# The Case for Private Infrastructure as a Long-Term Allocation

Private infrastructure is a rapidly growing asset class in client portfolios. High barriers to entry and the monopolistic positioning of essential infrastructure assets may provide uncorrelated return and yield through a market cycle. There are a few reasons why investors are increasingly considering allocations to the space:

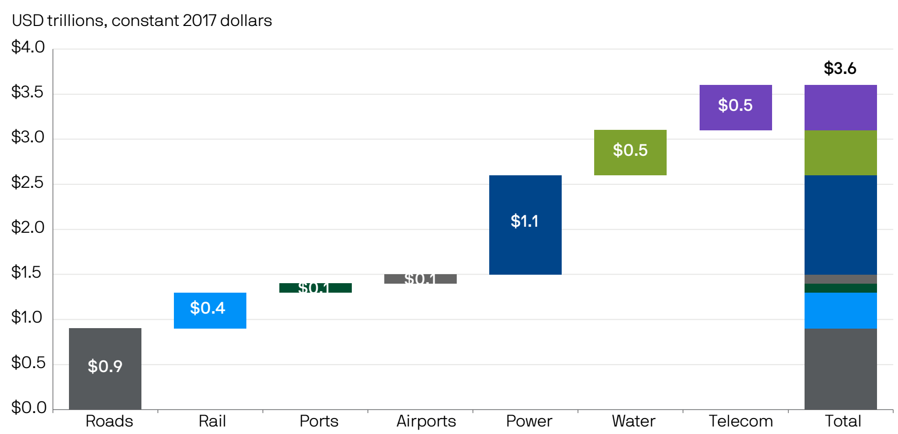
## There is a significant need for infrastructure investment globally

*By 2050, the world's population is expected to grow by 2 billion, cities will add millions of miles of power and water lines and the energy transition may cost hundreds of billions per year*[1]

Infrastructure is a highly capital-intensive industry and there are several trends necessitating substantial investment to upgrade and/or modernize existing assets. The energy transition is expected to require significant investment from the private sector, for example, the Inflation Reduction Act signals medium and long-term support for infrastructure investment in the US focused on decarbonization. Linked to the decarbonization movement is the need to fulfil energy security requirements, which is particularly true across Europe to transition away from dependency on Russian gas.

Source: McKinsey Global Institute, J.P. Morgan Asset Management. Data is based on availability as of May 31, 2023.

### Annual infrastructure spend required




## Core infrastructure sectors can provide uncorrelated drivers of return

Infrastructure investments generally include essential service assets with regulated or contracted cash flows.

| Water, Heat & Electric Utilities | Wind, Solar and Gas Generation | Airports | Rail Leasing | Storage | Midstream |
|---|---|---|---|---|---|
| ***Monopolies responsible for distributing essential services*** | ***Assets that produce power for utilities to distribute to customers*** | ***Mature transportation assets with significant demand history*** | ***Essential transportation assets for people and goods*** | ***Storage of critical commodities within the global supply chain*** | ***Pipelines that connect energy producers and distributors*** |
| In return for providing capital to a utility and managing its operations effectively, investors are permitted to earn a fair return on equity | Power assets can have long-term contracts with investment grade counterparties like utilities, where the utility pays an agreed price for power produced | Aeronautical revenue from passenger volumes, fixed price contracts with airlines, non-aeronautical revenue from food, beverage, retail and parking | Contracted revenue to buy and lease long-lived passenger and freight rail to operators | Contracts with a variety of counterparties and revenue generated from storage and tank usage | Revenue earned based on volume of the commodity transported or contracts with oil majors |

## A diversified private infrastructure portfolio can be a long-term foundational allocation

In today's highly volatile market environment, investors are increasingly considering allocations to private infrastructure. Although the asset class is vast in terms of the available risk-return exposures, a core investment approach based on essential assets with monopolistic positions may provide stable return, income and diversification from traditional asset classes.

| Diversification | Consistent Return | Income |
|---|---|---|
| Infrastructure has low correlation to equities, fixed income and other alternatives[2] | Contracted and regulated revenues can provide stable returns through a cycle | Monopolistic frameworks give visibility into stable cash flows |

[1] World Cities Report 2022 by United Nations Human Settlements Programme (UN-Habitat), July 2022

[2] Other alternatives include: Real Estate, Direct Lending, Venture Capital and Private Equity. Source: MSCI, Bloomberg, Burgiss, NCREIF, Cliffwater, HFRI, J.P. Morgan Asset Management. Private Equity and Venture Capital are time weighted returns from Burgiss. Global equities: MSCI AC World Index. Global Bonds: Bloomberg Global Aggregate Index. U.S. Core Real Estate: NCREIF Property Index – Open End Diversified Core Equity component. Europe Core Real Estate: MSCI Global Property Fund Index – Continental Europe. Asia Pacific (APAC) Core Real Estate: MSCI Global Property Fund Index – Asia-Pacific. Global infrastructure (Infra.): MSCI Global Quarterly Infrastructure Asset Index. U.S. Direct Lending: Cliffwater Direct Lending Index. All correlation coefficients are calculated based on quarterly total return data for the period 6/30/2008 – 12/31/2022, except correlations with Bitcoin which are calculated over the period 12/31/2010 – 12/31/2022. Returns are denominated in USD.

Data are based on availability as of May 31, 2023.

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