EDISON

International Public Partnerships

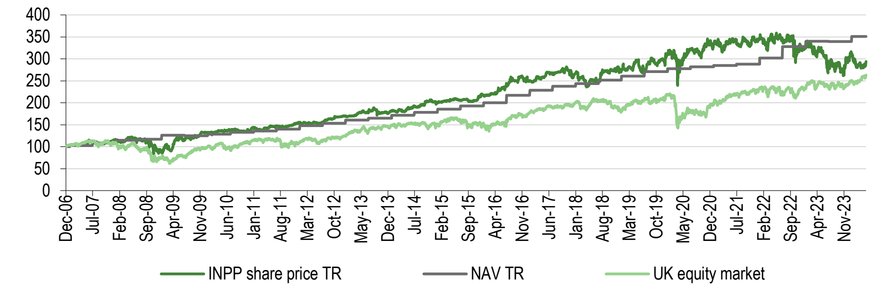
Initiation of coverage

Consistently and responsibly delivering

Investment companies
Infrastructure

International Public Partnerships' (INPP's) FY23 results show that it continues to deliver consistent and predictable returns for investors, while delivering environmental and social benefits for the individuals and communities that are served by its assets. Despite this strong performance and a substantial need for private infrastructure funding, the macroeconomic environment has weighed on INPP's share price, in common with the wider sector. Regardless, attractive returns are available from the existing portfolio with opportunities for further enhancement.

Consistent NAV returns, well ahead of the broad UK equity market



Source: LSEG, Edison Investment Research. Note: Total returns in sterling.

Consistent, long-term, inflation-linked returns

Worldwide demand for new infrastructure remains strong, driven by the need to upgrade or replace ageing assets, demographic shifts, increasing urbanisation, technological advancement and decarbonisation. With its diversified portfolio of lower-risk assets, providing essential public infrastructure services, generating revenues that are typically 'availability based' or regulated and significantly government backed, INPP continues to deliver consistent and predictable returns. Contracted revenues are long term, provide strong positive linkage to inflation and are mostly uncorrelated with the economic cycle, and interest rate risk to economic returns is minimal. The investment adviser, since listing in 2006, is Amber Infrastructure, which has a well-tested ability to actively and responsibly source and manage INPP's investments and enhance their performance.

Baked in DPS growth and attractive total return

INPP's assets continue to perform well, it is a beneficiary of higher inflation and has a strong level of protection against higher interest rates, yet its shares have de-rated in line with the sector as interest rates rose. INPP's 18% discount to NAV is in line with its peer group average, but we do not believe this is the appropriate comparison, given the characteristics of INPP's portfolio and its long track record of performance. The company's FY24 target DPS of 8.37p represents a yield of 6.7%, and INPP predicts that the cash flows from the existing portfolio alone, even without any new investment, are sufficient to meet progressive dividends for at least the next 20 years. Versus the expected NAV 8.4% return and reflecting the discount rate of 8.4%, the share price implies a net return of 9.4%.

24 April 2024

Price	**125.2p**
Market cap	**£2,386m**
Total assets	**£3,108m**
NAV per share*	152.6p
Discount to NAV	18.0%
FY24e DPS	8.37p
Yield	6.7%
Ordinary shares in issue*	1,905.4m
*Excludes 5.8m treasury	
Code/ISIN	INPP/GB00B188SR5
Primary exchange	LSE
AIC sector	Infrastructure
Financial year-end	31 December
52-week high/low	114.60p 114.60p
Company borrowing*	£65m
Asset leverage*	67%

*As at 31 December 2023

Fund objective

International Public Partnerships is an infrastructure investment company, which listed in 2006. It invests in a diversified portfolio of global public infrastructure assets and businesses, with a focus on availability-based or regulated revenues. It aims to provide investors with a consistent and predictable return from assets that meet societal and environmental needs, both now and in the future.

Bull points

- Operates in a structurally supported sector.
- Financial returns are consistent and predictable, and with good inflation linkage.
- Established, specialist, well-resourced manager with a global presence.

Bear points

- Higher capital costs are a headwind to new investment.
- Sector has re-rated with higher interest rates.
- Differing discount rates across the sector are difficult for investors to assess.

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Edison profile page

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Investment case

This note initiates Edison's coverage of INPP. We have also published an interview with Chris Morgan, senior investment director at Amber Infrastructure, in which he discusses the company's strategy, performance and prospects.

INPP is a Guernsey registered investment company. It listed in November 2006 and its shares are traded on the Premium Segment of the London Stock Exchange. It is a member of the Association of Investment Companies (AIC) and a constituent of the AIC Infrastructure sector.

The company's aim is to 'provide investors with stable, long-term, inflation-linked returns, based on growing dividends and the potential for capital appreciation, by investing in a diversified portfolio of infrastructure assets which, through active management, meets societal and environmental needs both now and into the future'. This has been successfully achieved since listing with the company building a strong track record of generating consistent and predictable cash flows and financial returns, commensurate with its relatively low-risk investment strategy. We see strong reasons to expect this to continue.

In summary, the key elements of the investment case, discussed in detail in this note, include:

- Underpinning INPP's investment strategy is a focus on what it expects to be lower-risk assets, providing essential public infrastructure services, with revenues that are generally 'availability based' or regulated and significantly government-backed.
- The portfolio is well diversified by type of assets, sector exposure and geography, operating across a number of developed infrastructure markets.
- Those cash flows provide a high level of positive inflation linkage (0. 7)[1] and are well protected against the impact of rising debt costs on equity returns. The company's corporate debt facility (CDF) has been fully repaid. On a look-through basis, asset leverage within the investments is c 67% and 90% of the portfolio by fair value benefits from mitigations in relation to changes in base rates.
- Financial performance has been consistently positive, generating returns commensurate with the company's relatively low-risk investment strategy:
  - Dividends have increased every year since inception, across a number of market cycles and under sometimes challenging economic conditions. DPS has consistently been fully covered, and the company calculates that the expected cash flows from the existing portfolio alone, without any benefit from new investments, are sufficient to meet progressive dividends for at least the next 20 years. With a vast global requirement for infrastructure investment, the prospects for accretive investment remain strong.
  - Including capital growth, aggregate NAV total return since inception in 2006 to end-2023 is 240% or 7.4% pa and despite the sector de-rating of the past two years, aggregate shareholder return over the same period is 210% or 6.8% pa.
  - The board has demonstrated its commitment to addressing the share price discount, which currently stands at 18%. Asset realisations have underpinned valuations and contributed to repaying all corporate borrowing and the launch of a £30m share repurchase programme. The proceeds have also been partially recycled into new accretive investments with prospective returns that meet the revised investment return targets, which set a high a bar, ahead of the previous long-term target of 7%[2].

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[1] In aggregate, the weighted average return of the portfolio (before fund-level costs) would be expected to increase by 0.7% per annum in response to a 1.0% per annum increase in all of the assumed inflation rates in which the company is invested.

[2] Discussed below, the revised long-term target for new investment considers a range of factors, including the return that is available on investment in the company's own shares through repurchases.

- Based on the end-FY23 portfolio valuation and discount rate, the current share price, well below NAV, implies a projected net return of 9.4% per year.[3]
- INPP's ESG credentials are strong. Through a responsible approach to investment, the company aims to deliver environmental or social benefits for the individuals or communities that are served by its assets. INPP supports the 2030 Agenda for Sustainable Development that was adopted by the UN member states in 2015 and alignment with the UN Sustainable Development Goals (SDGs) is a key part of the company's approach to fully integrating ESG into all aspects of its business. All of INPP's FY23 investments support at least one SDG, continuing to underpin the positive environmental and social characteristics of its portfolio. INPP is an Article 8 Financial Product under EU Sustainable Finance Disclosure Regulation and also provides details on EU Taxonomy alignment.

- INPP is managed by Amber Infrastructure, a specialist international infrastructure investment manager, which has a well-resourced in-house asset management and origination team, comprising over 180 individuals, and a local presence in 12 countries. Amber's ability to actively and responsibly source and manage INPP's investments, and enhance their performance, is one of the company's core strengths.

Consistent and predictable returns

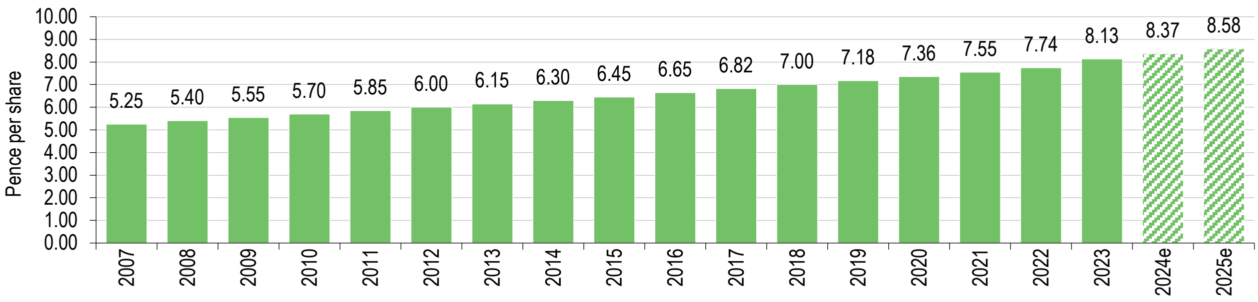
Targeting predictable, progressive, fully covered dividends

DPS growth since listing has been in line with the company's long-term target growth rate of c 2.5% pa.[4] However, for FY23 DPS was increased by 5% and the FY24 DPS is targeted to increase by 3% to 8.37p. Off this higher base of DPS, the company targets sustainable and predictable growth in line with the long-term target. Accordingly, the FY25 target DPS is 8.58p (+2.5%).

This accelerated near-term DPS growth reflects the high level of portfolio cash flow to inflation (0.7). It has enabled shareholders to benefit more immediately from the positive impact that the recent high level of inflation has had on the predicted cash flows from the portfolio.

The FY23 DPS was 1.1x covered by net operating cash flows before capital activity and dividends have been 1.2x covered on average over the past 10 years. Including disposal proceeds, FY23 DPS cover was 1.7x.

Exhibit 1: Visible and progressive dividends



Source: INPP

[3] At the 23 April 2024 share price of 125.2p.

[4] Average annual growth up to 2022 was 2.6%.

Strong long-term financial total return

The net asset value of INPP reflects the fair value of its investments, which in turn is based on the future projected net cash flows, discounted at appropriate discount rates. While these same cash flows are reflected in the dividend policy, the level of dividends is set at a level that the company expects to be progressive and sustainable. The timing differences that result mean that it is important to consider NAV total return and not just dividends.

During FY23, NAV per share decreased to 152.6p from 159.1p share. The change is more than accounted for by a change in the discount rate assumption (comprising bond yield and risk premium), discussed later in this report. The underlying 'NAV return' of 9.6p (6.0% of the opening value) is driven primarily by the unwinding of the discount rate applied as well as higher than assumed inflation. It more than covered dividends paid to shareholders (7.9p, comprising the FY22 final DPS and FY23 interim DPS).

Exhibit 2: Reconciliation of FY23 NAV per share movement

	Pence per share	£m
Opening NAV	**159.1**	**3,040**
Change in govt bond yields	(16.5)	(315)
Change in investment risk premia	7.5	143
Cash distributions to shareholders	(7.9)	(152)
Change in FX rates	(1.1)	(21)
Change in macroeconomic assumptions	2.0	37
NAV return	9.6	184
Closing NAV	**152.6**	**2,916**

Source: INPP

The NAV total return (the change in NAV adjusted for dividends repaid and reinvested) over five and 10 years and since inception is materially ahead of the broad UK equity market and inflation. Shareholder total return (the change in the share price adjusted for dividends repaid and reinvested) has also been strong over the longer term, but has been held back over the past two years by a broad de-rating of the sector. While it is unrealistic to expect INPP to fully decouple from listed peers, the company has taken clear actions to maximise the value of its shares, to which we would add active engagement with investors, and we believe that the fundamentals of the infrastructure sector remain very strong.

Exhibit 3: Strong total return

Cumulative (%)	1y	3y	5y	10y	Since inception
INPP share price TR	-4.1	-6.2	14.7	72.4	209.6
NAV TR	3.6	20.5	34.9	105.7	240.0
UK All-share TR	7.1	25.5	37.7	68.2	144.8
CPI	4.0	21.1	23.4	32.8	63.0
Annualised (%)	**1y**	**3y**	**5y**	**10y**	**Since inception**
INPP share price TR	-4.1	-2.1	2.8	5.6	6.8
NAV TR	3.6	6.4	6.2	7.5	7.4
UK All-share TR	7.1	7.9	6.6	5.3	5.4
CPI	4.0	6.6	4.3	2.9	2.9

Source: LSEG, Office of National Statistics, Edison Investment Research

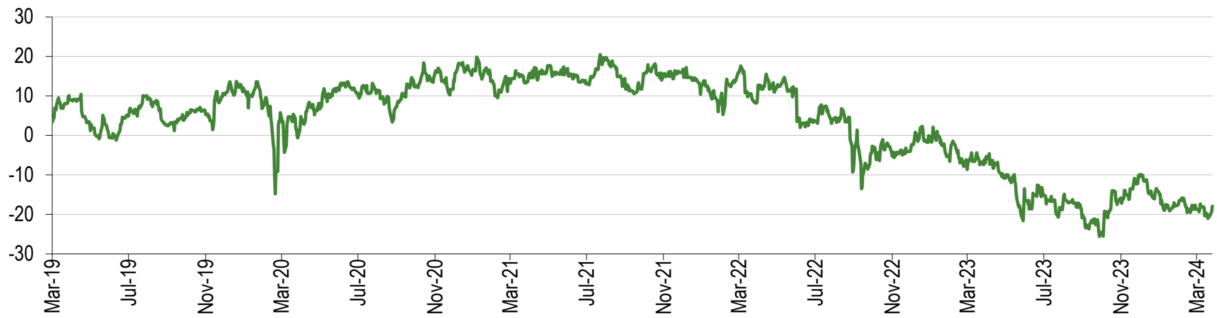
The end-FY23 discount rate of 8.4% represents the expected annualised growth of NAV, based on currently projected cash flows. On the same basis, an investment at the current 18% discount to NAV implies an annualised projected net return of 9.4%.

Focused on maximising value

As inflation and interest rates began to rise through 2022, the listed infrastructure sector has significantly and broadly de-rated. INPP's assets continue to perform well, it is a beneficiary of higher inflation and it has a strong level of protection against higher interest rates, yet its shares have moved from trading at a premium of more than 20% to an 18% discount. The INPP discount is in line with the AIC Infrastructure sector, shown in the peer group comparison section of this report, but this is a diverse group and, as we explain later in this report, we do not believe a direct comparison is appropriate given the characteristics of the company's portfolio and its long track record of performance. Across the broader 'alternatives' investment company sector, including renewable energy infrastructure, private equity and real estate, discounts to NAV are in general much higher.

In response to the prevailing discount, the board committed to taking a number of actions. In addition to revising the dividend targets, these included reducing of the company's CDF, realising value from the existing portfolio and repurchasing shares at an accretive discount to NAV. More than £200m of assets have been sold at prices in line with or above the investment fair value, providing evidence of both the robustness of portfolio valuations and the strength of investment demand. Supplemented by existing cash flows, the proceeds have enabled full repayment of the CDF, the recycling of capital into previously committed, accretive new investment and the launch of a £30m share repurchase programme.

Exhibit 4: P/NAV discount since interest rates began to increase



Source: LSEG

INPP's flexible, £350m CDF enables it to smooth the cycle of acquisitions and disposals. However, with a cost of 1.7% plus SONIA it had become relatively more expensive. At end-FY23, £65m was drawn, down from £107m at end-H123, and has since been fully repaid. Debt liabilities in the form of letters of credit, amounting to £14m, remain, backing outstanding commitments to invest in two Australian availability-based public private partnerships (PPPs), but meanwhile the all-in cost is modest at around 1% pa.

Repayment of the outstanding debt paved the way for the commencement of share repurchases. The initial programme started in early 2024 and is expected to run for a period of up to 12 months. As further funds become available, the board says that it may consider increasing the £30m that has been allocated. As of 23 April 2024, 5.8m shares (0.3% of shares in issue) had been repurchased for £7.4m. We calculate an average price paid of c 127p per share, a discount of c £7m of shares have been bought back at an average price of 123.6p, an almost 17% discount to the end-FY23 NAV per share.

Realising value from the existing portfolio

The two disposals, which generated combined proceeds of £212m, are:

- A stake in Airband, a leading fibre network operator serving rural and hard-to-reach areas across the West of England. INPP first invested in Airband in 2018 and has supported Airband in growing the business to cover more than 290,000 homes, businesses and industries, but says that due to the contrast with the availability based/regulated revenues that are typical of most of the portfolio, it did not consider itself a long-term holder. The stake was sold in July

2023 for £12m, in line with the H123 valuation. The investment return has not been published, but INPP says that it was significantly in excess of the weighted average discount rate.

- More significantly, in December 2023, INPP sold senior debt positions in four of the 11 offshore transmission owners (OFTOs) that it has invested in and added a 'prudent' level of additional leverage to one of these. OFTOs connect the UK onshore electricity grid to offshore windfarms. INPP's investment in the risk capital of these projects is very much core to its portfolio, but it describes the holding in the lower-return senior debt as having been 'opportunistic'. The senior debt was sold at an undisclosed modest premium to the H123 valuation and the overall transaction realised proceeds of £200m. While underpinning portfolio valuation, it also enhanced overall returns (as measured by weighted average discount rate) and increased the average portfolio duration.

Maintaining a disciplined approach to capital allocation

New return target

To reflect more recent changes in the macroeconomic environment, particularly higher inflation, to which expected project revenues are strongly correlated, the board has introduced a new long-term return target for new investments, which was previously set at 7% per year.

Rather than setting the new target at a fixed level, it has opted for a more dynamic approach and has identified a range of qualitative factors to inform new investment decisions. These include:

- the share price discount to NAV,
- the weighted average discount rate, and
- any pertinent economic or strategic considerations.

By these measures, the returns available on share repurchases set a high bar but do not preclude all investment. As we highlight above, the net return that is currently available to the company on share repurchases is 9.4%.

Investment in Moray East

In February 2024, INPP completed the commitment to acquire the Moray East OFTO for £77m, partially deploying the proceeds of the OFTO senior debt transaction. The company says that the projected returns on the investment were considered favourable relative to alternative capital allocation. Moray East OFTO is INPP's eleventh OFTO investment and in addition to the projected investment returns, it has increased the company's contribution to the UK's transition to a net zero carbon economy.

During 2023, the company had completed on an existing £107m commitment to acquire five operational PPP assets in New Zealand, its first investment in the country. These were sourced by Amber, demonstrating its ability to originate suitable investments in new geographies. Total investment for the year of £108m also included a small follow-on investment in Ealing Building Schools for the Future scheme.

The investment adviser is established, well resourced and specialist

The investment adviser is Amber Infrastructure (Amber), a specialist investment originator, asset and fund manager with a local presence in 12 countries with a team of over 180 professionals. It has funds under management and advisory of c £5bn. INPP highlights Amber's ability to actively and responsibly source and manage the company's investments, and enhance their performance, as being one of its core strengths.

Amber has a team of over 45 asset managers, including a dedicated ESG team, with sector expertise and presence across the geographies in which INPP is invested. The team is responsible for the oversight and optimisation of INPP's investments, with the key focus being to deliver long-term benefits for stakeholders by meeting or exceeding performance targets. Amber's involvement in the management of each asset varies depending on the nature of the investment; it either manages the day-to-day activities or exercises its responsibilities through board representation and engagement with management teams.

Working with public sector clients, partners and service providers, Amber seeks to ensure the investments are being managed both responsibly and efficiently, creating value for shareholders while recognising the broader value of the investment to society and/or those that use them.

On behalf of INPP, Amber undertakes its own in-house research, as well as drawing on external expertise, to identify new investment opportunities and developments that may impact existing investments. This includes researching current ESG issues but also extends to the emerging technologies that are driven by, and support, environmental and social change.

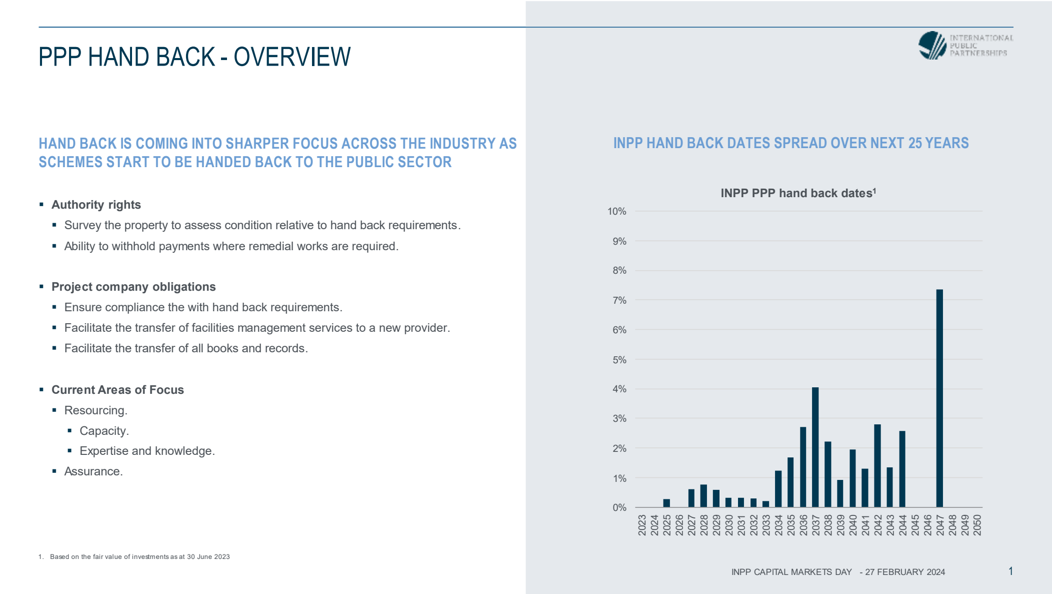
Asset management

Amber has significant expertise in the management of PPP projects, and directly manages the company's investments, which have consistently fulfilled their key operational objectives outlined in contractual agreements. For FY23, 100% of forecast project distributions were received (FY22: 100%). Asset availability has been consistently strong and in FY23 was 99.8% (FY22: 99.8%), well above the minimum target of 98%. Asset performance deductions were 0.2% (FY22: 0.3%) versus a target of less than 3%. Through its active management of the portfolio, Amber also creates additional value for investors and enhanced value for project counterparties in areas such as refinancing and insurance, leveraging its scale across a large number of projects.

While INPP's PPP concessions span the next 25 years, there is a growing emphasis on the process of transferring these assets and the associated services (hand-back) to the public sector in a way that avoids important financial and reputational issues. For INPP, the first hand-backs are in 2025 but will not be significant until the mid-2030s. The path of Amber's capabilities and its sector experience will be important in facilitating an efficient and seamless hand-back. It closely monitors asset condition, maintenance and lifecycle works to ensure the assets meet the necessary criteria for hand-back. Where an asset's condition does not meet the necessary criteria, the PPP company must undertake remedial works, the costs of which are generally contractually passed to subcontractors.

The investment adviser is a leading contributor to the Infrastructure and Projects Authority working groups, which aim to provide guidance and greater certainty to the public and private sector in the UK in relation to how hand-back should be delivered, to ensure a consistent approach is adopted across the sector.

Exhibit 5: INPP hand back dates spread over the next 25 years



Source: INPP

Asset sourcing

Amber's industry knowledge, local presence in all the jurisdictions where INPP invests, and its extensive network of industry contacts and relationships built over many years, represent a strong origination capability. It has sourced all of INPP's investments since inception and has demonstrated an ability to identify opportunities at an early stage, assess whether these meet the company's strict investment criteria, and price transactions effectively. The recent investments in New Zealand demonstrate Amber's ability to originate investments in new geographies which meet the INPP's investment objectives and consistent with its approach of having a presence in geographies in which it invests, Amber transitioned four members of staff, already actively engaged in the management of these investments to Auckland.

Portfolio characteristics and performance

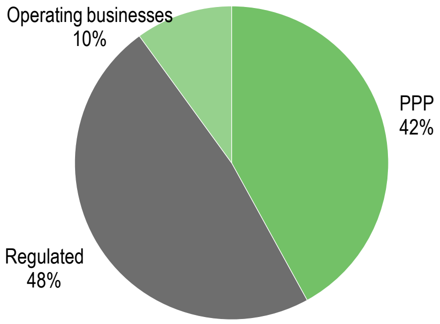
The portfolio comprises over 140 assets, of which the largest number by far are the PPP assets, in aggregate accounting for 42% of the portfolio. The majority of projects or companies that INPP is invested in benefit from availability based or regulated revenues and by fair value, PPP and regulated assets represented 90% of the total and operating businesses the balance. There are just three projects under construction, of which Tideway is by far the largest. Major construction works on the project have been completed, is approaching practical completion, and is expected to be fully operational in 2025.

A summary of the top 10 investments is included in an appendix to this report.

INPP seeks a high degree of influence over its investments and prefers majority stakes where this is possible. By fair value, it fully owns and controls 44% of the portfolio and holds a majority stake in a further 6%. Where it does not hold a controlling stake, it exercises influence through board representation. It also favours being an early-stage investor, leveraging the investment adviser's extensive industry knowledge, contacts and local presence in key markets.

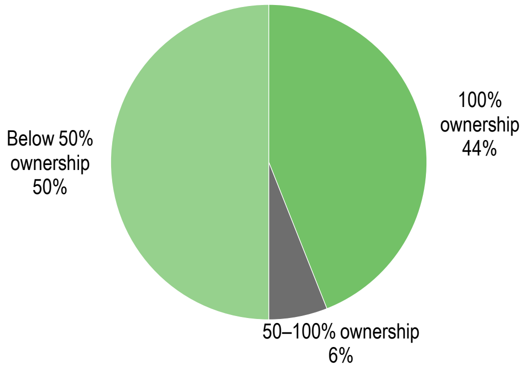
Investment is overwhelmingly in 'risk capital', comprising project level equity and subordinated debt where Amber's sourcing and asset management expertise can best be used to optimise the risk return characteristics. Post the recent sale of OFTO, just 2% is invested ‘opportunistically’ in senior debt. The weighted average life of the investments is 38 years.[5]

Exhibit 6: Type of investment (by fair value)



Source: INPP. Note: As at 31 December 2023.

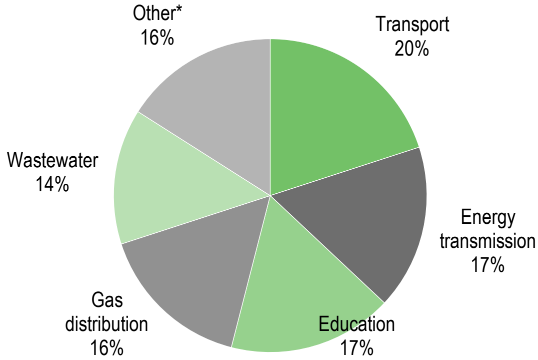
Exhibit 7: Ownership positions (by fair value)



Source: INPP. Note: As at 31 December 2023.

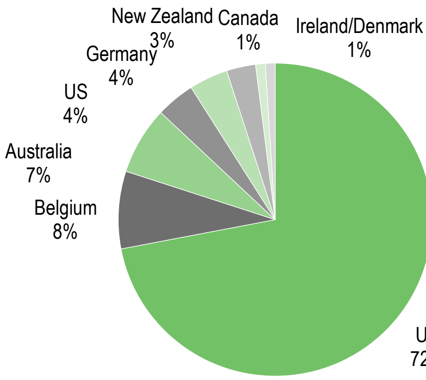
Sector exposure is well diversified and by geography the investments have a broad spread across developed infrastructure markets. The majority of investment, and most PPP projects, are in the UK. We would also highlight that within the PPP projects, the exposure to third-party service providers is also widely spread with the largest being the Belgian railway services provider, Infrabel (17%).

Exhibit 8: Investment by sector (by fair value)



Source: INPP. Note: As at 31 December 2023. *Other includes Family Housing for Service Personnel (FHSP, 4%), Health (4%), Judicial (2%) and Digital (1%).

Exhibit 9: Geographical spread (by fair value)



Source: INPP. Note: As at 31 December 2023.

Asset level debt is non-recourse to the company and the weighted average level of asset leverage is 67%, which INPP says is appropriate and conservative given the security of revenues and protection against interest rate fluctuations. As a proportion of portfolio fair value, 59% of asset debt, and effectively all PPP project debt, is hedged for the full term of the project. For another 31%, the risk of adverse movement in interest rates is limited through protections provided by the regulatory regime. The balance of 10% is primarily related to the investments in operational businesses.

PPP investments (42%)

The company’s PPP assets mostly comprise individual concession-based investments, which span various sectors such as education, healthcare, justice and other social infrastructure sectors across

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5 This may be a conservative assessment. It includes some non-concession entities with a potentially perpetual life. For the purposes of this illustration these are assumed by the company to be finite.

multiple jurisdictions. Revenues are nearly always based on the availability of the asset, rather than the extent that it is used, are long-term and are contracted with government or government-backed entities.

While there are many variations, these typically involve the creation of a private company (usually in the form of a special purpose vehicle, or SPV) that contracts to design, build, operate and maintain a social infrastructure asset, to agreed service standards, for a specified period of time, after which the asset reverts to the public sector. Further de-risking the cash flows that INPP expects from its PPP assets, construction costs are fixed in advance, the operation of the assets is outsourced on long-term contracts, and the cost of debt funding is hedged or fixed for the term of the contract. Most PPP revenues are availability based and the only notable demand-based revenue exposure within the PPP assets is in Diablo Rail, in the form of passenger usage, but even here there are mitigations built into the contract.[6] Diabolo is a rail infrastructure investment that connects Brussels Airport with Belgium's national rail network. The majority of its revenues are linked to passenger use of either the rail link itself or the wider Belgian rail network. Diabolo was negatively affected by the restrictions on international travel and national lockdowns implemented during the pandemic, but passenger numbers have broadly returned to pre-pandemic levels and the project has now resumed paying distributions.

During the pandemic, INPP committed a further €24m to Diabolo to protect its liquidity position and ensure compliance with debt covenants, although only €17m of this was utilised.

Regulated investments (48%)

The use of economic regulation within the infrastructure sector is most often applied to businesses or assets that are monopolistic in nature and is aimed at protecting the interests of consumers while ensuring investors are provided with a fair return on their investment via a predictable and transparent regulatory framework. INPP's investments in Cadent, electricity OFTOs and Tideway are each regulated by a statutory independent economic regulator, providing it with a relatively high degree of predictability regarding future returns on capital.

- The OFTOs, of which there are now 11 in the portfolio (including Moray East), represent c 20% of the portfolio fair value and INPP owns 100% of the risk capital in each. They are regulated by Ofgem with perpetual licences that provide for an availability-based revenue stream at a predetermined rate for a fixed period of time (typically 20–25 years). At the end of the term, INPP will own the asset, the residual value of which would particularly benefit dependent from the possibility of a revenue extension beyond the initial term.
- Cadent, the UK's largest gas distribution network, in which INPP has an interest in 7% of the risk capital, represents 16% of the portfolio fair value. Cadent is regulated by Ofgem, the UK's energy regulator, which has granted it a perpetual licence with five-yearly regulatory price reviews. In the move towards net zero carbon, natural gas is a transition fuel, with the company meanwhile developing the use of hydrogen transmission through its pipeline network. Cadent has worked closely with the Department for Energy Security and Net Zero in supporting its Heat and Buildings Strategy and Hydrogen Strategy with a view to considering hydrogen as a part of the future energy mix and is actively engaging with UK government and regulators to build awareness of the opportunities offered by green gases in the journey towards net zero.
- Tideway represents 14% of the portfolio fair value and INPP has an 18% interest in the risk capital of the project. It is regulated by the Water Services Regulation Authority, which, in 2015,

6 The share of demand-based revenues in the Diablo Rail revenue mix is variable over time but INPP estimates it to be c 75% for the remaining term of the concession up to 2047. The remaining revenues are a mix of availability-based payments and contributions that are linked to wider use of the Belgian rail network, subject to a contractual floor. The Diabolo Rail concession agreement provides investors with some demand risk protection and includes a revenue adjustment mechanism that allows the project to seek an increase in the passenger fares it charges where passenger numbers and returns fall below a certain threshold.

granted it a licence to design, build, finance, commission and maintain a new 25km 'super sewer' under the River Thames. It is a perpetual licence with no price control review until 2030. After this it will follow the current five-yearly price control process to which water and wastewater companies are currently subject. As noted above, the project is substantially completed and on course to become fully operational in 2025. The £4.5bn estimated cost of the project remains well within the initial estimate provided at the outset of the project. INPP does not expect the financial problems of Thames Water, which has a licence requirement to collect revenues from its customers, and pass these to Tideway, to have any material impact on its investment. Tideway has statutory and regulatory protections, designed to mitigate any revenue disruption.

Operating businesses (10%)

INPP's investments in operating businesses include Angel Trains, BeNEX and digital infrastructure companies. On behalf of the company, Amber holds a board position on each business, through which it engages in their governance with the aim of ensuring effective risk management and driving the overall financial, operational and ESG performance of its investments.

- Angel Trains is one of the UK's largest rolling stock leasing companies. INPP owns 10% of the risk capital, which represents 6% of portfolio fair value. Its revenues are based on lease contracts with train operating companies and are not determined by passenger numbers. INPP notes that the business continues to perform well and in line with expectations.
- BeNEX is an investor in both rolling stock and train operating companies that operate regional passenger rail franchises across Germany under contract with numerous German federal states. INPP owns 100% of the risk capital, which represents 2% of portfolio fair value.
- Digital infrastructure investments represent c 1% of portfolio fair value. Following the Airband sale, its main investment is in toob, which has a current fibre network covering c 190,000 premises across Southampton and other towns in the South of England. INPP has committed to a further £13m of funding to the company as part of its investment in the Amber managed 'National Digital Infrastructure Fund' and is part of a wider £300m fund raise by toob to finance continued growth. INPP is also invested in Community Fibre, London's largest full fibre broadband provider, with more than 1.3m homes passed and over 220,000 customers.

Projects under construction

On behalf of INPP, Amber has a strong track record of delivering construction projects safely, on time, to budget and to a high-quality, by understanding the project environment and the potential risks that may occur. It works closely with the contractors, technical advisers and management companies, where applicable, throughout the construction period in order to mitigate risk and ensure the assets can perform as expected and create value for both investors and communities.

Tideway is a significant project, but with major construction works now completed (the defects completion date is in 2028) it is now substantially de-risked.

Two smaller projects are for an extension to the Gold Coast Light Rail Network and for new facilities at the Flinders University Health and Medical Research Building. Both projects are scheduled to complete in 2026 and 2024, respectively. Neither has any current material value within the portfolio.

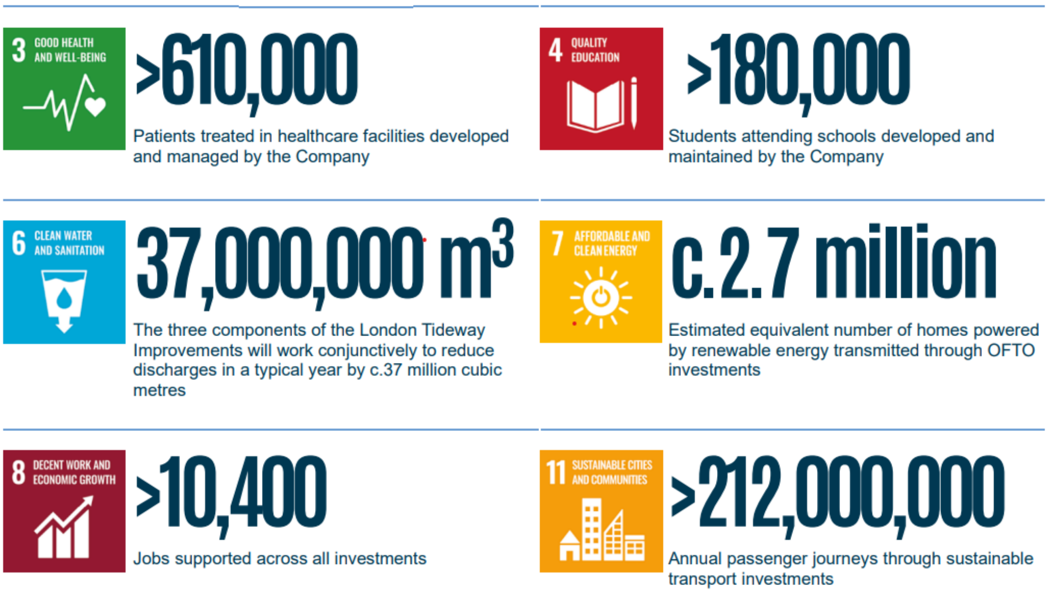
Strong ESG credentials

ESG is core to INPP's investment process, and the company is committed to integrating ESG considerations across the investment lifecycle. In doing so, it aims to reduce risk, enhance and sustain value creation and drive environmental and social progress for the benefit of all stakeholders.

INPP supports the 2030 Agenda for Sustainable Development that was adopted by the UN member states in 2015 and alignment with the UN SDGs is a key part of the company's approach to fully integrating ESG into all aspects of its business. All of INPP's investments support at least one SDG, a demonstration of the positive environmental and social characteristics of its portfolio.

Each year, portfolio investments, current and under construction, provide facilities to support the education of over 180,000 pupils, provide medical treatment to over 610,000 patients, deliver more than 200m low carbon passenger rail journeys and, including the early FY24 investment in Moray East, power c 3.7m homes with renewable energy. When it becomes operational, Tideway will eliminate c 37m cubic metres per year of untreated sewage from discharge into the River Thames

Exhibit 10: INPP's contribution to the sustainable development goals*



Source: INPP. Note: *The c 2.7m equivalent number of homes powered by renewable energy transmitted through OFTO investments that is shown in chart, as at 31 December 2023, does not include Moray East.

INPP is committed to providing all stakeholders with clear and accurate sustainability disclosures and during 2023 the company developed a set of new portfolio-level key performance indicators (KPIs) to enhance and advance its sustainability agenda. These KPIs are informed by industry best practice and encompass material topics such as achieving net zero emissions, fostering diversity and inclusion, and adhering to the sustainability criteria outlined in the EU Taxonomy, a classification system to assist companies and investors to identify 'environmentally sustainable' economic activities to make sustainable investment decisions.

The recently published sustainability report, the company's third, provides full details of its sustainability agenda and progress.

Financial performance

In this section we focus on the alternative reporting measures provided by INPP, which give a clearer picture of the underlying financial performance compared with the statutory IFRS reporting. An important difference relates to the treatment of capital return from investments that are treated as revaluation movements in IFRS, but form part of operating cash flows from investments, along with the dividends and interest received from them.

Cash flow and dividends

Including proceeds from realisations, net operating cash flow from investments after corporate and financing costs was £263.5m in FY23 (FY22: £172.8m). Net operating cash flow covered dividends paid/declared of £151.6m or 8.13p per share by 1.7x or 1.1x excluding the proceeds from realisations.

Only a part of the proceeds of the £200m OFTO transaction were received by year-end. On the subsequent receipt of the balance, the remaining £65m of drawings from the corporate debt facility were repaid.

Exhibit 11: Cash flow summary and DPS cover

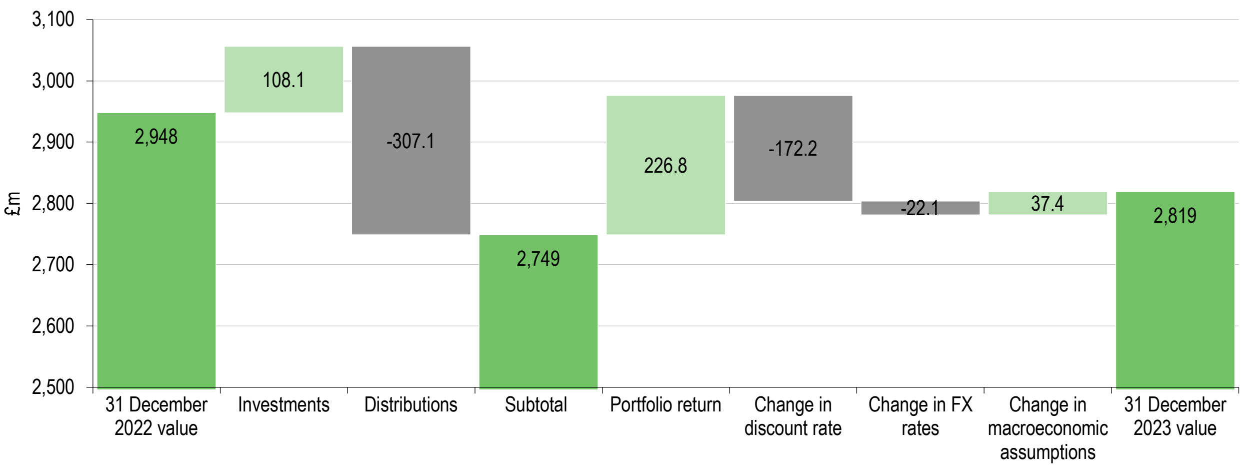
£m unless stated otherwise	2023	2022	Key drivers of movement
Opening cash	**92.8**	**56.1**	
Cash from investments	307.1	205.9	Increased inflation linkage/proceeds from realisations
Corporate costs (for OCR)*	(35.8)	(30.2)	
Net cash financing cost	(7.8)	(2.9)	Higher average use of debt facility, since reduced
Net operating cash flows before capital activity	**263.5**	**172.8**	
New investment	(108.1)	(191.6)	
Investment transaction costs	(3.7)	(1.8)	
Net change in borrowing	35.7	(126.9)	
Net proceeds from capital raising	0.0	320.2	
Dividends paid (net of scrip)	(151.6)	(136.0)	
Closing cash	**128.6**	**92.8**	
Cash dividend cover	1.7x	1.3x	
Cash dividend cover excluding cash from realisation activity	1.1x	1.3x	

Source: INPP. Note: *Ongoing charges ratio.

Movement in the investment portfolio fair value

The end-FY23, fair value of the investment portfolio decreased to £2.8bn, compared with £2.9bn at end-FY22. The net movement includes the cash distribution from investments (£307.1m) and new investments made (£108.1m). The portfolio return of £226.8m primarily represents the unwinding of the discount rate applied to the expected cash flows of the investments (the 'expected return'), but also includes the impact of achieved performance versus that assumed. In FY23, higher inflation had a positive impact and the benefits of the active management are also captured in the portfolio return. The end-FY23 weighted average discount rate for the portfolio was 8.37%, an increase of 86 basis points versus end-FY22 (7.51%), driven by higher government bond yields. The increase in the discount rate had a negative impact on the fair value of £172.2m, which was partly offset by a £37.4m impact from changes in macroeconomic assumptions that feed into the expected future cash flows of the investments.

Exhibit 12: Components of the 2023 change in portfolio fair value



Source: INPP

Valuation methodology and assumptions

Fair values for each investment primarily reflect future projected net cash flows, based on detailed financial modelling, discounted at appropriate discount rates, but are also reviewed against any recent available evidence provided by market transactions for similar assets in comparable markets. Although future cash flows are typically fixed under contracts, there are certain variables that require assumptions to be made, primarily for inflation and interest rates as well for foreign exchange rates and taxation.

The discount rates that INPP uses to value each investment comprise the appropriate long-term government bond yield plus an investment-specific risk premium. Some, but not all, of the rise in bond yields in the past two years has been offset by a tightening of the average risk premia applied, offsetting the expansion seen during the period of historically low, and arguably unsustainable, bond yields. The discount rate of 8.37% is nonetheless the highest that it has been in the past 10 years, despite the maturing of INPP's portfolio, the quality and reliability of portfolio cash flows, and continuing strong investor demand for infrastructure assets.

Exhibit 13: Discount rate history*

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Weighted average bond yield	2.79%	2.31%	1.55%	1.83%	1.83%	0.98%	0.56%	0.96%	3.13%	4.25%
Average portfolio risk premium (includes senior debt)	4.69%	5.22%	5.82%	5.69%	5.43%	6.04%	6.41%	6.01%	4.38%	4.12%
Risk assets premium (excludes senior debt)	5.11%	5.78%	6.35%	6.04%	5.72%	6.54%	6.96%	6.42%	4.58%	N/A
Average portfolio discount rate (includes senior debt)	7.48%	7.53%	7.37%	7.52%	7.26%	7.02%	6.97%	6.97%	7.51%	8.37%
Average risk assets discount rate (excludes senior debt)	7.90%	8.09%	7.90%	7.87%	7.55%	7.52%	7.52%	7.38%	7.71%	N/A

Source: INPP. Note: *INPP has previously published the blended average portfolio risk premium for risk assets only and including lower risk senior debt investments. For 2023 this difference is immaterial, with senior debt investments falling to 2% of the portfolio compared with 6% at end-FY22.

Within the INPP portfolio, the range of discount rates applied across the various investments is 7.2% to 10.8%. In a similar way, discount rates vary widely between companies across the sector, depending on the investment risk, the quality of cash flows and the ability to manage these, and it is inappropriate to compare companies on this basis. The best test of whether any particular discount rate is appropriate is whether or not investment return expectations are met. On this measure INPP has a strong track record. Over the 10 years to end-FY23, the annual investment return on the portfolio (£226.8m in FY23) has averaged 7.8% compared with an average discount rate of 7.4%.[7]

Long-term macroeconomic assumptions have been relatively stable and consistently applied over time, with short-term flexing to capture higher current inflation.

Net asset value movement

End-FY23 NAV was £2.9bn or 152.6p per share versus £3.0bn or 159.1p per share at end-FY22.

The 'NAV return' of £183.6m was driven by similar factors to the portfolio return (above), but also includes the company level costs and working capital variances. In aggregate, changes to the assumptions themselves for the discount rate, inflation rates and tax rates had a negative impact of £134.8m. The cash distributed to shareholders in INPP was £151.6m.

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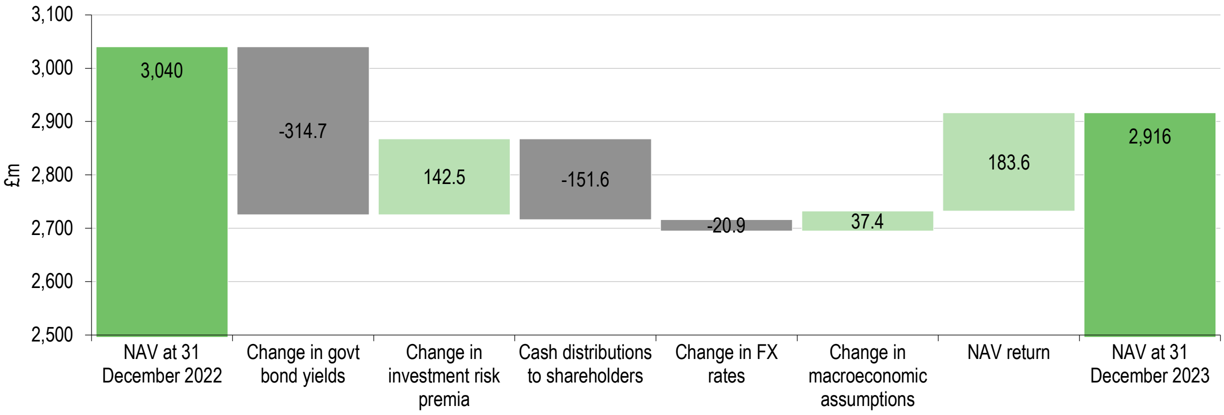
7 For each year we have taken the annual investment return as a percentage of simple average investment assets at fair value. We have compared this with the average of the year-end discount rates applicable in each year.

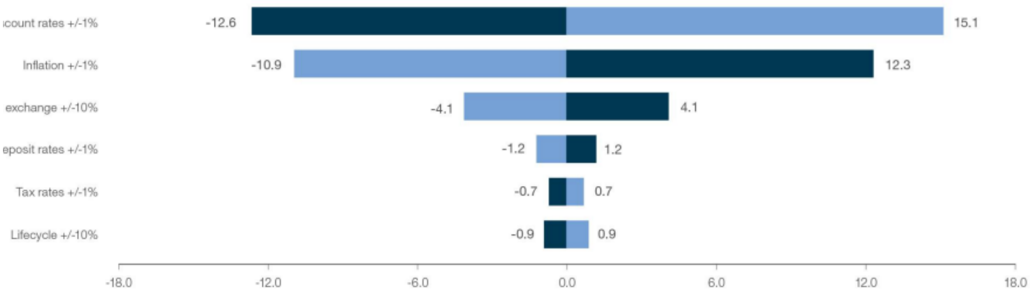
Exhibit 14: Components of the FY23 change in NAV



Source: INPP, Edison Investment Research

The key sensitivities of NAV to the valuation assumptions are in respect to the discount rate and long-term inflation assumption, as shown below.

Exhibit 15: Estimated impact on NAV per share* of changes in various key variables

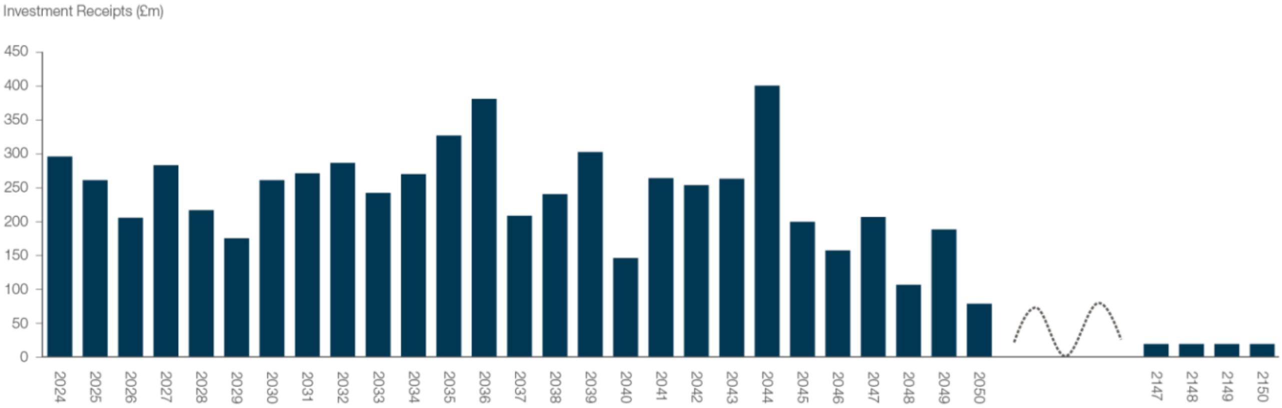


Source: INPP. Note: *Based on end-FY23 NAV per share of 152.6p.

Expected long-term cash flows

In calculating that the expected cash flows from the existing portfolio can sustain progressive dividends for at least the next 20 years, a substantial prospective return for investors, INPP has allowed for the eventual run-off of those investment in projects that have time-limited concession-based contracts, most of which have little or no material residual value at expiry (for example, when a school is handed back to the education authority) and whereas their cash flow distributions initially contribute ‘income’, in the form of dividends and interest, over time the distributions will increasingly constitute a return of the capital invested. Without reinvestment, INPP’s NAV would also be expected to decline, which is why it is also important look at NAV total return. Fortunately, although the recent increase in the cost of capital represents a strong headwind to accretive investment, it seems unlikely that this will persist. Interest rates are widely expected to decline and meanwhile the expected future requirement for privately funded infrastructure remains vast. For projects to be viable, the returns will need to meet investor hurdle rates.

Exhibit 16: Projected cash receipts from investments



Source: INPP. Note: This chart is not intended to provide any future profit forecast. Cash flows shown are projections based on the current individual asset financial models and may vary in future. Only agreed investment commitments as at 31 December 2023 are included.

Peer group comparison

The AIC Infrastructure sector, of which INPP is a constituent, is a diverse group in terms of the types of assets companies focus on and the risk-return balance that they target. On this basis, any direct comparison between the companies is inappropriate. INPP's discount to NAV of c 18% is in line with the peer group market cap weighted.

HICL Infrastructure and BBGI Global Infrastructure are perhaps the closest peers to INPP, investing in core infrastructure assets, in developed markets. However, compared with INPP, the HICL portfolio contains has a greater exposure to pure demand risk while BBGI is focused only on PPP.

Compared with INPP, 3i Infrastructure has a more concentrated portfolio, with a much greater exposure to demand-based revenues, albeit in structurally supported growth sectors, which it actively manages for growth.

Pantheon Infrastructure provides a diverse portfolio of operational infrastructure assets, primarily sponsor-led co-investments and an arm's length ability to influence the management of the underlying assets.

As their names suggest, Cordiant Digital Infrastructure and Digital 9 Infrastructure, which has recently announced its intention to wind up, are focused on a range of operational digital infrastructure assets, with a greater focus on growth and an increased risk appetite versus INPP.

GCP Infrastructure invests in UK assets with a focus on debt, including a significant weighting to senior debt.

Sequoia Economic Infrastructure is an international investor in infrastructure debt.

Exhibit 17: AIC Infrastructure peer group (%, unless stated)

Group/investment	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount	Ongoing charges	Perf. fee	Trailing div. yield
International Public Partnerships	2,386	(3.4)	15.7	26.6	95.0	(18.0)	1.2	No	6.3
3i Infrastructure	3,025	8.2	45.8	79.5	280.8	(6.9)	1.6	Yes	3.5
BBGI Global Infrastructure	929	3.9	25.6	43.4	143.1	(11.3)	0.9	No	5.9
Cordiant Digital Infrastructure	498	2.9	22.7			(42.4)	1.3	Yes	6.2
GCP Infrastructure Investment	636	4.7	34.7	38.6	103.3	(33.5)	1.2	No	9.5
HICL Infrastructure PLC	2,539	1.1	22.3	31.5	120.5	(21.9)	1.2	No	6.6
Pantheon Infrastructure	365	10.7				(26.5)	1.4	No	3.9
Sequoia Economic Infrastructure	1,316	8.3	9.2	24.9		(13.5)	1.0	No	8.4
Digital 9 Infrastructure	184	(22.7)	(5.6)			(74.7)		No	14.1
Weighted average		**3.2**	**26.1**	**44.5**	**166.1**	**(18.2)**	**1.2**		**6.1**
Rank	3	8	6	5	5	4	4		4

Source: Morningstar. Note: 23 April 2024.

The board

INPP's board comprises seven members, six of whom are deemed independent, who collectively bring to the company a breadth of relevant experience.

The board is chaired by Mike Gerard, who has over 30 years of financial and management experience in global infrastructure investment and has been involved in some of the largest infrastructure projects in the UK. The other board members are Julia Bond, Stephanie Coxon, Sally-Ann David, Meriel Lenfestey, John Le Poidevin and Giles Frost. Giles Frost is a founder of INPP's investment adviser, Amber Infrastructure, and is chair of its ultimate holding company, Amber Infrastructure Group Holdings Limited, and is therefore deemed non-independent. Details of the board members are available on the company website.

As part of the board's succession planning, John Le Poidevin will retire from the board at the AGM in 2025 and Giles Adu will become a director with effect from 1 September 2024. Giles Adu has over 30 years' experience spanning investments, funds and advisory across debt capital markets, real estate and alternatives.

Exhibit 18: Board remuneration and shareholdings in INPP

Member	Date of appointment	Remuneration (£)		Shares owned	
		FY23	FY22	FY23	FY22
Mike Gerard (chair)	Sep-18	101,400	98,600	279,789	243,447
Julia Bond	Sep-17	61,550	60,619	114,694	106,542
Stephanie Coxon	Jan-22	59,450	55,356	10,000	10,000
Sally-Ann David	Jan-20	59,450	55,825	30,303	30,303
Meriel Lenfestey	Jan-20	59,450	55,356	25,142	25,142
John Le Poidevin (senior independent director)	May-22	76,800	71,655	327,898	327,898
Giles Frost	Aug-06	56,200	53,500	971,676	971,676
Claire Whittet*			23,956		

Source: INPP. Note: Claire Whittet retired from the board in FY22.

Investment advisory fee structure and costs

The ongoing charge ratio (OCR)[8] was 1.2% in FY23 (FY22: 1.1%) and in line with peers. INPP says the increase in OCR in the year was principally due to the timing effect of the reduction in NAV. With no employees, most of INPP's costs are investment advisory fees, £32.2m in the year (2022: £27.9m).

The investment advisory fees payable to Amber are calculated as follows:

8 Recurring expenses as a percentage of average net assets.

- For existing construction assets, 1.2% pa of the gross asset value (GAV) of investments bearing construction risk.
- For existing fully operational assets, and excluding uncommitted cash from capital raisings:
  - 1.2% pa of GAV up to £750m;
  - 1.0% pa of GAV between £750m and £1.5bn;
  - 0.9% pa of GAV between £1.5bn and £2.75bn; and
  - 0.8% pa of GAV of more than £2.75bn.
- Asset origination fees in connection with new acquisitions are charged at a rate of 1.5% of the value of new acquisitions.

The investment advisory agreement can be terminated by either party at five years' notice. It may also be terminated where less than 95% of the group's assets are available for use for certain periods and where the investment adviser has failed to implement a remediation plan agreed with the group.

As at 31 December 2023, the Amber Group held 8,002,379 (December 2022: 8,002,379) shares in INPP or c 4% of the total shares outstanding, further aligning the interests between the two parties.

Appendix: Top 10 holdings at 31 December 2023

Exhibit 19: Top 10 holdings at 31 December 2023

Asset	Sector	Location	% of portfolio	Holding in risk capital*
Cadent	Gas distribution	UK	16.2	7.0%
Cadent owns four of the UK's eight regional gas distribution networks and in aggregate provides gas to approximately 11m homes and businesses.				
Tideway	Waste water	UK	14.3	18.0%
Tideway is the trading name of the company that was awarded the licence to design, build, finance, commission and maintain a new 25km 'super sewer' under the River Thames.				
Diabolo	Transport	Belgium	8.0	100.0%
Diabolo Rail Link integrates Brussels Airport with the national rail network, allowing passengers to access high-speed trains, such as Amsterdam-Brussels-Paris and NS International trains.				
Angel Trains	Transport	UK	6.2	10.0%
Angel Trains is a rolling stock leasing company that owns more than 4,000 vehicles. Angel Trains has invested over £5bn in rolling stock since it was established in 1994.				
East Anglia One OFTO	Energy transmission	UK	4.4	100.0%
The project connects the 714MW East Anglia One offshore wind farm, located c 50km off the Suffolk coast, to the National Grid. The transmission assets comprise the onshore and offshore substations and connecting cables, c 245km in length.				
Lincs OFTO	Energy transmission	UK	4.0	100.0%
The project connects the 270MW Lincs offshore wind farm, located 8km off the east coast of England, to the National Grid. The transmission assets comprise the onshore and offshore substations and connecting cables, c 125km in length.				
FHSP	Other	US	3.9	100.0%
Mezzanine debt investments underpinned by security over seven operational public-private partnership projects, comprising c 21,800 family housing units for US service personnel.				
Reliance Rail	Transport	Australia	2.8	33.0%
Reliance Rail is responsible for financing, designing, delivering and maintaining 78 next-generation, electrified 'Waratah' train sets serving Sydney, in New South Wales, Australia.				
BeNEX	Transport	Germany	2.5	100.0%
BeNEX is both a rolling stock leasing company and an investor in train operating companies, which currently provide c 48m train km of annual rail transport.				
Beatrice OFTO	Energy transmission	UK	1.9	100.0%
The project relates to the transmission cable connection to the offshore wind farm. The wind farm consists of 84 × 7MW wind turbine generators connected to an offshore substation platform (owned by the OFTO) located within the boundaries of the Beatrice wind farm.				

Source: INPP

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