

Investment education

Beyond corporate credit: Why infrastructure debt could be the missing piece in your clients' portfolios

HIGHLIGHTS

- **Private infrastructure debt can offer investors income, diversification, and long-duration exposure supported by essential services and contractual or regulated cash flows**
- **The asset class provides funding for critical, long-term assets that underpin modern economies, spanning sectors including power and energy, digital infrastructure, transportation, and social infrastructure**
- **Infrastructure debt has historically exhibited low default rates, high recovery rates, and attractive structural protections relative to other corporate credit asset classes**
- **The potential benefits include attractive risk-adjusted returns, resilience through economic cycles, and low correlation to other private market asset classes**
- **Gross returns of 8-10% unlevered and 10-12% levered may be achievable in a defensive high-yield strategy^{*1}**

Infrastructure is the bedrock of economic activity. It includes the networks, systems and facilities that allow societies to function by generating electricity, transmitting data, transporting goods and people, and providing water, healthcare, and education. Private infrastructure debt is a specialized segment of the private credit market that finances these assets.

Wealth advisors may want to consider infrastructure debt for their clients as it offers exposure to tangible, essential assets while seeking to deliver stable and attractive income and risk-adjusted returns. Understanding how this asset class differs from traditional corporate credit and how it behaves within portfolios is key to evaluating its role in client allocations.

^{*1} Target returns are presented for discussion purposes only and are not projections of results for any investor. The actual results may differ materially from those depicted above based on numerous factors, including market changes. Target returns are based on market observations and reflect yield-to-maturity.

What is private infrastructure debt?

Private infrastructure debt consists of privately originated loans and credit instruments secured by infrastructure assets or the entities that own and operate them. Unlike publicly traded bonds, these instruments are negotiated directly between borrowers and lenders, allowing for customized terms, structures, and covenant packages tailored to the specific characteristics of the underlying assets.

The debt typically finances assets with long useful lives that provide essential services with limited substitutes. This distinctive asset profile, combined with the illiquid nature of the instruments, creates opportunities for investors able to commit capital for extended periods.

WHILE SIMILAR IN SOME WAYS TO PRIVATE CREDIT, THE NATURE OF THE UNDERLYING INFRASTRUCTURE ASSETS CREATES IMPORTANT DISTINCTIONS:

Backbone services

Infrastructure provides services that households, businesses, and governments rely on, such as electricity, water, data connectivity, and transport.

→ *Demand for these services tends to be relatively inelastic, making it resilient even during economic downturns.*

Barriers to entry

Infrastructure projects are typically capital intensive, subject to regulation or long permitting processes, and often benefit from limited competition.

→ *These characteristics create natural moats that help protect asset values and support stable market positions over time.*

Long-term assets

Assets such as power plants, pipelines, fiber networks, data centers, and social infrastructure can operate for decades.

→ *The match between asset life and debt capacity can reduce refinancing risk, provides lenders with greater visibility over the investment horizon, and offers underlying collateral with long-term value.*

Contractual or regulatory frameworks

Many infrastructure assets operate under long-term contracts (e.g., power purchase agreements) or regulated pricing structures that provide visibility over revenues.

→ *These frameworks often include inflation escalators and pass-through mechanisms that help protect against cost increases.*

Combined, **these characteristics support long-term, stable cash flows**, reinforced by security over hard assets and covenant protections while seeking to generate strong premiums.

Understanding the market

INFRASTRUCTURE DEBT HAS GROWN INTO A MAJOR GLOBAL ASSET CLASS:

- Global infrastructure-related debt issuance hit \$1.6 trillion in 2025, 30% up on 2024 levels.*²
- Infrastructure equity dry powder stands around \$400 billion*³, implying substantial future demand for debt financing as projects are executed.

Legend reads bottom to top for every chart below

■ Energy ■ Power ■ Digital ■ Transportation ■ Social

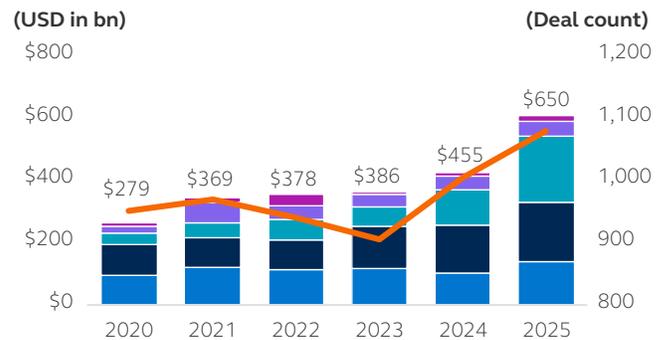
Global deal volume

2020-PRESENT



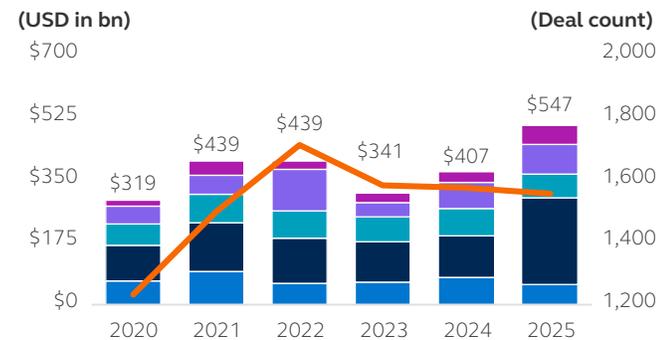
North America deal volume

2020-PRESENT



Europe deal volume

2020-PRESENT



Asia-Pacific deal volume

2020-PRESENT



Source: Infralogic, January 2026

Banks remain important lenders, but higher regulatory capital requirements and internal balance sheet limits have made them more selective, particularly for longer-dated loans and more complex transactions.

This has opened a gap for private credit providers with the ability to source, structure, and monitor complex infrastructure loans. These private lenders can provide flexible, customized financing solutions that align with sponsor requirements while seeking attractive risk-adjusted returns.

*² Infralogic, January 2026

*³ Preqin, June 2025

What private infrastructure debt may offer portfolios

1 Income and yield premium

Private infrastructure debt can potentially offer spread premiums of 100+ basis points over comparable public investment grade corporate bonds, and a premium of 250+ basis points over high-yield public bonds. Infrastructure have experienced less volatility in returns, lower default rates, and higher recoveries when compared to corporate private credit or direct lending. Premiums are generally attributed to illiquidity, transaction complexity and smaller deal sizes or bespoke structures, rather than higher default risk.

Typical target yield ranges include:

- **Investment-grade infrastructure debt:** Approximately 6.25-7.50%. These are senior-secured positions in operational assets with regulated or contracted revenues, focusing on capital preservation and stable income.
- **Higher-yielding strategies:** Approximately 8.0-10.0% (or 10.0-12.0% when using a 50% levered strategy) depending on structure and risk profile. These may include junior capital positions, exposure to variable revenues, development-phase lending or assets with technology or contract renewal risk.

2 Cash flow stability

Cash flow stability is a central feature of many infrastructure assets, but it varies across the universe. Assets can be thought of along a spectrum:

HIGHLY STABLE

- Regulated or fully contracted assets with long-term agreements, such as conventional and renewable power generation, midstream gas infrastructure, and hyperscale cloud data centers, with 20+ year fixed offtake agreements.
- These assets provide high visibility over future cash flows with minimal market exposure.

MODERATELY STABLE

- Partially contracted or volume-based assets, including with 5+ year fixed offtake agreements or traffic-based growth patterns.
- These assets benefit from essential service characteristics but require more detailed demand analysis and may exhibit some cyclical risk.

MORE VARIABLE

- Merchant exposure or assets with shorter contracts or technology risk.
- Lenders may look to employ structural safeguards, such as conservative leverage levels or robust covenant packages, to help protect against downside scenarios.

3 Capital preservation with structural protections

Infrastructure debt structures often include multiple layers of protection:

- Secured positions in the capital structure, providing lenders with a priority claim on cash flows and collateral
- Security over shares and underlying project assets, enabling multiple enforcement options in the event of default
- Financial covenants, including debt service coverage ratio tests, that trigger remedial actions when coverage deteriorates
- Cash sweeps, cash traps, and limits on additional indebtedness that help protect lender interests.

These features can help lenders monitor performance and intervene early if cash flows deteriorate. Historically, infrastructure debt has exhibited average default rates of around 0.5%, compared with approximately 2.2% for non-financial corporates^{*4}, along with higher recovery rates, reflecting the enduring value of essential, long-lived assets.

^{*4} Moody's, September 2025

4 Inflation and duration characteristics

Many infrastructure assets benefit from inflation-linked revenues or contractual escalation clauses. Regulated utilities and data centers often have mechanisms to pass through cost increases, while long-term contracts may include indexation tied to consumer price indices or other inflation measures. Combined with long-term maturities, infrastructure debt can provide long-duration, real cash flow exposure that helps insulate risk from high inflationary periods.

5 Diversification benefits

Infrastructure debt performance is typically influenced more by asset-level operations and essential service demand than by corporate earnings or economic cycles. Revenue streams are generally independent of GDP growth, corporate profitability or stock market valuations. As a result, infrastructure debt has historically demonstrated low correlation with traditional fixed income and equity markets. For diversified portfolios, this can translate into potential risk reduction and improved portfolio efficiency when combined with other asset classes.

UNDERSTANDING RISK ACROSS THE SPECTRUM

Infrastructure debt spans a range of structures and risk profiles. Understanding these drivers helps advisors align risk exposure with client objectives and construct portfolios that balance income generation with appropriate risk management.

	INVESTMENT GRADE	HIGH-YIELD	MEZZANINE
Position in capital structure	Senior secured lending to contracted or regulated infrastructure assets	Senior or subordinated exposure where there may be market, volume, or structural risk	Junior positions beneath senior lenders
Asset profile	Highly contracted or regulated assets (e.g., conventional and renewable power plants, midstream energy pipelines, and data centers)	Assets with partial merchant exposure, shorter contracts, or greater sensitivity to demand	Assets where cash flows may be more variable, or structures designed to enhance return through deeper structural risk
Risk drivers	Counterparty strength, contract durability, and regulatory framework stability	Merchant exposure, volume risk, shorter contract tenors, and structural subordination	Cash flow variability, refinancing risk, deeper subordination, and recovery uncertainty
Investor benefits	Stability, downside risk mitigation, and capital preservation with moderate yield	Higher income in exchange for greater variability in cash flows or structural position	Focus on highest total return for accepting higher risk and more sensitivity to asset performance
Typical tenor/duration	10-30 years	5-7 years	5-years
Typical role in a portfolio	Core income allocation with emphasis on resilience and capital preservation	Income enhancement within a diversified private credit allocation	Opportunistic allocation for investors with higher risk tolerance
Portfolio strategy	Attractive alternative to public fixed income	High risk-return profile to complement other private credit	Attractive returns with downside risk mitigation to complement direct lending, infrastructure equity, and private equity

Implementation considerations for advisors

We believe advisors should consider the following when evaluating private infrastructure debt allocations:

- Yield targets and credit quality appropriate to client risk tolerance and return requirements
- Diversification away from other asset classes, including corporate bonds, corporate private credit, and private equity
- Liquidity profile and time horizon alignment with debt maturities
- Sector and thematic exposure to capture secular growth trends
- Geographic and regulatory frameworks that provide appropriate diversification
- Duration and interest rate sensitivity management within overall portfolio construction
- Manager capabilities, including origination networks, structuring expertise, and asset monitoring discipline

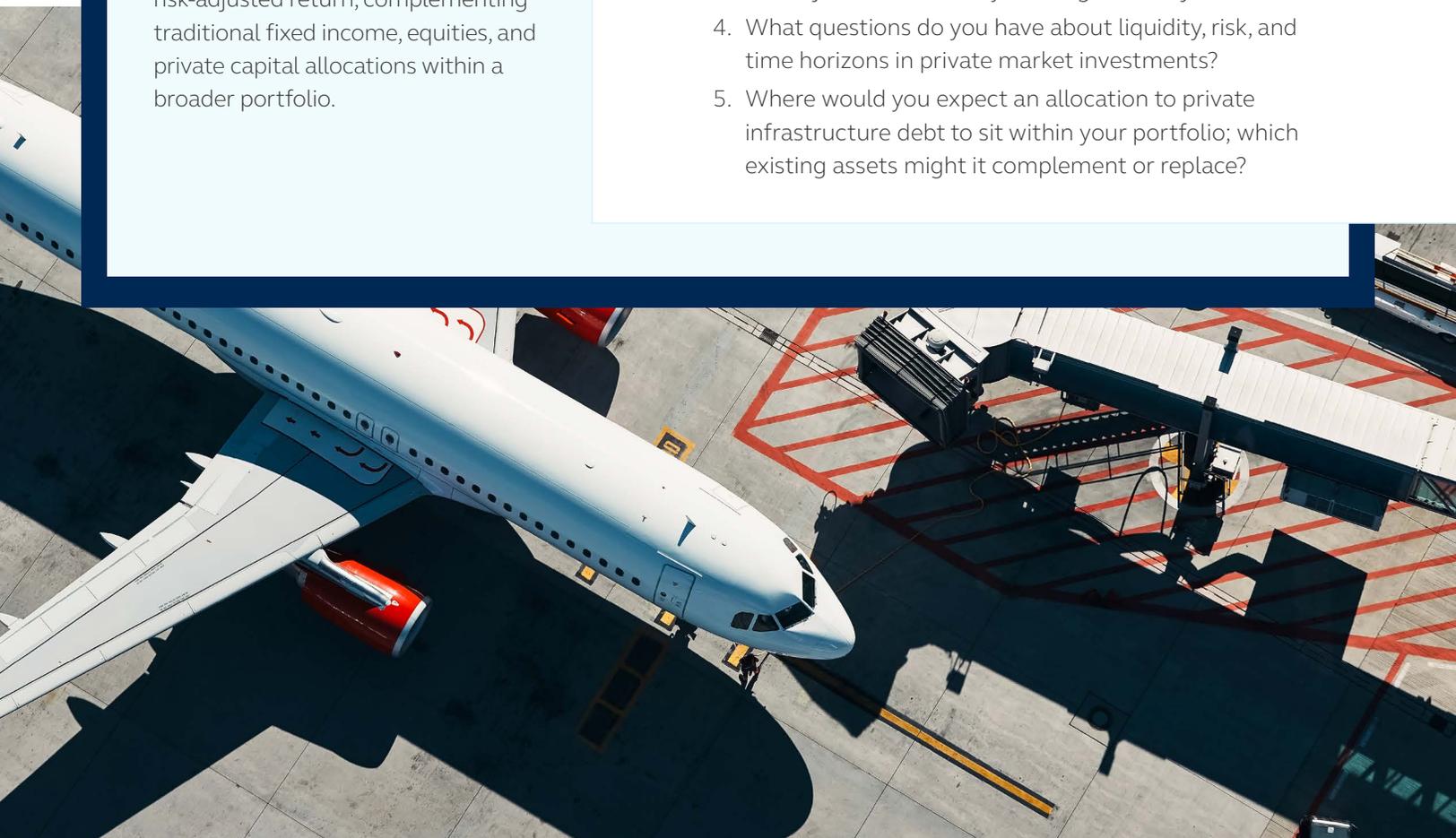
Overall, private infrastructure debt provides exposure to essential assets supported by long-term demand, structured lender protections, and resilient cash flows.

For wealth investors with appropriate time horizons, we believe infrastructure debt may serve as a diversifying source of income and risk-adjusted return, complementing traditional fixed income, equities, and private capital allocations within a broader portfolio.



FIVE QUESTIONS TO ASK CLIENTS

1. What do you know about private infrastructure debt and the sectors it supports?
2. How do you want to add exposure in your portfolio to global megatrends such as energy security, decarbonization, and digitalization?
3. How important are stable income, diversification, and risk-adjusted returns in your long-term objectives?
4. What questions do you have about liquidity, risk, and time horizons in private market investments?
5. Where would you expect an allocation to private infrastructure debt to sit within your portfolio; which existing assets might it complement or replace?



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Risk Considerations

Past performance is no guarantee of future results and should not be relied upon to make an investment decision. Investing involves risk, including possible loss of principal. Private market investments, unlike publicly traded stocks, involve various risks due to illiquidity, lack of transparency, and higher minimum investment requirements. These risks include liquidity risk, market risk, capital risk, and regulatory risk. Additionally, private market investments often involve higher fees and expenses and may have longer investment horizons. Infrastructure investments are long-dated, illiquid investments that are subject to operational and regulatory risks. Infrastructure companies are subject to risk factors including high interest costs, regulation costs, economic slowdown, and energy conservation policies. Asset allocation and diversification do not ensure a profit or protect against a loss. The risk management techniques discussed seek to mitigate or reduce risk but cannot remove it.

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