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Infrastructure investment

Infrastructure investors seek better performance data

Breadth of the asset class makes like-for-like comparisons difficult

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Infrastructure has grown in popularity as an alternative asset class but investors need better performance data on the bridges, airports and power plants they back, according to research published this week.

Three-quarters of industry representatives said they would use an infrastructure investment benchmark to understand how assets are performing, according to an Edhec Business School study, which surveyed 200 infrastructure investors, asset owners and bankers.

A fifth of respondents, who collectively own more than 10 per cent of global assets under management in the sector, said they would use a benchmark to determine asset allocations. "Performance monitoring . . . is the main concern of three-quarters of respondents," the Edhec study found. "This result highlights the ongoing demand among investors to better understand the risk-adjusted performance of infrastructure assets."

Investing in infrastructure is increasingly capturing the interest of the world's biggest pension funds, insurers and sovereign wealth funds as they hunt for better returns in the low interest rate era.

Last year $337bn of deals were announced in the sector, down 28 per cent from 2016, according to data provider Preqin. The number of institutional investors making allocations to the sector rose from 2,844 in 2016 to 3,216 in 2017.

The collapse of Carillion, the UK facilities and construction group, highlights the need for groups to better understand risk and returns.

Carillion was awarded three contracts by the government last year after the first in a series of profit warnings yet it went into liquidation just months later, threatening the jobs of more than 43,000 employees as well as hundreds of subcontractors and small businesses.

The relative novelty of investing in infrastructure in addition to regional mismatches in data available on such deals, particularly those who invest through private debt, is problematic for some investors says Toby Pittaway, partner at Oliver Wyman.

"The lack of data and transparency does create a lot of challenges," he says. "Some institutions are comfortable with it but they've invested in large teams to help them do that. [But some investors] don't know which risk bucket to put it in."

Preqin already offers an infrastructure benchmark tracking the returns of unlisted infrastructure funds.

However, the breadth of the asset class means it is hard to provide like-for-like comparisons across the asset class said Tom Carr, head of real assets products at Preqin.

"Although it is possible to generate aggregate data on IRR [internal rate of return] performance for infrastructure as a whole, it is not always possible to look at specific regions, industries or sizes," he said.

But he added that this was not necessarily an impediment as investors may simply prefer absolute returns rather than a comparison to a benchmark or index.

Research by Preqin indicated the majority of investors felt their infrastructure investments had met or exceeded expectations.

One industry expert who wishes to remain anonymous said: "Investors aren't going to do that [keep on investing] if they're not happy with the risk and reward they're getting".

Edhec, which recently published its own private debt and equity infrastructure benchmarks for Europe, plans to launch a benchmarks platform in June.

Categorising infrastructure investments by geographic region was a relatively unhelpful way to assess the sector, Edhec's survey found. It instead suggests grouping together countries with a similar level of economic development and according to the type of financing projects they receive.