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The Case for Steering Wealthy Investors Into Private Infrastructure Funds

By Michael Bell

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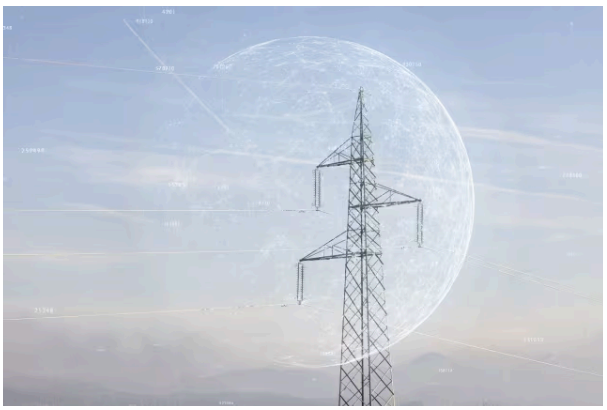
In his first week in office, President Donald Trump announced a $500 billion joint venture with the private sector to expand the nation's artificial intelligence infrastructure, becoming the second straight administration to put private investments in infrastructure in the spotlight.



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That is one reason that advisors may want to explore such vehicles for their wealthy clients, but there are more.

Privately held infrastructure assets, such as communication systems, transportation networks, utilities, and renewable energy projects, stand in contrast to publicly traded companies that offer investors exposure to infrastructure by owning assets or offering services that support government-run infrastructure projects. But like government-run infrastructure, private infrastructure projects provide essential services that are in constant demand and operate under long-term contracts or regulatory frameworks that provide predictable income over extended periods.

In addition, exposure to infrastructure has broadened beyond traditional assets like toll roads and bridges to encompass infrastructure projects powering the renewable energy transition, digital data centers, the AI boom, and beyond. In addition to expanding the opportunity set, private infrastructure investments can provide diversification benefits to a portfolio as they often have low correlation with traditional asset classes like public equities and bonds, which can potentially help reduce overall portfolio risk. Investing through a fund structure that invests in a variety of infrastructure sectors (e.g., energy, transportation, telecommunications) and across different regions can further enhance diversification.

Infrastructure investments can also act as an inflation buffer that can help protect the real return of the income generated, as many of these investments have income streams that are directly or indirectly linked to inflation. For example, many private toll roads, like some publicly operated toll roads, can increase rates in line with inflation, and utility companies might adjust rates based on inflation indexes. This can help protect the real return on revenue generated.

Finally, private infrastructure investments have offered historically attractive risk-adjusted returns, combining stable income with potential for capital appreciation. And due to their essential nature, infrastructure assets tend to be less sensitive to economic cycles, providing a defensive element to an investment portfolio.

Accessing interval funds. Access to private-market investments has traditionally been limited to large institutional investors because of high investment minimums, illiquidity, and investor restrictions. But with the advent of new product structures, that has changed.

Interval funds —which provide a measure of liquidity at regular intervals, such as quarterly—give individual investors easy access to private-market infrastructure investments. These funds generally offer low investment minimums; are generally available to all investors, not just accredited ones; come with no subscription documents and no capital calls; and may have higher levels of liquidity than other private-market investments. They are available on popular mutual fund platforms, with daily net asset values, simplified account opening paperwork, and 1099 tax reporting. Also, these funds are tradable in models and typically have lower fees than other private-market investments like tender offer funds.

But even within an interval fund structure, private infrastructure investments are generally less liquid than public equities or bonds. Advisors should be prepared for the illiquid nature of these investments and consider the client's liquidity needs before recommending the investment.

Private infrastructure under a new administration. Advisors should make investors aware that government policies, priorities, and regulatory frameworks often shape the landscape for infrastructure development and investment. For example, whether a new administration prioritizes infrastructure spending to stimulate economic growth, create jobs, and improve public services can affect funding for projects such as roads, bridges, public transit, and broadband expansion.

When it comes to regulation, administrations that streamline permitting processes to accelerate project timelines or, conversely, introduce more stringent environmental and social impact assessment, can affect the speed and cost of infrastructure projects. Likewise, policies that encourage or discourage public-private partnerships can affect the level of private sector involvement in infrastructure projects. Supportive policies can attract private capital and expertise, while restrictive policies may limit opportunities.

Tax policies can significantly impact the attractiveness of infrastructure investments. For example, tax credits for renewable energy projects or incentives for infrastructure bonds can encourage investment in specific sectors. Adjustments to corporate tax rates can affect the profitability of infrastructure investments and influence investment decisions.

Advisors and clients should also be aware of sector-specific developments. Support for fossil fuels versus renewable energy, for example, can shift investment flows between traditional energy infrastructure and green energy projects. Likewise, initiatives to expand broadband access, particularly in underserved rural areas, can drive investments in fiberoptic networks and other telecommunications infrastructure.

Although federal policy can shape the broader landscape, capital formation in infrastructure is ultimately driven by market forces—particularly supply-and-demand dynamics, consumer preferences, and asset-level economics. These fundamental factors have been, and will continue to be, the primary drivers of investment in the sector.

PHOTO: COURTESY OF MEKETA CAPITAL

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