



ASSET CLASS PROFILE

Infrastructure and real asset funds



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Asset class trends in emerging markets

Infrastructure and real asset funds represent a growing opportunity set for investors in emerging markets:

- With rapid urbanisation in low and middle-income countries, and in the wake of the coronavirus pandemic, the need for private capital is becoming acute. The infrastructure sector in emerging and frontier markets alone presents an annual USD 920 billion opportunity for long-term investors
- Emerging markets in Asia will be the fastest growing region for infrastructure and real asset investments between now and 2025, followed by Sub-Saharan Africa
- Over 60% of all construction activity is forecast to take place in emerging and frontier markets
- The largest share of investments will be in housing and energy infrastructure, particularly renewable energy as low and middle-income countries seek to meet their net zero targets
- Other growth areas are likely to include smart cities infrastructure and utilities such as new waste disposal systems

Key features

- ✓ **Longer-term opportunities:** Infrastructure and real asset funds typically generate long-term returns, matching pension funds' long-term liabilities
- ✓ **Stable and potentially higher returns profile:** Investments in real assets typically have lower volatility compared to other asset classes in emerging markets
- ✓ **Diversification in emerging markets exposure:** Real assets have lower correlation with other asset classes and can help to diversify portfolios
- ✓ **Inflation hedge:** Real assets like housing often retain value during bouts of inflation driven by currency volatility

Sources: i) PPIAF, "Institutional Investment in Infrastructure in Emerging Markets and Developing Economies"; ii) Swiss Re Institute, "Power up: Investing in infrastructure to drive sustainable growth in emerging markets"; iii) PwC, "Real Estate 2020 - Building the future"

Historical challenges

- **Limited supply of investable projects and regulatory instability:** Lack of suitable infrastructure and housing projects and regulatory instability have been a historical challenge.
- **Solutions include:**
 - Proven funds have strong track record of building in-country networks to source viable projects
 - Political risk insurance can reduce risk of expropriation
 - Initiatives backed by multilateral development banks often offer technical assistance targeted at supporting project diligence and preparation
 - Many viable investment opportunities have public or donor backed risk-sharing mechanisms in place (for example first loss guarantees) that reduce risk for private investors
 - For example, the Currency Exchange (TCX) Fund offers mechanisms for reducing currency risk for assets with local currency denominated revenue

Why invest?

- **Stable, long-term returns:** Infrastructure and real asset investments offer stable long-term returns well-suited to match long-term liabilities
- **Available de-risking mechanisms:** Many opportunities include de-risking features supported by AAA rated multilateral development banks and governments, including first loss guarantees and multilateral development banks' infrastructure bond issuances
- **High impact:** Infrastructure is a key driver of economic, social and environmental development



Examples of Infrastructure and real asset funds in emerging markets include:

- The Danish Climate Investment Fund (IFU)
- IHS Fund II (IHS)
- Energy Fund 4 (Actis)