



Maximising payoffs through mid-market infrastructure investments

In today's world, institutional investors are under mounting pressure to accomplish multiple outcomes with the capital they manage. This means not only achieving appropriate risk-adjusted returns but also seeking to meet multiple additional priorities. These may include financial sustainability, managing risk, investing sustainably with climate goals in mind, and aiming to have a local economic impact – all while achieving regulatory compliance and transparency.

This is a marketing communication

For Local Government Pension Schemes (LGPS) in the UK, these fiduciary imperatives are multi-faceted. Not only is there an expectation to generate positive externalities, LGPS schemes seek to direct investment into local assets, underpinning the UK's industrial strategy that plays heavily into modernising in-country infrastructure.

Identifying infrastructure investments that can reasonably meet these complex and at times conflicting criteria is directing capital into new subsectors. In the past, investors tended to focus on traditional 'core' infrastructure such as rail, road and public utilities. Today, however, there is growing appetite for more innovative mid-market projects that not only offer multiple avenues for investment upside but also support critical national priorities. These include the UK Government's Invest 2035: The UK's Modern Industrial Strategy, which highlights the transition to renewable energy, social inclusion and digital connectivity.

Because of these competing demands on capital, and because the vast majority of the US\$15tn investment gap estimated by the G20's Global Infrastructure Hub pertains to 'New Economy' infrastructure, it makes sense that investors are broadening the sectors they target. From its founding, Fiera Infrastructure has concentrated on investments in OECD countries that sit comfortably in this bracket, developing platform-based strategies in the UK, the US and continental Europe.

Money managers are also trading carefully up the risk curve to satisfy this interest, moving from what was traditionally 'super-core' to core-plus and value-add projects. This trend has been particularly pronounced as inflation has eaten away at yield and investors look to 'top-up' through tactical diversification in their risk exposure within infrastructure. Today, there is a growing number of investment managers that can guide institutional capital into these strategies.

Every geography has a distinctive need, but in the UK we are seeing sustained interest in investments in evolving infrastructure subsectors that offer a clear impact multiplier over and above the traditional large-cap 'core'. One example is recycling and waste management, a domestic industry that is valued at approximately £30bn according to the Office of National Statistics. Safe and efficient waste disposal and its conversion into energy that can be transferred or stored, solves for several pressing socio-environmental challenges while complementing strong financial performance – as opposed to alternative investments that might narrowly target a single dimension of return.

In companies such as Cory, which converts London's non-recyclable household waste into a valuable energy resource, and Augean, which manages hard to handle non-recyclable waste materials not capable of energy recovery, we see two assets that are representative of multi-purpose infrastructure investments. Alongside delivering robust financial returns, these businesses simultaneously address a wide range of social and environmental challenges through sustainable technologies, such as management of public and commercial waste, the rehabilitation or safe disposal of hazardous waste materials and in Cory's case the need for clean sustainable energy, while generating stable and predictable cash flows.

LGPS seeking to maximise the payoffs generated from capital invested may find the resulting diffusion of societal benefits to be just as important.



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In subcategories of infrastructure such as waste-to-energy, as well as our platform investments in fibre in the U.S. and Europe, we see the potential to generate positive externalities that are, by their nature, broadly distributed – in contrast to those that are spatially concentrated, such as airports, road and rail.

For investors managing pension capital, the advantages of these subsectors lies not only in their distinctive payoff matrix but also in their market structure. By virtue of having relatively few competitors, investors can benefit from more attractive pricing dynamics, opportunities for consolidation to create sector champions, and enhancing revenue certainty and predictability. Resulting in a greater impact per pound invested to directly contribute to the growth of UK enterprise.

Against any measure, we see this as an extremely interesting arc in the development of infrastructure investment. Perhaps now more than ever, the demands upon institutional capital underscore the importance of selecting investments that are primed to maximise financial, social and environmental payoffs over extended periods of time, taking investors into exciting areas within an ever-expanding asset class.

It is also a development that we are well-positioned to support. Through direct platform-based strategies, it is Fiera Infrastructure's role to pair capital with projects in the infrastructure mid-market that have multiple, long-term payoffs. Generating consistent alpha for clients as a priority, but also relieving the compounding pressures on institutional investors to deliver for their beneficiaries – as well as for society at large.



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