



UBS Asset Management

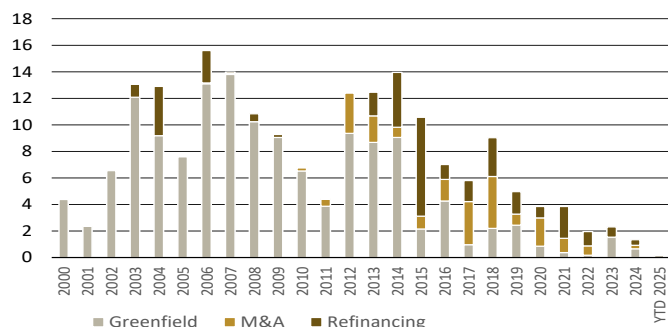
U.K. policy warms on private capital

Government commits to evolve infrastructure finance models

The U.K. government released its latest 10-year infrastructure strategy in mid-June as part of its ambition to “crowd in” private capital to deliver infrastructure investment and wider economic growth. One notable development is a change in policy to bring private finance initiative (PFI) forms of procurement back for tax-funded investment. The U.K., alongside Australia and Canada, was one of the early adopters of PFI and broader public-private partnership (P3) models. These became a cornerstone of what is now the \$1.61 trillion¹ in assets under management (AUM) in the global unlisted infrastructure asset class.

Private finance public procurement methods were used extensively through the 2000s, (see Figure 1) leading up to the Global Financial Crisis (GFC), after which the policy was paused before a scaled back version was relaunched in 2012. The current chancellor’s limited headroom for fiscal spending likely contributed to a change in policy on the use of private finance for investment. This follows the previous conservative government’s decision to do away with PFI for central government back in 2018.

Figure 1: U.K. P3 greenfield deals fell away from 2014
(Aggregate deal value, \$b)



Source: Infraction, data as of June 24, 2025. *This is a narrower definition of P3 comprising mainly PFI contracts and excluding contracts for difference (CfD) and others.

Often focused more on social infrastructure, the pipeline of PFI projects never returned to the scale of previous years, as government focus turned to promoting renewable energy investment via the contracts for difference (CfD) regime, another form of P3. This infrastructure strategy, however, has reopened the use of private finance for public estate decarbonization and smaller primary and community healthcare capital investment. While the scale of the opportunity in these sectors may not be as large, particularly given the exclusion of larger acute hospital projects from the policy, investors and asset managers will likely welcome the change of tone in the policy around private finance.

Broadening the balance sheet beyond government

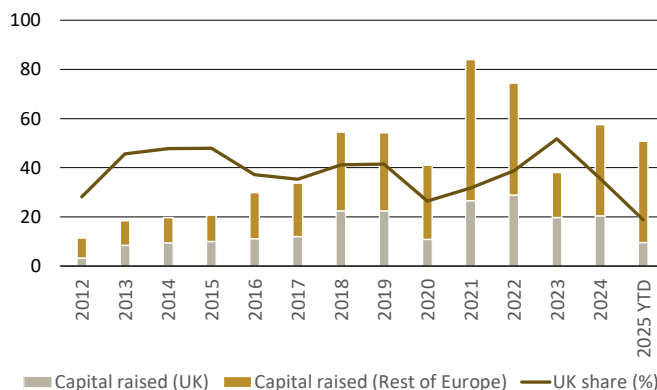
The strategy refers to the Mansion House accord, a voluntary pledge from a number of U.K. defined contribution pension funds covering over £250 billion in AUM to allocate 10 percent of their default funds to private markets by 2030. Further, under

the accord, half of these allocations should be channeled to U.K. assets, whether into businesses via private equity or unlisted infrastructure. This demonstrates the government’s efforts to engage investors and aligns with its ambition to stimulate economic growth via private investment as an alternative to increasing government borrowing.

Many will consider the justification of limited fiscal fire power as a reason to use private finance as poor policy, given that the U.K. government can finance capital investment at a lower cost of capital via government bonds. However, P3 models are more able to pass on construction risk, including cost and time overruns, to the private sector compared to conventional public procurement.² Under the international financial reporting standards (IFRS), PFI projects are typically recorded on balance sheets now anyway. Further, following Brexit, the U.K. has fewer constraints around public debt to GDP. This makes the decision to open up options for private capital all the more reassuring, suggesting the U.K. government is keen to ensure more project delivery and operational risks can be transferred to private sector balance sheets.

The U.K. asset management industry had an early lead in the growth of unlisted infrastructure generally, compared to European markets. U.K.-based managers dominated AUM with over 60 percent of the broader European share in 2010. The market maintained a majority share until 2016,³ when western European peers caught up. As of 3Q24, U.K.-based managers accounted for approximately 36 percent of total European unlisted infrastructure AUM. On fundraising, U.K. based managers were able to regain some market share amid the slower fundraising in 2023. However, so far in 2025, U.K. GP capital raised among regionally based managers reached a new low of just 19 percent (see Figure 2). This recent change of policy on the role of private capital may help restore U.K. managers’ success in capital raising.

Figure 2: U.K. GP fundraising holds ground despite less favorable policy environment (Capital raised – \$b, and U.K. share – %)

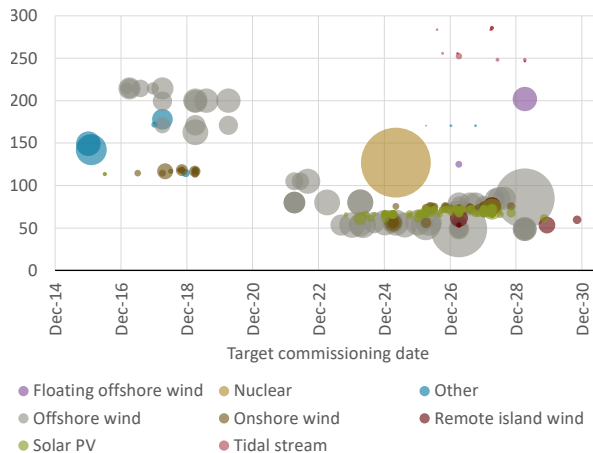


Source: Preqin, data accessed as of June 23, 2025.

Increased project costs bring risk to policy ambitions

Away from PFI, in the now established CfD regime designed to support continued rollout of renewable energy generation, the latest strike prices have risen slightly compared to previous rounds. Strike prices give a guaranteed price for renewable energy developers, backed by the taxpayer and so help derisk investments, reduce the cost of debt and get assets built. On a weighted average basis by project generating capacity, they averaged £83.6 per megawatt hour in 2012 prices over the sixth auction vs. £55.6⁴ for the fourth. The AR5 auction in 2023 failed to attract significant bids⁵ because the then-Conservative government imposed a maximum strike price of £72, too low for many bidders in the dominant offshore wind sector (dark gray dots, see Figure 3). Against the rise in both resource costs for equipment and labor, as well as higher financing cost as central banks increased rates to contain inflation, the commercials in renewables are increasingly challenging.

Figure 3: Strike prices for offshore wind have crept up recently (Current strike price, GBPs per MWh)



Source: Low Carbon Contract Company, as of June 20, 2025 CfD register.

The analysis of strike prices here excludes terminated CfDs, which included circa 2.84 gigawatts (GW) of capacity across 39 projects. Half of this capacity was due to be delivered in a three-phased buildout of an offshore wind project by Vattenfall, but they backed out from the project in mid-2023, citing a 40 percent rise in project costs. More recently, Orsted has announced their intention to pause development of the Hornsea 4 (2.4 GW) project citing

similar challenges, as “soaring costs” unsettle the business case of large-scale offshore wind development.

The policy ambition to deliver at least 43 GW of offshore wind generation by 2030 is looking increasingly incredible. This could enhance efforts to build out more solar and onshore wind, with minimum generation targets for these sectors set at 45 GW and 27 GW respectively, out to 2030. Onshore wind had been off the cards for many years in the U.K., as the previous conservative government sought to avoid voter backlash. The Labour government announced in July 2024 their support for onshore wind, opening up a key market opportunity for renewables developers – many asset managers had no doubt been quietly preparing for this policy change and are now pursuing development in the sector post haste. Some expect the U.K. government to increase the generosity of support packages to induce more private capital to flow into renewable energy, given the prominence of its stated renewable energy policies.

Eyes on the horizon

While critics will be highlighting which sectors have been missed in terms of opportunities for private capital, the fact that this Labour government has become warmer on the use of private finance in U.K. infrastructure is good news broadly for the unlisted infrastructure asset class. The strategy committed to publishing a pipeline of projects in July 2025, including the procurement route for each, helping provide more clarity on market opportunity. Further information on the policy is due in the Autumn budget.

This turn of favor for private infrastructure may spur some increased U.K. attention in Europe-focused funds beginning to raise capital. While opportunities for projects will take a few quarters to emerge, this aligns with capital-raising timelines. Investors will have to be comfortable with the development risks involved in greenfield projects though. Managers with established relationships with sector specialist ECP contractors with capacity to deliver will be better placed to pursue these emerging opportunities.

1 AUM as of 3Q24 according to Preqin, made up of \$1.22 trillion unrealized value and \$392 billion of dry powder.

2 National Audit Office 2003, 2009; NAO, 2003: PFI: Construction Performance; NAO, 2009: Performance of PFI Construction

3 <https://pro.preqin.com/insights/research/reports/alternatives-in-europe-2023>

4 <https://register.lowcarboncontracts.U.K./downloadfiles>

5 <https://www.ft.com/content/c5a2986a-6edf-46d1-bcbc-584fb9426802>

CORPORATE OVERVIEW

Managing \$307 billion* in invested assets, UBS Asset Management's Unified Global Alternatives (UGA) business is a leading alternative investment platform with a strong global presence and a diverse range of capabilities across alternative asset classes. Through our open-architecture alternatives platform, we design customized solutions to meet the specific needs of our clients, including those spanning multiple asset classes.

* Includes invested assets across Asset Management and Global Wealth Management, as of June 2025. Invested assets include net new money/net new fee-generating assets and custody/execution assets.



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