The Evolving Infrastructure Market

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Infrastructure History

For many, investing in the infrastructure sector evokes thoughts of rather vanilla investments in toll roads, airports, and tunnels. While those investments remain attractive within the transportation sector, as an asset class, infrastructure has continuously adapted and today includes a growing opportunity set for investors. Infrastructure as an asset class has existed since the industrial revolution; it gained steam during the early 1990s as first Australia, followed by the United Kingdom, and Canada, began to privatize state-owned telecommunications, utilities, and transportation companies. If it seems as if Australian investment firms often have a focus on infrastructure, it's because many of them pioneered the industry. Per Preqin (a U.K. based investment data company), today, the asset class has increased by over three times since the end of 2008 and is benefiting from several tailwinds. First, the most recent grade of U.S. infrastructure provided by The American Society of Civil Engineers (ASCE) was a C- (believe it or not, an upgrade over the D+ in 2017) and brought attention to the amount of investment needed to improve the quality of the country's infrastructure. Additionally, in 2021, the $550 billion Infrastructure Investment and Jobs Act was passed, which provided a significant source of capital for deployment.

Modern Opportunities

While power generation, transportation, and social infrastructure such as school and hospital investments remain attractive today, the digital infrastructure space has seen significant growth and includes opportunities such as telecom towers, fiber-optic and wireless network development, data centers, or cloud computing services. While this is not an exhaustive list and the industry is experiencing ongoing development, digital infrastructure investment will be crucial for supporting the global digital economy over time. Per Pitchbook, digital infrastructure-investing funds raised $103.3 billion from 2021 to 2023, following an average of $89.3 billion from 2018 to 2020, and $53.4 billion from 2015 to 2017.

Role in Portfolio

As with all asset classes, risk and return levels will differ across the broader infrastructure industry based on underlying investments, however, there are three distinct project stages that will drive most of the long-term return potential:

- Greenfield: An asset or structure that does not currently exist and needs to be designed and constructed.
- Brownfield: An existing asset or structure that requires improvements, repairs, or expansion and is most often a lower risk than greenfield projects.
- Secondary Stage: A fully operational asset or structure that requires no investment for development and is less risky than both greenfield and brownfield projects.

Within a traditional portfolio, an allocation to infrastructure has historically provided several positive features for investors, including diversification benefits, drawdown protection, and a more consistent risk-return profile given the industry's exposure to cash-flow-generating investments. Select sectors such as regulated utilities, toll roads with inflation-linked contracts, or gas and electric investments have also provided a natural inflation hedge over time. However, it should be noted that depending on how you access the asset class, you may be subject to the existing volatility of public markets if invested in a mutual fund or the lock-ups and lack of liquidity in a private vehicle.

Since inception in November 2003, the MSCI World Core Infrastructure Index has returned 8.7%, outperforming the 8.6% return of the MSCI World, with a beta of only 0.78. Downside protection was on display in 2022, with the MSCI World Core Infrastructure Index down only 7.9%, while the MSCI World declined 18.1%.

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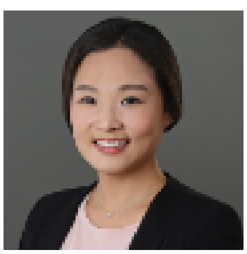

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