Our Asset Class Insights

Infrastructure: The *Asset Class* That Powers The World

Understanding its characteristics, risks and role within a diversified portfolio

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Every time you switch on a light, drive across a bridge, turn on a tap, or connect to the internet, you are interacting with infrastructure. It is the physical and operational backbone of modern economies. For investors who understand it, it is one of the most compelling asset classes available.

This article explains what infrastructure is, why it matters to the global economy and the role it can play inside a well-constructed investment portfolio.

What is Infrastructure?

Infrastructure refers to the essential systems and facilities that societies depend on to function. It falls into two broad categories.

Economic infrastructure includes the assets that enable commerce and productivity: roads, railways, ports, airports, electricity grids, pipelines, water systems and telecommunication networks. These assets are the circulatory system of any functioning economy.

Social infrastructure covers the facilities that support communities: hospitals, schools, courts, prisons and government buildings. These tend to be long-term assets often built through public-private partnerships.

Within those categories, a further distinction is emerging: digital infrastructure. Data centers, fibre optic networks, mobile towers and satellite systems now sit alongside traditional assets as critical national infrastructure. The digitilisation of the global economy has made these assets just as essential as a motorway or a power grid.

Why Infrastructure Matters To The World

Infrastructure is not a discretionary expense. It is a prerequisite for economic activity. Without reliable energy, transport, water and communications, modern economies simply cannot function.

The International Monetary Fund estimates the global infrastructure investment gap at trillions of dollars annually. Ageing assets in developed markets need replacement. Emerging markets need new construction to support growing populations. The energy transition is adding another layer of demand, with massive capital requirements for renewable generation, grid upgrades and battery storage.

Governments around the world are increasingly unable to fund this alone. That gap is creating one of the most significant and durable private investment opportunities of the coming decades. Private capital is being invited into asset classes that were once exclusively the domain of governments, from toll roads and airports to utilities and social housing.

CHART 1

Global Infrastructure Investment Gap

Annual Need vs Actual Spend, USD Trillions - Source: McKinsey Global Institute

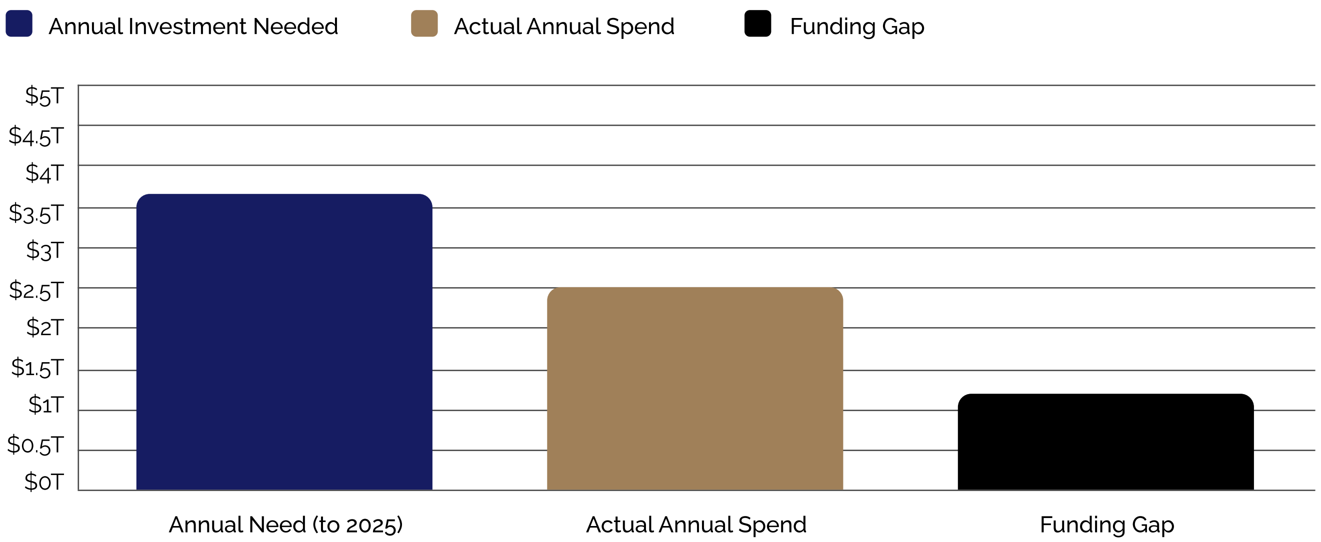

Chart 1 — Global infrastructure investment gap ($3.7T needed vs $2.5T actual, leaving a $1.2T annual shortfall). Source: McKinsey Global Institute.

The Portfolio Case For Infrastructure

Infrastructure assets have a set of characteristics that make them genuinely differentiated within a diversified portfolio.

1. Stable, Long-Duration Cash Flows

Infrastructure assets typically generate income under long-term contracts, concessions, or regulatory frameworks. A toll road collects revenue for decades. A water utility operates under government-regulated tariffs. A data centre signs 10 to 20-year leases with hyperscale tech companies. This predictability of income is valuable.

2. Built-In Inflation Protection

Many infrastructure contracts include explicit inflation linkage. Revenue escalates in line with CPI or Producer Price Indices. In an environment where inflation remains elevated or unpredictable, this feature is particularly attractive. It is one of the few asset classes that can genuinely protect real purchasing power over time.

3. Low Correlation To Public Markets

Infrastructure returns are driven by the underlying economics of essential services, not by share market sentiment. Valuations do not spike and crash with the ASX or the S&P 500. This low correlation provides genuine diversification, which is the primary purpose of adding any new asset class to a portfolio.

4. Defensive Qualities In A Downturn

People do not stop using electricity, water, or roads when the economy slows. Demand for essential services is inelastic. Infrastructure assets tend to hold their value and continue generating income through economic cycles that punish other asset classes. This defensive quality is one of the main reasons institutional investors have allocated heavily to infrastructure over the past two decades.

5. Access To The Energy Transition

The build out of newer renewable energy requires an enormous buildout of new infrastructure: solar and wind generation, transmission networks, green hydrogen facilities, EV charging networks and battery storage. For investors who want exposure to this structural theme, infrastructure is a direct and tangible way to participate.

What Returns Can Investors Expect?

Return expectations in infrastructure vary depending on the strategy and the type of assets held.

For unlisted infrastructure, core strategies, which focus on stable, regulated, or contracted assets with predictable cash flows, have historically targeted net returns in the range of 7–10%.

Core-plus strategies, which accept a modest increase in risk in exchange for higher income or some capital growth, have typically targeted 10–13% net.

Opportunistic strategies, which may include development assets or assets in emerging markets, target returns above 13% net but carry commensurately higher risk.

Listed infrastructure has historically delivered annualised total returns of approximately 7–9% over the long run, though with considerably more short-term volatility than unlisted equivalents. It is worth noting that infrastructure fund managers typically report returns as net IRR, which is the metric you will encounter in fund documentation.

Net IRR or net internal rate of return, is the annualised return generated by a fund after all fees and costs have been deducted. Unlike a simple annual return, it accounts for the timing of capital calls and distributions over the life of the fund, making it the standard performance metric for private market investments.

Who Invests In Infrastructure?

For most of its history, infrastructure as an investment asset class was the exclusive domain of the world's largest institutions such as sovereign wealth funds, pension funds and endowments with the scale and sophistication to access and manage long-term private market commitments.

That is changing. The emergence of wholesale and retail-accessible infrastructure vehicles, including unlisted managed funds, listed investment trusts and co-investment structures, has opened the asset class to a much broader pool of investors. This shift matters because the opportunity is substantial. McKinsey estimates that a cumulative $106 trillion in investment will be necessary through 2040 to meet the need for new and updated infrastructure.

The required investment spans seven critical infrastructure verticals, with transport and logistics requiring the largest share at $36 trillion, followed by energy and power at $23 trillion, digital at $19 trillion, social at $16 trillion, waste and water at $6 trillion, agriculture at $5 trillion and defence at $2 trillion (1).

The scale of that opportunity cannot be met by governments alone, private capital is not just welcome, it is essential. For investors who now have access to this asset class through well-managed fund structures, the democratisation of infrastructure investing represents a meaningful shift in what a private portfolio can contain.

(1) Adding these figures does not total to $106 trillion, due to rounding.

CHART 3

Private Infrastructure Fundraising Growth

Global Closed-End Fund Capital Raised, USD Billions - Source: McKinsey Global Private Markets Report 2026

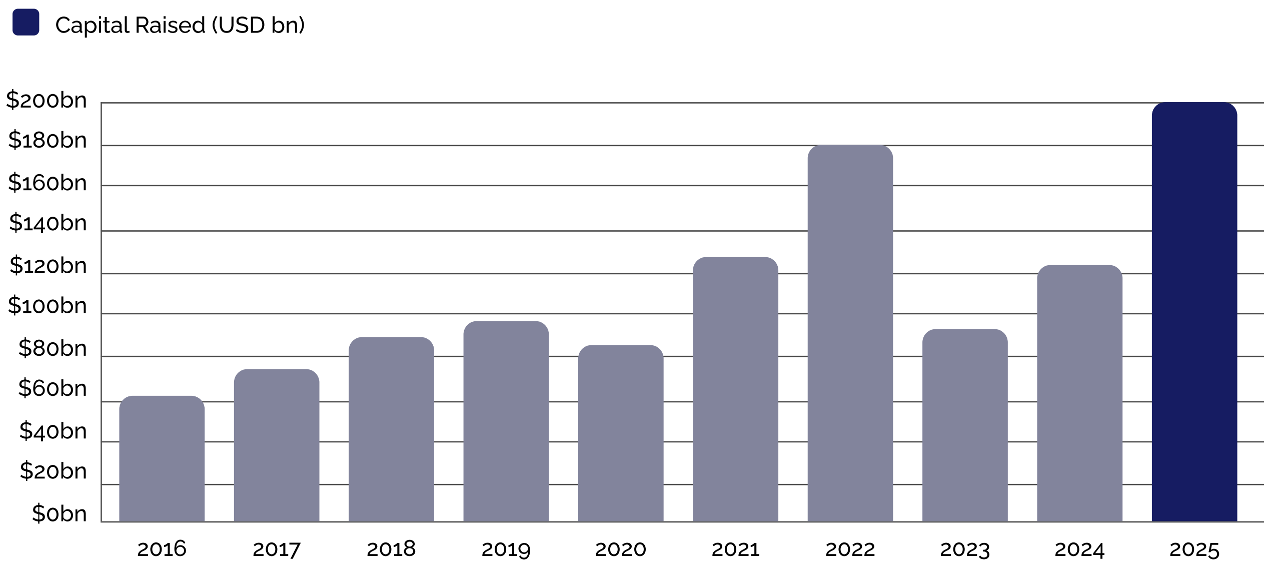

Chart 3 — Fundraising growth. Infrastructure closed-end fundraising hit a record of nearly $200 billion in 2025, a roughly 60% increase over 2024 McKinsey & Company, up from around $62 billion in 2016. Source: McKinsey Global Private Markets Report 2026.

A Note On Liquidity and Time Horizon

Infrastructure is not a liquid asset class. Unlisted infrastructure funds typically operate on five to fifteen-year horizons, with limited redemption windows. This illiquidity is not a flaw. It is a feature. It is precisely what allows fund managers to own long-term assets that generate stable compounding returns without being forced to sell at the wrong time.

Investors considering infrastructure should think of it as a core, long-term allocation, not a tactical position. It rewards patience. It is not suited to capital that may be needed at short notice.

Greenfield vs Brownfield: Understanding The Difference

Not all infrastructure assets carry the same risk profile and one of the most important distinctions for investors to understand is the difference between greenfield and brownfield assets. Greenfield infrastructure refers to assets that are newly constructed or still in development. This could be a new toll road, a wind farm under construction, or a data centre being built from the ground up. These assets carry construction risk, revenue uncertainty and execution risk during the build phase, but typically offer higher return potential to compensate.

Brownfield infrastructure refers to existing, operational assets with established cash flows, contracted revenues and a track record of performance. This could be a functioning airport, an operating gas pipeline, or a regulated utility. These assets are more predictable, more defensive and more closely resemble the stable income profile that most investors associate with infrastructure as an asset class. Most core and core-plus infrastructure funds focus predominantly on brownfield assets, while opportunistic strategies may take on a higher proportion of greenfield exposure in pursuit of greater returns.

Where Infrastructure Fits in a Portfolio

There is no single right answer to how much infrastructure a portfolio should hold. That depends on income requirements, time horizon, liquidity needs and overall allocation strategy. As a general principle, infrastructure works well as a core alternatives allocation, sitting alongside private credit, listed equities and cash.

The combination of income, inflation protection and low correlation makes it particularly effective in portfolios designed for long-term wealth accumulation or income generation. It is not a replacement for equities or private credit. It is a complement to both.

Infrastructure has become a mainstream allocation for the world's largest investors. Sovereign wealth funds, pension funds and endowments, which have driven the asset class's growth over the past two decades typically allocate between 5% and 15% of total assets to infrastructure, according to widely cited industry data from sources including Preqin and the Cornell University Institutional Infrastructure Allocations Monitor. The appropriate allocation for any individual investor depends on their specific circumstances, time horizon, liquidity needs and overall portfolio construction, but the institutional benchmark provides a useful reference point for understanding how seriously the world's most sophisticated capital allocators regard the asset class.

Two Ways To Access Infrastructure: Listed vs Private

One of the most useful things to understand about infrastructure is that it is not a single product. There are two distinct routes to gaining exposure and both have a legitimate role depending on your portfolio objectives.

Listed Infrastructure

Listed infrastructure gives you exposure to infrastructure businesses through the share market. Companies like toll road operators, airports, utilities, pipelines and communications tower operators are publicly traded on exchanges around the world. In Australia, names like Transurban and APA Group are examples. Globally, the universe is vast.

The advantages of listed infrastructure are straightforward. You can buy and sell daily. Entry costs are low. You get instant diversification across multiple assets and geographies. For investors who want a degree of infrastructure exposure without locking capital away, listed is the accessible starting point.

The trade-off is that listed infrastructure does not fully escape the share market. During periods of market stress, listed infrastructure companies can sell off alongside everything else, even if their underlying businesses are performing well. The correlation to broader equities rises precisely when you want diversification most. You are also exposed to share price volatility that has nothing to do with the operational performance of the underlying assets.

Private Infrastructure

Private infrastructure removes that layer of market noise. When you invest through an unlisted infrastructure fund, you are gaining direct or near-direct exposure to physical assets valued on their underlying fundamentals: contracted cash flows, regulated returns and long-term concessions. The valuation does not move because of a rate decision in the United States or a sell-off on the ASX.

This is where the genuine portfolio diversification benefit is realised. Private infrastructure returns are driven by the economics of the asset, not market sentiment. That is exactly what you want from an alternatives allocation.

The cost of that benefit is liquidity. Private infrastructure funds typically have multi-year lock-up periods. Capital committed is capital deployed for the long term. That is an acceptable constraint for investors with appropriate time horizons and portfolio liquidity elsewhere, but it is a real consideration that needs to be understood upfront.

CHART 2

Correlation to Global Equities

Listed vs Private Infrastructure vs Other Asset Classes - Source: Meketa Investment Group/ Cambridge Associates (2004-2024). Lower = Better Diversification

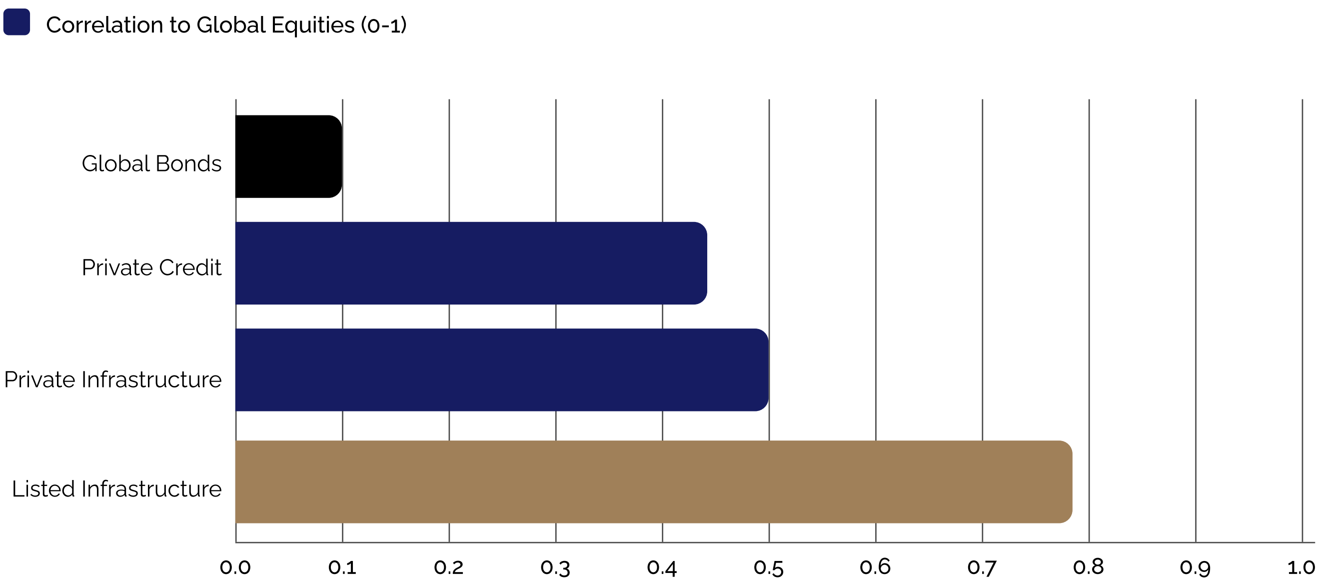

Chart 2 — Correlation to global equities. Listed infrastructure has averaged a 0.79 correlation with equities since 2004, compared to 0.50 for private infrastructure Meketa Investment Group — which visually makes the case for why private is the better diversifier. Source: Meketa Investment Group / Cambridge Associates.

Using Both Together

The two approaches are not mutually exclusive. A well-constructed portfolio can use listed infrastructure for liquidity and immediate exposure, while building a private allocation over time as capital allows. Listed provides the tactical flexibility. Private provides the structural, low-correlation return stream that genuinely differentiates a portfolio.

Institutional investors have understood this for years. They hold both. The relative weighting depends on liquidity requirements, income objectives and time horizon. For wholesale investors building a serious alternatives allocation, the combination is worth considering deliberately rather than by default.

A Balanced View: Understanding The Risks

Infrastructure is a compelling asset class, but like all investments it carries risks that investors should understand before committing capital. Illiquidity is the most immediate consideration because private infrastructure funds typically lock capital away for extended periods and exit options are limited.

Valuations are also sensitive to interest rates; as a long-duration asset class, rising rates can compress the value of infrastructure holdings, as many investors experienced through 2022 and 2023. Regulatory and political risk is another factor, particularly across global funds where assets span multiple jurisdictions, governments can alter concession terms, adjust regulated tariffs, or change planning frameworks in ways that affect returns.

Physical and climate risk is also a consideration that investors should be aware of. Infrastructure assets are, by their nature, fixed in location and exposed to the physical environment. Extreme weather events, rising sea levels, flooding, bushfires and other climate-related risks can damage or disrupt assets in ways that affect both their operational performance and long-term valuations. Well-managed infrastructure funds account for climate risk in their due diligence and asset selection processes and many are increasingly required to report against climate-related disclosure frameworks. However, investors should be aware that no asset is entirely insulated from the physical impacts of a changing climate and geographic diversification across a fund's portfolio is one of the key ways this risk is managed.

Finally, manager selection matters enormously in private markets. The dispersion between top-quartile and bottom-quartile infrastructure fund managers is wide and the quality, experience and track record of the team managing the capital is one of the most important decisions an investor makes.

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