KEYNOTE INTERVIEW

# Moving beyond the defensive

*Implementing an active management strategy, being a responsible partner to key stakeholders and an increasing use of innovative digital tools are key to unlocking the next phase of growth in core transport infrastructure, says IFM's Aaron McGovern*

As global markets grapple with inflationary pressures and shifting trade routes, transport assets – including toll roads, airports and seaports – offer more than just defensive positioning. Their resilience has been tested over decades, with values remaining relatively stable during various recent macroeconomic disruptions and geopolitical shocks.

The essentiality of transport infrastructure is no longer just a defensive buffer, but a platform for long-term growth. When coupled with disciplined asset selection and active management, these assets can provide a distinct combination of stable cashflows as well as inflation alignment characteristics.

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Aaron McGovern, executive director of infrastructure at IFM Investors, explores the various ways core transport assets are reclaiming the spotlight in institutional portfolios, as well as why a sophisticated digital layer and strategic partnerships are now essential for unlocking both resilience and growth.

**Q Why is core transport infrastructure regaining investor interest?**

Several factors are at play. Over the last decade, and especially recently, we've navigated a volatile macroeconomic environment – from the pandemic and high inflation to broader shifts in economic conditions and geopolitical risks. Throughout this, the transportation sector has demonstrated remarkable resilience.

Historically, investors have appreciated the sector's meaningful downside protection. When you look at toll roads, ports and airports over the long term, for example, risk-adjusted returns have often been very attractive. Additionally, many investors are clearly looking to rebalance their portfolios after years of heavy investment in digital infrastructure. Transport is an obvious choice given its long duration, essential nature, stable cashflows and inflation linkage.

However, we believe that even though transport investments clearly have several compelling fundamentals, the availability of top-tier assets has been relatively limited. On the one hand, high-quality assets are generally tightly held – either by strategic operators or investment vehicles we manage on behalf of our clients that take a long-duration, platform-based approach. At the same time, many assets were privatised decades ago, making them difficult to obtain. For certain regions, there are also political or regulatory hurdles to navigate.

Moreover, the bar for what constitutes a high-quality asset has risen. Today, there's extraordinary scrutiny on resilience, the strength of inflation pass-through mechanisms and regulatory frameworks. While assets are available, you have to dig deep into the data to ensure that they offer credible exposure to growth and long-term value potential.

## Q How do managers assess which transport subsectors maintain performance when economic conditions deteriorate?

At IFM, we rely on 30 years of data to stress-test how different assets behave in various economic cycles. We look at three main verticals: toll roads, seaports and airports. For toll roads, we distinguish between non-discretionary and discretionary demand. Does the asset facilitate the movement of people or freight including raw materials, manufactured goods or agricultural products? We also look at the specific tariff formula to determine if it's a direct inflation pass-through or if it lagged? Lastly, while you may have a contractual right to increase tariffs, adverse economic or political conditions can constrain your ability to exercise that right. As a result, how those rights have been honoured historically is often a strong indicator of how they'll be respected in the future.

Regarding seaports, investor outcomes depend on location and cargo mix. We assess exposure to gateway volumes versus transshipment, as well as expansion potential, especially as global trade routes are continuing to evolve. For airports, we look at the hub strength, passenger mix, slot protections and the regulatory environment.

We use a proprietary risk management framework – InFRAME – to understand how these variables respond to inflation or growth shocks. We also look beyond the numbers, assessing partnerships with governments, regulators and communities. We're firmly of the belief that being a responsible partner is fundamental to unlocking long-term win-win value for all stakeholders.

## Q Long-duration transport assets require continual


SOURCE: IFM INVESTORS

Manchester Airports Group is one of IFM Investors' infrastructure holdings

## Q In a global slowdown, do correlations inside transport assets converge – or does diversification still work?

It's true that not all diversification is equal. Whether it remains an effective approach during a slowdown depends entirely on the type of diversification you've built into your portfolio. It's critically important that you don't just have diversification across asset types, geographies or subsectors, but in the specific way those businesses generate revenue and value.

Having said that, if your diversification is broad enough across different revenue characteristics, it remains highly effective. During the pandemic, for example, our portfolio showed resilience because while individuals faced a number of restrictions on their mobility, the movement of goods was essential. Additionally, many of our portfolio assets operate within regulated frameworks. For these, even if volumes drop significantly, the framework allows for rebalancing over time.

To put some figures behind these anecdotes, even within our airport investments, the correlation between Manchester Airports Group and Vienna Airport, which are both European assets, is 0.4 given they have differentiated customers, revenue drivers, airline carriers, etc.

Correlations don't necessarily break down if you're thinking about diversification in a broader sense. If you truly understand the underlying drivers for each asset, diversification can remain an incredibly effective tool for maintaining resilience.

**reinvestment. How does that improve resilience?**

For transport assets, there are numerous bilateral opportunities to reinvest capital as populations and economies grow. We can expand runways, add terminal capacity or widen roads. This provides better service for users and unlocks additional value.

A prime example is our work with Manchester Airports Group (MAG). As a leading UK operator, MAG owns and operates three major airports – London Stansted, Manchester and East Midlands. To give you a sense of scale, in 2019 alone, the Group handled approximately 60 million passengers and supported over 40,000 on-site jobs.

Because of its essential nature, MAG has undertaken major multi-year capital projects to future-proof the business. This includes the £1.3 billion ($1.7 billion; €1.5 billion) Manchester Airport Transformation Programme, which revamped the entire passenger journey from check-in to arrival. More recently, we've moved forward with a £1.1 billion investment in London Stansted, which includes a third terminal expansion, next-generation security equipment and airfield upgrades.

We've seen something similar with the recent capital injection in the Baltic Hub seaport. It's the largest and fastest-growing container terminal in Poland, which in 2025 underwent a €450 million expansion of its T3 terminal. This was a landmark project that resulted in a 50 percent increase in capacity. But it wasn't just about making the footprint larger; it was about technical sophistication. We equipped the terminal with seven of Europe's tallest and most advanced ship-to-shore cranes and 20 automated rail-mounted gantry cranes.

These projects do more than simply add physical space and capacity. They enhance the passenger experience and support more resilient cashflows – even in a volatile macro environment. In the aforementioned examples, reinvestment wasn't primarily about maintaining the asset. Upgraded terminals, automated equipment, modernised airfield and landside infrastructure as well as new capacity can all translate into greater and more stable revenues, higher operational reliability and stronger commercial positioning.

*"Transport is an obvious choice given its long duration, essential nature, stable cashflows and inflation linkage"*

As an aside, the other thing that improves resilience is active management. For example, we recently invested in a seaport that was already core and demonstrating resilience, but we wanted to further enhance it. As such, we embedded one of our executives in the management team for over a year.

**Q How does the digitalisation of an asset influence resilience?**

Digitalisation has become essential. Historically, this has meant moving from cash to contactless payments on toll roads. This proved vital during covid. Fast-forward to today, and we're talking about how AI and automation can directly enhance operational resilience. We see this through improved productivity, optimised maintenance schedules, better traffic and incident management and, perhaps most importantly, safety. However, for us, digitalisation has always been a core consideration.

For example, at our fund's AGM in Italy last year, we showcased how we're using technology to improve infrastructure inspection, such as deploying robotic drones to survey traffic conditions and structural integrity as well as enabling them to put fewer people into live, higher-risk operating environments. Beyond the clear safety benefits, there are tangible operational and financial efficiencies gained from that precision too.

We're also leveraging advanced forecasting and AI-enabled demand prediction models. This is a significant part of our optimisation push across our airports, seaports and toll roads. As customer patterns shift, these tools allow us to ensure we're delivering better service quality and higher throughput. This means business models can remain robust even when faced with external technological or macroeconomic shocks.

**Q Given today's headwinds, what keeps you optimistic about transport infrastructure?**

I believe transport is, and will continue to be, a fundamentally essential business. Demand for these assets remains consistently durable. We've also seen the sector prove its resilience through multiple cycles, maintaining attractive characteristics.

What really drives my optimism, however, isn't just that downside protection. It's the long-term growth story. We're seeing significant structural trends – urbanisation, the reconfiguration of global supply chains and the rapid pace of digitalisation. These forces are expected to increase the long-term demand for efficient, safe and modern transport networks.

I believe our portfolio is exceptionally well-placed because we've built an attractive mix of both resilient and growth-oriented assets. I see a wealth of opportunity to continue enhancing that value over time through our hands-on active management approach, our specialist teams on the ground and the deep partnerships we've cultivated across the globe. When you combine that essential, defensive foundation with proactive value creation, the outlook for the sector remains highly compelling. ■