Private markets demand can help to pave the long road to net zero

Investors say the energy transition is still unstoppable and continue to back it in their allocations.

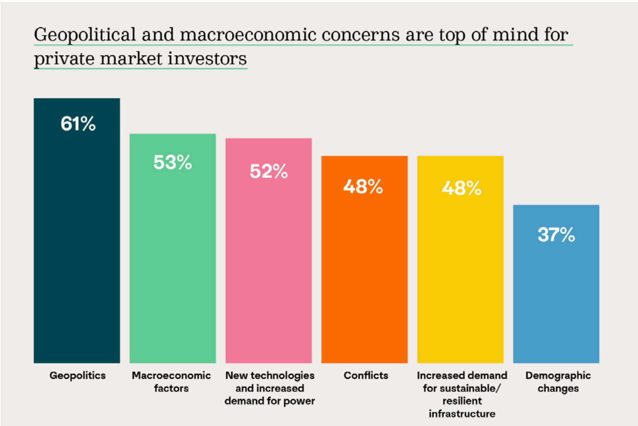
Asset owners face a convergence of pressures – country and corporate-level net zero targets, rising energy demand and growing climate and transition risks – that are shaping investment flows. Against this backdrop, many are looking to fund managers that can source long duration, inflation-resilient returns, while demonstrably targeting net zero emissions with credible implementation plans.

The latest Private Markets 700 (PM700) report from IFM Investors indicates many investors are looking to private markets to align their portfolios with transition-related objectives. Sustainability considerations are now embedded across private markets investment decisions, with 72% of respondents prioritising climate and transition risks, and 67% focusing on biodiversity- and nature-related risks.

Private markets already account for 36.3% of institutional investor portfolios and allocations are expected to rise over the next three to five years. Two in three respondents (69%) to the latest PM700 say the energy transition is "unstoppable" despite recent policy changes – and are reflecting this certainty in their allocation decisions. In infrastructure specifically, 68% of respondents like energy transition-focused funds.

From diversification to decarbonisation

While investors continue to rely on private market assets for diversification and resilience, many are also exploring how to use these allocations as vehicles for climate solutions. IFM's PM700 research shows that 35% of respondents use private markets to have a greater influence on the energy transition, reflecting their interest in aligning long-term capital with decarbonisation goals.



Source: IFM Investors Private Markets 700 Global Investor Barometer 2025

Respondents also increasingly believe infrastructure assets can offer exposure to megatrends shaping the global economy. Half (52%) of the survey's respondents identify increased power demand and new technologies as an important megatrend driving their private markets investments, while 48% highlight the need for sustainable and resilient infrastructure. Importantly, it appears that these forces – sustainable infrastructure and technological advancement – are converging. Digital networks and data centres will require substantially more energy as they continue to expand, accelerating the need for renewable energy generation and reliable, diversified energy infrastructure that can support a higher load.

These dynamics are supporting more investor allocations to areas such as renewable energy generation, grid modernisation, battery storage and electric vehicle charging networks.

Infrastructure as the engine of net zero

The PM700 findings show infrastructure equity and infrastructure debt as standout growth areas for climate-linked allocations. Of the sustainability considerations that influence these allocations, 45% of respondents say they consider energy efficiency, 40% point to carbon emissions, and 37% identify climate resilience. Social factors are also important: 48% consider increased social equality and 39% weigh the benefit to local communities.

This interest is occurring in tandem with higher return expectations. Investors now expect 13.4% net from infrastructure equity – just 25 basis points (bps) shy of what they expect from private equity – and 9.59% from infrastructure debt.

The appeal of these asset classes is partly structural. Infrastructure assets can provide long-duration, inflation-linked cash flows, offering a natural hedge in a higher-for-longer inflation environment. They can also align with net zero targets: assets such as utilities, renewable generation and smart grid systems require long-term capital commitments to support their construction and operation.

Investor interest is also broadening across the capital stack and across asset sizes. Mid-market projects, typically valued between USD 200 million and USD 2 billion, are increasingly attractive, with 38% of investors targeting value-add level returns (13-16% net) and another 8% targeting opportunistic returns (16%+). These earlier stage opportunities are especially important to support the innovators of tomorrow.

The rise of infrastructure debt in the transition

Infrastructure debt is gaining momentum as a key tool for financing the energy transition. PM700 respondents expect to raise their allocations to the asset class from 3.4% to 3.9% over the next three to five years, with the strongest growth anticipated in Europe.

Infrastructure debt's appeal lies in its combination of return and protection. It is typically seen as delivering a premium of around 50bps to 200bps over corporate debt, while often exhibiting equivalent risk and downside protection. The latter is due to the real asset backing of infrastructure debt investments, as well as their covenant support and senior positioning in the capital stack.

These characteristics make infrastructure debt well suited to financing renewables, energy-efficiency upgrades, grid assets and transport infrastructure. In Europe's mature regulatory environment, debt structures are increasingly used to fund clean energy projects aligning stable investor income with transition-related investment needs.

Regional perspectives

While the structural drivers of private markets investing are global in nature, there are some regional nuances.

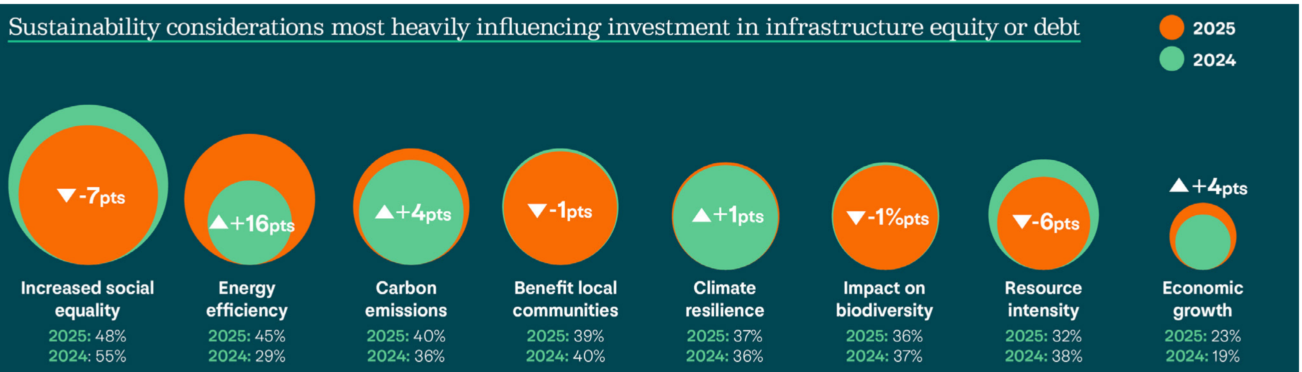
Europe

Europe emerged as a leading destination for private markets investors in 2025. The PM700 research shows that investors are directing increasing amounts of infrastructure equity and debt capital to Europe, supported by its stable regulatory environment, fiscal stimulus and long-standing policy commitment to the energy transition.

"I'm not surprised people are going to Europe," said pension policy consultant Daniela Silcock, noting that investors currently view the region as offering greater political and regulatory stability than the US.

Renewable energy, grid infrastructure and social infrastructure projects feature strongly in regional pipelines, reflecting both transition priorities and demand for essential services.

Sustainability considerations most heavily influencing investment in infrastructure equity or debt



Source: IFM Investors Private Markets 700 Global Investor Barometer 2025

North America
Infrastructure investing in North America can be viewed primarily through a growth lens. Nearly half (48%) of investors in the region cite higher returns as their main motivation for investing in its infrastructure equity, with net return expectation of 13.5%.

US policy uncertainty around the energy transition has dominated the headlines in recent years, yet 63% of North American investors still say the transition is "unstoppable" – a significant number that is a shade lower than the global figure of 68%.

Despite current policy uncertainty in North America, it is important to note that infrastructure projects are multi-decade in nature, requiring investors to remain invested across administrations. This long-term approach underpins IFM's strategy, particularly in the US, where energy, electric power, and data centres remain compelling opportunities.

APAC
Investor appetite for infrastructure is strong in APAC, where 67% of respondents plan to invest in the asset class over the next three to five years – higher than the global average of 60%. Sustainability is a central to this: 81% cite it as a key investment factor, versus 70% globally, with energy efficiency ranking as their highest sustainability consideration.

Digital infrastructure dominates the regional opportunity set, particularly data centres and communications networks supporting AI and cloud services. The Pension Fund of Japanese Corporations, for example, takes a contrarian approach, using secondary infrastructure funds during market downturns to access undervalued assets and manage liquidity challenges.

"We are exploring secondary infrastructure funds as a potential opportunity, especially during periods of market turmoil or exit challenges," said Yoshisuke Kiguchi, Chief Investment Officer of the Pension Fund of Japanese Corporations, in the PM700 report.

Australia
Australian investors, as infrastructure pioneers, show the highest future allocation plans globally for both infrastructure equity and infrastructure debt. Three in four (77%) find funds focused on the energy transition attractive, while 75% of respondents found affordable housing to be appealing where it is supported by government policy.

"The system typically finds a solution when there's a clear market need," says Luba Nikulina, Chief Strategy Officer at IFM Investors. "However, we believe close collaboration with governments is essential to make these opportunities commercially viable."

In Australia, public-private partnerships continue to underpin investment across social infrastructure, renewables and essential services, reinforcing the role of private capital in long-term development.

Policy to support infrastructure investment
As investor appetite for infrastructure grows, policy support is increasingly seen as critical to unlocking investable projects. PM700 respondents cited a lack of opportunities and deal supply as the second-highest barrier to infrastructure investment, highlighting the importance of regulatory and governmental frameworks to capital deployment.

Investors favoured measures that can improve project flow and reduce friction, including greater cross-border integration, streamlined M&A rules, and government underwriting of large-scale projects. These mechanisms are seen as essential for aligning private capital with energy transition, housing, and resilient infrastructure.

"Governments have priorities, notably housing affordability and supply, the energy transition, and, increasingly, defence infrastructure and national resilience," says David Whiteley, Global Head of External Relations at IFM Investors. "In this context, they need to attract long-term private capital, and this represents an opportunity for pension funds."

Risks, returns and reality checks
Investors are balancing the pursuit of alpha with accountability as they allocate to private markets. They show growing appetite for higher-risk strategies, with more capital being directed towards mid-market, value-add, and opportunistic infrastructure opportunities.

"An opportunistic infrastructure strategy would be approached similarly to private equity, given its 'buy and build' or 'extend and turnaround' operational nature," says Ioannis Galetsas, Head of Illiquid Assets at Zurich Insurance Company.

For instance, demand for data centres appears to be outstripping supply in prime locations, driving valuations higher. That could make it trickier to identify opportunities that satisfy PM700 respondent return expectations. These factors reinforce the importance of rigorous due diligence and long-term discipline over the lifetime of these long-term allocations.

Climate-aligned investing is not without risk. However, when done thoughtfully, it can enhance returns. With 30 years of experience in structuring and managing infrastructure assets, IFM Investors is well-placed to help finance the energy transition.

About IFM Investors
IFM Investors is a global asset manager, founded and owned by pension funds, with capabilities in infrastructure equity and debt, private equity, private credit, real estate and listed equities. Our purpose is to invest, protect and grow the long-term retirement savings of working people.

With assets under management of approximately $175.2bn USD billion (as of 30 September 2025), we serve over 821 institutional investors worldwide. IFM operates from 16 offices across Australia, Europe, North America and Asia.