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# Private infrastructure: A resilient asset class for today's investors

## Infrastructure investment offers the opportunity to further diversify portfolios, generate steady income and protect against inflation.

Private infrastructure has emerged as a resilient and strategic asset class within modern investment portfolios. By complementing traditional stocks and bonds, private infrastructure investments can enhance risk-adjusted returns, diversify portfolios and provide inflation protection. In addition, infrastructure complements other private market sectors like real estate, private credit and private equity with different return attributes and degrees of economic sensitivity, necessitating a prominent place in well-diversified portfolios. Accelerated by global megatrends, such as the growing demand for energy, digital transformation and aging infrastructure, this asset class is poised to play a pivotal role in meeting evolving economic demands.

The inclusion of infrastructure within traditional investment portfolios has consistently demonstrated the ability to enhance returns while mitigating risk. Private infrastructure offers stability through its low correlation with other asset classes, stable cash flows and natural hedge against inflation. This paper outlines the defining attributes of private infrastructure, its role in addressing global investment demands, and its unique contributions to portfolio optimization.

### Defining infrastructure

Infrastructure encompasses a broad range of sectors and subsectors that collectively underpin the functioning of an economy by enabling trade, mobility and overall economic activity. It enhances living standards while creating foundations for global growth and human development.

Traditional infrastructure includes key areas such as energy, transportation and utilities. In recent years, infrastructure has expanded to include communications, data and network systems. Examples of infrastructure projects include roads, dams, public utilities, wireless cell towers, transmission lines, power plants, data centers, railways and airports.

Private market sector relative returns

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2014-2023 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Ann. | Vol. |
| Venture Capital 26.0% | Transport 16.2% | Infra 14.2% | Private Equity 23.2% | Venture Capital 21.3% | Venture Capital 20.3% | Venture Capital 58.3% | Venture Capital 49.5% | Transport 23.5% | Transport 25.4% | Venture Capital 16.2% | Venture Capital 13.2% |
| Infra 13.9% | Infra 15.5% | Transport 13.4% | Transport 20.2% | Infra 11.6% | Private Equity 17.0% | Private Equity 24.4% | Private Equity 37.5% | Infra 9.7% | Direct Lending 12.1% | Private Equity 14.6% | Transport 10.5% |
| U.S. Core RE 12.5% | Venture Capital 15.1% | Private Equity 12.4% | Venture Capital 14.9% | Europe Core RE 9.9% | Infra 11.5% | Asset Allocation 12.0% | U.S. Core RE 22.2% | U.S. Core RE 7.5% | Private Equity 9.1% | Transport 13.9% | Private Equity 8.5% |
| Europe Core RE 12.3% | U.S. Core RE 15.0% | Direct Lending 11.2% | Asset Allocation 12.2% | APAC Core RE 9.4% | Europe Core RE 9.4% | Transport 10.6% | Asset Allocation 19.3% | APAC Core RE 6.9% | Infra 8.1% | Infra 10.7% | U.S. Core RE 5.5% |
| Asset Allocation 11.2% | Europe Core RE 12.6% | APAC Core RE 10.5% | Infra 12.2% | Private Equity 9.2% | Asset Allocation 9.2% | Hedge Funds 8.9% | Transport 18.8% | Direct Lending 6.3% | CML – Senior 5.6% | Asset Allocation 10.6% | Hedge Funds 5.4% |
| Private Equity 10.1% | APAC Core RE 11.8% | U.S. Core RE 8.8% | APAC Core RE 11.5% | Asset Allocation 8.7% | Direct Lending 9.0% | CML – Senior 6.3% | Europe Core RE 14.2% | Europe Core RE 4.6% | Hedge Funds 4.5% | Direct Lending 8.8% | Europe Core RE 4.2% |
| Direct Lending 9.6% | Asset Allocation 10.4% | Asset Allocation 8.5% | Europe Core RE 9.8% | U.S. Core RE 8.3% | CML – Senior 8.1% | Direct Lending 5.5% | Hedge Funds 13.9% | Asset Allocation 2.4% | Asset Allocation 4.3% | APAC Core RE 7.5% | CML – Senior 4.0% |
| APAC Core RE 9.4% | Private Equity 9.4% | Europe Core RE 8.1% | Direct Lending 8.6% | Direct Lending 8.1% | APAC Core RE 6.6% | Europe Core RE 4.8% | Direct Lending 12.8% | Private Equity -1.6% | Venture Capital -2.0% | U.S. Core RE 7.3% | Infra 3.4% |
| CML – Senior 7.4% | Direct Lending 5.5% | Hedge Funds 3.2% | Hedge Funds 8.5% | Transport 7.7% | Hedge Funds 5.6% | U.S. Core RE 1.2% | APAC Core RE 12.0 | Hedge Funds -2.8% | APAC Core RE -2.5% | Europe Core RE 7.2% | Asset Allocation 3.0% |
| Transport 6.9% | CML – Senior 2.7% | CML – Senior 2.9% | U.S. Core RE 7.6% | CML – Senior 2.6% | U.S. Core RE 5.3% | Infra 0.2% | Infra 10.5% | CML – Senior -9.0% | Europe Core RE -5.0% | Hedge Funds 4.4% | Direct Lending 2.9% |
| Hedge Funds 4.3% | Hedge Funds -0.2% | Venture Capital 0.6% | CML – Senior 5.7% | Hedge Funds -1.2% | Transport -0.5% | APAC Core RE 0.1% | CML – Senior 1.9% | Venture Capital -20.6% | U.S. Core RE -12.0% | CML – Senior 3.3% | APAC Core RE 2.7% |

Source: J.P. Morgan Asset Management, *Guide to Alternatives*

These assets play a vital role in supporting both the physical and digital needs of a growing, interconnected economy. They also have high barriers to entry, produce stable, long-term cash flows, and regularly have pricing contracts linked to CPI. These characteristics tend to limit their sensitivity to economic cycles while offering varying degrees of protection during inflationary periods.

### Global megatrends

Several powerful, long-term megatrends are reshaping the global infrastructure landscape and driving substantial investment opportunities. These include the growing demand for energy and the necessary expansion of transmission networks, the ongoing digital transformation of economies and societies, and the urgent need to modernize aging infrastructure in many developed nations. These fundamental drivers – further amplified by population growth and urbanization – are expected to persist for the foreseeable future, necessitating trillions of dollars of investment and creating a robust investment environment across debt and equity.

### Performance of infrastructure in different economic environments

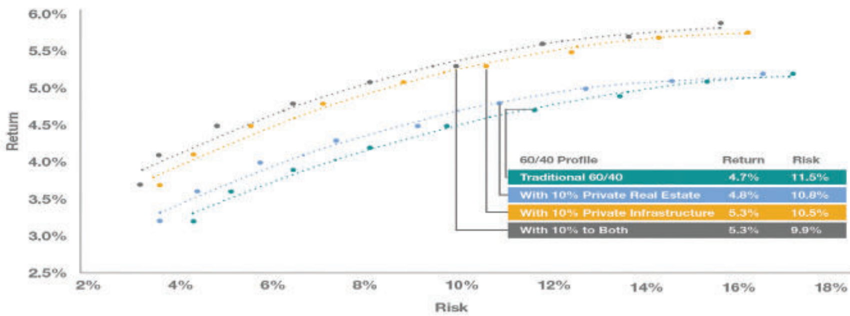
Infrastructure has historically offered significant portfolio diversification benefits. From late 2003 to first quarter 2023, adding private infrastructure to a portfolio boosted overall returns by 13 percent while lowering overall risk by 9 percent.[1]

### Other private market asset classes

Compared to private market alternatives such as real estate, private equity and private credit, infrastructure has delivered above-average returns with below-average volatility, yielding one of the best risk-adjusted returns of any private market asset class over the ten years ending Dec. 31, 2023. The long-term contracts and essential services that infrastructure projects typically exhibit result in enhanced stability, making investments less susceptible to market fluctuations.

Infrastructure funds have demonstrated a low correlation to private equity (0.26) and private credit (0.12), while exhibiting a low to moderate correlation with private real estate (0.39),[2] reinforcing the case for private infrastructure's inclusion in a diversified portfolio to enhance risk-adjusted returns.

Impact of adding private infrastructure and private real estate to a traditional 60/40 portfolio




Source: CAIS, Illustrative risk and return for asset allocations across the risk spectrum

Despite some similarities, private infrastructure and private real estate are distinct asset classes with different economic drivers, risk exposures and return characteristics. Many investors conflate the two, assuming that exposure to private real estate negates the need for private infrastructure. However, their relatively low correlation to each other and to equities and fixed income more broadly highlight the diversification benefits of holding both, as they respond differently to inflation, economic cycles and policy changes.

A comparison of a 10 percent allocation to private infrastructure versus a 10 percent allocation to private real estate in a traditional 60/40 portfolio further underscores the complementary nature of these asset classes. While both improved portfolio efficiency, private infrastructure delivered a more meaningful benefit to overall performance, generating higher returns while reducing risk to a greater extent over the 15-year period ending March 31, 2023. The inclusion of both asset classes – 10 percent allocated to each – provided the strongest enhancement to portfolio diversification and stability, reinforcing the case for a dedicated infrastructure allocation alongside real estate.

## Macroeconomic, monetary and market factors

Overall, infrastructure's low economic sensitivity, hedge against inflation, low correlation to stocks, bonds, and other private markets asset classes and attractive historical return profile warrant consideration for a complement to any investment portfolio.

## Accessing infrastructure

Until recently, private infrastructure has only been accessible to institutional investors who can commit multiple millions of dollars to multiple funds. Many private funds have minimum investment requirements between $5 million and $25 million, thus the bar for direct private fund participation is high.

However, two other options exist. The first is listed securities accessible through mutual funds, ETFs or individual equities. These have long been available to most investors. However, their accessibility and liquidity are accompanied by increased volatility and correlation to the overall equities market compared to private infrastructure.

The second is interval funds. These structures make private infrastructure accessible to investors who cannot access private partnerships or who prefer the increased transparency, liquidity, investor protections, operational efficiencies and tax delivery (1099 vs. K-1) of a 40 Act fund. Interval funds often combine public and private infrastructure investments into a single vehicle that offers positive attributes of both while providing significant diversification across infrastructure sectors, geographies, vintages and investment managers.

## The opportunity in brief

Investing in infrastructure presents a compelling opportunity for global growth, driven by long-term structural trends. This asset class has consistently delivered attractive returns across both high and low inflationary environments, offering stable and predictable income streams, often benefiting from depreciation expense. With its low sensitivity to economic cycles and inherent inflation protection, infrastructure can play a key role in diversifying investment portfolios effectively.

A 40 Act interval fund, which can provide broad access to both public and private infrastructure assets, may be an ideal vehicle for gaining exposure to this asset class. By blending the stability of public infrastructure with the growth potential of private investments, interval funds may offer a balanced approach to capitalizing on infrastructure opportunities.

Moreover, infrastructure investments align with high-impact national development objectives, fostering greater economic progress and prosperity. In the U.S., for instance, these investments support efforts to reshore manufacturing, meet the growing data center and energy demands of the AI revolution, advance energy independence, and more. By investing in infrastructure, investors may achieve strong risk-adjusted returns while enhancing portfolio resilience, all while contributing to job creation, economic competitiveness and sustainable growth.

1 CAIS, *Comparing Real Estate and Infrastructure in a Portfolio Context.*

2 Bloomberg, Preqin, Cliffwater Direct Lending Index; data as of Sept. 30, 2023.

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