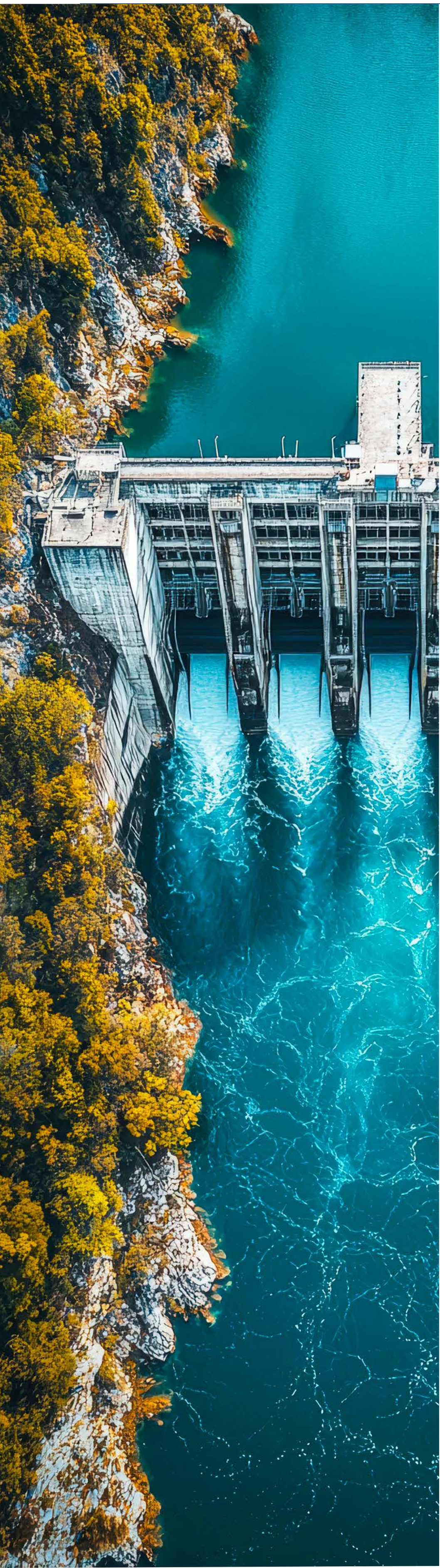
FIERA CAPITAL

SEPTEMBER 2025



Infrastructure Equity: A Strategic Inflation Hedge

As governments grapple with fiscal constraints, private capital is increasingly stepping in to fund critical infrastructure projects.

Infrastructure assets – spanning utilities, transportation and digital networks – provide essential services with inelastic demand, making them resilient to economic cycles and particularly attractive to institutional investors.

In today's inflationary and volatile environment, infrastructure equity has emerged as a compelling asset class. It has the potential to offer a unique combination of stable cash flows and long-term capital growth. Many infrastructure investments are underpinned by contracts indexed to inflation, enabling revenues to rise in tandem with costs and preserving real returns.

Inflation remains a persistent concern for investors focused on preserving and growing capital over the long term. The recent resurgence of inflation to multi-decade highs has underscored the importance of assets that can deliver inflation-hedged returns. Infrastructure equity stands out in this regard, offering tangible value and steady income that can help mitigate the erosive effects of inflation.

As we'll explore, case studies such as Cory and Augean illustrate how infrastructure businesses can thrive in inflationary periods through indexed contracts and long-term client relationships. The Fiera EagleCrest Infrastructure Strategy exemplifies this approach, leveraging diversification, active management and inflation-linked revenues to deliver resilient performance.

For investors seeking to protect purchasing power and enhance portfolio stability, infrastructure equity presents a powerful hedge against inflation and a strategic opportunity for long-term capital appreciation.

Defining Infrastructure Equity and Its Role in a Portfolio

Infrastructure assets include traditional sectors like transportation, utilities, energy infrastructure and communications, as well as modern infrastructure enabling digitalization and the energy transition.

These are typically tangible, long-lived assets that provide essential services with relatively inelastic demand. Because they deliver fundamental services (toll roads, transportation, utilities, railways, etc.), they tend to generate stable and predictable cash flows over decades.

Infrastructure equity investors earn returns from the operating cash flows, dividends and potential capital appreciation over time. Infrastructure equity has gained prominence as an asset class over the past several decades, moving from small allocations in a select few portfolios to finding itself in mainstream institutional portfolios[1].

Infrastructure equity serves as a portfolio stabilizer and diversifier, offering capital appreciation, durable income and inflation protection within a single asset class[5]. These qualities make it a strategic allocation, particularly in environments where defending against inflation is a priority.

The appeal lies in several characteristics that infrastructure offers as a portfolio component:

1

Economic Stability and Predictable Cash Flows

Infrastructure investments provide steady income streams and the potential for long-term capital growth as assets appreciate or new projects or adjacencies are rolled out. For example, many infrastructure assets can pay consistent dividends that often keep up with or exceed inflation[2], supporting investors' income needs during periods of volatility.

2

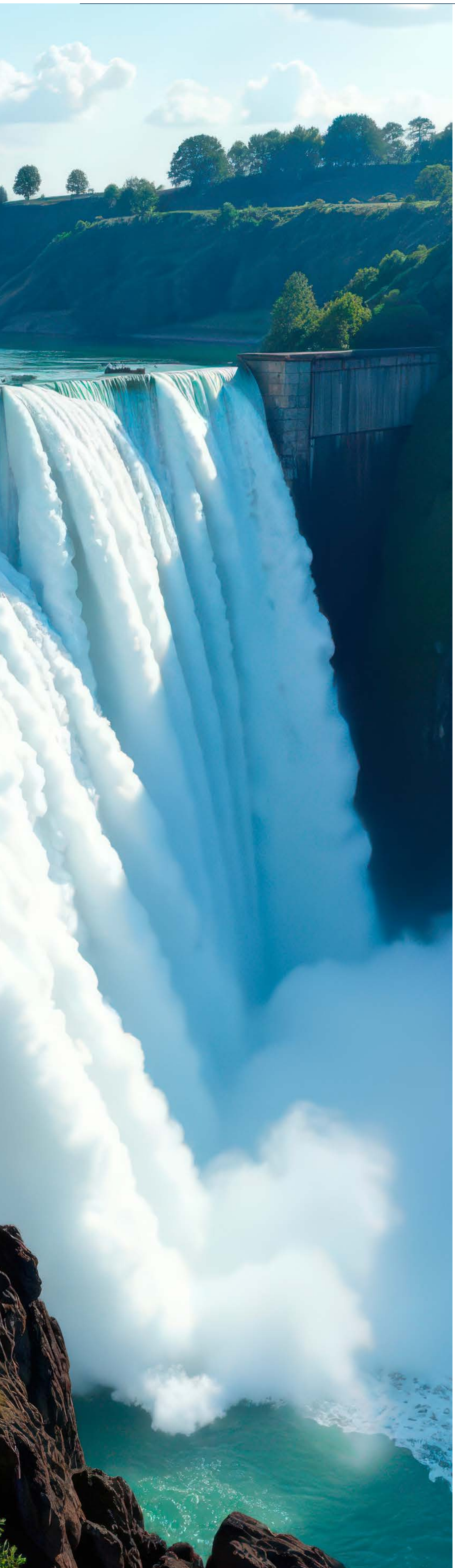
Diversification and Low Correlation

The performance of infrastructure equity tends to have low correlation with traditional equities and bonds, since demand for essential services is less tied to economic cycles[3]. This means adding infrastructure to a portfolio can improve diversification, smoothing out returns across market cycles and advancing a portfolio's efficient frontier. Infrastructure as an asset class has historically exhibited lower volatility than broad equity markets, providing more stable returns and an element of defense during market turbulence[4].

3

Long-Term Horizon Alignment

Infrastructure projects often have multi-decade life spans and concession periods, aligning well with the long-term liability structure of investors like pension funds and insurance companies.



Why Infrastructure Equity May Be Well-Suited to Hedge Inflation

Infrastructure equity has recently been cited as a natural inflation hedge. Several features of infrastructure businesses allow them to withstand – and even thrive in – inflationary environments:

Inflation-Linked Revenues

A significant number of infrastructure assets operate under contracts that explicitly link their revenues to inflation. For instance, utility companies and transportation concessions typically have rate adjustments tied to consumer price indices. In practice, this means that when inflation rises, the prices these businesses can charge (for electricity, water, tolls, etc.) automatically increase with inflation[6].

Tangible Assets

Infrastructure assets are physical facilities with significant construction and replacement costs. In an inflationary environment, the cost to build or replace these assets rises, which in theory boosts the replacement value of existing infrastructure.

This provides a form of asset value hedge: the infrastructure asset itself tends to be worth more when inflation is high.

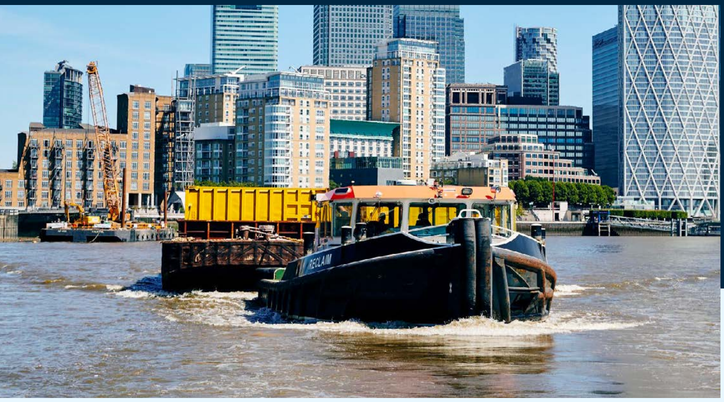
Essential Services

Even in cases where formal inflation indexation is not in place, infrastructure investments usually provide essential, non-discretionary services, often in markets with high barriers to entry. This creates an ability to pass on increased costs to customers without significantly reducing demand. During periods of high inflation, an infrastructure provider can implement rate increases to offset rising costs, knowing that consumers and businesses must continue using their service. As a result, these companies can maintain revenues in line with inflation increases.

In short, infrastructure equity's mix of contractual inflation linkage, pricing flexibility and real asset value tends to preserve investor purchasing power when inflation rises – a critical advantage when other investments might be faltering in real terms.

UK WASTE-TO-ENERGY COMPANY

Cory Group Case Study



Cory Group ("Cory") is a resource management, recycling and energy-from-waste company operating in the United Kingdom.

It provides an essential service (energy) and its revenue model is built to handle inflation. Over 60% of Cory's revenues are secured under exclusive, long-term contracts that are indexed to inflation. In other words, the fees it earns from these contracts automatically escalate with inflation, ensuring a baseline revenue growth in nominal terms.

For revenue that is not contractually linked to inflation, Cory retains the pricing power to renegotiate rates upon contract renewal and pass-through inflationary cost increases to its customers. On the cost exposure side, Cory is also well positioned: a substantial share of its operating costs are linked to inflation. The net effect of these factors is that Cory benefits from inflation – its revenues climb in line with, or faster than, inflation.

UK SPECIALIZED WASTE MANAGEMENT COMPANY

Augean Case Study

Augean is another UK-based infrastructure holding in the waste management sector, specializing in hazardous and industrial waste Services.

Like Cory, Augean's business model shows noticeable resistance to inflation.

About 90% of Augean's revenues are linked to RPI or CPI indices and more than 85% of the company's earnings are derived from contracted or recurring revenue underpinned by relationships ten years or longer in length.

This means the vast majority of Augean's revenue will scale up with inflation automatically or come from long-term clients unlikely to renegotiate unfavorably. Fiera's analysis notes that Augean, like Cory, is positively impacted by inflation, as revenue growth would outpace cost impacts.

Fiera EagleCrest Infrastructure Strategy

The Fiera EagleCrest Infrastructure strategy is designed to capitalize on the inflation protection characteristics of infrastructure assets. The strategy seeks investments with historically stable and predictable cash flows, significant barriers to entry and regulated or contracted revenues.

Here are key elements of their approach

Strategic Portfolio Construction

The EagleCrest Infrastructure team constructs a diversified portfolio by geography, subsector and asset type. This diversification helps mitigate risks and ensures that the portfolio is resilient to inflationary pressures across different regions and sectors.

Active Asset Management

The strategy employs a buy-and-manage approach, focusing on protecting base case returns and delivering upside performance through active asset management. This involves continuous monitoring and optimization of assets to ensure they perform as expected and generate maximum value

Contractual Linkage to Inflation

The EagleCrest Infrastructure strategy includes assets with contractual linkage to inflation. This means that revenue streams are directly tied to inflation indices, ensuring that income keeps pace with rising costs. For example, an energy asset selling electricity under fixed-price power purchase agreements can adjust the price at which they sell electricity based on inflation escalators, thereby maintaining stable cash flows.

Pricing Power

The strategy targets assets with strong competitive positioning and high barriers to entry. These assets can pass through inflation costs to consumers, leveraging their market leadership to maintain profitability. This pricing power is crucial for protecting returns in an inflationary environment.

Looking Ahead: Trends and Implications for Investors

Infrastructure Equity in a Shifting Economic Landscape

As inflation remains a persistent concern and global infrastructure needs continued investment to meet the needs of society, we believe several trends are shaping the future of infrastructure equity:

- **Energy Transition and Decarbonization:** The global push toward net-zero emissions is driving massive investment in renewable energy, grid modernization and sustainable transport. Infrastructure equity investors are well-positioned to benefit from these long-term capital flows.
- **Digital Infrastructure Expansion:** The rise of data consumption, cloud computing, artificial intelligence and 5G technology is fueling demand for digital infrastructure – data centers, fiber networks and towers – offering new avenues for inflation-linked, essential-service investments.
- **Resilience and Localization:** Geopolitical tensions and supply chain disruptions are prompting governments to invest in more resilient, localized infrastructure. This shift supports long-term, inflation-protected returns in sectors like water, waste, energy and logistics.
- **Policy Tailwinds:** In the U.S., the Infrastructure Investment and Jobs Act and Inflation Reduction Act is catalyzing public-private partnerships and unlocking new opportunities for institutional capital.

Implications for Investors

Strategic Allocation

Infrastructure equity should be considered a core allocation for portfolios seeking inflation protection, income stability and long-term growth.

Manager Selection Matters

Active management, inflation-linked contracts, a demonstrated understanding of what is truly "infrastructure" vs. what is a riskier, infrastructure-adjacent investment and sectoral diversification are key to capturing upside and mitigating risks.

ESG Integration

As sustainability becomes central to fiduciary duty, infrastructure offers a natural alignment with environmental and social goals – particularly in clean energy, waste management and the provision of essential public services.

Conclusion

Infrastructure Equity as a Strategic Inflation Shield

Inflation poses a legitimate threat to long-term investment returns and addressing that risk is crucial for institutions tasked with stewarding capital on behalf of pensioners and clients. Infrastructure equity is a powerful tool to address this challenge. Through inflation-linked revenues and essential service pricing power, infrastructure equity investments can potentially deliver returns that keep pace with or exceed inflation, thereby safeguarding the purchasing power of investors' capital. This inflation-hedging capability comes alongside other desirable attributes – steady income, diversification benefits, long-term stability and the potential for growth – making infrastructure equity an attractive component of a well-balanced portfolio.

Of course, no asset class is without downsides: investors must select and manage infrastructure assets wisely and be cognizant of interest rate cycles and regulatory environments.

When implemented thoughtfully, however, an allocation to infrastructure equity can serve as a strategic inflation shield that complements traditional stocks and bonds[7].

What was once a niche investment is now viewed as a foundational holding for inflation protection, with many experts considering infrastructure a critical element of any long-term portfolio[8].

Infrastructure equity offers a compelling combination of inflation protection and stable growth. For institutional investors and sophisticated individuals planning for an uncertain inflationary future, it provides a way to anchor portfolio returns in the real economy's essential services. By including infrastructure equity as a strategic allocation, investors can ensure that their portfolios remain resilient.

Endnotes

1 Institutional Investor, as of June 1, 2025
2 Institutional Investor, as of June 1, 2025
3 Institutional Investor, as of June 1, 2025
4 Institutional Investor, as of June 1, 2025
5 Institutional Investor, as of June 1, 2025
6 Institutional Investor, as of June 1, 2025
7 StepStone Group, as of June 1, 2025
8 StepStone Group, as of June 1, 2025

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