

KEYNOTE INTERVIEW

New infrastructure debt era takes shape



Investors are turning to infrastructure debt in search of income-oriented strategies, but success increasingly depends on understanding the preferences and capabilities of an expanded investor universe, says Barings's [Pieter Welman](#)

Recent tensions in the Middle East have intensified the sense of urgency around infrastructure investment, particularly in the energy sector. Previous disruptions – from the covid-19 pandemic to Russia's invasion of Ukraine – had already exposed vulnerabilities and the need for greater resilience. The latest energy crisis has only sharpened that focus, elevating energy security and supply chain reliability to top priorities among policymakers, businesses and investors.

The energy transition is another powerful driver. As electricity demand rises and economies electrify at scale, substantial investment is needed across

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power generation, transmission and storage. Add accelerating demand for digital infrastructure and modernisation, and the pipeline of opportunities for infrastructure debt investors remains deep and durable, says Pieter Welman, head of global infrastructure debt at London-based Barings.

Q How would you describe the current state of the infrastructure debt market?

The infrastructure debt market

remains resilient despite ongoing geopolitical and economic uncertainty. While investors are closely monitoring developments such as inflation, interest rates and global conflicts, demand for high-quality infrastructure assets remains strong.

In uncertain environments, investors tend to gravitate towards essential assets with stable cashflows, which continue to support the asset class. We've noticed a notable uptick in demand from existing investors, but also from new investors from around the world looking for various forms of infrastructure debt to suit their investment needs.

Q How important is sponsor quality and how can you spot the winners?

Sponsor quality is critical. I would say it's never been more important. With interest rates remaining elevated, economic risks still present and inflation an ongoing consideration, strong and experienced sponsors are better equipped to navigate challenges in a rapidly changing world. A proven track record is essential – not just financial strength, but operational expertise and the ability to deliver projects over the long term.

Twenty years ago, the market included a broader mix of smaller sponsors and a wider range of successful strategies. Today, the industry has consolidated significantly, and scale has become increasingly important due to the sheer size and complexity of modern infrastructure investments. While strong market tailwinds can sometimes mask weaker sponsors, in more difficult conditions the best operators clearly stand out.



We view this as a clear sign of the asset class maturing and becoming more “mainstream”. So, based on what we see today, the asset class is in good health and poised for strong growth in the coming years.

Q How do you define infrastructure debt and why is it an important asset class for investors?

The fundamental definition of the asset class has not changed significantly over time, even as the market itself has evolved. We view that consistency as a positive, as the expansion of the opportunity set has created a more diverse and scalable market for investors. While we've historically focussed on social infrastructure, energy generation, utilities and transportation, in recent years we've also seen the astonishing growth of digital infrastructure.

One of the key attributes of infrastructure debt is its focus on real assets that provide essential services and benefit from stable cashflows, long-term contracts and high barriers to entry – characteristics that can provide resilience across economic cycles. These principles are central to how we approach the asset class.

Infrastructure debt sits between traditional fixed income and infrastructure equity. While it's existed in various

forms for decades, it's only emerged as a distinct institutional investment strategy over the last 15 years or so – meaning investors have heard various interpretations of what it is and how to think about it in their portfolios.

It's mostly for this reason that definition matters to investors: it's meant to provide certain characteristics to the portfolio being constructed, whether that means risk features, returns or diversification. As the market has matured, investors have developed a clearer understanding of the risk-return profile it offers and how it fits within a broader allocation. In our view, the asset class has largely delivered on those objectives, which helps explain the growing level of investor allocation and its increasing importance within portfolios.

Q How have debt investor groups evolved?

Today's infrastructure debt market is the most efficient I've seen in my career. Twenty years ago, the process looked very different. Deals were largely bank-driven, with relatively standardised structures.

Today, the investor base has broadened significantly and become far more sophisticated. Insurance companies, pension funds, asset managers and specialist lenders now play major roles

alongside banks.

This diversification has created a much more competitive and nuanced market. Different investor groups bring distinct risk appetites, return requirements and preferences for leverage and tenor.

What used to be a relatively uniform process has evolved into a more tailored, multi-option environment where sponsors can access capital from a wide range of sources. Overall, the market has become more efficient, which is a positive feature and should be an exciting prospect for investors and sponsors alike.

Looking ahead, we expect this evolution to continue. Various investment grade and below investment grade strategies will only continue to grow, whether through funds or managed accounts. We also expect new and innovative types of capital and financing structures to emerge. Capital solutions products or CLOs are new areas of growth.

Q How do you expect the supply-demand balance for infrastructure financing to evolve?

The overall demand for capital is set to increase meaningfully over the coming decades, underpinned by structural changes across energy, digital

infrastructure and broader economic development.

While short-term conditions may fluctuate, these longer-term trends are firmly in place and will require enormous amounts of capital. On the supply side, capital is also increasing rapidly as institutions become more comfortable with the asset class. Although infrastructure debt has not been in investor portfolios for decades, it's demonstrated resilience through periods including Covid and other financial shocks, which has increased investor confidence. We expect this trend to continue.

There is, however, some nuance to the balance between the types of assets being financed. For core and core-plus assets, there are no shortages of capital and financings are highly competitive.

By contrast, for newer value-add or more complex assets, capital can at times be more limited – although this gap is improving dramatically as new investors enter the market every year.

We see attractive opportunity in both segments. Over time, increased availability of finance should help drive down the cost of capital for these projects, which should ultimately benefit consumers.

In terms of what could affect this balance, regulation is a clear factor. Whether for banks or institutional investors, capital needs to generate an acceptable return. In order to finance all of these projects over the coming decades, regulators around the world will need to carefully consider the impact regulation will have on the availability of capital.

Q Which subsectors within infrastructure debt look most resilient today?

The areas likely to prove most resilient from a growth perspective are those tied to deep, underlying societal changes – structural themes that are supported by demographics and long-term shifts in how society functions.

Clearly, digital infrastructure and

energy stand out. Unlike more cyclical sectors, these are driven by sustained structural demand that isn't going away. Other supportive themes include urbanisation, alongside demographic trends such as ageing populations, as well as the ongoing focus on energy resilience, energy independence and the transition to low-carbon solutions. Transportation infrastructure is a final key theme, particularly as assets require upgrading and electrifying, an expensive but necessary process.

Although the asset class has shown to be very resilient, it's important to recognise potential vulnerabilities as well. Infrastructure assets are typically financed and structured to withstand long-term economic pressures and changes, but they still operate within environments that could be vulnerable to these changes and affect performance. This could include economic growth, inflation and interest rates.

For example, infrastructure assets are often viewed as an inflation hedge, but the reality is more nuanced. While it's true that the project or asset itself will quite often have inflation mitigation built into it, someone in the delivery of the project is still taking on the inflation risk.

Understanding where that risk truly sits within each project is critical, as is ensuring the project is able to withstand inflationary issues in its supply chain or labour. The same could be said for refinancing risks or usage in an economic downturn.

Q Can you comment on regional differences and where you see particular opportunities in terms of sectors and areas?

Most of the institutional debt activity is concentrated in Europe and the US. The markets are similar in size, but there are meaningful differences between these two markets. We also think the market in Asia will offer very attractive opportunities to investors in future, and we expect significant

growth in coming years, although we've noticed investors still look today to Europe and North America as the main investment targets.

Recently, the growth of data centres and digital infrastructure has been significantly stronger in the US, fuelled by rapid demand, more energy and land availability as well as a more decentralised environment that allows projects to move forward more quickly. Economic growth in the US has outpaced Europe in recent years which has translated into much stronger growth in the infrastructure sector and is a trend we expect to continue.

In Europe, we've seen growth themes around energy transition and security, along with broader infrastructure needs, such as transportation. However, the pace and scale of development, particularly in digital infrastructure, has been more measured.

Over the next few years, we expect to see more social infrastructure, transportation and energy infrastructure assets built in North America and Europe to start closing the gap with growth in digital infrastructure.

Another notable feature of the North American market is the incredible depth of the capital markets when compared with Europe, a feature which has surely also contributed to the strong growth we've seen in the region. There are many avenues available to sponsors to finance their projects and, as we've seen on some recent data centre projects, enormous amounts of capital available.

Looking ahead, we expect deal activity to remain strong in Europe and North America across all of these structural themes – including energy, digital infrastructure and others – for decades to come.

We believe having a clear understanding of the assets, a disciplined approach to underwriting and strong origination capabilities in all key markets will be critical to successfully capturing the opportunity. ■