BARINGS

Infrastructure Debt: The Long Game

INSIGHTS

Helping insurers deliver value to policyholders, shareholders and the world we live in through infrastructure debt.

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The new U.K. Labour Government has designated economic growth as its defining mission, and infrastructure is a key engine for achieving it. The Government recently introduced the Planning and Infrastructure bill to parliament. It is also is expected to publish its 10-year national infrastructure strategy in June, which will cover its plans for transport, energy, housing and social infrastructure.

Much of the infrastructure needs of the U.K., and other global regions, will have to be funded by private sector investment. This presents a significant opportunity to insurance investors. As capital providers, U.K. insurers' growing investment in infrastructure debt is no surprise. In addition to allowing insurers to invest their capital productively and sustainably, infrastructure debt presents an appealing quantitative case. The asset class delivers stable cash flows, backed by steady income streams, generated by underlying assets which are resilient throughout economic cycles. In recognition of these defensive characteristics, the asset class enjoys favourable capital treatment under Solvency II, making it an efficient allocation for U.K. insurers.

With the U.K. Pension Risk Transfer (PRT) market expected to reach £40–50 billion in 2025, the demand for long-term assets shows no sign of slowing.[1] In this piece, we take a look at why infrastructure debt is a natural fit for insurers, and explore the best ways for insurers to access global investment opportunities in order to deliver value for their policyholders, shareholders and the world we share.

Essential & Evolving

Amid often varying definitions of infrastructure debt among managers, banks, and investors, we centre our definition on the type of asset generating the cash flow, with an emphasis on essential assets that meet key social or economic needs and that have the potential to offer stable, long-term cash flows. In our view, today's evolving infrastructure universe encompasses six broad categories:

1. Source: LCP. As of January 2025.

ECONOMIC INFRASTRUCTURE
Transportation-related strategic assets such as toll roads, seaports, airports, railroad rolling stock

UTILITIES AND PIPELINES
Regulated or unregulated distribution and transmission assets, which typically carry water, sewage, electricity, natural gas, and other fuels

POWER GENERATION
Renewable energy generation assets (solar, wind or hydro), batteries, and electric vehicles (EVs)

SOCIAL INFRASTRUCTURE
Government-sponsored public-private partnerships and social housing, and development of hospitals, parks, government buildings and social housing

MIDSTREAM AND STORAGE FACILITIES
Commodity product storage, energy, and non-energy assets

DIGITAL INFRASTRUCTURE
Towers, fibre cabling and data centres in well-understood markets or regimes

A Natural Fit for Insurers

Investing in companies and other entities involved in infrastructure can be accomplished through a variety of equity and fixed income vehicles, both public and private. Infrastructure debt has a large, established institutional investor base for investment grade (IG) credit (typically senior secured) and a fast growing below IG segment (senior or junior debt). For insurers, IG credit achieves the trio of attractive return potential, capital efficiency and security of cash flows for policyholder protection.

ASSET-LIABILITY MATCHING

Due to the long-term nature of many private infrastructure debt investments (generally five to 30 years' maturity), the asset class is a natural fit for insurers, generating duration as well as steady cash flow streams to match insurance liabilities.

MATCHING ADJUSTMENT ELIGIBILITY

For life insurers taking on pension liabilities, we see a good supply of IG-rated, fixed-rate opportunities with strong prepayment protection across the U.K., the rest of Europe and the U.S.

DEFENSIVE NATURE OF THE UNDERLYING ASSET

Infrastructure assets are typically highly cash generative, essential assets with high barriers to entry or monopolistic characteristics. As a result, the assets underlying infrastructure debt generally perform well during recessionary periods. Debt is typically secured and in a senior position in the capital structure. It also benefits from protective covenants tied to leverage or interest cover. In particular:

Inflation Resilience

Infrastructure assets have cash flows that are usually linked to inflation, with issuers typically able to pass rising costs onto customers. Even when infrastructure companies are bound by short-term contracts that don't include pass-along provisions, they may be able to reset prices at a higher level in subsequent contracts due to the inelastic nature of the demand for their product or service. As a result, infrastructure debt tends to be more resilient to inflation than corporate credit.

Low Losses/High Recoveries

The high quality of infrastructure debt and the essential nature of the services provided has resulted in a historical record of low losses, high rates of recovery and low ratings volatility. A recent study by Moody's found that over the last 39 years, cumulative defaults in BBB-rated infrastructure issues were below those of A-rated IG debt, effectively giving infrastructure investors AA performance.[2]

CAPITAL EFFICIENCY

Due to these attractive characteristics, a number of solvency capital regulatory regimes worldwide including Solvency II present preferential treatment for infrastructure debt compared to other fixed income assets. When qualifying deals arise, project financing can be particularly capital-efficient. Infrastructure corporate lending also benefits from a significant capital charge reduction, with Standard Formula charges approximately 75% of those of equivalent corporate bonds.

ILLIQUIDITY PREMIUM

Despite the defensive features of the asset class, however, infrastructure debt trades at a premium over public fixed income. More specifically, long-term investors have historically captured an illiquidity premium over public credit of substantially greater than 50 basis points (bps) for IG credit and well over 100 bps for below IG credit.[3]

DIVERSIFICATION

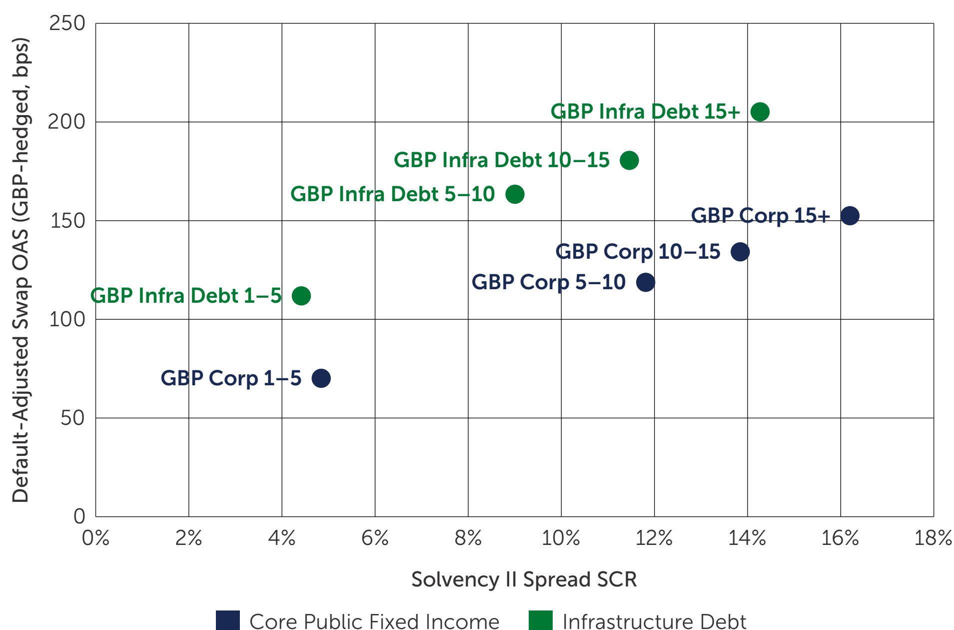
Infrastructure debt can be an effective diversifier in a portfolio that already includes more traditional, long-term fixed income assets such as sovereign and public IG corporate bonds. Infrastructure debt is a global asset class, and infrastructure projects span public and private debt, as well as a wide range of industry sectors and sub-sectors—all of which exhibit unique return profiles.

2. Source: Moody's "Default and recovery rates for project finance bank loans, 1983-2021". As of April 4, 2023.
3. Source: Barings. As of July 31, 2023.

Figure 1: Key Characteristics of Infrastructure Debt

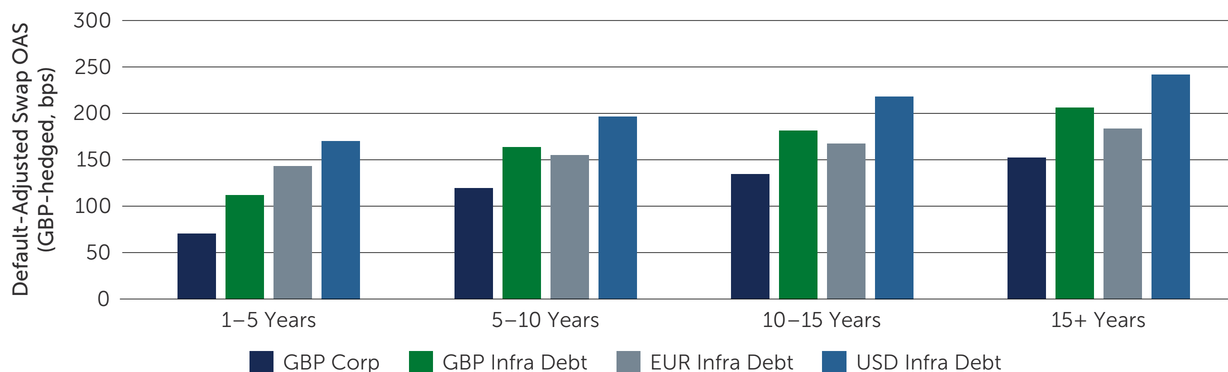
	Investment Grade	Sub-IG
Credit Quality	A/BBB	BB/B
Yield/Spread Expectation	5.5%–7.0%/150–300 bps	7.5%–10.0%/350–600 bps
Tenor	5–30 years	3–7 years
Income	Primary fixed	Fixed or floating
Structure	Bullet maturities or scheduled amortisation	Bullet maturities, scheduled amortisation, cash sweeps
Prepayment protection	Make-whole provisions for prepayment	Modified or partial make-whole provisions
Security/Priority	Senior secured	Senior secured; Mezz/HoldCo
Sectors	Economic Infrastructure; Utilities and Pipelines; Power Generation; Social Infrastructure; Midstream and Storage Facilities; Digital Infrastructure	
Geography	Global; focus on developed OECD economies for best risk/reward	
Key Features	Engaged relationship with borrowers, strong covenants, essential infrastructure assets, defensive in times of stress, stable cash flows, typically secured by assets	

Figure 2: IG-Rated Infrastructure Debt Offers Considerable Spreads Over Corporates While Attracting Lower Solvency Capital



Sources: Barings; Aladdin; Refinitiv; Moody's; PRA. As of February 28, 2025. Indicative capital charges based on Barings' assumptions. Solvency II Standard Formula charges assuming loans are rated infrastructure corporate debt. Corporate bond spreads and SCR based on ICE BofA indices.

Figure 3: Relative Value Opportunities Across U.S. and U.K. Infrastructure Debt for U.K. Insurers with GBP Liabilities



Sources: Barings; Aladdin; Refinitiv; Moody's; PRA. As of February 28, 2025. Corporate bond spreads based on ICE BofA indices.

New Drivers of Global Infrastructure Debt Opportunities

Investment opportunities in infrastructure debt are likely to persist well into the future given the global need to replace aging infrastructure and to add new types of infrastructure to serve evolving needs. In the U.K. in particular, private sector funding of infrastructure and capital projects through to 2040 may need to double from the existing forecast of £568 billion if the U.K. is to meet its long-term economic, social, strategic, environmental and defence priorities.[4] And in Europe, the European Commission recently selected 134 transport projects to receive over €7 billion in EU grants from the Connecting Europe Facility (the EU's instrument for strategic investment in infrastructure).[5]

Since government entities alone cannot meet the demand for infrastructure investment, private investment—often in conjunction with government—will be increasingly necessary. Bank loans, however, may be harder to come by as banks cope with tighter credit conditions by retrenching from the market. The departure of banks has widened opportunities for institutional lenders, many of whom have ties to the private equity owners of a diverse group of growing infrastructure assets. Institutional managers provide a more flexible and bespoke source of capital for these companies, as well as a conduit for debt investors to access potentially compelling investments.

There are four major and interrelated trends that are propelling demand for infrastructure investment—and shaping opportunities for investors:

1. A TRANSITION TO CLEANER, RENEWABLE ENERGY SOURCES

Based on environmental and climate change considerations, as well as geopolitical concerns, a massive shift is underway from coal and oil to cleaner sources of power. These include natural gas, often in liquefied form, as a transition fuel until quickly growing alternative energy sources such as solar, wind, biomass, hydrogen and hydro can fill the gap. Even nuclear-powered electrical generation is attracting renewed attention, with research underway to expand on the advanced techniques used in nuclear submarines, for example.

4. Source: Ernst & Young. As of September 2024.
5. Source: European Commission. As of July 17, 2024.

2. GREATER ELECTRIFICATION

Efforts at decarbonisation coincide with the movement to an all-electric economy, which is affecting power generation, transmission, and storage. Just as the popularity of EVs is creating demand for charging stations and upgrades to distribution grids, other electricity-related demand for infrastructure investment is coming from the need for electric storage facilities and transmission lines from wind farms and solar farms, for example.

3. SUPPORTIVE GOVERNMENT POLICY

As mentioned earlier, infrastructure will be a key engine for economic growth in the U.K. The Government is expected to announce a 10-year national infrastructure strategy, recognising that much of the U.K.'s infrastructure needs will have to be funded by private sector investment. Meanwhile, government policy across the U.S. and the E.U. has seen significant commitments to spending on infrastructure. For example, the Biden administration in the U.S. enacted the Bipartisan Infrastructure Law and the complementary Inflation Reduction Act and through this it committed to massive spending on infrastructure. While we anticipate that the new Trump administration will prioritise new sectors, we still see a significant set of investment opportunities. In addition, the European Commission has announced that the European Fund for Sustainable Development will make up to €135 billion available for guaranteed investments for infrastructure projects. These government programmes create a wide variety of opportunities for investors to leverage federal spending in ways that are likely to produce attractive returns within a range of acceptable levels of risk.

Case Study

2024 data showed a clear distinction and the emergence of a "two-speed transition" where mature technologies including renewables, energy storage, electric vehicles and power grids accounting for 93% of the $2.1 trillion of investment grew 14.7% year-over-year, as compared with a 23% decline in emerging sectors—which include clean industry, electrified heat, hydrogen, clean shipping, nuclear and CCS.[6] We continue to view clear governmental policy objectives and supportive incentive schemes as critical to scaling this important, if nascent, opportunity set. For example, the January 2025 award by the Swedish Energy Agency of $1.8 billion in subsidies to Stockholm-based district heating company Stockholm Exergi for the construction and operation of a biogenic carbon capture and storage project will help further develop industry supply chains and contractual arrangements.

6. Source: BloombergNEF. As of January 2025.

4. EVER-INCREASING DIGITISATION

The accelerated pace of digitisation throughout the economy is driving demand for investments in data centres, cell towers, fibre optic cabling and other necessary building blocks of digital infrastructure. This acceleration has resulted in the share of telecom-related deal volume growing from 4% in 2015 to 21% as of 2024.[7] Despite the increasing prevalence of digital investments within the infrastructure market, appropriate asset selection is more fundamental than ever given the breadth of risk profiles inherent to the asset class.

Infrastructure debt offers a number of potential benefits to insurance investors, and we expect the opportunity to persist going forward. While the energy transition and digital infrastructure continue to be key investment themes as renewables, data centres and fibre have all seen an increase in activity, we also expect to see a significant amount of opportunities in liquified natural gas as governments around the globe refocus on national energy security. At the same time, given the defensive characteristics of the asset class, we believe it is well-positioned to outperform in today's more challenging economic environment—and particularly in the event of an economic downturn.

Accessing the Opportunities

With the increasing number of infrastructure deals being directly originated and privately negotiated, selecting the right manager is critical to accessing the opportunity. For insurers, particularly those taking on long-dated pension liabilities, it is also important to partner with a manager that has a deep understanding and experience in managing insurance assets. In selecting a manager, key characteristics to look for include:

STRONG ORIGINATION PLATFORM

Managers that have strong, established relationships with market participants across multiple geographies are often better positioned to access the strongest pipeline of opportunities and to source the highest-quality deals for investors. They will also be best placed to ensure capital is deployed in a timely manner and across a diversified portfolio of assets.

TRACK RECORD

Managers with a long history of successfully investing in the asset class through different economic cycles have the ability to navigate future challenges and opportunities that emerge. Key metrics to investigate include historic loss rates and spread premia to public benchmarks.

EXPERIENCE AND ESTABLISHED RELATIONSHIPS

Given the illiquid and often opaque nature of the asset class, long-term relationships with large, well-respected equity sponsors and experienced origination teams add significant value for investors. Teams for whom infrastructure deals are not merely an add-on, but a core business staffed with experienced professionals, better understand how to structure deals such that covenants provide optimal protections for investors. Experienced managers also develop a better sense of market direction, which is helpful in determining appropriate pricing.

7. Source: Inframation analytics. As of December 2024.

GLOBAL PRESENCE

Infrastructure debt opportunities now exist around the world, yet each geographic region poses unique challenges. Managers with on-the ground investment presence and experience in U.K., U.S. and continental Europe markets, and not merely an outpost, have the potential to source the most attractive deals and identify the best opportunities for clients.

EXPERIENCE MANAGING INSURANCE ASSETS

For insurers, strong investment teams are a prerequisite, but it is not the whole story. Due to the complex competitive, regulatory and accounting landscape which insurers navigate, and the bespoke and long-term nature of private asset investment, insurers could benefit from working with asset managers that take a long-term partnership approach—one which focuses on optimising, adapting and changing strategies to continually meet insurers' evolving needs.

Insurance asset managers that have a good understanding of insurers' needs and demonstrable experience in investing for insurance balance sheets can be invaluable in helping insurers capitalise on opportunities in this asset class, as they will have a finger on the pulse of both the investment and insurance worlds. In particular:

Rating

Understanding and being able to work to insurers' rating requirements from regulatory and operational perspectives is essential. For Solvency II IG investors, this typically means the ability to have assets externally rated in a scalable and economic way. For insurers with approved internal rating methodologies, managers that have the flexibility and resources to work with insurers' methodologies—to structure assets in a way which is capital-efficient for the client—are well-positioned.

Insurance-specific guidelines

An insurance asset manager's role is not just to build portfolios from the bottom up—it is also to work with the insurer's Strategic Asset Allocation (SAA) from the top down, to ensure that the asset class delivers on its role in the SAA. Similarly, where appropriate, it is important for managers to understand and deliver to insurers' IFRS 9 SPPI definitions and/or Matching Adjustment eligibility criteria. In such instances, insurance-specific expertise needs to be supported by strong market position, enabling the team to maintain consistent deal flow which meet these requirements, and structure loans in the best interest of the insurer through effective negotiation.

Finger on the Pulse

Asset strategies are playing an increasingly pivotal role in insurers' profitability and long-term success. Asset managers that have insurance at the core of their business are well-positioned to have the knowledge base and framework set up to add value to insurers dynamically and proactively. What this looks like in practice will range from partnership to partnership. On a day-to-day basis, this may mean supporting insurers' new business bids and asset allocation through up-to-date market intelligence. At a more strategic level, this can mean sharing insights and trends across public and private markets and across geographic regions.

Infrastructure debt's predictable, defensive fundamentals and favourable capital treatment have long earned it a natural home in an insurer's investment portfolio. In particular, the confluence of global megatrends creating sustained demand for capital, supportive government policy, and the inflow of long-term capital from corporate to insurance balance sheets in the U.K., creates conducive conditions for U.K. insurers to allocate to infrastructure debt today. With the right approach and the right partner, infrastructure investment has the potential to unlock value for policyholders, shareholders and wider society.

Barings Global Infrastructure Debt Platform

EXPERIENCE & SCALE

30+ years' experience, ~$22B invested across 400+ investments

BROAD COVERAGE

Investments in 32 countries across U.K., Europe, APAC, North America & South America

ALIGNED INTEREST

Investing alongside our parent company

INSURANCE SOLUTIONS

Working to insurance clients' specific ALM, rating and regulatory requirements

REPORTING

Customised reporting to meet insurers' needs

Source: Barings. As of January 31, 2025.

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**As of December 31, 2024*

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