Meeting the Growing Needs of Infrastructure

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What do a high-speed rail line, a toll road in Ontario and emerging renewable power technology have in common? All have garnered billions of dollars from institutions investing in infrastructure. Proponents of infrastructure assets note that the class, by and large, boasts yields high enough to be attractive in a low-interest rate environment, while also providing exposure to stable, predictable cash flows. This hasn't escaped the notice of fund managers as well as institutional investors, who have been making generous infrastructure allocations.

Canadian financial institutions have a long history of funding infrastructure. Pension funds, insurance companies and asset managers put money into direct investments to give them control over their investments and avoid unnecessary fees.

According to Preqin and Infrastructure Canada:

- 67% of Canadian institutions allocate to infrastructure[1]
- 141 infrastructure transactions took place in Canada in 2018
- 22 billion USD was allocated to infrastructure in 2018 — the highest allocation to infrastructure in the past five years[2]

The buzz around infrastructure assets may stem in part from the widespread understanding that Canadian infrastructure needs are intensifying, as infrastructure reaches the end of its useful life and needs repair or replacement. Canada's long-term infrastructure investment plan amounts to $180 billion over the next 12 years.[3] The launch of the Canada Infrastructure Bank in 2018 aims to attract private investors to fund that investment.

“The significant growth we've experienced in our Infrastructure Fund Services business is coming from both specialist firms getting bigger and from new entrants, from funds in both ends of the risk/reward spectrum – e.g. core and opportunistic," explains Cesar.

Of course, need isn't enough to justify investment in any infrastructure asset. Funds only consider assets that are expected to meet targeted rates of return and many may not pass muster. This risk is particularly significant for infrastructure assets because they're mostly illiquid; a toll road can't just be traded away. Yet the assets' illiquidity is something institutional investors like pension funds are often willing to bear for the sake of long-term exposures that match their long-term liabilities. The lack of liquidity may also present opportunities for the largest infrastructure-focused funds, which can afford to take on bigger projects than smaller investors, especially when they form joint ventures with other investors. It's a valuable advantage, as investors today often must compete with one another for stakes in the most promising infrastructure assets.

Partnering with an experienced third-party service provider that understands infrastructure allows fund managers more time to focus on finding those promising infrastructure assets. Industry expertise and a dedicated fund administration practice combined with technology and reporting capabilities that support the diverse nature of infrastructure investments, will only enhance investor interest and support continued grow of the asset class at both the fund manager and the industry level.

1 Preqin. “Canadian Infrastructure – February 2015”
2 Preqin. “Canada_Preqin_Infra_DealsExits_Annually”
3 Infrastructure Canada

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