Retirement News Highlights

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Institutional investors flush with infrastructure opportunities

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VIEW KEY DATA:

- Brookfield Asset Management
- Maryland State Retirement & Pension System

Institutional investor interest in infrastructure has grown steadily in recent years, but with more opportunities in renewable energy coupled with economic incentives borne out of the Inflation Reduction Act, more institutions are steering dollars to the asset class in a trend experts and managers expect to continue.

"In a period of uncertainty like this, investors seek out relative predictability, and predictability is the hallmark of the asset class; because of that, we continue to see a lot of interest," said Benjamin Morton, New York-based executive vice president, head of global infrastructure and a senior portfolio manager for Cohen & Steers Inc.'s infrastructure portfolios. "And then you layer on some of these opportunities created by themes like energy transition that have been boosted by the (Inflation Reduction Act) in the U.S. that should help sustain higher growth rates for longer for some utilities."

Democrats in August passed the Inflation Reduction Act, or IRA, which included tens of billions of dollars for loans and grants related to emissions reductions and climate resiliency, and a host of new and expanded tax credits for renewable energy projects, such as wind and solar farms, electric vehicles and carbon capture initiatives.

"Without the IRA, I think there would have been significant development of renewables in the U.S., but with the IRA it's even higher because now you've taken projects and made them more economic," said Jehangir Vevaina, a Toronto-based managing partner in Brookfield Asset Management's renewable power and transition group. "That means a lower power purchase price for buyers, so more buyers are interested."

Brookfield manages $161 billion in infrastructure assets, and an additional $77 billion under its renewable power and transition group, as of March 31. As of Dec. 31, it managed $20.2 billion in U.S. institutional, tax-exempt assets internally managed in infrastructure, according to Pensions & Investments data.

Last year, the firm made several plays in renewables, including acquiring Scout Clean Energy, a national utility-scale renewable energy developer-owner- operator; Urban Grid, a solar-focused utility-scale renewable energy project developer; and solar company Standard Solar.

While Brookfield was keen on each of those acquisitions prior to the IRA, since the bill's passage, the opportunity has grown exponentially, Mr. Vevaina said.

"Within their pipelines we thought there were projects that were great investments previously, but now there are even more projects in their pipelines and even more growth coming out of these companies," he said, adding that the IRA is "supercharging" development in renewables.

Paced by renewables, money flowed into infrastructure in 2022 at a torrid rate, according to data from Preqin, a London-based investment data company. Infrastructure funds raised a record $181 billion in 2022, up from $136 billion in 2021.

However, infrastructure fundraising slowed to $5.3 billion in the first quarter, a number Alex Murray, Preqin's London-based head of real assets and vice president of research insights, chalked up to a correction from global interest rate increases and rising costs of primary infrastructure development assets due to inflation.

"There's still a huge wall of dry powder in the asset class at $316 billion," Mr. Murray said. "A lot of investors that allocated last year to funds in a record fundraising year, they still have commitments in funds from earlier years, from 2021 and 2020, because those funds may not have fully deployed yet. Typically, it takes a fund about three to four years to fully deploy their capital."

He added, "It would be quite easy for an investor in this environment to look at the commitments they've already made to infrastructure funds and say, 'Yes, we're keen on the asset class, but until these funds are fully deployed, we're happy to wait and see in terms of additional commitments this year.'"

In the first quarter, investments in the renewable and conventional energy sectors accounted for 77% of all deals, a new quarterly high, according to Preqin data.

Mr. Murray said he still expects more than $100 billion in infrastructure funds to close in 2023 based on a number of particularly large funds in market, and buoyed again by renewables.

New opportunities

Prior to the IRA, investing in renewables was difficult because competition was fierce, sources said.

"So much money has been going into renewables — things like solar and wind —that they were bidding the cash yield down to something that's not very attractive and then you'd had to take a lot of project risk to make it interesting," said Andrew C. Palmer, CIO of the $64.4 billion pension Maryland State Retirement & Pension System, Baltimore. "You could take that similar risk in different areas like real estate and get paid a lot more. The (IRA) tax credits changed the picture there to make (renewables) a little bit more competitive with other investments."

Since the U.S. passed the IRA, lawmakers in Europe and Canada have floated renewable tax credits of their own.

"Legislation and policies that are very supportive of things like renewables that will speed up energy transition mean great new investment opportunities for utilities that are ahead of the game in terms of transitioning from dirty sources of fuel to renewables," Mr. Morton said.

Following the IRA, CBRE Investment Management and Forum Mobility, a zero-emission trucking solutions provider, announced a joint venture to electrify trucking in California ports.

"We'll continue to invest in this space and move into different states with Forum," said Robert Shaw, Toronto-based managing director with CBRE Investment Management's private infrastructure business. "There's a huge need for charging capacity, especially for heavy-duty trucks. It's going to take a lot of land and a lot of power in order to charge these, and we think we're really uniquely placed to be an infrastructure partner for these companies because we have, from a global overview, an understanding of the real estate markets in these areas and we also own a lot of the real estate ourselves either through logistics or core U.S. funds."

CBRE Investment Management manages a $12.3 billion private and listed infrastructure portfolio.

In less than a year since its enactment, the IRA, "Without a doubt, I think it's done a good job in turbocharging activity," said Orhan Sarayli, New York-based head of North America for Barings' global infrastructure group, particularly in carbon sequestration where carbon is captured from the atmosphere and stored. "I think for what was possibly a science program for some of the big energy players, it is going to have a real impact," he said.

Another area sources are keen on is digital infrastructure, like data storage centers, cell towers and fiber connectivity.

Digital infrastructure represents 4% of Barings' $11 billion infrastructure portfolio, Mr. Sarayli said. He expects that figure to rise to 10% in five years. "We've been seeing really good risk-return opportunities right now in fiber build-out stories, both established and growth platforms," he said.

Growing interest

Infrastructure interest among institutional investors has grown steadily over the last five or 10 years, said Matthew Ritter, Boston-based partner and head of real assets investments at investment consultant NEPC LLC.

Now, more institutional investors are replacing their energy private equity exposure, or at least new commitment dollars, with private infrastructure because of the new and appealing offerings in the asset class, Mr. Ritter said.

"As the infrastructure market has continued to grow and evolve, not just in terms of the number of managers and strategies, but really the breadth of strategies out there, there have been more attractive opportunities regardless of what your objectives are," Mr. Ritter said.

There are plenty of reasons for institutional investors to consider investing in infrastructure today, such as yields, diversification or inflation hedging, he added.

With inflation elevated, Mr. Ritter said the focus on infrastructure and real assets broadly has increased, but NEPC and its clients take a long-term investing approach, "So investors are not typically adjusting their target allocations or dramatically increasing or decreasing investment volumes based on these sort of shorter-term market trends."

Infrastructure assets among the nation's top 200 retirement plans was up 212% in the past five years to $72.1 billion, according to Pensions & Investments data, as of Sept. 30.

Cohen & Steers' Mr. Morton said, "We have about as much interest institutionally in the asset class than we've ever had." Cohen & Steers manages an $8.6 billion infrastructure portfolio.

Mr. Sarayli made a similar point and said in his more than 20 years working in infrastructure investing he doesn't recall fielding as many inbound calls from investors to discuss Barings' infrastructure debt strategy.

"We like assets that have a long history of volume through various cycles," he said. "Having lived through the global financial crisis and pandemic, a lot of these assets have been stress tested and proven their resiliency."

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