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Principal Asset Management℠

INVESTMENT SOLUTIONS

Private infrastructure debt: A strategic portfolio building block for insurers

Dawn Silvia, Director of Insurance Solutions, explores the role private infrastructure debt can play in insurers' portfolios, with insights from Mansi Patel, Senior Managing Director and Head of Infrastructure Debt, on the asset class and private-market opportunities. They discuss how investment grade and high yield segments differ, where private-market value may arise, and how differentiated sourcing, structural protections, and a liability-aware lens can help insurers evaluate the asset class.



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Building resilient insurance portfolios

Global infrastructure needs are expanding across power, digital infrastructure, energy systems, transportation, and social assets. As discussed in our recent article, Building resilient insurance portfolios: Insights from the Principal General Account, private assets are most useful when each allocation has a clearly defined role within the broader balance sheet. Infrastructure debt is one such portfolio building block, offering opportunities across different durations, credit profiles, structures, and sources of risk.

KEY TAKEAWAYS

- Private infrastructure debt provides access to essential assets and services that often benefit from resilient, predictable long-term cash flows.
- Infrastructure opportunities may offer attractive duration, downside protection, and incremental spread relative to public credit markets.
- Bespoke origination networks can create opportunities for enhanced structuring and value.
- The role of infrastructure debt within insurance portfolios should be determined by liability needs, capital efficiency considerations, liquidity requirements, and desired portfolio outcomes.

Investment grade infrastructure debt

Q | How do you define private infrastructure debt, and what distinguishes an investment grade opportunity?

A | ***Mansi Patel:*** We start with the essentiality of the asset or service and the durability and resiliency of cash flows. Infrastructure opportunities are distinguished by durable, predictable cash flows supported by contractual agreements, regulatory frameworks, strong counterparties, and prudent capital structures. From a lender's perspective, the key question is whether these characteristics can support consistent debt service and downside protection.

Investment grade infrastructure debt often emphasizes stabilized, regulated, or contracted assets with leverage, cash-flow resilience, and structural protections consistent with an investment grade risk profile. Transactions may take the form of fixed- or floating-rate loans, notes, or bonds issued at the operating-company or holding-company level, with maturities ranging from approximately three years to 30 years or more.

Dawn Silvia: The longer end of that range can be especially relevant to insurers because it may provide cash flows that align with long-dated liabilities. The asset class may also offer incremental spread relative to comparable public bonds, although insurers must determine whether that premium adequately compensates for illiquidity, complexity, and asset-specific risk.

Q | What types of protections can lenders negotiate?

A | ***Mansi Patel:*** Infrastructure transactions can include restrictions on additional debt and distributions, minimum debt-service coverage ratios, leverage or loan-to-value tests, reserve accounts, cash sweeps, change-of-control provisions, collateral packages, and mandatory prepayments under specified circumstances. The appropriate package depends on the asset, seniority, revenue model, and cash flow profile.

These protections should not be viewed as boilerplate. They are the product of rigorous underwriting, including independent debt sizing, financial modeling, stress testing, collateral review, legal diligence, and counterparty assessment. Covenants are most useful when they identify deterioration early and provide lenders with meaningful remedies or influence.

High yield infrastructure debt

Q | How does high yield infrastructure debt expand the opportunity set?

A | ***Mansi Patel:*** High yield infrastructure expands the opportunity set by financing a broader range of essential assets including subordinated core infrastructure opportunities and core plus assets. We often see more tailored capital solutions across more stages of an asset's life in high-yield transactions.

Q | How should investors look beyond ratings when evaluating transactions?

A | ***Mansi Patel:*** Infrastructure underwriting requires an understanding of the operating asset, contractual framework, counterparty quality, regulatory environment, capital structure, collateral, and the location of debt within the organizational structure. The lender also needs to understand whether cash flows reside at the operating company or holding company and what protections govern their movement through the structure.

Credit ratings provide a useful starting point, but they do not capture every source of risk. Two similarly rated infrastructure investments can differ meaningfully in their cash-flow resilience, leverage, collateral value, structural priority, refinancing needs, covenant protections, and recovery prospects. For example, subordinated debt supported by long-term contracted revenues may exhibit different risk characteristics than senior debt exposed to merchant pricing or volume risk. Rather than relying solely on ratings, we evaluate these factors to understand how each investment may perform across a range of scenarios.

Investment grade versus high yield

Q | What are the main differences between investment grade and high yield infrastructure debt?

A | ***Mansi Patel:*** Investment grade and high yield infrastructure debt may differ in seniority, revenue profile, leverage, term, structural complexity, and the specific client portfolio construction objectives. Investment grade assets can often support portfolio needs including duration, predictable income, diversification, and incremental spread. High yield assets may be used to pursue higher income and relative value.

The distinctions are summarized below, recognizing that individual transactions may not fit neatly into every category.

Illustrative comparison of private infrastructure debt opportunities

Characteristic	Investment grade infrastructure debt	High yield infrastructure debt
Typical credit profile	AAA to BBB-	BB+ to B-
Common asset profile	Generally stabilized, regulated highly contracted asset profiles with investment grade counterparties	Core or core-plus/value-add assets, including those financed through junior facilities
Position in capital structure	Frequently senior secured, senior unsecured, or investment grade HoldCo debt	Senior secured, junior secured, subordinated, HoldCo, or mezzanine debt
Indicative tenor	Typically 3 to 30+ years	Typically 3 to 7 years
Rate structure	Fixed or floating	Frequently floating, although fixed-rate notes may also be used
Primary portfolio role	Duration, cash-flow matching, diversification, and incremental spread	Higher income, diversification, enhanced relative value
Potential insurer application	Long-duration liability segments and portfolios seeking high-quality private spread	Portfolios with greater income requirements, shorter liability profiles

Q | Can investment grade and high yield infrastructure debt complement each other in one portfolio?

A | ***Dawn Silvia:*** Each allocation should have a defined portfolio role. Investment grade infrastructure may contribute duration, predictable income, and liability alignment. High yield may contribute additional income and exposure to opportunities where complexity, structure, or limited competition creates relative value.

The interaction with the rest of the portfolio is equally important. This reflects a broader insurance principle: diversification should be measured by underlying sources of risk. An insurer should evaluate aggregate exposures across sectors, borrowers, sponsors, counterparties, geographies, maturities, currencies, and origination channels.

Sourcing, underwriting, and the insurance portfolio

Q | What structural trends are shaping the infrastructure debt opportunity set?

A | ***Mansi Patel:*** Infrastructure is a capital-intensive asset class, so financing needs emerge throughout an asset's lifecycle, whether that's funding new development, supporting expansion, modernizing existing assets, or refinancing projects already in operation. What makes the market interesting is that different lenders have different objectives. Banks, institutional investors, and private credit managers may all look at the same opportunity, but they often have different preferences around tenor, structure, and risk. That can create attractive opportunities for investors with the expertise to underwrite complex assets and provide flexible, long-term capital.

Q | **Why does origination matter so much in private infrastructure debt?**

A | ***Mansi Patel:*** Private infrastructure financings are often developed through long-standing relationships with sponsors, operators, banks, and advisers. Early involvement can give a lender greater opportunity to influence transaction legal structuring outcomes and to enable bespoke capital solutions.

Our team's approach includes direct and club transactions, with an emphasis on relationship-based sourcing and bilateral negotiations.

Q | **How should an insurer evaluate the role of private infrastructure debt and select an appropriate implementation structure?**

A | ***Dawn Silvia:*** The evaluation should begin with the liabilities, the intended portfolio role, and the insurer's defined illiquidity budget. The insurer should assess the timing of principal and interest, duration under extension or prepayment scenarios, expected capital treatment, downside behavior, and compensation for credit, structural, and illiquidity risks, as well as complexity. The insurer should also evaluate concentrations by sector, geography, sponsor, counterparty, manager, and origination channel, as well as whether governance, transparency, monitoring, valuation, and amendment processes are sufficient.

The implementation structure should then follow the insurer's objectives and operating constraints. An SMA may offer greater control over duration, credit quality, sector limits, concentration, and reporting, but it can require more governance and may take longer to build a diversified portfolio. A commingled fund may provide faster diversification and access to a broader pipeline, while offering less customization and requiring careful review of liquidity, allocation practices, valuation, and look-through reporting. Other structures may address ratings or regulatory-capital objectives, but the form should not substitute for evaluating the underlying assets. The broader principle is that the investment should fit the balance sheet and have a clearly defined role within the total portfolio.

Q | **What should insurers look for when selecting an infrastructure debt manager?**

A | ***Dawn Silvia:*** Within an open-architecture framework, the question is not simply whether a capability is internal or external. It is whether the manager offers differentiated sourcing and underwriting expertise, applies consistent risk standards, and complements the insurer's existing portfolio and governance capabilities. Relevant considerations include sourcing reach, underwriting experience, structuring capabilities, sector depth, workout resources, valuation practices, reporting transparency, portfolio construction, and alignment with the insurer's objectives. The investor should also understand whether the manager can access the relevant opportunity set and whether incentives and allocation practices support consistent treatment across accounts.

Bottom line

Private infrastructure debt offers insurers a range of opportunities.

Determining where the asset class fits requires an understanding of the underlying asset, the durability of its cash flows, the contractual and regulatory framework, its position in the capital structure, and the lender's rights. Insurers must also evaluate cash-flow timing, duration, liquidity, capital treatment, concentration, and downside behavior. The objective is to determine whether the allocation can improve the balance among income, liability alignment, diversification, capital efficiency, liquidity, and downside protection within the total portfolio.

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