Why look at infrastructure?

Investment strategy insights

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- Infrastructure investing involves supporting the physical and digital assets that form the backbone of modern economies.
- We highlight three reasons why it may be a good time to look at infrastructure now.
- We explore the types of infrastructure investment, their risks, and how the asset class may help a portfolio.


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What is infrastructure?
Infrastructure refers to the essential facilities and systems that support the functioning of a society. It includes transportation, communications, water supply, and energy systems.

Investments in core infrastructure typically involve contributing capital to assets including roads, bridges, tunnels, water supply systems, sewers, electrical grids, and telecommunications. These assets are crucial for economic activity. Their markets are often difficult for new companies to access due to high initial costs. Existing infrastructure builders often have high pricing power.

Why look at infrastructure now?
The present macroeconomic environment may lend itself to reviewing infrastructure—especially for underexposed investors:

Infrastructure can benefit from structural growth trends. Secular trends—including global population growth, AI proliferation, supply chain realignment, the drive for energy security, and the push for net-zero carbon emissions—are expected to drive over USD 100 trillion in cumulative infrastructure spending by 2040 across the transportation, energy, digital, and social sectors (based on McKinsey analysis).

Infrastructure can withstand an uncertain world. Ongoing tensions in the Middle East, the upcoming US midterm elections, and potential setbacks in AI investment remain key risks to the macroeconomic backdrop and inflation. In this environment, infrastructure assets stand out for their resilience. Many offer stable, inflation-linked cash flows that help mitigate the impact of slower economic growth and sticky inflation. Cambridge Associates data show infrastructure-linked assets returned 10.9% in 2025 and an average of 10.8% annually over the past 10 years.

The asset class can help smooth and diversify portfolio returns. Infrastructure assets come with diversification benefits: The asset class's correlation with a traditional 60/40 stock-bond portfolio has declined to approximately 30% in recent years. Additionally, infrastructure's low correlation with gold makes it a compelling complement for portfolio diversification, in our view.

What are the different types of infrastructure investment?
Core strategies focus on brownfield assets (investment in existing assets) with minimal capital expenditure requirements and low operational complexity. Income tends to be predictable through contracted or regulated revenues. Core assets tend to be less sensitive to economic growth, with returns correlated with inflation.

Assets may be more sensitive to economic activity or require modest developmental improvements for higher return potential. Sample projects include investments in utilities, contracted/regulated toll roads and pipelines, and social

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infrastructure.

Returns for these two strategies typically range between 5% and 10% internal rate of return (IRR) net of fees, with a high-income component.

A value-add strategy is a riskier one. It focuses on mostly brownfield assets that require some capital expenditures to improve or expand services. Income tends to be less predictable than for core strategies given investments in more complex assets. Cash flow may be reinvested and not paid out until enhancements are complete. Value-add assets tend to be more correlated to GDP versus core assets, with some degree of inflation sensitivity.

Projects include investments in railways, airports, unregulated pipelines, and power generation. Target returns are typically 10-14% IRR net of fees, with a mix of income and capital appreciation.

The most risk-tolerant investors, opportunistic strategies focus on generating returns through greenfield projects (investments in new facilities) or assets that require substantial capital expenditures. Opportunistic investments exhibit high demand uncertainty and returns tend to be more correlated to market cycles and typically incur lower debt levels.

Projects include investments in merchant power plants, telecom, and unregulated waste sectors. Target returns typically are 14%-plus IRR net of fees, with a high proportion derived from capital appreciation.

What tools can investors use to access infrastructure?
Infrastructure investments, which are typically alternative investments in unlisted markets, can be made through direct investments, infrastructure funds, or public-private partnerships. Formerly the preserve of large institutional investors, the asset class is now more widely available to a broader investor base through a variety of structures, some of which may offer more ready liquidity in normally functioning market conditions.

What does CIO like – and how can it fit in a portfolio?
In the current environment, we see core and core-plus infrastructure assets in non-cyclical sectors as the most attractive. We believe they offer robust, predictable, and inflation-protected income streams, making them a reliable anchor for portfolios. Conversely, development-stage assets remain vulnerable to project delays and cost overruns if economic or policy headwinds intensify—underscoring the importance of selectivity and risk management.

What are the risks?
While infrastructure investments may offer numerous potential benefits as part of a well-diversified portfolio, they are not without risks. Key risks include illiquidity, leverage, potential for defaults, sector concentration, and deal timing. Changes in general business conditions can impact end-user demand for infrastructure assets, particularly for more GDP-sensitive sectors such as transportation and energy. Additionally, political and regulatory risks can affect infrastructure asset values, as policy changes may impact contracted revenues and future cash flows. Investors should diversify across sectors and regions, and select managers with local expertise to mitigate these risks.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months. Note that the tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities
Note: For equities, we have a five-tier rating system with two additional preferences
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
When equities are included with the other asset classes in the three-tier rating system, we collapse “Most Attractive” with “Attractive” and “Least Attractive” with “Unattractive.”

Appendix

Risk Information
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