Top 10 with...

Interview with **Roland Hantke**,
Head of UGA – Infrastructure

For global professional / qualified / Institutional clients and investors.

Investment opportunities

Secular trends

Resilient assets

Unlocking infrastructure opportunities

UBS

Key facts

20+
years of proven expertise

30+
bespoke mandate and commingled fund solutions[1]

170+
funds and co-investments[1,2]

45+
invested general partners[1]

Building momentum

Private infrastructure investments are increasingly gaining traction – and for many reasons. Considered a safe haven especially during inflation, infrastructure is receptive to many secular trends currently shaping the global economic scenario. What are these, and how should investors approach this multi-faceted asset class?

Roland Hantke, Head of Unified Global Alternatives (UGA) – Infrastructure explains how to unlock opportunities in this resilient asset class, and how the business is well positioned to add value to investors' portfolios.

Notes: **1** UBS Asset Management, Unified Global Alternatives (UGA), data as at 31 March 2025. **2** This refers to the number of funds and co-investments we have invested in for our commingled funds and mandates

1

Why is private markets investing particularly now so attractive?

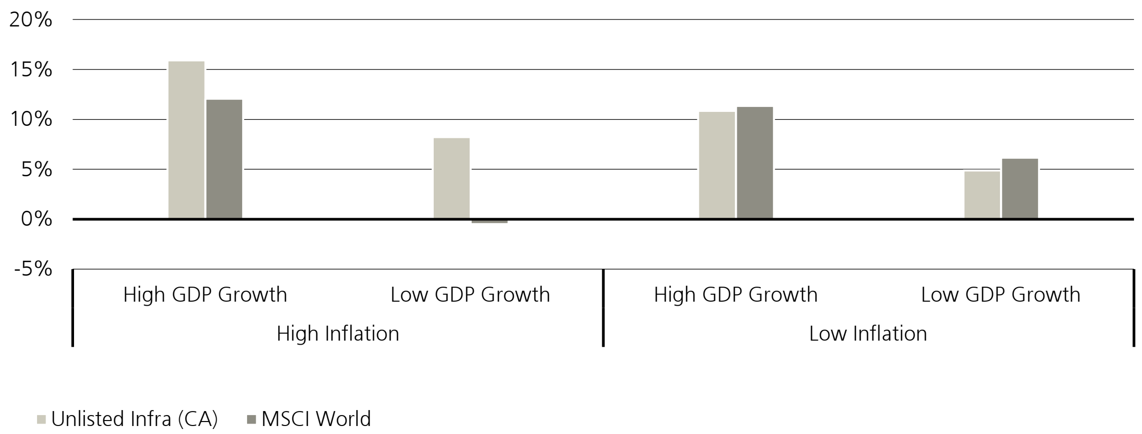
During the low-interest phase of recent years, institutional investors have included alternative investments such as infrastructure in their portfolios because of the higher return potential.
As a result of interest rate increases, the return outlook for traditional asset classes, especially fixed income, has improved and investors have more flexibility to achieve their financial goals. However, risk and uncertainty are greater today than in the recent past. High inflation and high energy prices lead to volatile markets and often negative real returns. Investors can use infrastructure assets as a way to strengthen and diversify portfolio returns and navigate the environment of heightened macroeconomic uncertainty. The longer investment horizon of private markets funds typically makes these investments more resilient to short-term volatility.

Market volatility can also decrease the availability of traditional funding through banks or public capital markets. During such dislocations in public markets, private market funding can constitute a valuable source of capital for companies, which opens up entry opportunities for private markets investors.

Real assets have historically exhibited a low correlation to listed equities, a feature which is particularly attractive during periods of market volatility. Infrastructure assets in particular – comprising assets in the sectors energy transition, utility / water & circular economy, communication, transportation, and social infrastructure – are more resilient to macroeconomic volatility while benefiting from policy and structural tailwinds. High barriers to entry, regulation, and long-term contracts of many infrastructure assets make them less vulnerable to business cycles. Increased inflation tends to have a positive impact on infrastructure returns, as cash flows are often contractually linked to inflation. In addition to stable dividends from resilient cash flows, infrastructure is also backed by hard assets with long useful lives, which provides further downside protection. These factors have resulted in private infrastructure outperforming public equities in periods of high inflation, especially when coupled with low GDP growth (see Figure 1).

In addition, infrastructure assets represent an attractive opportunity to take advantage of structural changes and benefit from long-term sustainability trends, such as decarbonization, digitalization and demographic change. The key role of infrastructure in enabling these trends is also recognized by governments, who have created stimulus plans which significantly incentivize investment in infrastructure, such as the USD 369 billion Inflation Reduction Act (IRA) in the US.

Figure 1: Private infrastructure performance under different GDP/CPI scenarios 1Q05-2Q24



Sources: Cambridge Associates; Bloomberg; MSCI; OECD, April 2024. Notes: Data based on quarterly. YoY data; unlisted infrastructure based on Cambridge Associates data; GDP and CPI data based on OECD countries; threshold for high vs. low GDP and CPI are both ~2% (based on median quarterly data of observation period). **Past performance is not a guarantee for future results**.

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What investment opportunities can investors find in infrastructure and what trends are defining this asset class?

Infrastructure investments are expected to gain significant attention and momentum over the next few years due to various reasons. Several secular trends are currently in progress and shaping the global economic landscape. Upgraded infrastructure is indispensable in enabling several of these trends, in particular energy transition, digitalization, mobility, as well as demographic changes such as urbanization and an aging population. Further, infrastructure investments have the potential to stimulate economic growth by creating jobs, attracting private investment, and improving productivity.

In addition to evolving requirements for infrastructure, many countries are grappling with aging infrastructure systems that require upgrades and maintenance. Aging roads, bridges, airports, water systems, and other critical infrastructure pose challenges in terms of safety, efficiency, and capacity. Upgrading infrastructure networks can enhance connectivity, facilitate trade, and support industries. Also, these initiatives create opportunities for private sector participation and collaboration.

Governments around the world have recognized the key role of infrastructure investment and are introducing policies, incentives, and funding programs to support infrastructure development. Examples include the IRA in the US, the fifth energy package (Fit for 55) in the EU or the German EUR 500 billion infrastructure investment program.

The goal of a sustainable and resilient energy supply presents opportunities for infrastructure investments. Renewable energy projects and investments in green infrastructure such as batteries or electric vehicle charging infrastructure are key in achieving environmental goals and addressing climate change challenges.

Such infrastructure projects require substantial capital investments, and securing adequate funding can be a challenge. Governments face budgetary limitations, and traditional funding mechanisms may not be sufficient. Finding innovative financing solutions, attracting private capital, and leveraging public-private partnerships are potential approaches to address this challenge.

In addition, the increasing reliance on technology and connectivity offers opportunities in areas such as fiber networks, data centers, 5G infrastructure, and smart cities. These investments can enhance efficiency, connectivity, and innovation. However, the rapid pace of technological advancements introduces challenges for traditional infrastructure. Incorporating smart technologies, renewable energy solutions, and digital infrastructure requires adaptation and investment. Also, infrastructure projects involve navigating complex regulatory frameworks and obtaining necessary approvals. Political considerations, bureaucratic red tape, and community opposition can create delay and add uncertainty to project timelines.

How have infrastructure investments performed during the recent energy crisis and what sectors can be attractive to investors?

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The impact of higher energy prices depends on the sub-sector. Higher energy prices have increased the operating costs of various infrastructure assets, for example in transport assets or waste management. On the other hand there are sectors that have directly benefited in particular in the energy and clean energy sectors.

Overall, higher energy prices have had a net positive effect, especially in sectors more closely related to the energy transition. Clean energy assets have benefited from the acceleration of decarbonization targets as market participants and governments have recognized their importance in achieving a secure energy supply and taken measures to increase the build out of renewable energy assets.

Conventional energy generation assets have also benefited from higher power prices, even taking into account the impact of higher operating costs. Regulated utilities are typically less impacted by commodity price volatility, as they can pass through higher costs and increase prices in line with inflation, however, there can be regulatory time lags and also affordability of tariffs are important considerations.

In the transport sector, energy transition can lead to investment opportunities in relation to e-mobility, including electric vehicle charging infrastructure and the electrification of vehicle fleets. Sectors which have seen little impact from the energy crisis include communication and social infrastructure, as these are driven by different underlying trends.

How can investors gain exposure to global infrastructure and which sub-asset classes are particularly interesting right now?

The growth and increasing diversification of products and strategies in the sector offer a wide range of entry points for investors to add infrastructure exposure to their portfolios.

Many infrastructure funds are now progressed to the maturity of several vintages, and provide institutional and large individual investors with direct access. The maturity of these funds has driven overall sector maturity, and also led to an active secondaries market, and compelling opportunity in diversified multi-manager strategies. These strategies make it possible to build portfolios with specialist fund managers, for example with a regional or sector focus, and longstanding expertise in their target area of investment.

Multi-manager strategies can also selectively add single asset exposures to their portfolios, via co-investments and Fund Continuation Vehicles (FCVs). These are typically accessed on a lower fee basis, driving net fee reductions across a portfolio.

FCVs are gaining popularity, with assets and infrastructure businesses reaching significant scale at the end of ownership cycles, and with continuing growth trajectories.

Digital telecommunication and energy transition particularly have been the two sectors that have seen the strongest activity in recent years, and both have significant remaining capital need and investment opportunity. The maturation of these two investment themes has also led to the emergence of dedicated infrastructure offerings targeting each sector.

Demographic change is now also driving an emerging infrastructure sector in social infrastructure. The sub-sector has seen limited investment to date, given operational and service level risks. The need case however is clear, and as the investment thesis is better understood, and inherent risks better managed, we can expect to see increasing activity in high-quality social infrastructure assets being acquired by infrastructure managers.

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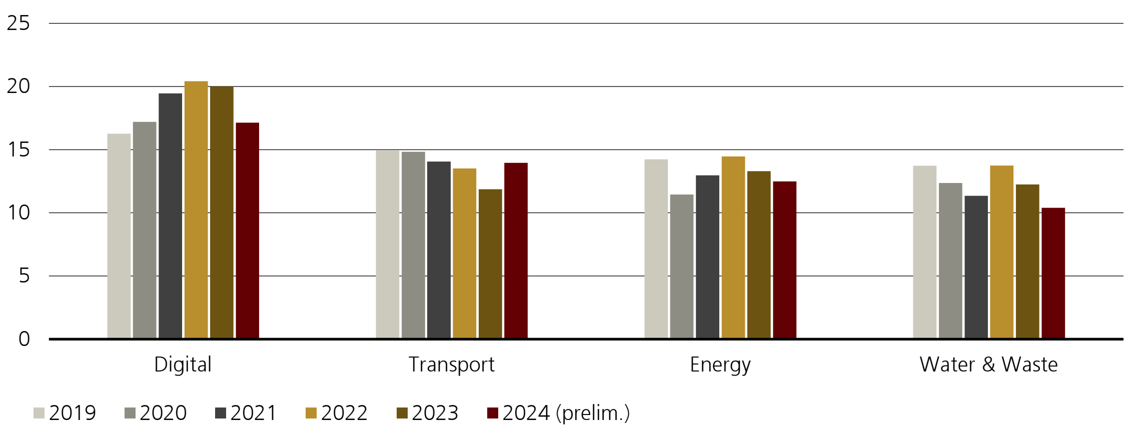
Where do you see infrastructure valuations developing and why?

Infrastructure valuations, despite the sequence of macro shocks in recent years, have remained at a relatively stable level. As demonstrated in the below graph (see Figure 2), valuations have not suffered a decline through COVID-19, the Ukraine war, or the subsequent energy crisis. Telecommunication in particular benefited from the thematic development of increased data capacity need, with towers, fiber and data center valuations driving an overall increase in the sector.

On the other side valuations in energy & utilities as well as the water and waste sectors have remained relatively stable as a result of regulation and long-dated contracts. Conversely, given the macroeconomic slowdown, valuations in the more GDP-linked transport sector have been decreasing.

The increase in interest rates has led also to an increase in the discount rates used for the valuation of private infrastructure assets. This trend has started to reverse with the recent decline in interest rates. Further, the increase in discount rates has been compensated by a significant growth in revenues driven by passing on inflation to end-customers, and higher usage of e.g., transport or digital assets. As a result, infrastructure valuations have remained stable also over the past two years.

Figure 2: Private infrastructure (EV/EBITDA multiples by sector)



Source: UBS-AM Proprietary Database (Based on 1,500+ historical transactions); Mergermarket; Infranews; Infrastructure Journal; Infrastructure Investors; Bloomberg, September 2024. We aggregate and organize historical valuation (EV/EBITDA) data from private infrastructure transactions globally, sourced from industry databases, advisory reports, press releases, media reports and other publications, in order to approximate an average valuation multiple for the broader private infrastructure markets and also for each private infrastructure sector. **Past performance is not a guarantee for future results.**

What is your experience and track record in infrastructure investing?

UBS Asset Management's (UBS-AM) UGA – Infrastructure was established in 2004 and is made up of a highly experienced and stable team. I personally have over 20 years of experience in the infrastructure asset class and have led the team since its inception, focusing on investment selection and portfolio management of numerous fund products and international diversified mandates.

Over the last 20 years, we have made over 170 fund investments in primaries, secondaries and co-investments and our investment analysts have excellent and long-standing relationships with the respective fund managers. We are one of the world's most established investors in infrastructure funds with a consistent track record across portfolios since the inception of the business[1].

Our objective is to build well-diversified institutional-grade infrastructure portfolios to provide investors with the major advantages of the asset class. Our focus is on core/core+ and growth/value-added infrastructure in OECD countries. We believe that through active asset management significant additional value can be created and therefore invest with experienced manages with a focus on asset management.

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We are seeking to invest across the major sectors including energy / energy transition, utilities, communication, transportation, and social infrastructure. We are looking for investment opportunities that benefit from long-term macro trends such as digitalization, energy transition and demographic change. In order to generate recurring dividend yield, the large majority of our portfolios is invested in operating brownfield assets. We have invested through various cycles, and we believe that diversifying by sectors, geographies and investment styles as well as vintage years is important.

How do you differentiate from your competitors?

We have a competitive advantage in the market due to the expertise and experience of our interdisciplinary team together with the resources of UBS's global, our established market position, and experience in setting up appropriate structures. Thanks to the excellent reputation and long-standing relationships with top fund managers, we have network exclusive access to primary and secondary market transactions.

In addition, these fund managers provide us with great deal flow for co-investments that are reserved for large investors with the best relationships with the fund managers. This not only allows our portfolio managers to select the most attractive investment opportunities from a global investment universe spread across fund managers specialized in all infrastructure sectors, but also reap the inherent benefits of co-investments by investing in firms which they consider particularly attractive while simultaneously mitigating the J-curve effects with faster capital calls.

Our established market position also enables us to regularly sit on investor advisory boards of the infrastructure funds, thus not only offering our clients faster access to information but also benefits from the exchange with other major investors in the respective funds. Our strong market position also enables us to regularly influence the fund documentation and to negotiate fee reductions and other contractual benefits for our clients.

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What are the benefits of a multi-manager approach to infrastructure investing?

A multi-manager approach allows investors to achieve a high level of diversification across multiple infrastructure funds. Each fund within the portfolio invests in a range of infrastructure projects or companies, potentially spanning different sectors, geographies, and investment strategies. This diversification helps reduce the concentration risk associated with investing in individual infrastructure projects or funds.

Infrastructure investing requires specialized knowledge and expertise to identify and assess investment opportunities effectively. By investing in a multi-manager solution, investors can tap into the expertise of our team, with know-how and resources dedicated to researching, evaluating, and selecting infrastructure funds and co-investments. This access to specialized expertise can enhance the quality of the investment decision and lead to better returns.

The secondary market for stakes in infrastructure funds has continued to grow and this offers opportunities for experienced investors to buy attractive existing funds at interesting entry points and with a quicker deployment of capital. Also the market for GP-led secondary transactions continues to grow, as more and more infrastructure funds reach maturity. Given our large portfolio and network, this offers us another attractive way to deploy capital in existing assets with a lower overall fee load.

Infrastructure investments often require significant capital. By investing in a multi-manager solution with lower investment amounts, investors can gain access to a broader range of infrastructure assets than they might be able to access individually. In addition, even if the investor has sufficient capital to deploy, many funds and co-investments of the leading infrastructure fund managers are oversubscribed and only accessible to investors with previous investments in earlier funds and long-standing relationships with the manager.

How do private markets play into the trend of semi-liquid solutions?

The demand for semi-liquid solutions stems from an investor's desire for increased flexibility in their portfolio allocations. Investors seek exposure to private market investments for their return potential but also value the ability to access liquidity when needed. Historically, private market investments have been relatively illiquid, with longer lock-up periods and limited opportunities for investors to exit their positions. Semi-liquid solutions offer a compromise, allowing investors to balance illiquidity risk with their liquidity needs. These funds may incorporate features such as redemption rights and periodic liquidity windows.

While these solutions do not offer the same level of liquidity as publicly traded securities, they provide investors with periodic opportunities to access their invested capital. By introducing semi-liquid solutions, private markets become more accessible to a broader range of investors, allowing them to include these assets in their portfolios and potentially enhance diversification. Historically the main investors in infrastructure were institutional investors like pension plans, insurance companies and sovereign wealth funds. Semi-liquid offerings make the asset class now also accessible to private investors.

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What's your view on integrating sustainability factors into infrastructure solutions?

We view sustainability as a key factor in our investment decisions and believe that considering this issue within investments will also contribute to better long-term returns. Only assets that are future-proof can also be sold on to the next buyer at an attractive price. We have therefore invested in strengthening our sustainability teams at various levels including UBS-AM, UGA, and at the UGA – Infrastructure team level. Our efforts are not only driven by our ambition to implement sound practices but also to increase transparency and promote collection of sustainability data across the private infrastructure market.

We are convinced that, to contribute towards a sustainable future, it is important for companies to measure and report on their environmental footprint. This enables investors to incorporate sustainability criteria at the heart of their investment strategy. With the implementation of SFDR, we see a clear regulatory push in Europe to classify the sustainability of financial products and set reporting standards.

We have a dedicated sustainability specialist in our team who is leading the due diligence for each of the underlying investments. Sustainability aspects are also analyzed early on during the sourcing and screening phase. Following an investment, we have a comprehensive sustainability monitoring and reporting process. We have also set up the framework required to launch Article 8 strategies and report on the Principal Adverse Sustainability Indicators as required by the SFDR regulation. We view sustainability as a priority area of focus that will require more investment and will be further refined together with our clients and accounting also for regulatory needs.

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