and battery energy storage.

Cost disclosure

Can you explain the legacy of double counting in cost disclosure, and what recent developments mean for investment companies?

In the United Kingdom, the Financial Conduct Authority ("UK FCA") is responsible for implementing regulations to ensure a financial product is transparent when disclosing the costs associated with investing. These costs can include fees for fund management, transaction costs or the charges of underlying assets. The aim for cost disclosure is to provide investors with a clear view of how much they are paying, which allows them to make informed decisions. In 2018, the European Union ("EU") introduced the Packaged Retail and Insurance-based Investment Products ("PRIIPs") regulation, which required investment managers to provide retail investors with a Key Information Document ("KID"), explaining a product's features, risks and all associated costs, including their ongoing charges figures ("OCFs"). This regime runs parallel to the 2009 Undertakings for the Collective Investment in Transferable Securities ("UCITS") regulation, which applies to the EU and any UK funds that market themselves to EU investors.

Following Brexit, the UK began work on updating its own PRIIPs regime, with the UK FCA reviewing and adjusting the framework to make it more relevant to the UK market. As part of this, the UK FCA implemented new cost disclosure guidance on 1 July 2022, which required closed-ended investment companies to report in the same way as open-ended funds. These regulations aimed to increase transparency for non-UCITS vehicles by requiring them to disclose their costs more clearly. However, as investment companies already provided detailed cost information under the former rules, institutional investors and intermediaries were made to report these costs again in their own disclosures to clients, which has resulted in double counting. As a result of the double counting, some investors have been unable to invest in investment companies or have significantly reduced their exposure.

It is broadly accepted by the industry and by the Government, that this single aggregated figure is not an accurate representation of the actual costs of investment in shares in an investment company. Following the successful campaigning of a group of parliamentarians and industry participants, HM Treasury proposed a Statutory Instrument to remove the requirement for investment companies, along with persons advising on or selling shares of investment companies, to produce a KIID. Additionally, investment companies, and firms investing in them will not be required to disclose costs and charges relating to investment companies to clients, pursuant to the MiFID Org Regulation.

The Statutory Instrument became law on 22 November 2024. However, additional issues have been encountered post period end, with investment platforms continuing to require ongoing charges to be disclosed in the KID. We continue to monitor the impact of cost disclosure on the Company, and the Investment Adviser has been active in the campaign to resolve the issue.

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Any decision to invest in GCP Infra must be based solely on the information contained in the Prospectus, the latest Key Investor Information Document and the latest annual or interim report and financial statements.

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