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Institutional investors warming to infrastructure debt funds

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GLOBAL – The number of unlisted infrastructure debt funds has nearly doubled since 2010, boosted by surging demand from institutional investors.

According to a survey by Preqin, the number of funds has jumped from 27 in the fourth quarter of 2010 to 46 in June this year.

The increase comes at a time when institutional investors have become increasingly aware of the benefits of using a wide range of infrastructure instruments, the company said.

It said more than 130 institutional investors in its survey had either previously committed to an unlisted infrastructure debt fund or would consider doing so in future.

"As with any new or emerging strategy," it added, "institutional investors are likely to be cautious when committing capital to infrastructure debt funds, although more investors are becoming attuned to the benefits of utilising various strategies to access the infrastructure market."

Andrew Jones, managing director for infrastructure debt at AMP Capital Investors, explained in the Preqin research that his company had noticed an increasing "acceptance and recognition" of an infrastructure debt allocation over the last 18 months.

He attributed this trend to investors becoming more risk averse and placing a greater emphasis on portfolio security.

"Suddenly, investors that were looking for 15%-plus out of an infrastructure portfolio are seeing space in their allocation strategy for a consistent 10% yield with lower risk – something they can rely upon in terms of liquidity and capital stability," he said.

Preqin said it expected interest in infrastructure debt funds to grow even further, as investors were increasingly attracted to more predictable yields with lower risk/return profiles.

It acknowledged, however, that the market would remain a niche one, pointing out that only a select few fund managers were active in the debt space.

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