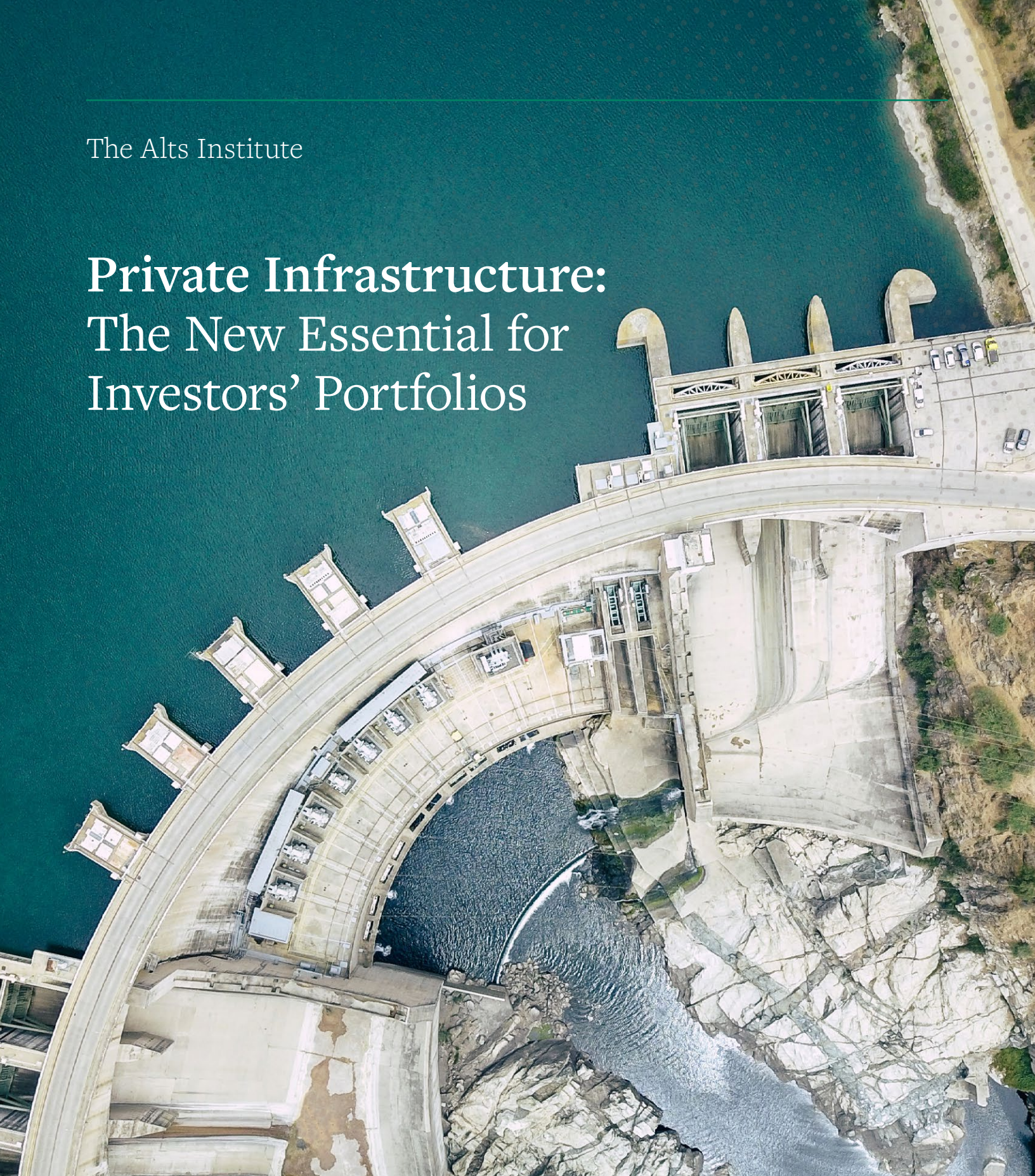


The Alts Institute

Private Infrastructure: The New Essential for Investors' Portfolios



Overview

Infrastructure underpins the global economy. These assets are the networks and systems that provide essential services, facilitate economic activity and enable the movement or storage of goods, commodities, data and people.

The investable universe for infrastructure continues to evolve and there is growing need for additional investment to upgrade and modernize infrastructure around the world. However, historical providers of infrastructure capital (e.g., governments and corporations) are limited in their ability to invest, given burdened balance sheets and other demands on their capital. Private capital, from asset managers, institutional and private wealth investors, is stepping in to fill this funding gap. In the midst of what we call an “infrastructure super-cycle,” we see three themes—“The Three Ds”—driving opportunity for investors as the world looks to invest in its infrastructure:

1. Digitalization
2. Decarbonization
3. Deglobalization

With this backdrop in mind, we believe investors should consider adding private infrastructure to their portfolios. As an asset class, private infrastructure seeks to deliver strong risk-adjusted returns, without a lot of surprises, throughout market cycles. While the asset class may be new to many investors, it has proven its resiliency as it seeks to provide investors mitigation of downside risk with low or no correlation to other asset classes, minimal interest rate sensitivity, and a hedge against inflation.

We discuss private infrastructure as an asset class, explore its key characteristics, review its potential benefits, and discuss roles it can play in an investor’s portfolio.

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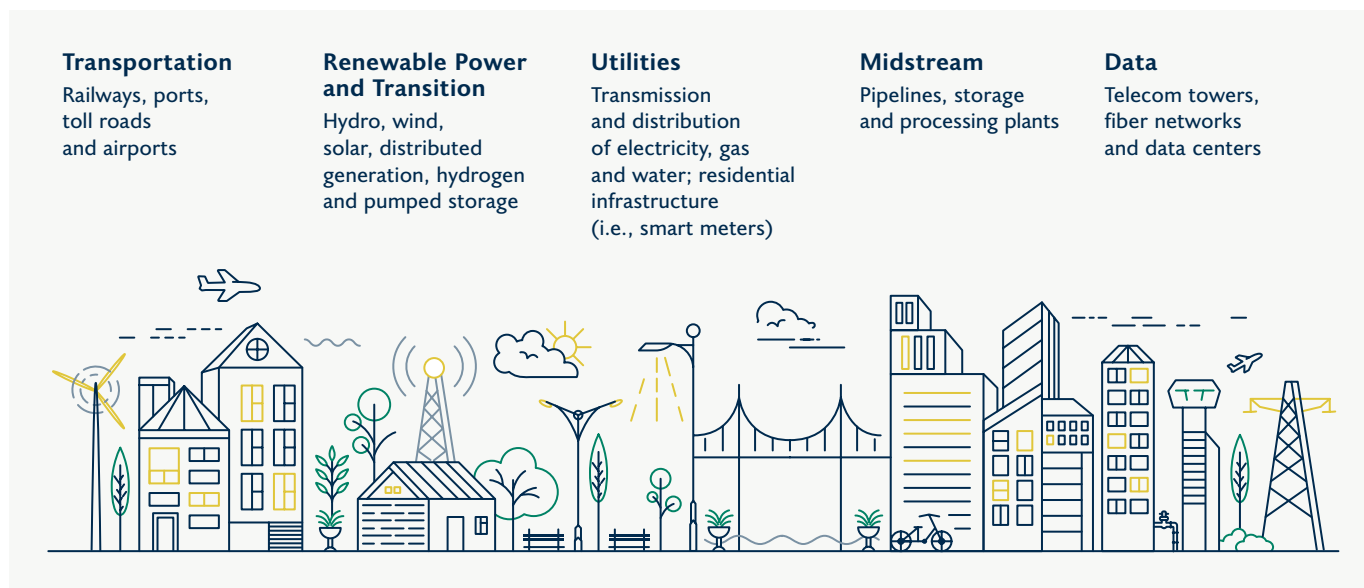
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From Dams to Data: An Evolving Asset Class

Private infrastructure gives investors access to tangible assets that form the backbone of the global economy. The opportunity set for infrastructure continues to grow, and today it spans five key sectors: transportation, renewable power and transition, utilities, midstream and data (**Figure 1**).

Figure 1: From Railways to Fiber, Infrastructure Forms the Backbone of the Global Economy



Source: Brookfield Asset Management. For illustrative purposes only.

Infrastructure's Distinctive Characteristics

Private infrastructure is a diverse opportunity set, but what binds these assets together is a set of shared characteristics that ultimately help produce desirable outcomes.

Essential services: These are the assets that bring power and water to our homes, the ports that ship goods globally, cell towers that keep us connected, and more. Demand for such essential services is generally inelastic (i.e., usage isn't affected whether prices rise or fall). This provides stable cash flows and, often, cash flow growth, even during recessions.

High barriers to entry: Physical infrastructure assets are usually expensive to build and must be situated in specific locations, making the assets difficult to replicate. Many of these assets operate like a monopoly, which reduces competition risk, and as a result, many such assets have strong market positions.

Long operational lives: Infrastructure assets typically serve as the foundation of a local or regional economy and are constructed to last decades. Most are designed to operate for 30, 40 or 50 years, or even perpetually, also contributing to the long-term stability in cash flows.

Contracted/regulated revenues: Infrastructure is often backed by long-term contracted or regulated revenues, providing significant visibility into cash flows.

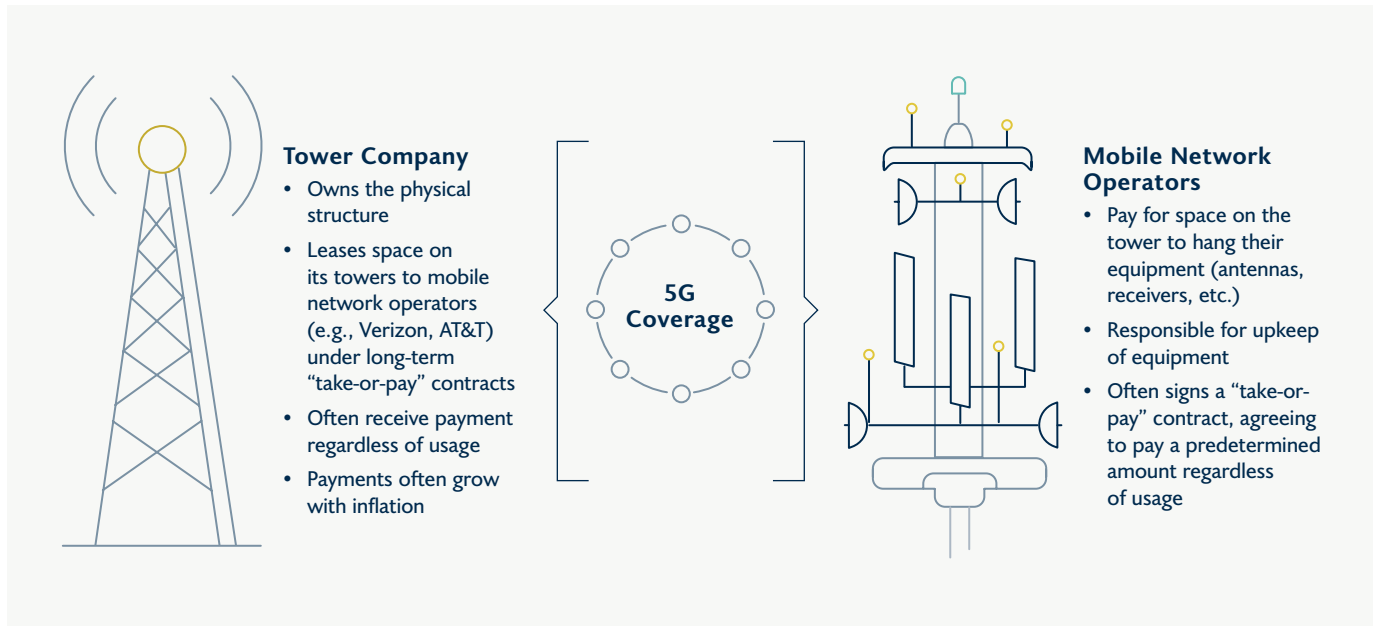
Revenues linked to inflation: The long-term contracts and regulatory frameworks generally include automatic inflation-linked pricing increases. Even without explicit inflation protection, many asset owners are often able to pass through rising costs due to their strong market positions.

High operating margins: Infrastructure assets' ongoing operating costs are relatively low and generally are fixed. Combined with a growing revenue profile, this can help profitability grow over time.

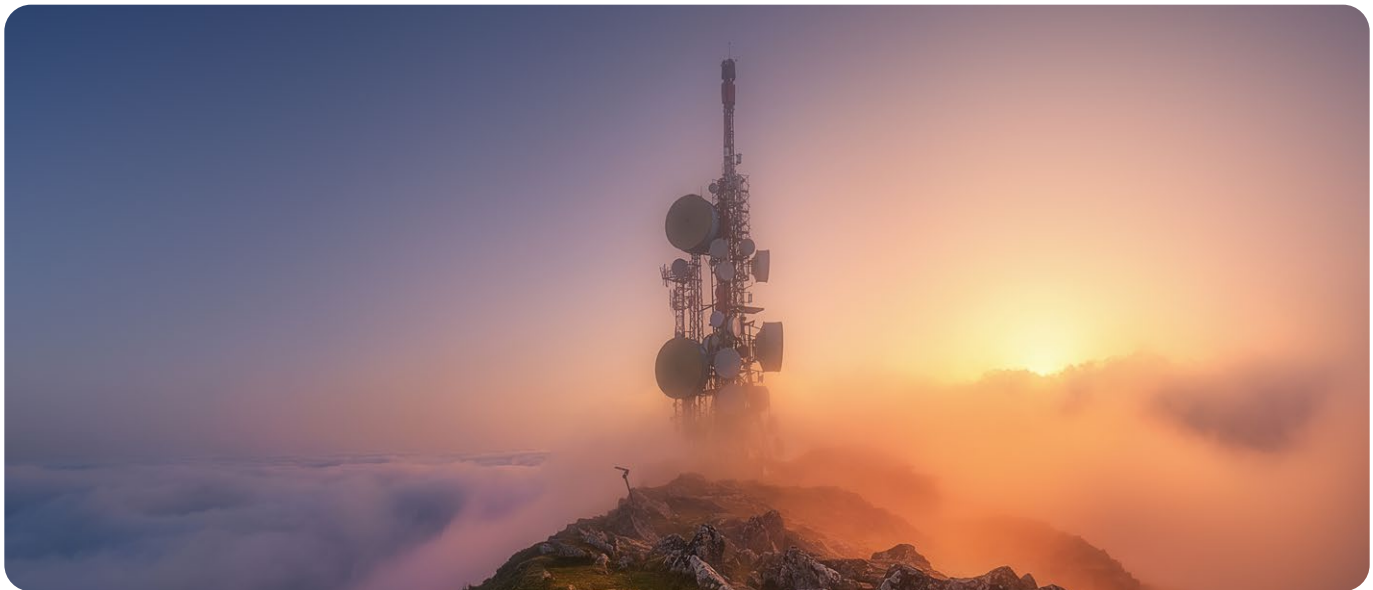
The combination of these characteristics tends to result in stable yet growing cash flows which, in turn, helps infrastructure asset values to remain relatively steady throughout the highs and lows of the economic cycle.

Figure 2: Case Study—How Do Infrastructure Assets Make Money?

Revenues are often predictable, with price and usage terms stated either in the contract or by the regulator.



Source: Brookfield Asset Management. For illustrative purposes only.



Harnessing a Super-Cycle of Investment Opportunities

While infrastructure provides portfolio stability, we believe it also offers access to a historic opportunity. We are currently in the midst of an infrastructure super-cycle as the world looks to modernize its infrastructure to meet the needs of tomorrow. Whether it is investment to meet the staggering growth in data consumption, the shift away from traditional fossil fuels, or the acceleration toward e-commerce, these and other long-term trends require a tremendous amount of capital.

However, historical providers of infrastructure capital (governments and corporations) are unable to invest, given budget constraints as debt levels continue to rise (Figure 3). The result is that while the need for infrastructure investment continues to grow, so does the funding gap between the investment that is required and what is currently forecasted to be spent. The Global Infrastructure Outlook, a G20 initiative, estimates that gap to be \$15 trillion short of the \$94 trillion in global infrastructure investment needed by 2040 (Figure 4). This has created an opportunity for private capital from asset managers, institutional and private wealth investors to step in and fill the gap.

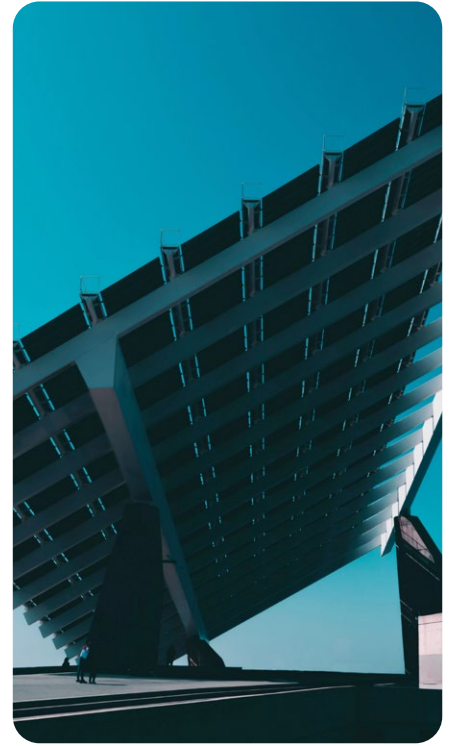
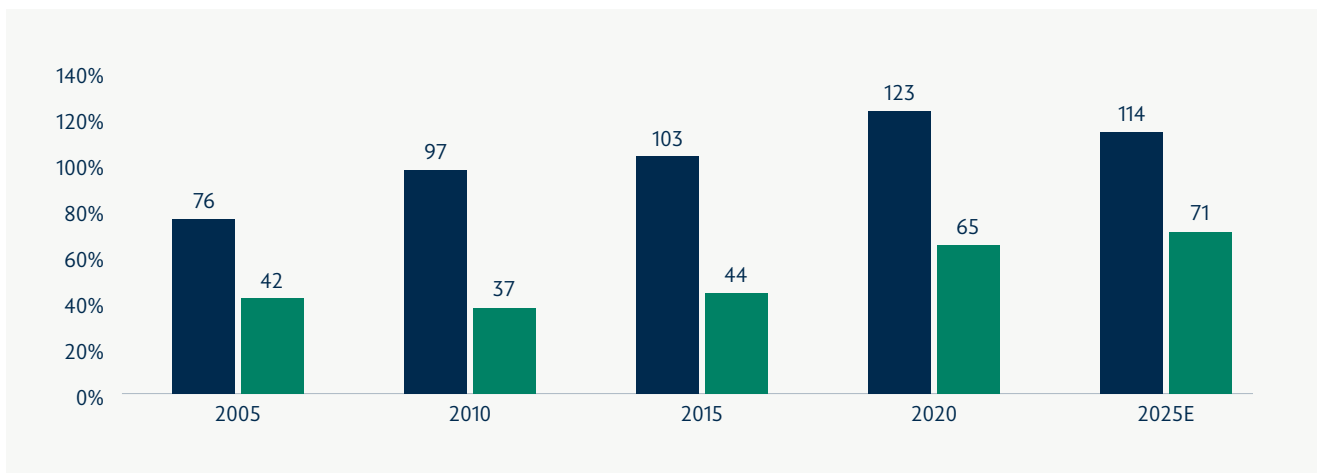


Figure 3: Increasing Levels of Government Debt Has Created Opportunities for Private Capital

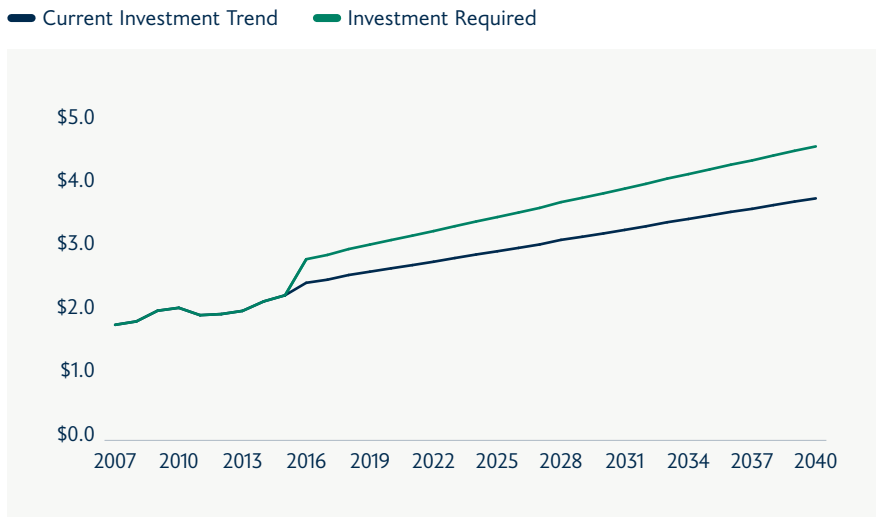
Debt as a % of gross domestic product

■ Developed Economies ■ Emerging Economies



Source: International Monetary Fund. As of October 31, 2023. There is no assurance that such events or projections will occur, and actual outcomes may be significantly different than those shown here.

Figure 4: The Infrastructure Funding Gap Continues to Grow
Annual infrastructure investment at current trends vs. required (\$T)



There is no assurance that such events or projections will occur. Reflects most recent data available. Source: Global Infrastructure Outlook. As of June 30, 2018.

By 2040, funding for global infrastructure will be \$15 trillion short of the \$94 trillion needed, according to the Global Infrastructure Outlook.

Three themes are driving opportunity as the world looks to modernize its infrastructure: digitalization, decarbonization and deglobalization—what we call “The Three Ds.” The amount of capital required is nearly unprecedented, with \$150 trillion of investment needs through 2050 (Figure 5).

Figure 5: Three Ds Driving a Super-Cycle of Infrastructure Investment



There is no assurance that such events or projections will occur. Reflects most recent data available. Source: Cisco, International Energy Agency, U.S. Department of Transportation. As of December 31, 2022.

Digitalization: Data Is the World's Fastest-Growing Commodity

The total amount of data generated globally doubles every 18 months. All of this data will need to be transported, processed and stored, requiring additional infrastructure.



Telecom Towers



Data Centers



Fiber to Home

Decarbonization: The Global Shift to a Net-Zero Economy Is Underway

There is a global movement to reach net zero, and trillions of dollars of investment will be required annually in order to decarbonize global energy systems. Investment opportunities will also be driven by consumer preferences for energy-efficient solutions, while opportunities are also emerging around repurposing existing assets.



Buildout of Renewable Power Generation



Increase Energy Efficiency



Enhance Electrical Infrastructure



Repurpose Existing Infrastructure Assets

Deglobalization: Rethinking Manufacturing, Supply Chains and Energy Sources

Deglobalization is investing to support the reshaping of key manufacturing processes, global supply chains and the focus on energy security. A notable example is the semiconductor industry, where the U.S. and Europe have announced programs totaling more than \$100 billion to re-onshore manufacturing capacity of this critical industry.



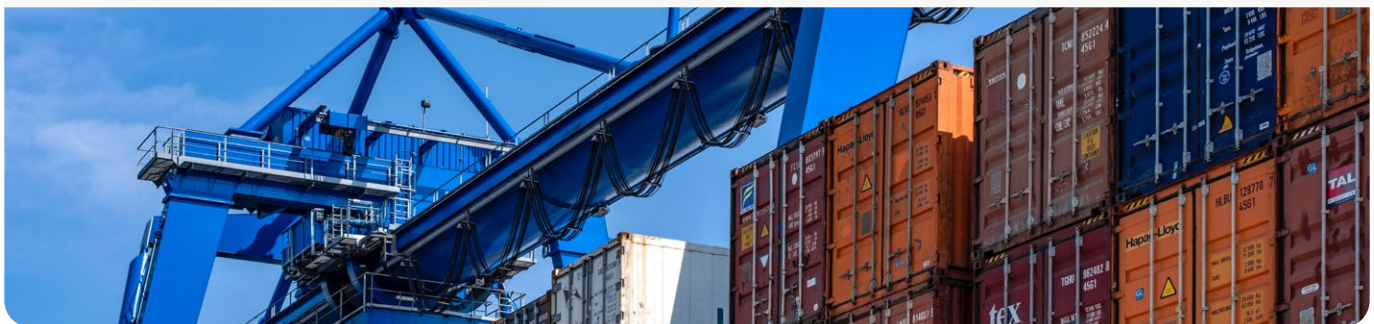
Enhance Supply Chains



Focus on Energy Security



Onshore Critical Industries



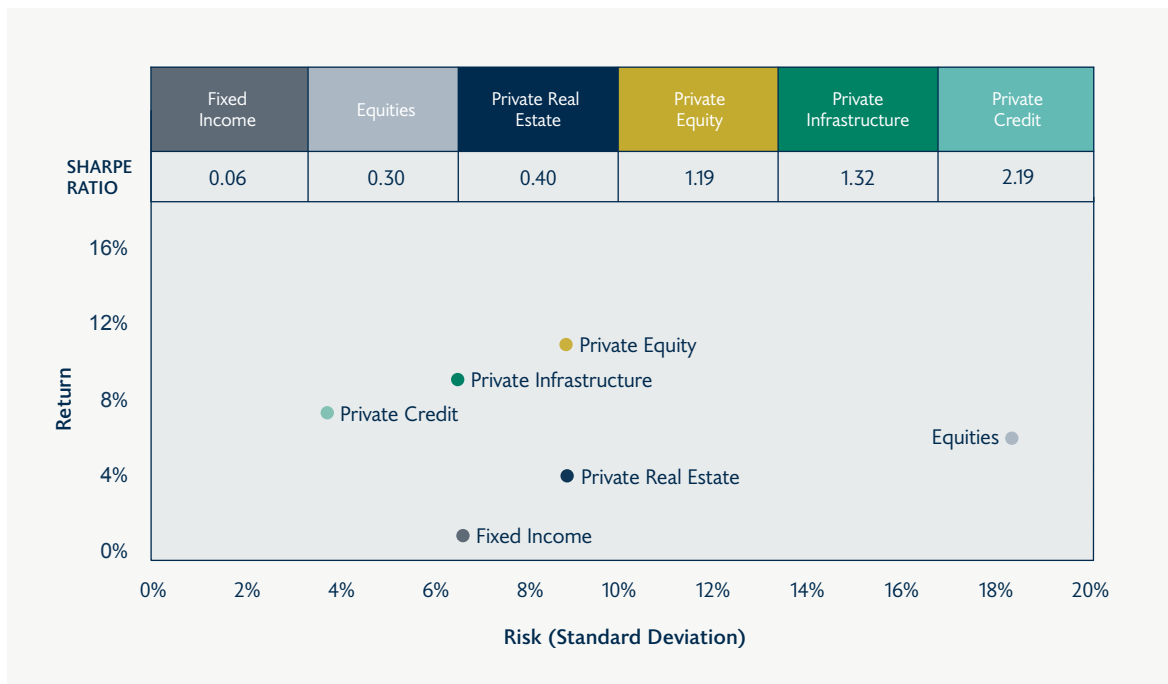
Bringing Strength and Stability to Portfolios

The characteristics of infrastructure have made it a relatively stable alternative investment that we believe has the potential to provide four primary advantages to a portfolio: attractive risk-adjusted returns, a hedge against inflation, mitigation of downside risk, and diversification.

1. Attractive Risk-Adjusted Returns

Private infrastructure has offered investors a compelling—and consistent—risk/return profile. The ability to produce stable and predictable cash flows has resulted in attractive returns with less risk versus other asset classes over the last 15 years (Figure 6).

Figure 6: Annualized Returns and Standard Deviations



Past performance is not indicative of future results. Equities refers to the MSCI World Index; Fixed Income to the Bloomberg Global Aggregate Index; Private Credit to Prequin Private Credit Index; Private Equity to Prequin Private Equity Index; Private Infrastructure to Prequin Infrastructure Index; Private Real Estate to Prequin Real Estate Index. See disclosures for full index definitions. Indexes are unmanaged and cannot be purchased directly by investors. Index performance shown for illustrative purposes only and does not predict or depict the performance of any investment. Standard deviation measures the amount of variation in a data set relative to its mean, or average. The sharpe ratio evaluates the performance of an investment compared to a risk-free asset, after adjusting for its standard deviation. Source: Bloomberg, Pequin. Data reflect the period from January 1, 2008 through September 30, 2023.

2. A Hedge Against Inflation

Many businesses struggle during higher-inflation environments, as purchasing power falls and demand for goods and services weakens. However, infrastructure can actually benefit during such periods. First, the essential services infrastructure provides have consistent demand, regardless of changes in prices. Second and perhaps more importantly, revenues often grow due to contractual inflation escalators. Importantly, these increases generally compound on a year-over-year basis. As an example, if inflation in one year is 7% and the next year is 3% over a two-year period, revenue has grown over 10%.

We have seen these benefits in performance. During periods when inflation was above average, infrastructure was an effective inflation hedge, outperforming stocks and bonds (**Figure 7**).

Figure 7: A Hedge Against Rising Inflation

Average quarterly returns during periods of above-average inflation



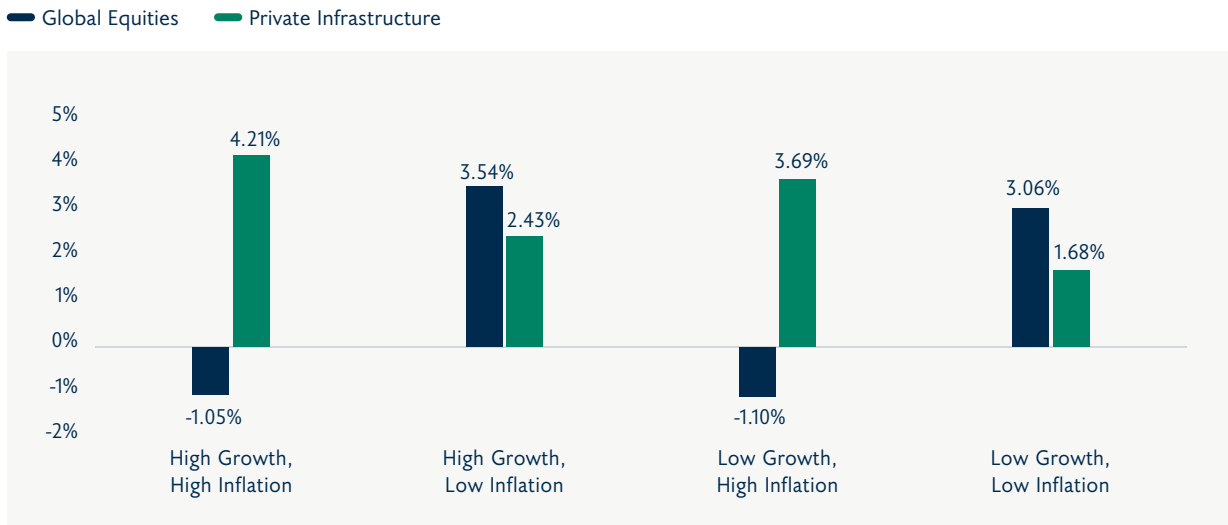
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While it’s important that investors are allocated to investments which hold their value during inflationary periods, a sole focus on infrastructure performance during inflationary environments may miss the fact that infrastructure has historically performed well across any macroeconomic environment—further proof of its ability to provide consistent outcomes (**Figure 8**).

Figure 8: Performance Has Been Consistent Across Market Cycles

Average quarterly returns (%) across market environments



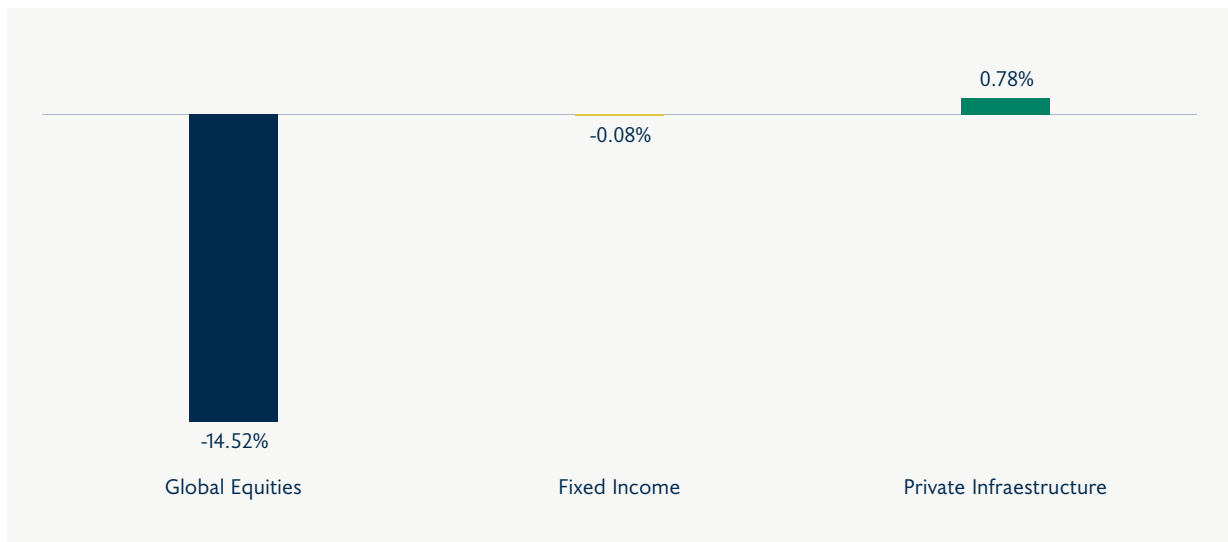
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3. Mitigation of Downside Risk

One key advantage of infrastructure is its ability to historically perform well throughout various market cycles, which we believe is evidence of the stability of these assets. Even during economic slowdowns, infrastructure assets can grow their revenues due to the essential nature of the services they provide. Further, the long-term contracted or regulated revenues of these assets provide visibility across market cycles. As a result, infrastructure has historically performed well during times of market uncertainty; during the last 10 worst quarters for global equities, private infrastructure not only outperformed stocks and bonds, but actually posted positive returns (**Figure 9**).

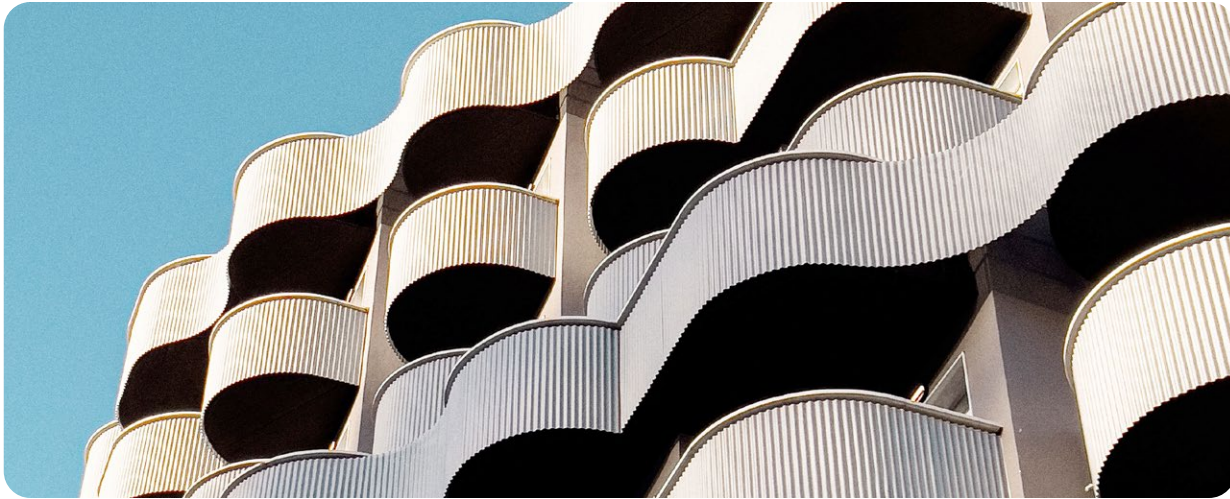
Figure 9: Outperformance During Times of Market Stress

Average quarterly returns during 10 worst quarters for equity markets



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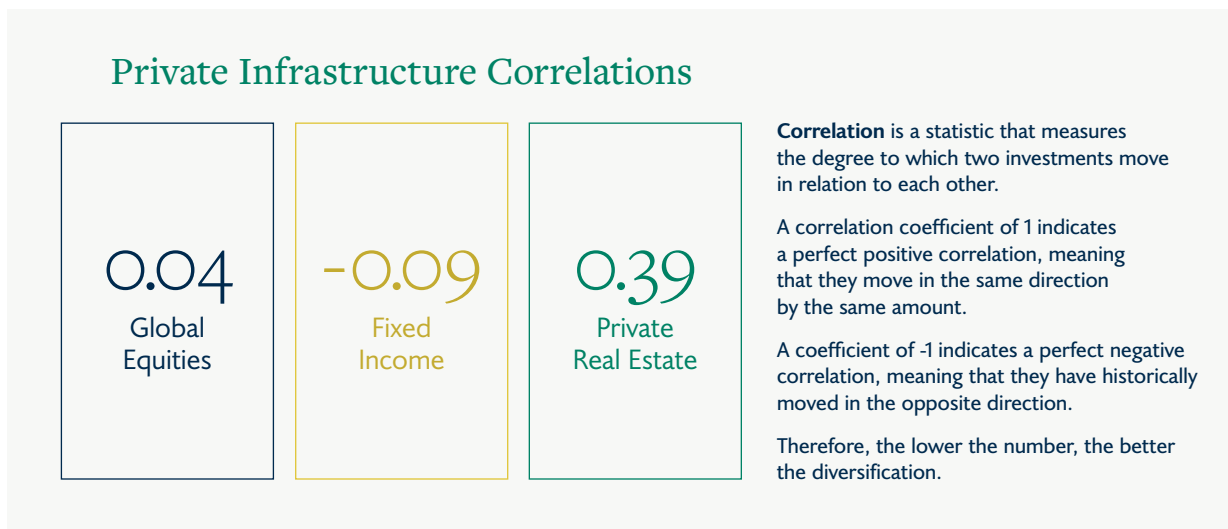


4. Diversification

The consistency infrastructure has provided across market cycles has resulted in little correlation to stocks and bonds. Further, it is also a diversifier to private real estate, making it a natural complement to investors looking to build out their real assets allocation (**Figure 10**).

Figure 10: Private Infrastructure Offers Low Correlations Versus Other Asset Classes

Correlations between private infrastructure and other assets



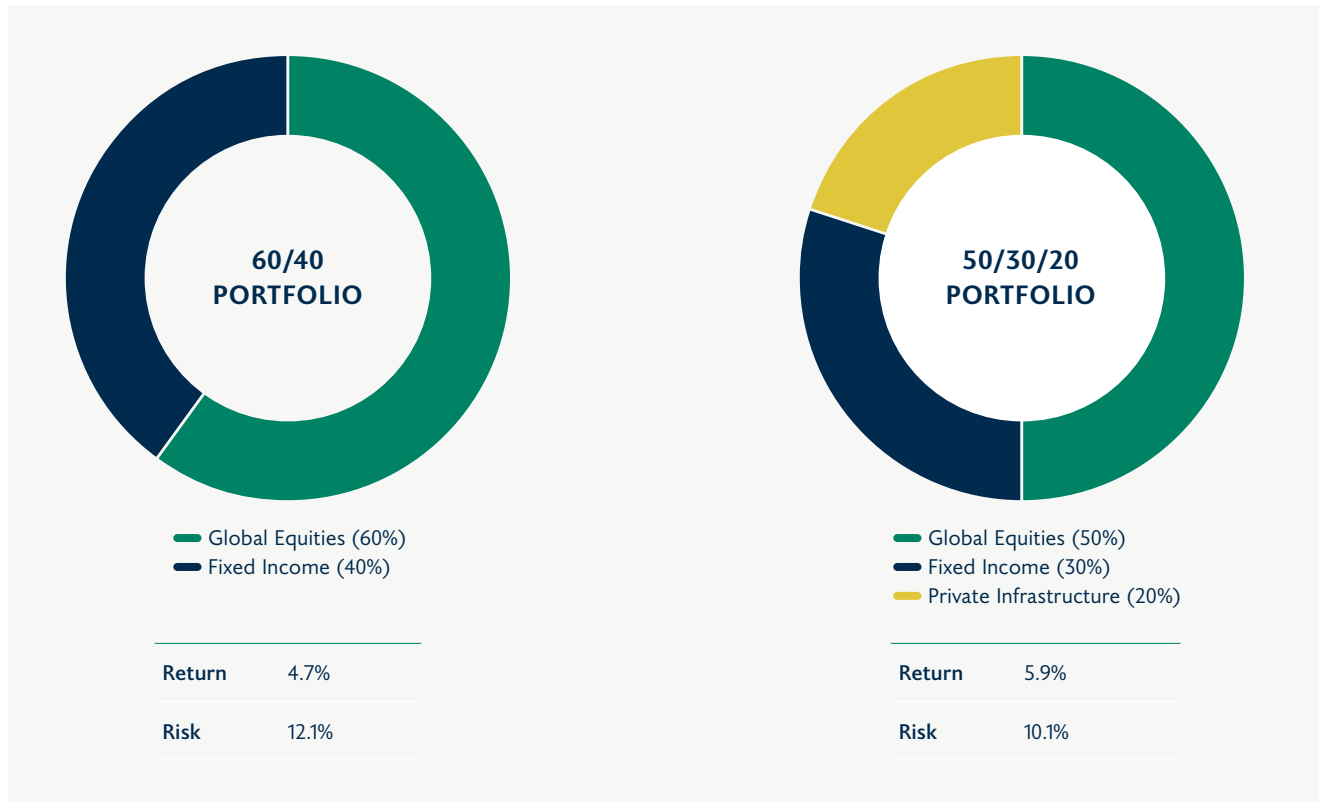
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Practical Ways to Incorporate Private Infrastructure in a Portfolio

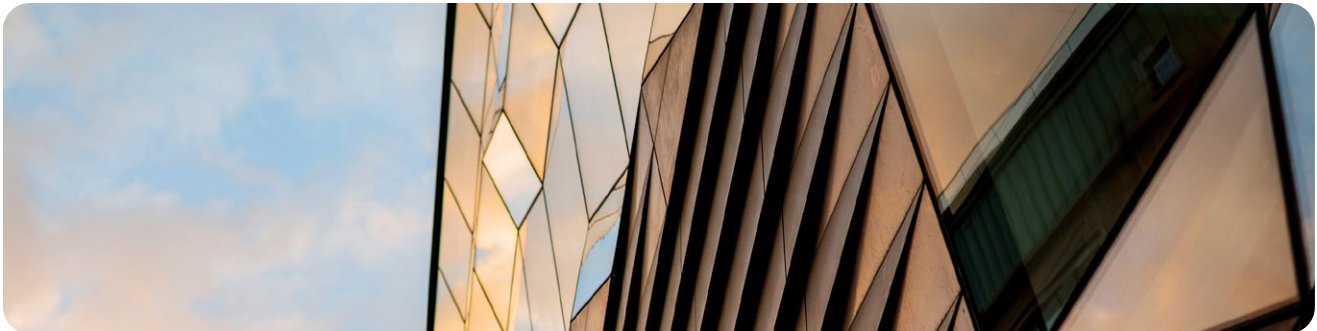
Adding Private Infrastructure to Portfolios

Investing in private infrastructure helps highlight the stability of the asset class. It has historically increased returns and lowered volatility (**Figure 11**) when used to augment a traditional equity and fixed income portfolio.

Figure 11: Enhancing the Traditional 60/40 Portfolio



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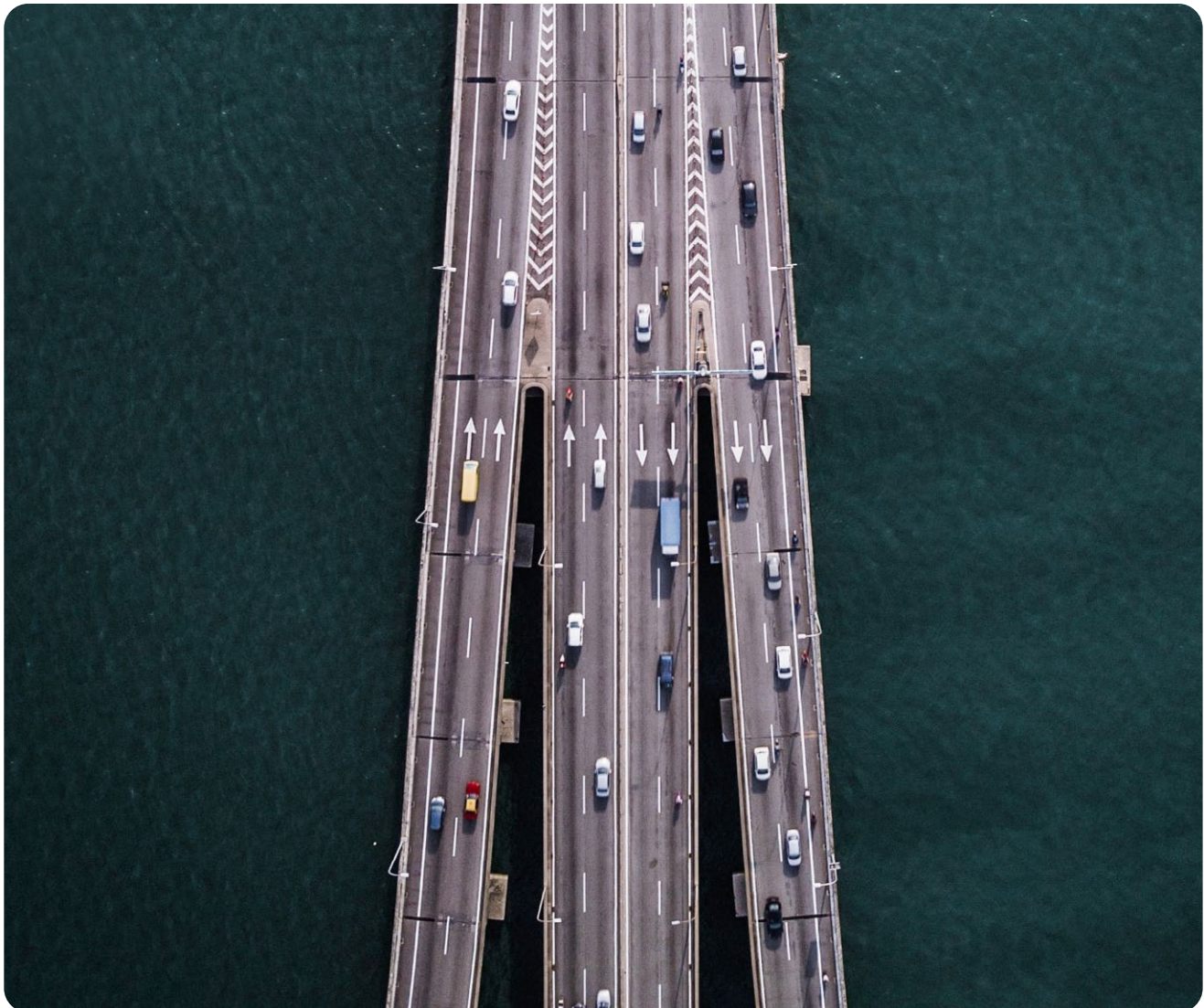


Conclusion

Private infrastructure's attributes have historically provided solid risk-adjusted returns throughout market cycles and a variety of macroeconomic environments. Adding this asset class has the potential to reinforce portfolio diversification, provide an effective hedge against inflation, and mitigate downside risk.

The sector is also characterized by the opportunity for growth as old infrastructure is upgraded and replaced, and new subsectors emerge as the global economy evolves to meet future needs. As a result, opportunities to capture the benefits of infrastructure investing are expanding, encouraging a growing number of individual investors to make allocations to the asset class. As economies grow and become more sophisticated, so too does the need for a broad array of infrastructure.

We believe that investors should consider adding infrastructure to investment portfolios to serve a variety of goals, adjusting their strategic asset allocation as appropriate to produce different beneficial outcomes.



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