

Innovation in infrastructure investment models to help close investor allocation gaps



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As the private infrastructure asset class continues to expand at a faster rate than all but private credit across alternatives¹, institutional investors are re-upping their target allocations. Meeting these expanding targets can be a challenge when fund commitments can take some years to be fully called. Other capital deployment models can help investors catch up and reduce allocation gaps more quickly. These include co-investments and co-investment funds; these models also help investors get closer to assets and move up the learning curve on infrastructure business models.

Allocations – a moving target

Drivers of investor allocations to different asset classes vary, with the inflation hedge offered by infrastructure a key attraction. More broadly, and in the longer term, drivers for investors include risk-return expectations and anticipated liquidity needs as well as regulatory constraints. Unlisted infrastructure, as a distinct asset class, is still relatively new, having emerged after 2000 as privatized industries and project finance vehicles created opportunities for new sources of potential returns for institutional investors.

Managers closely monitor investors' stated allocations as potential indicators of where they might source capital commitments. Various data sources offer slightly different perspectives on the broad landscape. Hodes and Weill Associates conduct an annual survey of major institutional investors regarding infrastructure allocations. Their 2025 survey suggests that the main types of institutional investors' target allocations range from 4.8%² of assets under management (AUM) for insurance companies up to 7.7% for private pension funds, based on a weighted AUM measure.

However, investors are not always fully allocated at their target levels, with actual allocations reported to be around 100 basis points below the 5.9% average target. This gap has narrowed compared to the previous year, when allocations were around 120 basis points below the 2024 average target of 5.5%. The relative youth of the infrastructure asset class aligns with the survey's finding that 56% of investors report being under-allocated, as targets have continued to rise.

Innovation through imitation

As the asset class continues to gain ground on its big brother real estate, at least in the closed-end fund space, models more common across private markets are finding fertile ground in unlisted infrastructure. While fund of funds models are not new in infrastructure, their value in helping access larger stand-alone deals via co-investments is increasingly relevant.

Co-investments are a growing investment model in the private infrastructure market where GPs (general partners), seek additional equity by offering investors the opportunity to co-invest alongside their fund into an infrastructure deal. Co-investments, typically offered to existing fund investors, allow GPs to manage fund restrictions like deal size constraints and sectorial/geographical concentration limits. Long-standing GP relationships support offering clients higher volumes of co-investment opportunities, delivering benefits including GP- and asset-level diversification, attractive fees, faster capital deployment and lower execution risks.

A co-investment is a limited partner's (LP's) ownership interest in a

single infrastructure asset or portfolio of infrastructure assets alongside the GP that originates and manages the transaction. Unlike blind-pool funds, co-investing requires asset-level underwriting (commercial, technical, financial, legal, tax, operational, ESG) and a monitoring plan tailored to the asset's contracts, regulation, financing, capex and opex profile.

Higher rates drive demand for equity

Tighter monetary policy since 2022 has encouraged managers to reduce the use of debt in infrastructure transactions, resulting in increased demand for equity capital. In 2015, when the cost of BBB debt in Europe was around 1.5%, debt in infrastructure deals was at circa 5x EBITDA. With rates significantly higher in recent years, closer to 4%, leverage moderated to ~3.5x in 2024. Debt to enterprise values also fell back to a new low of 45% at the end of 2024 (Figure 1). This followed a brief rise in late 2023 as valuations came under pressure from the impact of elevated interest rates. The speed and magnitude of rate rises from mid-2022 gave a strong signal to rein in the use of debt. This has increased the relevance of co-investments as a key source of equity for larger transactions in recent years.

Figure 1: Infrastructure asset leverage reached a new low at the end of 2024



Source: MSCI Asset level infrastructure index

Scale demands model diversity

Co-investments are typically larger transactions than those within the parent fund. Their inclusion in the fund may surpass agreed thresholds because of their scale, sector, region or strategy. As such, structuring co-investments so that most of the exposure sits outside the fund avoids concentration risks. Despite this, GPs pursue them as high-conviction investments that allow the parent fund some share of the total opportunity. This is in addition to extending the option to commit capital to funds and wider LP networks as part of a broader syndication of equity. Despite their scale, the LPs' ticket size for co-investments will generally be smaller than their ticket size in the parent fund.

Co-investments are typically related to a specific single transaction, so capital is often called faster than in blind-pool structures – helping to achieve target allocations more quickly. The scale of these assets – often more developed operational brownfield and diversified platforms – helps mitigate some of the j-curve effects associated with slower drawdowns.

Where access meets advantage – relational deal sourcing

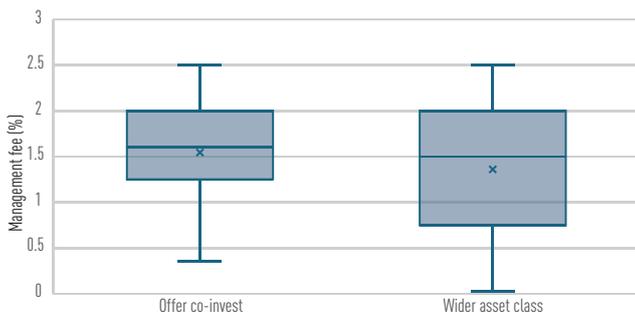
In infrastructure, access matters most when it provides early visibility of

opportunities, clarity on allocations and enough information to underwrite within tight deal timelines. Longstanding investor/manager partnerships yield more proprietary opportunities, including pre-signing co-underwrites where LPs review fuller diligence materials before signing. Building trust through recurrent deals helps convert opportunistic processes into programmatic ones, achieving scale and increasing capacity through efficiencies in due diligence and operational management. This creates a virtuous cycle that drives relationship-based sourcing as GPs prioritize partners they know can move quickly to meet accelerated transaction closings. This trust is also built on reciprocal reliability, ensuring partners can execute with certainty and avoid wasted effort from lost opportunities. This is an alternative to pursuing broadly marketed opportunities, which can be more challenging to deliver efficiently with less aligned and experienced parties.

Negotiated economics and lower potential expense ratios

Co-investments can improve net return outcomes. This is because management fees are often negotiated at the asset level and are frequently low or fee free, supporting a reduced total expense ratio. This is particularly important because analysis shows that infrastructure funds that offer co-investments tend to have higher management fees during the investment period than the wider asset class (Figure 2). LPs are in essence paying for the option to be involved in co-investments. Take-up will vary depending on the sophistication and capacity of investors to be involved in transactions, with some paying for access to opportunities they do not pursue.

Figure 2: Infrastructure funds offering co-investments charge higher fees during the investment period



Source: Preqin Pro; UBS Asset Management Infrastructure analysis. The distributions are statistically significantly different to the 5% level ($p = 0.032$).

Co-investment funds – having your cake and eating it

This brings an additional benefit through separate co-investment funds that allow investors to gain exposure to a broader portfolio of individual co-investments. Co-investment funds are made up of individual exposures to a variety of co-investments, sourced from a broad set of managers. Fund of funds providers are uniquely placed to develop co-investment fund products, as they are embedded in manager networks, enabling the sourcing of high-quality transaction pipelines. The diverse relationships built over many years, as well as expertise in more direct investment appraisal, are both crucial in developing successful co-investment funds. Simply pursuing all co-investment opportunities without expertise in asset selection may lead to sub-optimal returns over the long term.

Co-investment fund models sidestep the parent funds, and where experience allows provide exposure to a portfolio of established platforms across sectors, regions and strategies. Simulations from EDHEC research³, specifically on infrastructure asset performance volatility, affirm the textbook notion that a portfolio requires 30+ assets to realize the benefits of

diversification. However, further meaningful reductions in performance volatility can be seen beyond this scale, extending into the 60+ asset portfolio range. The scale of individual co-investments may make the required size of portfolios for co-investment funds even larger, so accessing broader exposures is of heightened importance.

Flattening the learning curve

For those investors looking to develop in-house expertise to support ambitions of building direct exposures to infrastructure assets, co-investments can help flatten the learning curve. Engaging in a non-discretionary mandate leaves the final decision to be involved in the investment with the LP, while also having the expertise and experience of the manager on hand to appraise and articulate the business case. This can save on separate and dedicated engagement with financial advisers, helping reduce reliance on external expertise.

The manager can also filter and screen co-investment opportunities in line with the stated deal characteristics agreed when establishing the mandate. Investors may wish to exclude deals in particular regions or sectors, or focus deployment on independent renewable power producers in Europe, for example. This reduces the search costs for investors looking to go direct, as well as allowing access to deals that would not be available beyond those already embedded in manager networks. Co-investments bring investors closer to the underlying asset, allowing more access to information and supporting monitoring. This can be crucial for those developing more specific and nuanced portfolio ambitions, as well as assessing gaps across in-house expertise and working towards developing direct deal-making capabilities.

Experience in focus: asset-level valuation and institutional-grade diligence

Co-investing shifts the work from manager selection to asset-level analysis and due diligence. Infrastructure underwriting entails appraising the durability of revenues (contracted versus merchant), inflation linkage, counterparty credit, operating cost pass-through, capex deliverability and refinancing risks, as well as a range of regulatory scenarios. The creation of conservative base and downside cases helps avoid exposure to less resilient business models. Experience proves its value, as repeated market cycles help asset class specialists identify which business models remain resilient through changing tides.

Risk management is strongest when embedded end-to-end: in screening, diligence, structuring, execution and monitoring. Leading programs enforce this through predefined templates that turn uncertain prospects into explicitly quantified risks, requiring documented mitigants.

Applying a varied toolbox to develop infrastructure exposures

Infrastructure co-investments are a valuable tool in helping institutional investors achieve their portfolio ambitions in one of the fastest growing private market asset classes. Investing with established partners in the sector helps provide access to the net return efficiencies of low-fee or fee-free co-investment offerings. When supported by institutional-grade diligence and risk governance, investors can speed up capital deployment while also achieving diversification through established co-investment funds.



¹Preqin Private Markets in 2030: <https://pro.preqin.com/insights/research/reports/private-markets-2030>

²Weill, D. & Gould, J. (2025). 2025 Institutional Infrastructure Allocations Monitor. Ithaca, NY: Cornell University's Program in Infrastructure Policy and Hodes Weill & Associates, LP, June 2025. [35pp].

³EDHEC Infrastructure and private assets research institute – Achieving diversification in unlisted infrastructure investment: smart infra portfolio construction: <https://edhecinfraprivateassets.com/paper/achieving-diversification-in-unlisted-infrastructure-investment/>