

# Investor insights about infrastructure growth

A global study of investors launched by GI Hub and EDHEC Infrastructure Institute reveals the characteristics of infrastructure investors that can unlock the current record levels of private capital.

This factsheet outlines key insights that will help policy and market makers understand how to meet investor expectations and expand the infrastructure market.

## REPORT HIGHLIGHTS

65% 

intend to increase allocations to infrastructure over the next 3-5 years

81% 

consider that infrastructure suits investment periods of over 10 years



Number of global investors with emerging market exposure is expected to **more than double** over the next 3-5 years

92% 

are concerned about the build-up in 'dry powder'

\*Money held by investors that is yet to be invested

70% 

believe recognition of infrastructure as an **investment asset class** matters for a greater focus on infrastructure



## IMPORTANT FACTORS OF INFRASTRUCTURE INVESTMENTS

1

**Stable Regulation and Contracts**

Importance Rating: 4.2



\*5 is highest importance rating

2

**Earnings Stability**

Importance Rating: 3.9



3

**Counter-Party Risk**

Importance Rating: 3.6



4

**Greenfield vs Brownfield**

Importance Rating: 3.1

5

**Earnings Growth Potential**

Importance Rating: 3.0

6

**Investment Size**

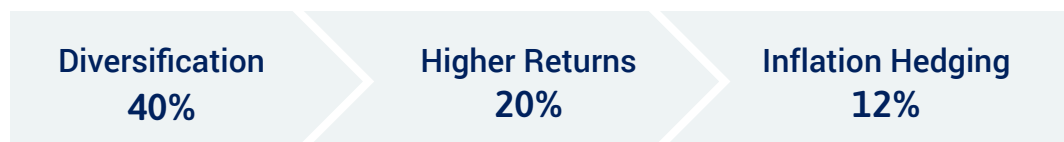
Importance Rating: 2.8

## What did investors say about infrastructure?

### Investors are increasingly interested in infrastructure, and are not concerned about the lack of liquidity

Infrastructure continues to increase in popularity: **65%** of investors intend to increase spending allocations to infrastructure over the next **3-5 years**.

In making investment decisions, investors say that the **most desirable features** are:



Investors are increasingly comfortable with **long investment periods**, with **81%** of them expecting to keep investments for at least 10 years.

### However, there is a lack of attractive investments

Increasing investment allocations to infrastructure is fuelling concerns that available capital will far exceed the number of available opportunities. **92%** express concerns about the build-up in 'dry powder'.

### Delivering stability and certainty matters most to investors

Infrastructure has a greater dependence on secure long-term contract environments, more so than most other asset classes. The research surveyed investor's views on the importance of the 6 factors that define infrastructure investments. Investors ranked the **stability of regulatory** and **contractual framework** as the most important factor of infrastructure investments, not whether it is a brownfield or greenfield asset.

Assets are better characterised by long-term contracts and counter-party risk, **not** industry features

#### IMPORTANT FACTORS OF INFRASTRUCTURE INVESTMENTS

| Factors and Rankings               | Importance Rating (5 is highest) |
|------------------------------------|----------------------------------|
| 1. Stable regulation and contracts | 4.2                              |
| 2. Earnings stability              | 3.9                              |
| 3. Counter-party risk              | 3.6                              |
| 4. Greenfield vs brownfield        | 3.1                              |
| 5. Earnings growth potential       | 3.0                              |
| 6. Investment size                 | 2.8                              |

**What did investors say about infrastructure?** Continued

**Creating an infrastructure investment asset class matters to drive greater finance to infrastructure**

**70%** believe recognition of infrastructure as an investment asset class is important to the future growth of the market. Steps towards this goal would be improved measurement of how infrastructure investments perform and a broader variety of investment products.

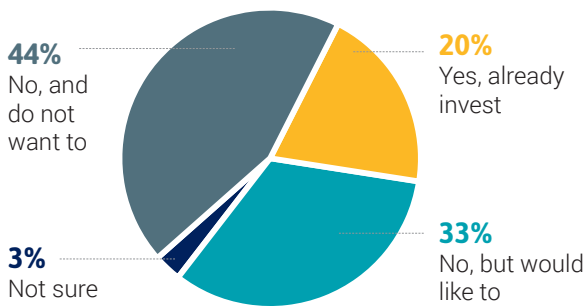
This can give rise to a greater allocation of investment finance. Improved performance data would be valuable for prudential regulators as they consider the risk profile of infrastructure investments.

How investors access infrastructure opportunities is changing. **45%** prefer direct investing, and **82%** signal that the previous private equity models are out of date.

**Investors want to increase their exposure to emerging markets. Governments can better facilitate access by addressing policy reversals and counter-party risks**

Survey participants were heavily focussed on OECD markets, with only **20%** currently invested in emerging markets. However, investors are on the cusp of much higher allocations to emerging markets. **33%** of investors want exposure to emerging markets for the first time. Competition and lack of pipeline in OECD markets will likely encourage this trend to new markets.

**DO YOU ALREADY INVEST IN INFRASTRUCTURE IN EMERGING MARKETS?**



**REASONS AND RISKS OF EMERGING MARKET INVESTMENT**

- Main Reasons:**
- Higher returns
  - Lack of investment opportunities in OECD markets

- Main risks:**
- Public policy reversals
  - Enforceability of contracts

## Implications for reforms that will expand the market?

### Investor insights suggest four important reforms that would help meet the infrastructure challenge:

- Focus on creating bankable projects – the need for a consistent pipeline of bankable projects to attract large pools of private capital.
- Investments that are bankable need regulatory, contractual and revenue stability.
- Creating an infrastructure investment asset class matters to drive greater investment. The asset class should be defined based on its most distinguishing characteristics: the prevalence of long-term contracts and the high impact of counter-party risk.
- To attract investment into emerging markets, governments need to minimise public policy reversals and counter-party risks.

## Context of research

Investor interest in infrastructure has increased steadily over the last two decades. However there remain significant gaps in infrastructure provision in many countries. Governments and the private sector have important roles in addressing those gaps.

In this context, we wanted to ask the question:

### what do investors want from infrastructure?

GI Hub's aim was to work with EDHEC Infrastructure Institute-Singapore to provide robust, comprehensive and detailed data for reform, which will lead to a greater pipeline of bankable infrastructure projects. Understanding investor expectations is an important step to identify what needs to change to develop a more mature asset class.

### Who responded?

- **184** infrastructure leaders took part in the survey. This is one of the largest of such surveys involving C-level, investment directors and senior advisers in the infrastructure sector.
- A broad range of institutions, including defined benefit and contribution pension funds, insurance companies, sovereign wealth funds, endowments and others.
- **95%** of institutional investors have **\$US 1bn** assets under management (AUM) or more, **71%** have **\$US 25bn** AUM or more.

## About GI Hub

GI Hub was launched in 2014 with a G20 mandate to increase the flow and the quality of opportunities for public and private infrastructure investment. We work to facilitate a better supply of quality, bankable government infrastructure projects to the private sector, identifying reforms, planning approaches and risk management strategies that drive public-private partnership and investment into infrastructure. We aim to be a leading reference on infrastructure best practices, providing innovations that enhance the market's ability to finance, build and secure the best returns from infrastructure projects.

## About EDHEC Infrastructure Institute – Singapore (EDHECinfra)

EDHECinfra was launched on 24 February 2016 by the EDHEC Business School to address the profound knowledge gap faced by infrastructure investors, by collecting and standardising private investment and cash flow data and running state-of-the-art asset pricing and risk models to create the performance benchmarks that are needed for asset allocation, prudential regulation and the design of new infrastructure investment solutions.

Please visit the website at: [edhec.infrastructure.institute](http://edhec.infrastructure.institute)

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