CIO recommends investors focus on maintaining a consistent deployment plan that is in line with long-term investment objectives and diversified across vintages, managers, and regions. (UBS)

The case for private infrastructure exposure

28 March 2023, 2:30 pm CEST, written by UBS Editorial Team

In many economies, government-led infrastructure investing is at the forefront of the strategic agenda. While not as familiar to some investors, the types of projects involved are not particularly mysterious: transportation and regulated utilities (like power lines and airports), energy and communication assets (power plants and data centers), and social infrastructure (schools and hospitals).

UBS CIO estimates USD 70–100 trillion of aggregate spending will be required to support global infrastructure through 2040.

But governments alone cannot bear this cost—which, in our view, offers opportunities for private capital:

Private infrastructure is key to several critical secular trends. Digitalization requires more high-speed mobile networks and data centers. A reversal of globalization will require modernized ports and other logistics systems. The energy transition needs more renewable power generation and battery storage. A significant part of the funding for these projects must come from private investors. Take the global net zero emissions target of 2050 which a 2023 McKinsey Transition Finance Model suggests is predicated on at least USD 1.5tr in private investor funding.

For investors, it can also offer portfolio benefits. Many private infrastructure assets exhibit common characteristics—such as high barriers to entry, low price elasticity of demand, and stable and often inflation-linked cash flows. In an uncertain economic environment with elevated inflation, the prospect of more stable income generation may help smooth out the performance of a multi-asset class portfolio.

There are infrastructure strategies targeting different levels of return and risk. *Core and core plus strategies* require limited capital expenditure, rely on low operational complexity, and offer modest GDP sensitivity—leading to more predictable, inflation-linked returns. *Value-add strategies* require a measure of capex, offering less predictable income but

higher targeted returns and some capital appreciation. Finally, *opportunistic strategies* tend to build new facilities, posing development and cycle risks but offering capital appreciation and yield returns closer to private equity.

So, we think investors should consider infrastructure alongside other income-generating strategies such as direct lending and real estate within a portfolio context.

Investors can gain infrastructure exposure directly or indirectly. For individual investors, direct exposure to the cash flows from utility, communication, or transportation assets can be attained via private market vehicles. We recommend investors focus on maintaining a consistent deployment plan that is in line with long-term investment objectives and diversified across vintages, managers, and regions. More broadly, putting fresh capital to work in private markets in the years following declines in public markets has historically proven to be a rewarding strategy over the long term.

Indirect exposure can be attained via bond or equity markets. For example, in the US REIT sector, we like exposure to communication towers and data centers. Greentech companies are exposed to infrastructure spending on the energy transition, decarbonization, and energy efficiency. We also have a most preferred stance on the global utilities and industrials sectors—both are indirect ways of investing in infrastructure and benefiting from increased infrastructure investment.

Finally, while much of this piece has focused on the investment outlook, investors must also consider the risks. These vary depending on the asset and strategy selected, from leverage risks to concentration issues or deal timing. Changes in general business conditions may impact end user demand, and investors can also face unexpected changes to political or regulatory policies. While these risks cannot be fully eliminated, they can be reduced through strong due diligence, monitoring and manager selectivity.

Main contributors - Mark Haefele, Jon Gordon, Vincent Heaney

Content is a product of the Chief Investment Office (CIO).

Original report - The case for private infrastructure exposure, 28 March 2023.

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