A new era of infrastructure credit

by Beth Mattson-Teig

Portfolio strategies evolve along with growing global investment opportunities

As institutions work to diversify their growing credit portfolios, they are facing two key questions — where to deploy capital in an expanding global market and where infrastructure credit should sit within their portfolio allocations.

One of the key themes in infra credit investing during the past dozen years is the expansion and diversification of the underlying investment opportunities. "Ten years ago, infrastructure credit was a bit of a niche strategy in places like Australia and some parts of Europe, and now it's a global strategy used by global investors," says Nick Cleary, a senior partner at Vantage Infrastructure. International issuance of infrastructure debt has more than tripled in the past decade, with an estimated $1.5 trillion in global annual issuance in 2024, according to IJ Global.

Hodes Weill's *2025 Infrastructure Allocations Monitor* reports infra debt is gaining favor across regions globally, with the greatest interest coming from EMEA-based investors, where nearly half of investors surveyed (46 percent) said they plan to invest the same amount or more capital in infrastructure debt during the next 12 months. Institutions are attracted to the risk-adjusted returns relative to equity allocations, stable yield and downside protection in a higher rate environment.

"There is a lot of enthusiasm, and we're seeing a good number of investors trying to get educated on the asset class and make their first allocations in the space in the near term," says Steve Coscia, managing director, global infrastructure debt, at Barings. Investment-grade infrastructure debt investors like the asset class for the yield premium that infrastructure provides versus public markets and other private assets. Within high yield, investors who are looking at infrastructure debt allocations are mostly interested in the asset class as a diversifier and potential stabilizer in their portfolio relative to more traditional private credit or public high-yield allocations, adds Coscia.

CHASING HIGHER YIELDS

One of the tailwinds for credit is the incredibly attractive risk-reward profile. Many of the early credit investors were focused on investment-grade opportunities, which were driven in part by the low interest rate environment. "Investors were searching for yield to replace very low-yielding fixed income and sovereign debt," explains Cleary. "But as they've bought into the asset class, we have seen a shift to more high yield."

Another shift that has become more evident during the past three years is equity-focused LPs and investors are increasingly looking at credit investments, primarily because of the equity-like returns they are realizing. Private debt that is coming in above a core senior-secured loan has the potential to generate yields in the low double digits.

"We've seen LPs shift to debt because you're getting an equity-like return on a recurring revenue model but not taking full equity risk," says Carras Holmstead, an investment partner at Palistar Capital, an alternative asset manager focused on private equity and structured investments in communications infrastructure assets. When investing in fiber infrastructure, for example, some credit deals can offer returns comparable to equity investments but with significantly lower risk — often 30 percent to 40 percent less. "If you couple the recurring revenue model, a long-lived asset, plus the type of return dynamic, it's an incredibly attractive risk-adjusted way to get yield or income," says Holmstead.

ALLOCATIONS SHIFT TO PRIVATE DEBT

Traditionally, allocations for infra credit have come out of one of three buckets: private credit, fixed income or real assets/infrastructure. Infra credit has a role to play in each of those allocations. "Ten years ago, when we were talking to investors about infrastructure credit, they weren't really worried about what allocation it was going in. They were focusing more on the fundamentals and recognizing it was an attractive addition to their portfolios," says Cleary. But more recently, allocations to infra credit have been trending to sit within private debt.

According to Hodes Weill's *2025 Infrastructure Allocations Monitor,* approximately 52 percent of institutions report infrastructure debt is evaluated by private credit or fixed income teams, compared with 34 percent who view it as part of real assets/infrastructure equity allocations. This indicates closer alignment with broader credit mandates and reflects the blurring of lines between traditional real asset investing and private credit.

Although opinions vary, one view is that infra credit doesn't fit as neatly in real assets or fixed income strategies, whereas it tends to be a better fit for private debt.

"We definitely see investors categorize infrastructure credit across all three, but we most commonly see infrastructure credit in private debt buckets, and that is probably the most favorable place for it to land from a fundraising perspective," says Coscia. Some of the big selling points of infrastructure credit are the diversification, resilience and downside protection it provides. "Infrastructure equity and other real asset investments can also provide each of those, just maybe to a lesser extent. But within private debt, infrastructure credit is a bit more differentiated relative to other products in the category," he explains.

How infra credit is classified depends on each individual LP's internal portfolio construction framework, adds Holmstead. This classification does matter, as it affects how capital is deployed, which teams evaluate opportunities and how performance benchmarks are set. For example, if categorized under private credit, infrastructure debt may compete with corporate direct lending for capital. Or if under infrastructure, it may be viewed as a more defensive complement to equity risk. "Investors who take a holistic, cross-silo approach may be best positioned to take advantage of the opportunity set," says Holmstead.

NEW ERA OF OPPORTUNITIES

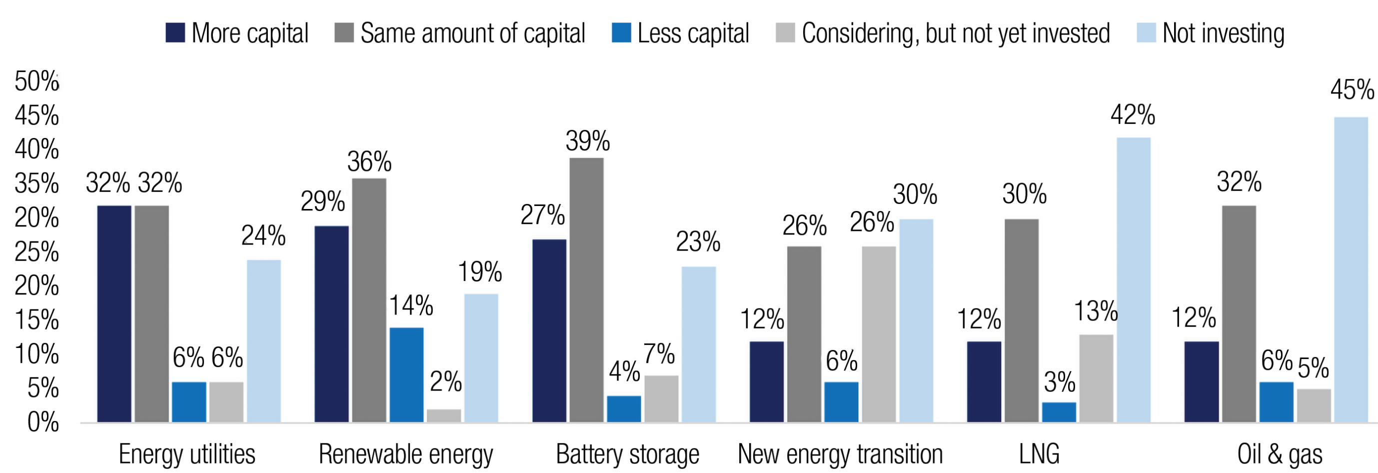
Historically, the infrastructure landscape involved assets such as toll roads, gas pipelines, utilities and contracted power generation. Now, the sector has expanded into sectors such as energy transition, decarbonization and digitalization — all of which have major tailwinds and demand for debt financing. "There is much more interest in infrastructure credit because of a shift in the underlying infrastructure landscape," says Timothy Alexander, managing partner and head of global capital solutions at Jackson Square Partners, a capital advisory firm.

The artificial intelligence (AI) boom has unleashed a race to create more digital infrastructure globally, with capital focusing on data centers and their huge power demands. "Playing this AI shift is quite unique. You don't see other credit sectors in the United States or Europe that offer such massive tailwinds," says Holmstead. "We think digital infrastructure is an attractive sector in credit across the whole credit spectrum in the United States and Europe because there is so much capital for this transformational sector that we're seeing develop right now in AI."

Innovation also is continuing to fuel a growing opportunity set that goes beyond AI. "The market has shifted into new drivers of demand, which are underlying subsectors that just didn't exist 10 years ago, or existed only in very small formats," says Alexander. However, while there is a lot of debt capital chasing data centers, some of the emerging subsectors are incredibly difficult to fund because of new and unproven technology, he adds.

For example, Jackson Square Partners is working on lining up development capital for a sustainable aviation fuel (SAF) project in North America. The project needs $85 million in development capital to get through the engineering process and another $3 billion to build a plant. Despite the need to advance green technologies in an industry that is a

Investment intentions in energy subsectors, all institutions



Source: Hodes Weill & Associates in partnership with Cornell University's Program in Infrastructure Policy, 2025 Infrastructure Allocations Monitor significant producer of greenhouse gases, securing funding has been more difficult following changes to clean energy tax credits under the new One Big Beautiful Bill Act.

Despite hurdles, Jackson Square is continuing to focus on emerging sectors where there is a significant need for capital. “We are spending our time in the places where a) we think we can make a difference; b) there’s complexity that drives it; and c) there’s a reason that, going forward, there’s going to be huge demand for it, and it truly is infrastructure,” adds Alexander.

FILLING MARKET GAPS

Competition for investment-grade and more proven deals tends to drive financing costs quite low. Although that’s a positive for infrastructure equity investors, many infra credit investors are seeking higher yields. “From a credit perspective, investors really charge us to go and find value that’s better than just buying a bank syndication,” says Cleary. “The key thing that drives where we focus are where there are gaps in the market.”

Vantage Infrastructure focuses on middle-market lending, with transactions typically between $200 million and $400 million, and more complexity where there is less competition from bank lenders. In the energy-transition space, for example, there are a wide range of emerging opportunities ranging from electric vehicle (EV) charging to distributed generation. “They often require a specialist approach to understand the underlying business, then layer on a structure that adds value to the business, sponsor and debt investors,” says Cleary. “This is quite different to underwriting a packaged-up bank club or syndicated transaction.”

Coscia sees great opportunities in mid-market deals that often fly under the radar of large commercial banks and funds but offer attractive pricing and structuring flexibility. “We also find good relative value in midstream and transportation, which haven’t benefited from quite as much attention in the press or from other lenders as digital infrastructure and energy transition over the last couple of years,” he says.

Elda River Capital Management, a real assets firm that invests in businesses that power the global economy, focuses on opportunities to partner with well-positioned middle-market energy and energy infrastructure companies in North America. The firm directly originates transactions that typically range between $50 million and $300 million. Three key sectors Elda River is focused on are energy and energy infrastructure, power and renewables, and energy efficiency. The firm also is looking for pockets where there is a funding gap, such as renewables in the United States.

“While there is a large focus on AI and data, we tend to prioritize opportunities where they’re a little more stressed,” says Eric Scheyer, a managing partner at Elda River. For example, people are concerned about funding availability for renewables in the United States following recent changes to the Inflation Reduction Act. “We think that’s actually going to create some pockets of opportunity that may be very attractive in this environment,” he says.

Going forward, private equity has a long runway of opportunity ahead with a huge demand for capital to fill the financing gap and fund needed infrastructure globally. Although it is an attractive time to invest in infrastructure credit, investment managers are being cautious about where they are deploying capital and appropriately underwriting risks that run the gamut from unproven technologies to a changing regulatory environment. ❖

The evolution of infra credit

Real assets teams were among the first to invest in infrastructure credit. They were already investing in infrastructure equity, and they could see the value credit could offer their portfolios. However, those allocations were designed for equity investments that have some capital gains and cash yield appreciation, whereas infrastructure credit is typically viewed as a relatively low-risk, cash-yielding opportunity. Fixed income strategies were primarily designed around liquid bonds, such as government bonds. So, putting an illiquid, long-dated asset class in a liquid strategy isn’t what that strategy was designed for. It worked when interest rates were low, but as rates have increased, those fixed income allocations have gone back to focusing more on investments that can deliver 4 percent to 5 percent cash yields in a liquid strategy.

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