



With Or Without Legislation, Infrastructure's On The Upswing

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Chuck Jaffe, in this episode of The NAVigator podcast interviewed Connie Luecke, senior portfolio manager for Duff and Phelps Investment Management and chief investment officer of the DNP Select Income Fund. Read the Q & A below as Connie says that the recently passed infrastructure bill – plus the potential for elements of the Build Back Better bill to be broken out and passed – should provide a business boost to energy and utility companies, communications



Connie Luecke

firms and more, but she also explains why legislation isn't the only reason why infrastructure is poised to be a strong sector in the post-pandemic recovering economy.

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CHUCK JAFFE: Connie Luecke, senior portfolio manager for Duff and Phelps Management is here to talk about the changing landscape for infrastructure investing, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization that represents all facets of the closed-end fund industry. From users and investors to fund sponsors and creators, if you're looking for excellence beyond indexing, The NAVigator's going to point you in the right direction. And today it's pointing us to Connie Luecke, chief

investment officer for the DNP Select Income Fund, that's ticker symbol DNP if you're following along at home, senior portfolio manager for Duff and Phelps Investment Management. We're going to be discussing a lot of different facets of infrastructure investing, but if you want to learn more about the firm go to DPIMC.com. Connie Luecke, thanks for joining me on The NAVigator.

CONNIE LUECKE: Hi Chuck, thanks for having me.

CHUCK JAFFE: Connie, when we talk about infrastructure I think most people have a picture in their head, but it's a lot broader. As we've learned just following along on the infrastructure bill, there's a lot of things that fall into infrastructure. And oh by the way, that infrastructure bill itself, that has also changed a little bit of the outlook. So let's start with a broad look and then we're going to go into various areas like clean energy, and utilities, and all the other things that we can get to when it comes to infrastructure.

CONNIE LUECKE: Yes, infrastructure has many definitions, and what most people think of when they think of infrastructure is to transportation infrastructure such as a toll roads or airports, or marine ports, bridges, those types of thing. But infrastructure is much broader than that. Utilities are actually a very large part of infrastructure, and midstream energy, the pipelines are also part of infrastructure, as is communications, the cellphone towers that we all use for our wireless networks. So all of that is the broader picture of what infrastructure is.

CHUCK JAFFE: In terms of the areas that you focus on for the fund, are there certain areas that you're looking at? Folks should kind of know your purview before we dig in much deeper.

CONNIE LUECKE: Yeah, for DNP we are primarily a utility fund. So we invest in the US and European utilities, the midstream energy companies, and in the communications companies. Now we look at communications in a little bit broader than just the towers, and we can talk about that in a minute. But our primary investment is really in utilities, that makes up almost 70% of the fund.

CHUCK JAFFE: Utilities of course were affected by the infrastructure bill that passed in November, and they also would be affected by Build Back Better, which we don't know if it's going to pass, or what form, or maybe it's going to be pieces of it that pass, etcetera. So let's start in the energy space, and I guess particularly when it comes to clean energy because that

was so much of the focus of the things that have been discussed, and how clean energy is being transformed by some of the political actions we're seeing.

CONNIE LUECKE: So the infrastructure bill that was passed in November had a lot of things that were beneficial to utilities such as deploying more transmission that helped connect the renewables that are being built to the grid, the electric grid. There's also EV, electronic vehicle charging stations that are going to be built, which may benefit the utilities as well. Water infrastructure upgrades are also a part of that bill, and then money that would be allocated to new technologies such as a hydrogen or carbon capture. All of those things were in that infrastructure bill that was passed. Now the Build Back Better bill that was talked about last year hasn't really made much progress, except for now it looks like we may get that bill separated out into a smaller bill. And that would be very beneficial to the utilities in that it looks like it's really going to be a clean energy bill. That would help utilities as they continue to deploy renewables in the US. The utilities have been very active in deploying renewables already, but this would continue to give them incentives to build out more of the renewables across the US.

CHUCK JAFFE: And what do you see as the prospect for the clean energy sector? Because obviously on the one hand it gets a lot of headlines, on the other hand realistically it's a very small percentage of the power generation out there. So is that a case where there's a long runway and what you would see as recession-proof ability to grow going forward?

CONNIE LUECKE: We do see that there's a long runway for the clean energy. The renewables are really, as you said, are at the very beginning of that build out. They account for maybe about 10% of energy production right now. So the utilities will continue to shut down their coal plants and build more renewables, whether it's the wind or solar. And the nuclear also counts as a renewable, although we don't expect there'll be a lot of new nuclear being built.

CHUCK JAFFE: Let's also look at your outlook for other types of infrastructure, some of the other things. You talked a little bit about midstream companies, the pipeline companies, etcetera, they had a really interesting last couple of years. What is your take on them going forward?

CONNIE LUECKE: Yeah, the midstream did have a really good year. A lot of that has to do though with the supply-demand dynamics and less so on the clean energy side. We've seen commodity prices really rise as demand has started to improve as Covid has kind of gone up

and down. Demand has improved but supply has stayed pretty tight as producers have not been really coming back with the level of production that they were doing before. As a result we've seen that dynamic really help these companies. But also what is happening is the companies have shown much more capital discipline, so that has resulted in an increase in the cash flows and more shareholder-friendly activities like share buy-backs, increasing dividends, and paying down more debt. So the midstream energy we think is a really good area right now, but less so from the standpoint of the clean energy.

CHUCK JAFFE: You also mentioned communications as an area within infrastructure. There has been a lot that's been discussed about what 5G is going to mean and the rest. So what's your outlook on the tower companies and the rest of the communication space?

CONNIE LUECKE: We are being bold on the tower companies and 5G. We think that the big wireless carriers will continue to upgrade their networks, they have all this spectrum that they need to deploy and there's a new entrant that is also trying to build out of four nationwide networks. So we'll see an acceleration of growth to accommodate all the wireless usage that everyone is doing, including video. The 5G buildout is just really at the beginning and this will be a multi-year process, so the tower companies' runway for growth is still quite long. And the carriers, the telecom carriers will need more and more towers and small cells and fiber networks to meet that demand for data and video usage.

CHUCK JAFFE: Going forward with all of this, we did talk a little bit about the politics in terms of Build Back Better and what may or may not happen. Can any of this really shake things up or is it all at this point priced in?

CONNIE LUECKE: Oh no, I don't think it's priced in to the stocks at all, particularly since it looked like something may not happen. Now we've gotten a little bit of movement in that it looks like they're going to separate out different portions of the bill and there'll be a separate clean energy bill. So I think that there is still plenty of upside to the sector, to the utilities sector from that. And utilities have underperformed, the S&P 500 over the last three years as a matter of fact. So I think as we've seen this big, bold market and a recovery from the Covid downturn, so I think that there is a lot of opportunity for utilities. And while people have been talking about clean energy for a while, I think you're going to see that work its way into the earnings for the utilities over the next really decade.

CHUCK JAFFE: Connie, thanks so much for joining me to talk about it.

CONNIE LUECKE: Thank you for having me.

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