



Building an asset class from the ground up

July/August 2018 (Magazine) By **Richard Lowe** ([URL=/richard-lowel/3122.bio](https://realassets.ipe.com/infrastructure/top-50-infrastructure-investment-managers-2018/10025380.article))

The top 50 infrastructure investment managers oversee more than €611bn in assets, according to our latest ranking. More than half of that figure (€367bn) is accounted for by the top 10, illustrating how the sector is still dominated by the very largest firms.

You can see the full list [here](https://realassets.ipe.com/infrastructure/top-50-infrastructure-investment-managers-2018/10025380.article) ([URL=https://realassets.ipe.com/infrastructure/top-50-infrastructure-investment-managers-2018/10025380.article](https://realassets.ipe.com/infrastructure/top-50-infrastructure-investment-managers-2018/10025380.article)) . We also talk to the three largest managers about how they are positioning themselves in an increasingly competitive marketplace.

The largest is Macquarie Infrastructure & Real Assets (MIRA), an early mover into the asset class when it spotted an opportunity to “put itself” between a burgeoning Australian superannuation market and an Australian government bent on privatising infrastructure assets. Martin Stanley, global head of MIRA, joined the company 15 years ago and remembers a time when it “was really only us out on the road, trying to persuade people to invest in a niche asset class they’d never heard of”.

Today, MIRA runs several funds. But Stanley’s fundraising team is still on the road, seeking to secure €2.5bn in commitments for its latest European fund – according to a board meeting report from the South Carolina Retirement System, which is investing €125m.

But the market is becoming increasingly crowded. [Columbia Threadneedle](http://hub.ipe.com/columbia-threadneedle-investments-real-estate/415521.supplier) ([URL=http://hub.ipe.com/columbia-threadneedle-investments-real-estate/415521.supplier](http://hub.ipe.com/columbia-threadneedle-investments-real-estate/415521.supplier)) is the latest investment manager to enter the space, and is unlikely to be the last, as the market attracts unprecedented levels of capital and continues to mature.

A new survey by BNY Mellon and the Official Monetary and Financial Institutions Forum (OMFIF) shows that 70% of pension funds and sovereign wealth funds plan to increase their exposure to infrastructure over the next 12 to 24 months. BNY Mellon and OMFIF calculate that this level of demand could equate to \$130bn of additional equity coming into the market.

The reality is that infrastructure is still immature, relative to other institutional asset classes. It has the experiences of traditional private equity and real estate to draw on, but in many ways it needs to plough its own furrow.

Benchmarking is a case in point. There is a lot of work being done to provide investors with ways of tracking the performance of such a wide-ranging and infrequently-valued asset class. EDHEC and MSCI are among those leading the charge in the private markets.

EDHEC has been gathering data from asset owners to produce indices that address the specific needs of the infrastructure asset class. It has sought to address two major issues: one, infrastructure assets are often large and heterogeneous, meaning you need to include a lot of assets before you can start to represent the market in its entirety; two, infrastructure assets are rarely traded, making it challenging to assess market pricing accurately and in a timely manner.

MSCI, meanwhile runs its own quarterly, unlisted global infrastructure index. The most recent version captures 113 assets with a combined enterprise value of US\$71.1bn. Both endeavours need buy-in from investors around the world.

Some investors are benchmarking their infrastructure investments against inflation. Speaking at the [EDHECinfra Days 2018 \(URL=https://realassets.ipe.com/analysis/infrastructure-managers-told-to-raise-game/10025351.article\)](https://realassets.ipe.com/analysis/infrastructure-managers-told-to-raise-game/10025351.article) conference in London, Paul Shantic of the California State Teachers' Retirement System (CalSTRS) admitted that the pension fund needs to eventually replace its existing infrastructure benchmark – the consumer price index plus 400bps – with something more appropriate.

The use of an inflation-related benchmark makes sense, given that infrastructure forms part of its inflation-sensitive investments.

Another US pension fund that has been grappling with infrastructure benchmarking is North Dakota State Investment Board, which requested consultancy Callan to review its own. It too had been using an inflation measure: consumer price index for urban wage earners and clerical workers (CPI-W). Callan has recommended switching to a custom benchmark: 50% NCREIF ODCE and 50% CPI-U lagged one quarter. Callan said NCREIF ODCE, which tracks core US real estate, is a proxy for private income-oriented real assets, while the lagged CPI-U (which tracks prices paid for goods and services by those living in urban areas) “accounts for the repricing of infrastructure leases and contracts based on observed inflation”.

But the most important point made by Callan in a recent board meeting is: “A custom-built index is necessary, because there is not a passive investible index and there is not a robust private peer index available.”