CBRE Investment Management

# Why open-ended vehicles optimize mid-market next-generation infrastructure investing

The investment thesis for infrastructure assets that are reshaping society, such as decarbonization of transport, renewable energy, digital infrastructure and grid electrification, is well supported by long-term megatrends. These industries, dubbed next-generation infrastructure, leverage technological advancements to address demographic, climate change and globalization challenges.

*Fueled by long-term megatrends, next-generation infrastructure sectors often require an extended period of time beyond the typical five-year period of closed-ended funds to realize change and have that reflected in performance.*

Next-generation infrastructure asset types include electric-vehicle (EV) charging stations, smart grids, renewable-energy plants, data centers and fiber networks, offering diversified risk-adjusted investment aligned with sustainability goals. Companies in this category employ advanced technologies, such as data analytics, AI, sensors and automation, for optimized performance and resilience. The bulk of these investment opportunities lie in the mid-market, typically comprising companies with an enterprise value between $500 million and $2 billion. This market segment offers ample deal opportunities, reduced competition, geographic and sector diversification, inflation protection, and potential for value creation — outperforming the broader infrastructure market.

While investors grasp the investment thesis, the critical role of fund structuring in optimizing next-generation infrastructure mid-market investing is often overlooked. Although both closed-ended and open-ended fund strategies have a role in a diversified infrastructure portfolio, this article discusses the advantages of an open-ended fund structure for next-generation infrastructure investing.

### Fund structure vital to successful strategy execution

Fund structures lay the groundwork for successful investment strategies by aligning risk profiles with investment horizons, defining leverage usage, attracting and retaining suitable investors, as well as supporting liquidity management, operational efficiency and transparent governance. Fueled by long-term megatrends, next-generation infrastructure sectors often require an extended period of time beyond the typical five-year period of closed-ended funds to realize change and have that reflected in performance. For instance, investments in EV-charging infrastructure require time for adoption to mature and investment potential to be fully realized. Closed-ended funds often fall short in capturing the full upside of such investments. An open-ended structure, tailored for institutional-only investors, better suits the long-term nature of next-generation infrastructure assets, providing stable ownership and patient capital to foster sustained focus on value creation by company management teams.

### Private capital as a risk-sharing partner

Private capital's role in next-generation infrastructure goes beyond funding promising innovative companies. Managers such as CBRE IM create significant value for investors and infrastructure operators, through our diverse expertise, risk-sharing capabilities, funding sources and market access, contributing to the development and efficient management of next-generation infrastructure assets. We help companies improve operational efficiency, sustainability, risk management, governance practices and financial structuring. Our global network opens doors to new markets and funding sources. We enable early-stage infrastructure businesses to scale, expand their reach and secure new partnerships, increasing investor confidence and stakeholder value. For example, private capital can partner with renewable-energy developers to co-finance projects, share operational expertise, leverage relationships with public authorities and attract debt financing.

*Fund structures are pivotal in supporting investment strategy execution.*

### Time in the market and non-blind pool investing

Relatively quick investment of capital is a structural benefit of open-ended vehicles, allowing multiples on invested capital and amplifying the performance benefits of time in the market. Open-ended funds enable investment on a non-blind pool basis, providing investors with capital deployment visibility. In nascent sectors, such as sustainable transport, EV charging and energy transition, these young companies have a shorter track record to support revenue and growth forecasts. Open-ended vehicles provide investors with a further layer of due diligence information, as compared with traditional blind pool investing.

Investing in established portfolios also allows investors to substantially mitigate the risk of a J-curve, where upfront fees, due diligence and legal costs can cause an initial decline in the investment's value. The J-curve effect is commonly associated with closed-ended vehicles. Established portfolios also provide lower vintage risk, as open-ended funds comprise portfolio investments acquired over time and across economic cycles.

Investors in open-ended funds benefit from enhanced liquidity that normally does not exist in closed-ended funds, such as:

- The ability to redeem capital in response to investment objective changes.
- Using open-ended funds as a portfolio-balancing tool to complement closed-ended fund investments, redeeming and deploying capital to manage an overall infrastructure allocation.
- Making tactical redemptions to exchange deferred valuation gains for higher cash proceeds.

For investors not seeking liquidity, open-ended funds can also provide distribution reinvestment plans (DRIPs) that allow investors to reinvest distribution proceeds and capture benefits from compounding returns. Compared with closed-ended funds, open-ended funds typically require no fees on committed capital, have lower performance fee rates, and remove the need for setting up continuation vehicles, known as GP-led secondaries, which can include new fees.

### Investment strategy first — fund structure supports execution

At CBRE IM, we leverage both open-ended and closed-ended fund structures after rigorous evaluation of the most effective framework for each infrastructure investment strategy. Both structures play a crucial role in a diversified infrastructure portfolio. Investors should leverage the structure most suitable for their strategy. For next-generation infrastructure, open-ended funds enable strategic investment and execution of high-conviction themes over extended periods. Long-term, stable funding sources for portfolio companies allow company management teams to prioritize value creation and market share establishment in new, innovative markets. Fund structures are pivotal in supporting investment strategy execution.


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### CORPORATE OVERVIEW

**CBRE Investment Management** seeks to deliver sustainable investment solutions across real assets categories, geographies, risk profiles and execution formats so that our clients, people and communities thrive. One of the world's leading real assets investment managers, our team is responsible for more than $147.5 billion in assets under management, as of Dec. 31, 2023.