Cover story

How infra became a

trillion asset class

Infrastructure investing is now mainstream, with GPs and LPs investing in a wide range of strategies – many of which would not have been considered infrastructure 15 years ago. How has the sector changed? And will it continue on its growth trajectory? ***Daniel Kemp*** *finds out*

From humble beginnings, the infrastructure asset class is now a vital part of institutional investment portfolios. This is evidenced by this year's Infrastructure Investor 100 ranking (p. 28-30), where the collective amount of capital raised by the top GPs in the sector crossed the $1 trillion threshold for the first time.

But it hasn't always been this way, and the story of infrastructure investment's evolution is one of steady (and sometimes rapid) increases in capital raising, a change in the very definition of what an infrastructure asset can be, and a shift towards investing in assets across the globe, with LPs similarly coming from a wide variety of places.

"I've been doing this for 20-plus years. In the old days when we had just started, it was obviously a very different world. We were running around trying to tell everybody what infrastructure was – and now we're here," says Rob Kupchak, senior managing director and head of core for the Americas at Stonepeak (ranked 6th).

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This sentiment is repeated by several GPs, including Macquarie Asset Management (1st) global head of real assets Leigh Harrison: "The fact the sector has matured, with more investors seeking exposure to the asset class and allocations increasing, has obviously been incredibly pleasing to see. We'd expect to see that continue."

Geographic shifts

The asset class really began with a primary focus on what we would now call core or super-core assets in OECD markets: tangible assets with contracted revenues, in developed economies with stable political environments and favourable regulatory regimes.

While that is still the bedrock of infrastructure, the focus for many GPs, particularly in terms of fundraising, has broadened as the asset class grew larger. Outside the traditional LP strongholds of Europe, North America and Australia that dominated in the early days, the Middle East and Asia have emerged as large sources of capital for a range of strategies.

"First, fundraising was heavily focused on Europe where investors were driven by infrastructure's resilience and non-correlation with GDP, with the US coming in soon after, with investors more focused on value," says Gordon Bajnai, partner and global head of infrastructure at Campbell Lutyens. "Asia was really the third market driven by low risk and yield – and now today, in Japan and South Korea in particular, you have a significant number of institutional allocators."

Asia and the Middle East are both "really important sources of capital", says Bruce Chapman, co-founder and partner at Threadmark, never more so than now when the sector is experiencing its first significant fundraising slowdown since its emergence in the mid-2000s.

"If you're a manager that habitually seeks to raise $10 billion-plus, and your existing investor base is retrenching or unable to support you in the same way as last time, you need to do everything you can to find capital – and many of these larger funds have been successful in the Middle East and Asia."

Geographically close to Asian markets but distinct in most respects is Australia, which despite many superfunds' long history with the asset class and its place as the home of long-term sector heavyweights like Macquarie and the now defunct Hastings Funds Management, still presents some challenges for fundraising, Bajnai says.

"Australia's superannuation funds make that one of the world's largest and most sophisticated pools of private capital, but the fee-paying capability of those funds due to the local regulatory regime make it quite difficult to raise capital, especially for the higher-returning, higher-fee strategies. But it is up and coming."

Niall Mills, managing partner and global head of Igneo Infrastructure Partners (17th), points out that commitments to the asset class from Asia and the Middle East are not new, as many very large, highly sophisticated investors like Singapore's GIC or Kuwait's Wren House Infrastructure have become influential players in the sector.

"But we are seeing some of the smaller pools of capital following what the bigger players are doing – and they don't have the same scale to build their own direct investment teams. Obviously, the economic turmoil of the last year or two in Western markets has meant that some traditional allocators have had to rebalance, so you can see why GPs have been encouraged to broaden their horizons for finding new investors."

As for geographical capital deployment, Mills says he has yet to see a huge shift, but that change is coming as regulatory regimes in emerging economies, such as India, become more favourable.

This is echoed by Harrison, who says: "Over time, capital has increasingly been allocated to developing markets, whether that is in Asia, Latin America, central and southern Europe, or other markets. That's partly a function of the scale of capital, meaning people need to look further afield for opportunities – but it's also a function of these markets becoming more mature, with regulation evolving into something more akin to more established markets. This makes them more investable and as that happens, capital tends to flow."

LPs' bargaining power

With new sources of capital come new LPs, at the same time as most of the sector's early adopters have grown to become huge funds, leading many to build out significant direct investment teams. Has that given them more power in the LP-GP relationship?

"These relationships are a contrast of pendulum swings for the majority of managers, with the most highly sought-after managers impervious to it," says Threadmark's Chapman.

Generally, he argues, the most followed managers in the mid-market are often able to resist pressure from LPs to change terms in their favour when fundraising tightens, but that others seeking to raise mega-funds or emerging managers with a less well-known brand name may have to give up more.

The other area where LPs have increased their sophistication is co-investment. "Many more investors are requiring co-investment rights, with some sophisticated investors looking for more than a 1:1 ratio, perhaps as much as 2:1 or even 3:1 at times," he says.

AustralianSuper, the largest LP in Australia with more than A$300 billion ($19.6 billion; €181.1 billion) in AUM, is one of those that has built a significant direct investment function and that is regularly found as a co-investor on major deals. Head of real assets Nik Kemp says the fund looks for partners when it commits funds to a GP, specifically a manager that can help it develop new expertise in a sector or geography in which it wants to gain exposure.

Kemp pushes back on the notion that LPs have more power than in the early days, saying: "It's not quite the right word. GPs are as interested in how we think about the world as we are, and they then use that information to help them find better opportunities. It works both ways."

This view is backed by Neda Vakilian, managing director and global head of the investor solutions group at Actis (22nd), who says: "Co-investment is not a problem. Our LPs are very interested in how they might more strategically partner with us to better understand us, our markets, our investment approach. And that works very well for us because we find that the more familiar they are with our markets, the more they are likely to stick with us and to work with us in these target markets."

And as Kemp puts it, even LPs with significant influence can't dictate all the terms of an agreement: "There are still some great GPs out there that can raise money by clicking their fingers – and for those, we might ask to pay less but we just can't because they will only accept LPs that pay a certain fee."

Up the risk curve

Another emerging trend is the proliferation of funds with an explicit impact focus. Many, particularly in Europe, are being established as Article 8 or Article 9 funds, seeking to benefit from growing investor focus on ESG issues.

Kate Campbell, founding partner at Astrid Advisors, says that more investors are now setting up separate buckets for these types of investments, often badged under labels such as climate, sustainability or impact.

"The strategy they're looking for quite often has a link back to infrastructure because of the energy transition," she says. "Many investors are pulling in their infrastructure colleagues to help set these buckets up – but more of these

"There are still some great GPs out there that can raise money by clicking their fingers – and for those, we might ask to pay less but we just can't because they will only accept LPs that pay a certain fee"

NIK KEMP
AustralianSuper

strategies are straddling private equity and venture capital-style returns.

"They might say, for example, that they want to invest in service companies that support the decarbonisation of assets, which may not have predictable cashflows but are heavily linked to the infrastructure sector. Those strategies are strikingly different and have different risk profiles, so it makes sense that there is a separate bucket for it."

This move up the risk curve for some types of assets is not a new trend for the sector, though. The growth of infrastructure investment has often been accompanied by handwringing in public forums about whether certain types of strategies should really be classified as 'infrastructure' – a discussion now heard far less frequently as the sector has evolved into a broader church.

For example, what was once considered a nascent sector, renewable energy, is now a core part of many investment strategies that produces very reliable, 'infrastructure-like' returns.

And the way in which investors access these assets has changed, too, as PSP Investments senior vice-president and global head of real assets investments Patrick Samson says: "If you look back 10-15 years, people wanted to invest in hard assets, through single deals – and very often the management of that would be dissociated from the asset itself. People saw the asset class as hard asset investing."

Now, platforms are much more common, Samson says, with integration of the asset's management with the asset itself and mandates to invest in several assets of the same type under the same banner.

"Investing in platforms is now a relatively standard thing investors do, whether a GP or an institution," he says. "Within the span of 10 years, you've seen a tremendous amount of change from single-asset investing to platforms, to then include diversification into things that weren't considered infrastructure 10 years ago."

"With the structural challenges that interest rate hikes create for some other asset classes like real estate, can I see a lot of allocation flowing away from real estate and into infrastructure? That's a real possibility"

PATRICK SAMSON
PSP Investments

Samson anticipates this change will continue: "I'd expect as much change in the next 10 years as we've seen in the previous 10 years, because more money will keep flowing. People will see emerging technologies at an earlier stage as a form of investing in infrastructure, more private equity-style, expecting more return and being willing to take more risk.

"With the structural challenges that interest rate hikes create for some other asset classes like real estate, can I see a lot of allocation flowing away from real estate and into infrastructure? That's a real possibility."

MAM's Harrison says the macro trends behind the sector remain "very positive". "The decarbonisation and digital thematics among others are driving a lot of investment opportunities, and these trends still have a very long way to run – that's very encouraging."

The next trillion

For this flow of capital to continue, though, and for the asset class to double in size again and reach its next $1 trillion of growth, almost everyone we spoke with said a variation of the same thing: that the asset class will have to keep performing strongly.

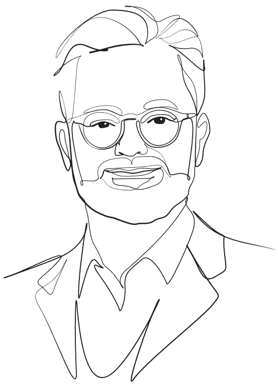
"As GPs, we have to deliver what we promise to deliver," says Actis' Vakilian. "We have to hit our target returns and be good value relative to what else is on offer beyond infrastructure."

Stonepeak's Kupchak agrees: "We have to prove that we are responsible stewards of capital and prove that we can invest those dollars in a sensible way. That's what it really comes down to. Fundamentally, infrastructure is a great sector. There's a ton of opportunity here, still, and there's a ton of room for growth. It's a pretty exciting place to be. I've been in it for a while but I'm still pretty bullish on where infrastructure can go and what the opportunity is even with all the growth that we've had." ■

Additional reporting by Kalliope Gourntis, Anne-Louise Stranne Petersen and Isabel O'Brien

Infrastructure Investor

‘In what way has the asset class evolved in the past 10 years that you found surprising?’



Paul Newfield
Partner and CEO, Morrison & Co

When I look back at infrastructure conference presentations from a decade ago, the themes were privatisation, globalisation, the rise of the Chinese middle class, urbanisation and decarbonisation.

Today we’re talking about populism, anti-globalisation, a China that might grow old before it grows rich, exurbanisation and donut cities.

Decarbonisation is the only constant and even that’s been a winding road. The resilience of our asset class has relied on it reinventing itself.

Cover story

Raj Agrawal
Partner and global head of infrastructure, KKR

When I first attended the Infrastructure Investor Global Summit in Berlin in 2009, we were about 200 people in one modest-size conference room and infrastructure was approximately 5 percent of the capital raised annually in alternatives. Today that figure is over 20 percent and there were over 2,500 people in the conference rooms at this year's summit, with nearly as many who couldn't fit.

While we always believed in the enormous opportunity for private infrastructure, it's the speed of growth of our industry on top of the already rapid growth of alternatives that has been most surprising.

Bruce Chapman
Co-founder and partner, Threadmark

One aspect of the market which continues to surprise me is how little migration of talent there has been thus far from private equity to infrastructure. While assets sit at the heart of every true infrastructure strategy, the substantial majority of capital invested in the space now goes into complex operating entities, often with an intention of creating value through the growth or repositioning of the business.

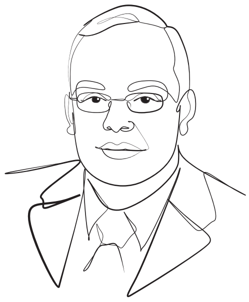
Private equity predates infrastructure as an asset class by approximately 50 years and is (over) populated with seasoned professionals who understand how to grow businesses, incentivise management teams and build and manage portfolios. Yet, as far as I am aware, the number of senior executives which have made the leap from private equity to infrastructure can be counted on just a couple of hands.

Michael Hanna
Head of infrastructure, IFM Investors

As Hemingway once wrote about how a character had become bankrupt – "Gradually, then suddenly" – I think that is how you would describe how many of the current themes in the infrastructure space have emerged as major factors in the direction and future success of the asset class.

If you think about climate change and energy transition, diversity and inclusion, social licence to operate and technological change, these were all themes we had, to some extent, factored into our approach to both investment and asset management over a long period of time but they have shifted quite dramatically in recent times from being 'interesting and useful considerations' to now 'non-negotiables' and 'fundamental drivers' for how we manage the infrastructure asset class.

This pace of change has been unprecedented and the challenge going forward will be to maintain the fundamental characteristics of 'tried and tested' infrastructure in an environment where change is rapid and at times unpredictable.

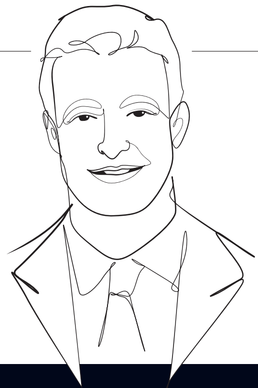


Surinder Toor
Founding partner and managing partner, Arjun Infrastructure

Most surprising is that a vast majority of investors are still under-allocated to traditional infrastructure. The infrastructure asset class has not evolved enough towards a real estate-like approach to core investing strategies, and kept the private equity mindset even when the main goal is to protect the downside.

Alexandra Campbell
Deputy CIO and head of private markets, Cbus Super

The rapid expansion of infrastructure as an asset class, which now encompasses a broad range of assets, including those without any physical attributes or for which market positioning is considered a barrier to entry. Far from being confined to regulated or fully contracted operational assets with monopolistic qualities, infrastructure now provides a diverse range of risk and return profiles, ranging from super core assets with availability-based cashflows through to greenfield developments with emerging technologies that will deliver essential or highly sought services.



Spence Clunie
Managing partner, Ancala

It's surprising how many assets have been re-classified as 'infrastructure' by managers. We believe that the core principles of traditional infrastructure investment have remained the same: asset-backing, stable long-term and inflation-linked cashflows, and strong downside protection.

This approach has made the asset class increasingly attractive to investors that are looking for defensive returns and a good cash yield, particularly in the current economic climate.

Kate Campbell
Founding partner, Astrid Advisors

The energy transition, rapid digital transformation across industries, and the rise of AI have redefined infrastructure's sub-asset classes with a wealth of investment opportunities. Where a decade ago infrastructure was focused on large, immovable, single assets in energy or transport, new sectors such as data, the cloud, energy storage and efficiency, and EV charging now play a much bigger role.

These new sectors have seen managers move away from single-asset buy-and-hold strategies to platform aggregation approaches. Infrastructure GPs have moved into the PE playbook of value creation.

While 10 years ago globalisation was a buzzword, the opposite is now a reality. The deglobalisation created by today's political climate is shaping the future of many areas of infrastructure as it impacts supply chains, trade, energy security and investment worldwide.

Stephen Dowd
CIO – private infrastructure, CBRE Investment Management

The wave of 'Infrastructure 2.0' sectors that have emerged as a result of technological advances to accommodate the evolution of urban built environments and societal needs.

These have created not only deeper, but broader investment opportunities for the asset class. Deeper to the extent that decarbonisation has created the opportunity to modernise traditional power and transport sectors, whereas data, and digitalisation more generally, have emerged as part of a new sector that is now central to infrastructure strategies. These changes have created a distinct evolution in what modern infrastructure portfolios should look like.

Cover story

The II 100 hits a new high

$1 trillion

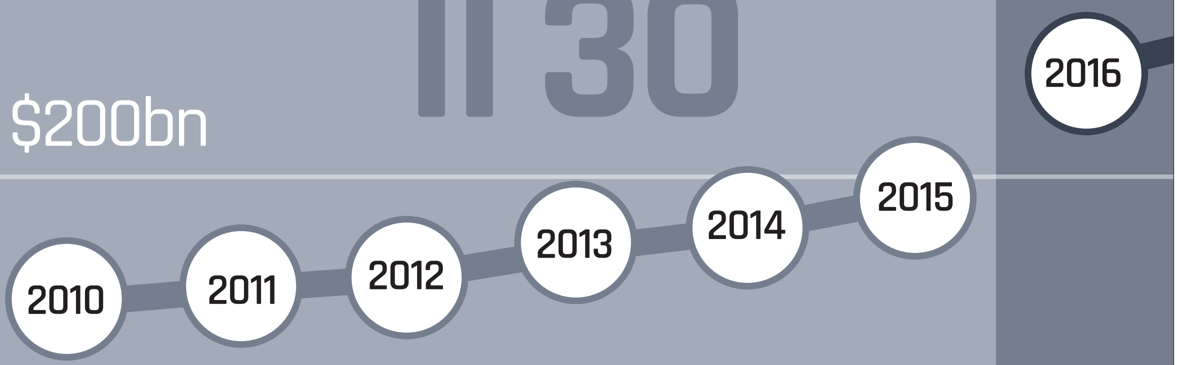
$800bn

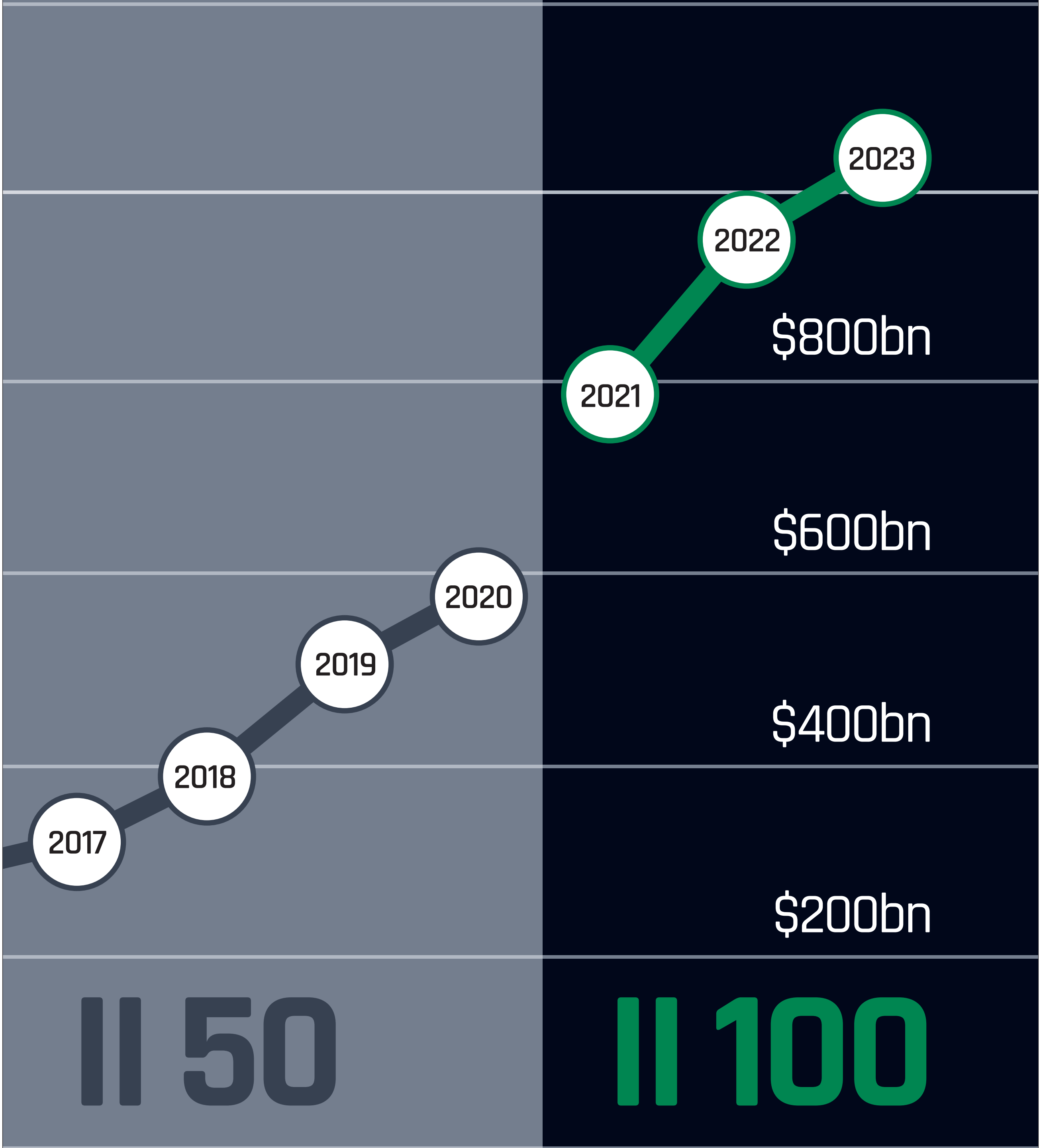
$600bn

$400bn

II 30

$200bn




2023
2022
$800bn
2021
$600bn
2020
2019
$400bn
2018
2017
$200bn
II 50
II 100

Cover story

The headlines around fundraising have been rather gloomy throughout 2023, but this year's Infrastructure Investor 100 provides the sector something to celebrate: for the first time since we began compiling this list in 2010 the collective amount of capital raised by the top GPs is in excess of $1 trillion. This is a significant moment worth acknowledging. Just two years ago we were celebrating crossing the $800 billion threshold, so it's evident that infrastructure has matured as an asset class and continues to be a vital part of many institutional investors' portfolios.

And, of course, this push across the $1 trillion threshold – $1.04 trillion to be exact – has come amid a backdrop of higher inflation, macroeconomic uncertainty, rising interest rates and geopolitical tension the likes of which has not been seen for at least two decades.

A GP now needs to have raised almost $1.6 billion over the previous five-year period to make it onto our list – this is up from a little over $1.2 billion in 2022.

Our top 10 remains largely unchanged with Macquarie Asset Management in first place, followed by Brookfield Asset Management, Global Infrastructure Partners, KKR and EQT, all of whom now individually sit above $5 billion raised in our reporting period, beginning 1 January 2018 and ending 31 August 2023.

All these GPs, of course, have invested heavily in the most prominent infrastructure thematics – energy transition and digitalisation – and all operate globally, with a combination of global mega-funds, region-specific and sector-specific strategies.

As such, they neatly illustrate how the asset class has evolved, as has the definition of what an infrastructure investment can be: from something much narrower, usually a tangible real asset with contracted revenues of some kind, to a plethora of assets that 13 years ago would have seemed to belong to private equity.

As for the next $1 trillion? Well, it seems reasonable to assume that growth over the next few years may be slower than in recent times. Our Q1-Q3 2023 fundraising report certainly suggests that, finding as it did that fundraising was down 80 percent year-on-year, with just $27.3 billion raised versus the $136.2 billion achieved in Q1-Q3 2022.

But those figures do not tell the full story of the mega-funds in market that may close before we compile figures for next year's ranking. And it is clear from both GPs and LPs that we have spoken to for this month's cover story that they are still true believers in the asset class – surprised, perhaps, at just how quickly it has grown but not at how investments have performed.

Here's to the next $1 trillion.

Key

- ★ New entry for 2023
- ▲ Up from 2022
- ▼ Down from 2022
- ◁▷ Unchanged from 2022

Scan here to see the II 100 methodology

Rank 2023		Rank 2022	Manager
1	◁▷	1	Macquarie Asset Management
2	◁▷	2	Brookfield Asset Management
3	◁▷	3	Global Infrastructure Partners
4	◁▷	4	KKR
5	◁▷	5	EQT
6	◁▷	6	Stonepeak
7	▲	10	DigitalBridge
8	◁▷	8	Blackstone
9	▲	15	Antin Infrastructure Partners
10	▼	7	IFM Investors
11	▼	9	I Squared Capital
12	▲	13	Copenhagen Infrastructure Partners
13	▼	11	BlackRock
14	▲	19	Ardian
15	▲	18	ECP
16	▲	17	DIF Capital Partners
17	▼	14	Igneo Infrastructure Partners
18	▼	16	Partners Group
19	▲	21	Meridiam
20	▲	23	Equitix
21	▲	43	Swiss Life Asset Managers
22	▼	20	Actis
23	▲	25	Morgan Stanley Infrastructure Partners
24	◁▷	24	InfraVia Capital Partners
25	▲	30	Vauban Infrastructure Partners
26	◁▷	26	Schroders Greencoat
27	▲	28	AIP Management
28	▲	44	EnCap Investments
29	▼	27	InfraRed Capital Partners
30	▲	47	Basalt Infrastructure Partners
31	▲	36	GCM Grosvenor
32	▼	22	QIC Limited
33	▲	37	F2i Sgr SpA
34	▲	41	The Carlyle Group
35	◁▷	35	Apollo Global Management
36	★	-	AXA IM Alts
37	▼	31	iCON Infrastructure
38	▲	50	Manulife Investment Management
39	▲	40	The National Investment and Infrastructure Fund
40	▼	38	Axium Infrastructure
41	▼	33	Infracapital
42	▼	39	Grain Management
43	▼	34	IPI Partners
44	▼	29	Goldman Sachs Asset Management
45	▲	53	Energy Infrastructure Partners AG
46	▲	58	Oaktree Capital Management
47	▲	68	Mexico Infrastructure Partners
48	★	-	Luxcara
49	◁▷	49	Asterion Industrial Partners
50	▼	46	Argo Infrastructure Partners

HQ	Capital raised ($m)
Sydney	93,302
Toronto	86,590
New York	69,034
New York	67,891
Stockholm	50,432
New York	45,711
Boca Raton	40,488
New York	31,765
Paris	26,149
Melbourne	25,517
Miami	24,673
Copenhagen	24,065
New York	23,140
Paris	20,000
Summit	14,616
Schiphol	14,191
Sydney	13,347
Zug	13,231
Paris	12,004
London	9,320
Zurich	9,202
London	8,645
New York	8,629
Paris	8,490
Paris	8,293
London	7,414
Copenhagen	7,205
Houston	7,065
London	6,992
London	6,866
Chicago	6,578
Brisbane	6,537
Milan	6,490
Washington, DC	6,410
New York	5,941
Paris	5,617
London	5,607
Boston	5,575
Mumbai	5,490
Montreal	5,485
London	5,457
Washington, DC	5,340
Chicago	5,311
New York	5,249
Zurich	5,114
Los Angeles	4,781
Mexico City	4,713
Hamburg	4,546
Madrid	4,513
New York	4,494

Rank 2023		Rank 2022	Manager	HQ	Capital raised ($m)
51	▼	48	Capital Dynamics	Zug	4,420
52	▼	32	DWS	Frankfurt	4,264
53	▲	55	Northleaf Capital Partners	Toronto	4,250
54	▲	59	LS Power Group	New York	4,250
55	▲	62	Generate Capital	San Francisco	4,031
56	▼	54	Ullico Investment Advisors	Washington, DC	3,987
57	◁▷	57	ArcLight Capital Partners	Boston	3,955
58	▲	67	GI Partners	Scottsdale	3,946
59	▲	70	Foresight Group	London	3,820
60	▼	52	Allianz Global Investors	Frankfurt	3,812
61	▲	65	Quinbrook Infrastructure Partners Ltd	London	3,711
62	▼	42	Dalmore Capital Limited	London	3,702
63	▲	73	Morrison & Co	Wellington	3,590
64	▲	71	Ancala Partners	London	3,525
65	▲	86	CIM Group	Los Angeles	3,456
66	▼	56	Cube Infrastructure Managers	Luxembourg	3,450
67	▼	60	Ares Management	Los Angeles	3,284
68	▲	100	Omnes Capital	Paris	3,122
69	▼	51	GLIL Infrastructure	London	3,052
70	▼	61	Mirova	Paris	3,049
71	▼	63	Aquila Capital	Hamburg	3,017
72	★	-	Glennmont Partners	London	2,971
73	▲	78	JP Morgan Asset Management	New York	2,955
74	▲	88	Qualitas Energy	Madrid	2,940
75	▼	74	Patria Investments	Grand Cayman	2,906
76	▲	94	Arcus Infrastructure Partners	London	2,761
77	▲	87	NextEnergy Capital	London	2,743
78	▼	76	Vision Ridge Partners	Boulder	2,704
79	▼	72	Arjun Infrastructure Partners	London	2,589
80	★	-	Harrison Street	Chicago	2,530
81	★	-	ESR Group	Hong Kong	2,443
82	▼	64	Amber Infrastructure Group	London	2,441
83	★	-	Fengate Asset Management	Toronto	2,368
84	▼	66	3i Group	London	2,318
85	★	-	Pacific Equity Partners	Sydney	2,252
86	▼	79	China International Capital Corporation	Beijing	2,175
87	★	-	DTCP	Hamburg	2,154
88	▼	77	Tiger Infrastructure Partners	New York	2,141
89	▼	84	Palistar Capital	New York	2,119
90	★	-	Tailwater Capital	Dallas	2,117
91	▼	80	Hy24	Paris	2,106
92	★	-	Keppel Capital	Singapore	2,100
93	▼	82	Patrizia	Augsburg	2,071
94	▼	90	Sustainable Development Capital	London	2,006
95	▼	89	Intermediate Capital Group	London	1,934
96	★	-	Commerz Real	Wiesbaden	1,893
97	▼	75	Instar Asset Management	Toronto	1,691
98	★	-	Marguerite	Luxembourg	1,670
99	★	-	Hull Street Energy	Bethesda	1,625
100	▼	91	Astatine Investment Partners (Previously Alinda Capital Partners)	Greenwich	1,597