cio investment club

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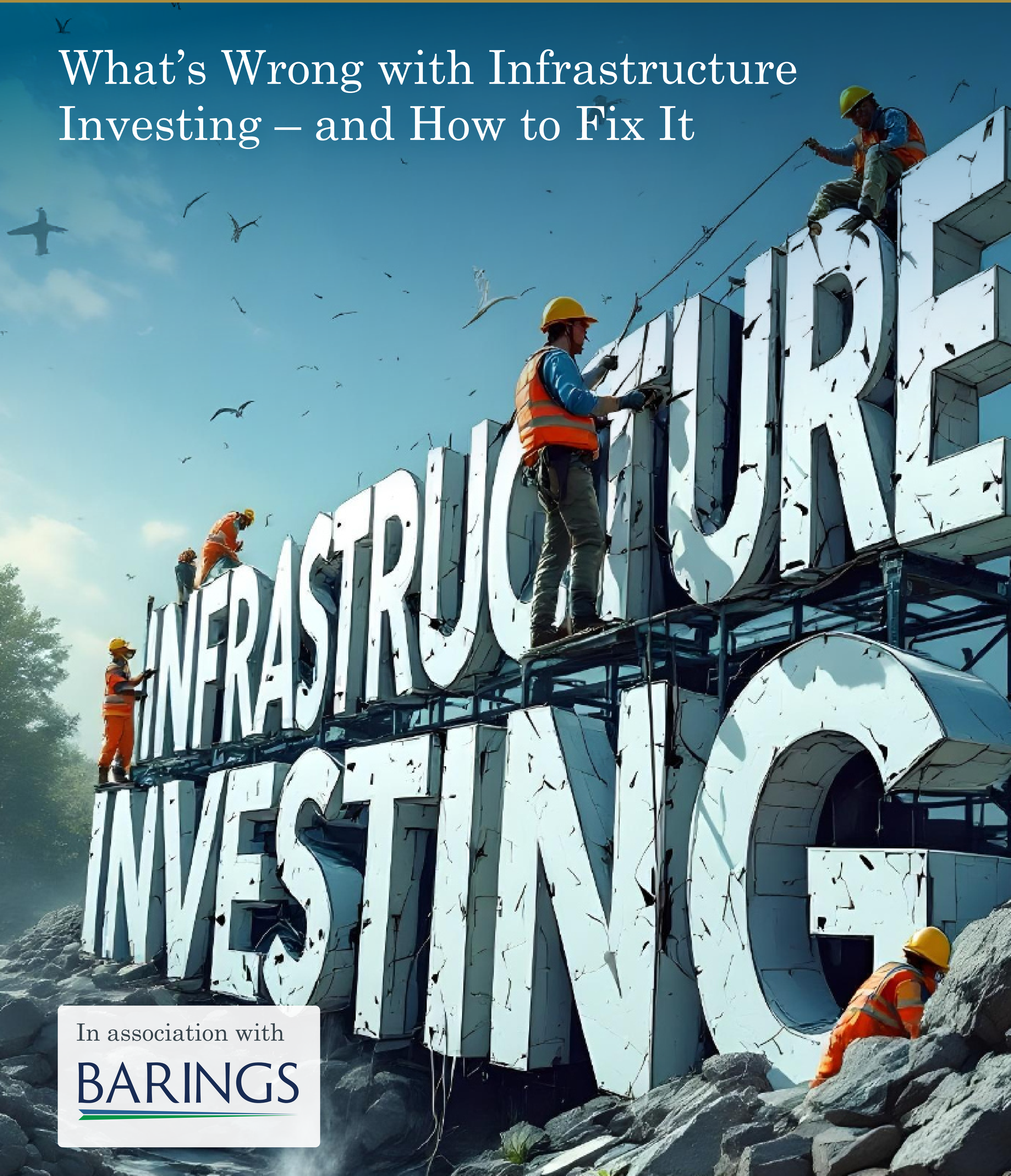
What's Wrong with Infrastructure Investing – and How to Fix It



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What's Wrong with Infrastructure Investing – and How to Fix It

Once dominated by governments and utilities, infrastructure has become a key arena for private capital. The opportunity set has expanded dramatically to encompass a broader range of assets and financing models.

The capital required to build and modernise infrastructure assets is immense. In 2014, the total volume of private infrastructure financing stood at around $340 billion; by the end of 2024, that figure had more than doubled to over $770 billion. The drivers are powerful: primarily the digital revolution, with data centres alone expected to need up to $7 trillion of investment by 2030, and the global energy transition, which is projected to require a similar sum[1].

Amid this rising demand and tighter government purse strings, private capital will undoubtedly be critical to bridging the infrastructure investment gap. The question is how.

Infrastructure debt claims to offer the stability and predictability that institutions with long-dated liabilities require. Returns – even from investment grade opportunities – often outstrip corporate debt. Infrastructure also offers diversification in volatile markets. For these reasons, investors are more than willing to commit capital to the asset class.

What lacks are investable opportunities. Supply of high-quality infrastructure projects lags demand, as governments work out how to shape deals that satisfy all stakeholders. The UK illustrates these dynamics well: it has strong fundamentals, established capital markets and clear policy ambitions to mobilise private finance for productive investment. And yet practical bottlenecks make it challenging to get projects over the line.

These issues were discussed by industry experts at a recent roundtable hosted by the cio investment club in London. Here are their insights.

[1] https://www.barings.com/globalassets/2-assets/perspectives/viewpoints/conversations/2025/09-september/infrastructure-debt-strategic.pdf

Defining infrastructure

The definition of infrastructure is widening, and with it, the opportunity set for investors. Once confined to physical assets such as roads and airports, the asset class now spans emerging sectors that blend real estate, energy and technology, which brings new layers of complexity.

"When infrastructure investing began to take off in London about 25 years ago, the definition was tied to physical, fixed assets," said Stephen Breban, Head of Research at Renewity.

"That has slowly developed to include shipping, then fleets, specialist vehicles, the companies that service the infrastructure sector."

This widening definition captures not just the assets themselves but also the structures that provide access to them.

"The definition of infrastructure is broadening, not just from the sectors that participate but also the structures we see on the market," said Vladan Martinovic, Head of Infrastructure Debt at Pension Insurance Corporation (PIC).

"We're now seeing players identify corporates that feature some of the characteristics of infrastructure – stable and predictable cashflows, for example – and call them 'infrastructure-like'. It's also a product of new, flexible asset classes, such as data centres, which overlap real estate with infrastructure."

A broader definition, by default, means more opportunities. But it also introduces a stricter requirement for understanding what truly is infrastructure, and which key features of the asset class are worth prioritising. Investors must assess whether assets truly carry these features. As Richard Parker, Head of EMEA Infrastructure at Barings, noted: "A lot of the private equity sponsors are pushing the boundary, trying to optimize the gap between leveraged finance and infrastructure. But the challenge is, if you get that wrong, you end up with nothing more than a highly levered corporate."

The rise of renewable energy – an important frontier of infrastructure development – illustrates how this widening definition is playing out. Martinovic said: "In infrastructure, we are used to predictable, contracted cashflows. Renewables are a big trend, but many of those investments are exposed to changes in energy prices. You're basing your assumptions on a prediction about where energy prices will be in the future."

However, for other players, the physical asset definition reigns. "Price fluctuations are less concerning to us given that these are still hard

> *The definition of infrastructure is broadening, not just from the sectors that participate but also the structures we see on the market*

assets," Parker noted. "They generate cash flows. The risk profile is higher, of course, but it doesn't alter their fundamental definition."

From a social perspective, defining infrastructure is less about rigid categories and more about outcomes – what utility is that new infrastructure providing?

> *Government is interested in productive investment, which can include infrastructure among other thing*

Christophor Ward, Investment Lead at the Government Actuary's Department, explained: "Government is interested in productive investment, which can include infrastructure among other things – investments that will help boost the economy."

"Creating infrastructure investment opportunities calls on expertise which will span professions and require work across departments too," Ward added.

"The Government Actuary's Department aims to support departments, both with actuarial advice but also on governance, because many projects are inherently complex with many different stakeholders but what is really needed is a coordinated effort to make the project happen. The definitions matter, but it's more important that the financial case stacks up."

Capital ready, projects missing

Ward's comment hits at a core issue in infrastructure investing: investors are ready to commit capital to much-needed projects, but investable opportunities to access these projects are in short supply. This complicates the concept of a 'capital need' in infrastructure because, at least according to our panellists, there is no shortage of capital. Rather, there is a shortage of opportunities.

"Plenty of people want to invest in infrastructure. The big issue is the availability of new projects in the UK," said Martinovic of PIC. He pointed to the Haweswater Aqueduct Resilience Programme (HARP) project, a major upgrade to maintain drinking water infrastructure in northern England. "How many years had it been since we'd seen a big project where one can deploy a sizeable amount of capital?" Martinovic asked.

Across the UK, the pipeline of investable opportunities has struggled despite both ample investor demand and a clear policy ambition to get infrastructure projects off the ground.

"Infrastructure will require increased and sustained investment. A significant increase in private investment is needed to complement and maximise the value of the extensive public investment underway," said Ward, of the Government Actuary's Department. "If the investment case stack up, the capital will come."

Breban, of Renewity, provided two clear routes to making the investment case stack up. "The government needs capital, and there are two ways to get it," he said. "You either put up the price and pay for it, or you reduce the risk. Reducing risk means making the regulatory environment much more investor friendly."

One potential route to a more investor-friendly environment is the revival of Public Private Partnerships (PPPs), outlined in a framework published by the government earlier this year. Taking lessons from its embattled predecessor, the Private Finance Initiative (PFI), PPPs aim to be more flexible and balance the interests of the private and public sectors.

"The whole concept of PPP has had ups and downs in the UK. It'd be good to get back to consistent ups," said Martinovic.

Ward commented: "PPP could be considered for projects where there are revenue streams and risk-transfer can be achieved, if value for taxpayers can be secured."

> *The whole concept of PPP has had ups and downs in the UK. It'd be good to get back to consistent ups*

Responsibility for a single infrastructure project can be spread across multiple government departments, which contributes to slow decision-making and limited ownership of projects. This makes it a question of coordination and execution rather than appetite. Parker said it plainly: "If you can't coordinate it, then we need someone at the top to cut across departments and make these projects happen."

Dissecting the top trends

The digital revolution and energy transition are the twin drivers of the global infrastructure need. Together, they are expected to consume trillions of dollars of investment over the next decade. But while these themes are powerful, their practical execution is complex.

Parker, of Barings, noted that while digital infrastructure is one of the most compelling trends, it also carries significant risk.

"Data centres are seeing significant flows amid the digital trend, but the risk profile can be substantial. We do participate, but we're very selective," he said.

"You build something very straightforward, but there's often limited amortisation, so you reach the end of the lease contract and your debt is still the same, so you are exposed to your ability to extend the term of the lease and acceptable rates. In that space, we prefer short tenors to help ensure some cash flows at the back end."

Martinovic agreed: "There are still some sectors we're waiting to become investment grade so we can deploy capital, data centres being one. At the same time, we all want to support the development of these asset classes. We want the market to mature because there's a clear need for these assets."

Similar logic applies to renewable energy: investors recognise the considerable opportunity, but also its challenges. Parker explained: "From the very start, we're focused on the numbers and the investment proposition – are we getting sufficient return for the risk? The European renewable market is dominated by European banks, which has significantly compressed pricing. For us, the space is mispriced relative to the risk. We want to do as much renewable energy as possible, but we can't if the returns don't justify the risk."

Martinovic added: "When it comes to renewables in the UK and especially Europe, price compression is very evident and covenants are a bit weaker. If you want to play in renewables, we find you need to go further – emerging markets, for example."

> *We ask ourselves whether we have the expertise, and if we don't, would it be scalable to bring the expertise in-house.*

That said, institutional investors are still cognisant of strong demand for renewables from their underlying stakeholders – pension fund members and insurance policyholders among them. While the investment proposition must still stack up, this attractiveness can be the cherry on top of the deal.

"While interest rates have come up off the floor, they're not at the highs we've seen in previous cycles, so there is appetite for a better return which can be delivered by infrastructure. At the same time, investors are cognisant of the underlying user being more sensitive to green issues, and in Europe, prices for renewable energy equipment have come down because the US has pulled back," said Breban, of Renewity.

"So, there's more interest because of the price falls and because it appeals to underlying users."

Ward, of the Government Actuary's Department, said these are areas where policy can help to create opportunities or make them investible: "It could be through organisations such as the National Wealth Fund or British Growth Partnership, which have tools such as the ability to issue guarantees and to co-invest.

"Climate change is a great example of an investment opportunity. I regularly see the poster-investment for climate change being wind farms, but they alone aren't going to get us to net zero. There need to be far bigger changes to make these ambitions happen, which government and the private sector can drive."

Importance of partnerships

Infrastructure projects are complex ecosystems that bring together a clique of different contributors. Successful deals often hinge on how effectively these players' interests are aligned throughout a project's lifecycle.

For both Parker and Martinovic, equity sponsors are central to that equation.

"For us it is critical, because having a direct and consistent relationship with equity sponsors means we can monitor project delivery effectively and address any issues in timely manner," Martinovic said.

Parker added: "If we don't know the equity sponsor, we probably won't do the deal. We're highly selective because it's absolutely crucial." He noted that, for example, deep-pocketed sponsors were instrumental in keeping airport projects afloat during the Covid-19 crisis, when liquidity was tested.

Other parties also play decisive roles. The construction company must have the expertise to manage complexity and communicate early if challenges arise. "Are they familiar with the level of complexity required for a specific project? Will they keep you informed, or will you be surprised if something goes wrong?" asked Breban.

You're looking for firms you've seen deal with problems and manage their way through them.

Finally, for asset owners, the asset manager is perhaps the most important relationship. Breban added: "You're looking for firms you've seen deal with problems and manage their way through them. If everything's gone well for a firm, that's nice to know, but it doesn't give the full story. You want to see the problems as well and how they managed them."

Solving the UK question

It's important not to understate the UK's attractiveness as an investment destination. Its fundamentals are strong: deep capital markets, a stable regulatory regime and a trusted legal framework. Its high degree of privatisation offers a rich spectrum of investable assets, while its institutions and governance structures provide the credibility investors seek.

Yet, as this discussion and paper has shown, appetite alone does not deliver outcomes. Across all stakeholders – governments, investors and industry partners – there is recognition that it's time for action. Ward put it succinctly: "We all need to get on and work with each other to create the opportunities."

Participants

Government Actuary's Department

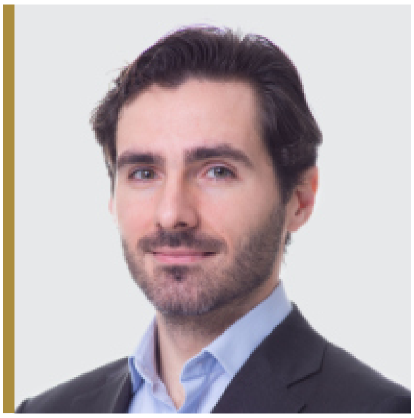
Christophor Ward

Investment Lead, Government Actuary's Department

Christophor Ward leads the investment team at the Government Actuary's Department (GAD). His team supports the public sector with the development and implementation of policy covering investments, funding and finance. Recent projects include supporting the Local Government Pension Scheme Fit for Future consultation and advising the Department for Energy Security and Net Zero on decommissioning funding for nuclear power and carbon capture infrastructure.

Chris started his actuarial career at Barnett Waddingham, working in their pensions and investment teams, before joining GAD in 2022.

Chris is a member of the Institute and Faculty of Actuaries Infrastructure Working Party and is a regular speaker at events as he looks to join up the interests of actuaries with the aims of his public sector colleagues.



PIC

Vladan Martinovic

Head of Infrastructure Debt, Pension Insurance Corporation

Vladan is Head of Infrastructure Debt at Pension Insurance Corporation ('PIC') responsible for sourcing, structuring, and executing private debt transactions in infrastructure space.

Prior to PIC, Vladan was part of HSBC's sales and trading unit in London, where he focused on rates and credit products for UK Insurance and pension companies.

Vladan holds a PhD in Molecular Biology and Biochemistry from University of Cambridge.

Stephan Breban

Head of Research, Renewity

30 years advising pension plans on private equity investment and GP/fund of funds selection.

Stephan started out with Bacon & Woodrow (now Aon) in London in 1988 covering private equity manager research and selection. After working for different larger pension plan consultants Stephan decided to strike out on his own to provide a conflict free service to institutional investors. Throughout his career he has advised pension plans, and other institutional investors, on a range of investment issues but, focused on private markets.

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Richard Parker

Managing Director and Head of EMEA Infrastructure Group, Barings

Richard Parker is Head of Barings' EMEA Infrastructure Group and a member of the Barings' Global Infrastructure Committee. He is a Managing Director, located in London, and is responsible for originating, structuring, and underwriting non-recourse structured finance transactions in the infrastructure, power and energy sectors. Richard has worked in the industry for 20 years.

Prior to joining Barings, Richard was the Head of the London infrastructure team at Credit Agricole Corporate and Investment Bank where he worked for 12 years with a focus on debt advisory and the origination, structuring and underwriting of infrastructure transactions. Prior to that he worked at Bank of Ireland in the project finance team.

Richard is ACCA qualified. Richard also has a BA in history from Queen's University in Belfast.

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In attendance

Chloe Whelan (Moderator)

Content Strategist, Rhotic Media

Chloe is a content strategist working across pensions, insurance, asset management and the wider capital markets ecosystem.

Prior to joining Rhotic Media, Chloe was a markets reporter at the Australian Business Review in Sydney and a current affairs journalist at News UK.

Thomas Lowton

Senior Director, UK & Ireland, Global Client Group

Thomas Lowton is a member of Barings' Global Business Development Group and is responsible for managing relationships with institutional clients and investment consultants. Thomas has worked in the industry since 2012.

Prior to joining the firm in 2017, he was at Legal and General Investment Management where he was responsible for a portfolio of strategic clients while specializing in fixed income and de-risking strategies.

Thomas holds Bachelor and Master degrees from Durham University and is a member of the CFA Institute.

Sean Thompson

Founder & Director, cio investment club

Sean has nearly 40 years of experience working in London's financial services sector and the insurance market. After 10 years as Managing Director of CAMRADATA, Sean launched the cio investment club on 1st January 2024.

The cio investment club's mission is to become the voice of chief investment officers and investment professionals at institutional firms. To help achieve this the club hosts events throughout the year that educate and inform, whilst providing thought-provoking content to its members.

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