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Infrastructure CLOs: 101

INSIGHTS

Infrastructure CLOs are reshaping how institutional investors access essential, income-generating assets—offering a scalable, risk-adjusted entry point into the infrastructure debt market.

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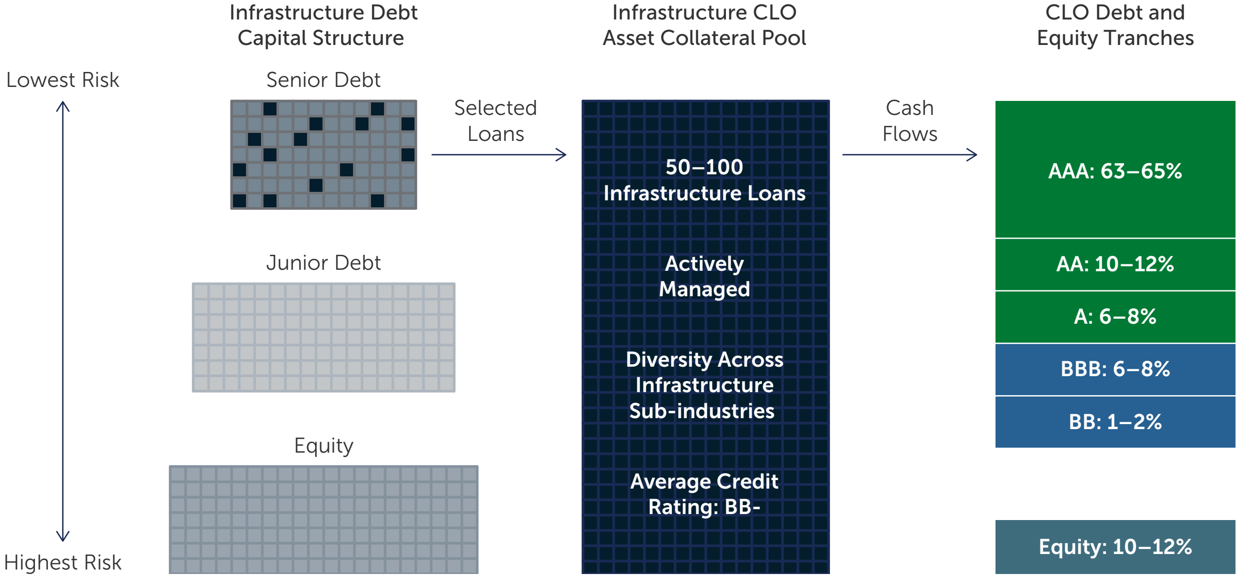
An infrastructure collateralized loan obligation (CLO) is a securitized investment vehicle that pools together a diversified portfolio of infrastructure loans. The underlying loans are typically senior secured in nature and often used to finance assets like renewable energy projects, digital infrastructure, and transportation systems. Portfolios are tranched, or layered, into varying levels of risk and return, offering investors access to infrastructure debt through a familiar and scalable structure: the CLO.

Infrastructure CLOs vs. BSL CLOs

While CLOs have traditionally been backed by diversified pools of broadly syndicated corporate loans (BSLs), the same structuring technology is increasingly being applied to other asset classes—including infrastructure debt. The core mechanics remain consistent:

- **Senior tranches** sit at the top of the payment waterfall and receive priority, offering the lowest risk/return profile
- **Equity tranches** provide leveraged exposure and the highest return potential, but also bear first-loss risk
- **Self-healing** mechanisms redirect cash flows to senior tranches if a portfolio begins to show signs of stress
- **Active management** during reinvestment periods allows managers to dynamically shape the portfolio

Figure 1: Typical Infrastructure CLO



Source: Barings.

"These vehicles are backed by loans tied to tangible, essential assets that typically carry higher credit quality and exhibit lower correlation to traditional corporate credit."

What differentiates infrastructure CLOs is the nature of the collateral. These vehicles are **backed by loans tied to tangible, essential assets** that typically carry higher credit quality and exhibit lower correlation to traditional corporate credit—traits that may be particularly appealing for long-term investors seeking yield, diversification, and stability. **Portfolios often blend public and private infrastructure loans,** combining the liquidity and tradability of syndicated assets with the enhanced spreads and structural protections of private credit. This hybrid approach also gives managers the flexibility to capitalize on relative value across both markets.

Though the infrastructure CLO market is still relatively small—around $10 billion compared to nearly $1 trillion in the U.S. BSL CLO market—it is growing rapidly. The deals tend to feature fewer underlying holdings and tighter arbitrage than traditional BSL CLOs, but are supported by portfolios with strong credit fundamentals, lower default risk and higher recovery rates. For investors seeking access to higher credit quality/lower volatility loan portfolios with resilient cash flow profiles, infrastructure CLOs are an increasingly compelling option.

AT A GLANCE

Metric	Infrastructure CLO	U.S. BSL CLO
Market Size	~$10 B	~$950 B
Average Credit Rating	BB–	B
Weighted Average Rating Factor (WARF)	1900–2100	2700–2800
Loans from B– Companies	~5%	~74%
CCC Bucket Limit	7.5%	7.5%
Average AAA Coupon*	SOFR +145 bps	SOFR +125 bps
Deal Leverage	10x	10x
Number of Obligors	50–100+	150–200+

*Note: Figures are illustrative and not indicative of expected pricing levels.
Source: J.P. Morgan; Barings market observations. As of July 31, 2025.

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A CLOSER LOOK AT THE UNDERLYING COLLATERAL

The definition of infrastructure debt can vary widely among managers, banks and investors. At Barings, we define infrastructure debt as a form of term debt used to finance physical assets that deliver "essential" services. Essential assets share a number of key characteristics: they are **capital-intensive and long-lived nature**, and supported by **contracted or dependable cash flows**. They also tend to operate in sectors with **high barriers to entry**, serve **critical social or economic functions**, and are typically **backed by investment-grade or government-related counterparties.**

We categorize this evolving market into six broad categories:

ECONOMIC INFRASTRUCTURE

Transportation-related strategic assets such as toll roads, seaports, airports, railroad rolling stock

UTILITIES AND PIPELINES

Regulated or unregulated distribution and transmission assets, which typically carry water, sewage, electricity, natural gas and other fuels

POWER GENERATION

Renewable energy generation assets (solar, wind or hydro), batteries and electric vehicles (EVs)

SOCIAL INFRASTRUCTURE

Government-sponsored public-private partnerships and social housing, and development of hospitals, parks, government buildings and social housing

MIDSTREAM AND STORAGE FACILITIES

Commodity product storage, energy and non-energy assets

DIGITAL INFRASTRUCTURE

Towers, fibre cabling and data centres in well-understood markets or regimes

In terms of the potential benefits, infrastructure loans are generally less volatile than traditional corporate credit and offer strong downside protection, making them particularly well-suited for securitization through CLOs. This resilience stems from several key factors:

- **Stable income streams:** Long-term contracts and established revenue structures support predictable cash flows
- **The defensive nature of the assets:** Infrastructure assets provide critical services—like electricity, transportation, and connectivity—that are in constant demand, even during downturns
- **Limited competition:** High development costs and regulatory hurdles protect market position
- **Strong counterparties:** Many infrastructure projects involve investment-grade corporates or government entities, reducing default risk
- **Structural protections:** Infrastructure loans often include covenants and cash flow waterfalls that enhance credit quality and recovery prospects
- **Attractive risk-adjusted returns:** The relative illiquidity of infrastructure loans compared to public credit can translate into a meaningful yield premium, offering enhanced return potential for investors

These characteristics can collectively reduce credit volatility while enhancing the performance and resilience of securitized structures, positioning infrastructure debt as a compelling asset class for CLOs.

"Infrastructure loans are generally less volatile than traditional corporate credit and offer strong downside protection, making them particularly well-suited for securitization through CLOs".

Why Use a CLO Structure for Infrastructure Debt?

Using a CLO structure for infrastructure debt offers several compelling advantages that align well with the asset class's characteristics. First, the structure offers an **efficient way to add leverage**. The predictable cash flows of infrastructure loans support the use of lower-cost senior debt within the CLO structure, enhancing the return potential for equity investors. CLOs' tiered tranching—from AAA senior notes to higher-yielding mezzanine and equity—allows investors to tailor their exposure to their preferred risk-return preferences, while the floating-rate nature of the tranches provides a natural hedge in environments where interest rates are elevated. **CLOs also offer diversification, and reduce idiosyncratic risk**, by pooling loans across subsectors, geographies, and borrower types. Infrastructure CLOs can blend corporate and project finance exposures, balancing short-term, cash-generative assets with long-term, contracted investments. Infrastructure debt's lower correlation to traditional credit markets further enhances this diversification potential.

Active management is another key benefit, and **enables managers to trade, reinvest and adjust exposures over time** to capture relative value and respond quickly and efficiently to different or shifting market environments. Finally, CLOs offer institutional investors a **familiar and scalable format for accessing infrastructure debt** without requiring direct origination—a structure that supports broad participation and efficient capital deployment.

Market Outlook & Demand Drivers

The infrastructure CLO market is expected to grow significantly over the coming years. This growth will be driven by a number of factors, including:

- Rising demand for infrastructure investment
- Institutional appetite for yield and duration
- Regulatory shifts favoring non-bank lenders
- Continued innovation in CLO structuring

Furthering this momentum, there are a number of macroeconomic and structural trends accelerating demand for infrastructure investment more generally. One is the **global transition toward cleaner, renewable energy sources**—driven by environmental, geopolitical and climate imperatives—is reshaping the power landscape, while the electrification of the economy, including the rise of electric vehicles and the need for grid resilience, is significantly increasing energy demand. Simultaneously, the **rapid pace of digitalization** is fueling the need for robust digital infrastructure, such as data centers, fiber networks, and cloud connectivity. Finally, governments around the world are making **substantial capital commitments** to modernize aging infrastructure, from transportation assets to utility systems—creating a fertile environment for infrastructure development.

At the same time, traditional **bank lending has become increasingly constrained** by regulatory and capital requirements, limiting banks' ability to partner with governments and other entities to meet the growing demand for infrastructure investment. This retrenchment is opening the door for alternative lenders to step in. Rising government debt levels are exacerbating this need, prompting a shift toward institutional capital to bridge the funding gap.

Together, these dynamics are positioning institutional investors as critical players in the future of global infrastructure financing and creating a prime environment for infrastructure CLOs to scale. And, as the market grows and matures, we expect to see increased issuance, broader investor participation, and potential hybrid structures combining infrastructure and private credit.

Key Takeaway

Infrastructure CLOs are reshaping how institutional investors access essential, income-generating assets—offering a scalable, risk-adjusted entry point into the infrastructure debt market. As demand for infrastructure investment accelerates—driven by factors like global energy transitions, digitalization, and public sector investment—these vehicles can offer a timely and scalable solution. Their potential to deliver attractive risk-adjusted returns, diversify credit exposure, and provide access to high-quality, long-duration assets positions them as a compelling addition to the structured credit landscape.

RISKS AND CONSIDERATIONS

While infrastructure CLOs offer compelling benefits, investors should be mindful of several key risks. These include the **illiquidity** of private infrastructure loans, which are less frequently traded than their broadly syndicated loan counterparts. The **complexity** is another: project finance structures and documentation can be intricate, requiring deep experience and institutional knowledge. **Sector-specific risks**—such as regulatory challenges, construction issues, and ESG considerations—can vary by asset type. Additionally, the importance of **manager selection** cannot be overstated, as underwriting discipline and active management play a critical role. Partnering with experienced managers is essential to navigating these risks effectively.

Barings' Infrastructure CLO Platform

Barings is uniquely positioned at the intersection of infrastructure debt and CLO management.

$50 B+ *in Global CLO Capabilities*	$22 B+ *Invested in Infrastructure Debt Since 2013*	25+ Years *of CLO Issuance and Management Experience*	Top 10 *Global Infrastructure Debt Manager by AUM*

First European Private Credit CLO issued in 2024—a history of innovation

Robust origination and underwriting capabilities across sectors

Dedicated team of infrastructure and structured credit professionals

Backed by deep investor relationships, Barings delivers a scalable and institutional-grade platform for infrastructure CLO issuance—designed to meet the evolving needs of today's credit investors.

Barings is a $456+ billion global asset management firm that partners with institutional, insurance, and intermediary clients, and supports leading businesses with flexible financing solutions. The firm, a subsidiary of MassMutual, seeks to deliver excess returns by leveraging its global scale and capabilities across public and private markets in fixed income, real assets and capital solutions.*

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