INFRASTRUCTURE EQUITY

IFM Investors

# Infrastructure equity for insurers: Capital efficiency, diversification, resilience

## With traditional equity-bond diversification under strain – and global equity markets looking increasingly concentrated – is now the time for insurers to consider infrastructure equity?

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### Summary
**For insurers, we believe allocating to infrastructure equity offers three key benefits:**

- **Improved diversification** at a time when traditional equity-bond dynamics are challenged, with the added benefit of downside protection
- **Improved capital efficiency** through lower Solvency II / Solvency UK charges on qualifying investments
- **More flexibility and control** when using an open-ended fund structure, as investors can adjust their allocation over time and avoid blind pool risk

# Infrastructure equity: What's the opportunity for insurers[1]?

## What do we mean by 'infrastructure equity[2]?'

As an asset class, infrastructure equity is far from homogeneous. 'Core' strategies invest in the assets that underpin everyday life – from transport networks and utilities to renewable power.

But infrastructure equity can also span higher-return strategies in areas that may be less regulated or more market-driven, such as emerging digital platforms. These 'core plus' strategies are higher up the risk curve.

## How is infrastructure equity classified under Solvency UK/Solvency II?

Since the introduction of Solvency II in January 2016, several amendments have been made to the capital treatment of equities.

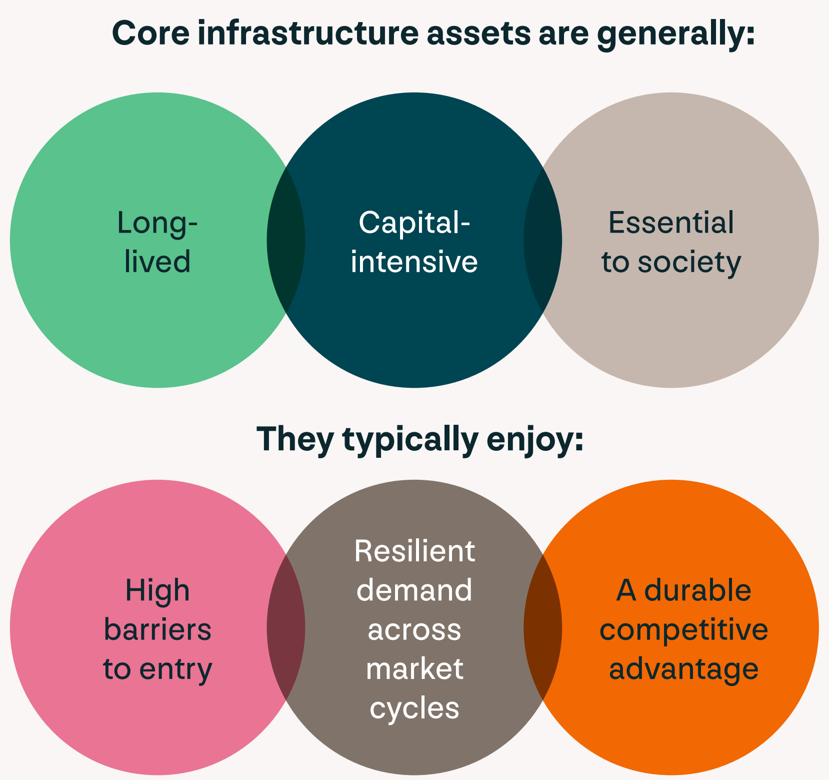
In June 2017, an amendment reduced the capital charge applied to two categories of infrastructure equity:

- Qualifying Infrastructure Equities (QIE)
- Qualifying Infrastructure Corporate Equities (QICE)

Instead of being treated as generic Type 1 or Type 2 equities – with a capital charge of 39% and 49% respectively[3] – qualifying infrastructure could now benefit from lower charges of 30% (QIE) and 36% (QICE).

Certain criteria must be met for infrastructure equity to be classified as either a QIE or a QICE investment – for example, both the infrastructure asset and the operating entity must be located in the European Economic Area (EEA) or the Organisation for Economic Co-operation and Development (OECD). But for insurers able to access qualifying strategies, this treatment can significantly enhance the capital efficiency of allocating to infrastructure equity.

FIGURE 1




[1] Investments in infrastructure are subject to various risks including regulatory risk and market risk, which are outlined in further detail on the "Important Disclosures" page. Prior to making an investment in any infrastructure strategy, investors should refer to the offering documents for a complete discussion of risks.

[2] This article refers to private markets infrastructure (i.e. investments in infrastructure assets that are made through private (non-listed) ownership structures).

[3] Type 1 equity is comprised of non-OECD listed equities, unlisted equities, private equity, commodities, and all other assets where look through is unavailable. Type 2 equity constitutes equities listed in a regulated EEA or OECD market.

### What are the potential benefits for insurers?

At the core end of the spectrum in particular, infrastructure assets often operate under regulated or contractual frameworks, generating predictable and often inflation-linked revenues.

**For insurers, core infrastructure can:**

- Provide a potential hedge against inflation
- Potentially deliver returns with less volatility and downside protection
- Support liability matching
- Deliver steady yields

**More generally, core infrastructure has:**

- Historically helped mitigate downside risk
- Provided portfolio diversification[4]

To return once more to Solvency II, the lower capital charge applied to infrastructure equity also represents an opportunity, insofar as it may enhance an insurer's investment portfolio from the perspective of overall return on capital. For 2025, Barnett Waddingham's long-term capital market assumptions for Type 1 equities ranged from 7.5-8.5% per annum[5]. By comparison, an infrastructure equity fund focused on core infrastructure might be expected to deliver returns of 8-12% per annum[6]. In other words, the expected return per unit of solvency capital is higher for infrastructure equity than for traditional listed equities.

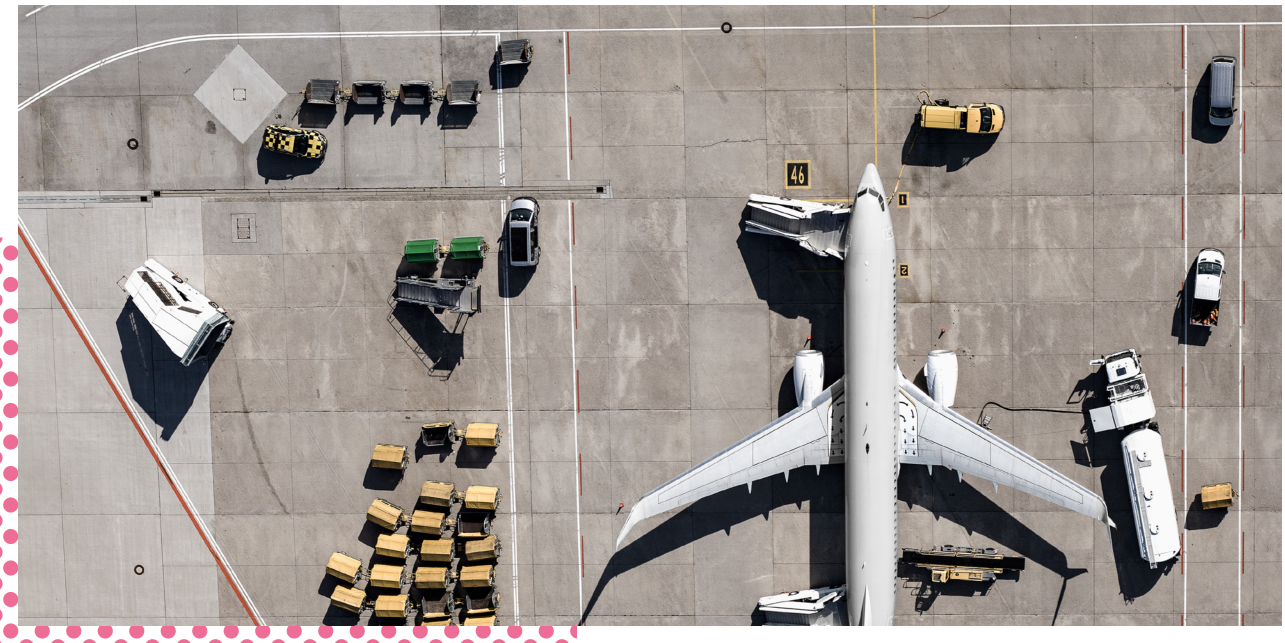
**Expected returns per annum**

Forecast for Type 1 equities
**7.5-8.5%**

Forecast for core infrastructure equity fund
**8-12%**

Source: IFM Investors and Barnett Waddingham.

We believe this – and the benefits listed earlier in this section – make infrastructure equity an attractive investment, complementary to global equities. At a time when global indices look increasingly concentrated towards US mega-cap stocks, infrastructure equity may provide valuable diversification.



[4] Given there has historically been little correlation between infrastructure equity and more traditional asset classes, like equities/bonds

[5] Source: Barnett Wadingham. Expected market returns are provided gross.

[6] Source: IFM Investors. Expected market returns are provided gross.

## Portfolio construction: How should insurers incorporate infrastructure equity?

### What might allocating to infrastructure equity look like in practice?

Below, we consider the case for including infrastructure equity in a Property and Casualty (P&C) insurer's portfolio, as well as a large UK with-profits fund.

**Example P&C insurer portfolio**

Many P&C insurers have exposure to illiquid assets, such as private credit or property. In this context, allocating to infrastructure equity could provide an additional source of returns and diversification, potentially without compromising on risk, capital metrics, or liquidity constraints.

In Chart 1, we demonstrate this with two portfolios: the first excludes infrastructure equity, the second includes a 7.5% allocation.

**Example with-profits fund portfolio**

Similarly, with-profits funds are increasingly considering alternative asset classes to enhance policyholder outcomes. Chart 2 shows two portfolios for a typical medium-sized with-profits fund: the first excludes infrastructure equity, the second makes a 7.5% allocation.

As with the P&C portfolio, allocating to infrastructure equity provides a new source of returns; it also potentially reduces risk and capital metrics.

CHART 1

Including infrastructure equity in a P&C insurer portfolio

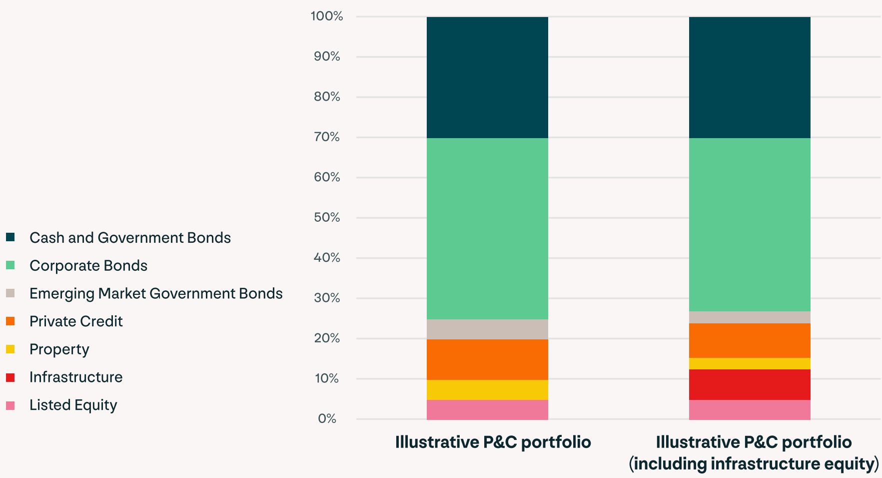
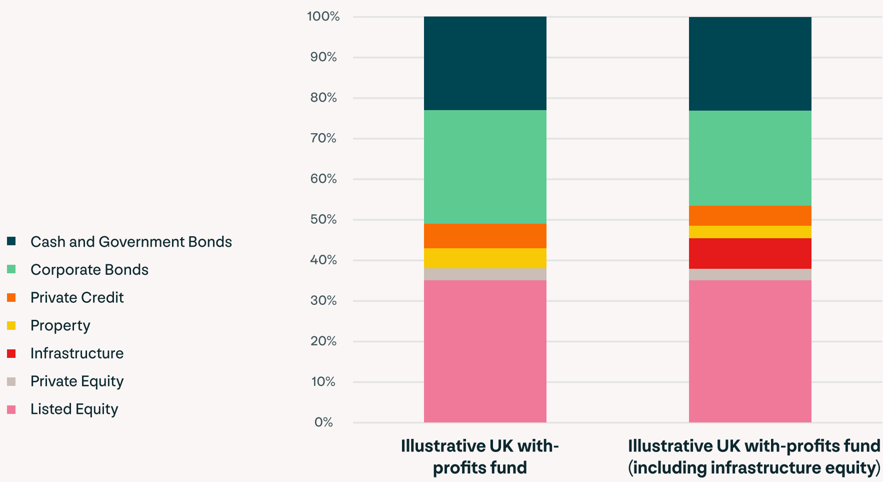



CHART 2

Including infrastructure equity in a with-profits fund portfolio



## Does investing via a closed- or open-ended fund make a difference?

Investors can access infrastructure equity through both open-ended and closed-ended fund structures. Whichever option an investor chooses, selecting the right manager is crucial.

### Closed-ended funds

Historically the most common way to access infrastructure equity, closed-ended funds typically raise capital for a fixed period, invest this capital into a portfolio of underlying assets, and then return capital to investors at the end of the fund's life.

**Advantages**
- Allows managers to take a long-term view and fully deploy committed capital
- Staged capital deployment allows managers to invest as opportunities arise
- Clear divestment strategy, with capital realised and distributed at fund maturity

**Drawbacks**
- 'Blind pool risk' – investors commit capital before knowing what the fund will invest in
- Secondary liquidity is limited[7]
- Investors must usually wait until fund maturity for exit
- Exposure takes time – capital deployment doesn't happen straight away

### Open-ended funds

An increasingly popular way to access infrastructure equity, open-ended funds usually invest in an established portfolio of assets, giving investors immediate exposure.

**Advantages**
- No predefined end date, meaning ongoing exposure
- Exposure is immediate – capital deployment happens at the point of investment
- Some liquidity, meaning investors can adjust their allocation over time
- No blind pool risk – assets are in place at the point of investment

**Drawbacks**
- The fund may offer some liquidity, but its underlying assets remain illiquid
- Liquidity buffers can dilute overall returns or shift the portfolio's investment strategy
- In stressed market conditions, gating may be deployed

For insurers, we believe open-ended funds are often the better fit. They allow allocations to be adjusted over time, while providing long-term exposure that aligns with liability profiles.

7 Although the secondary market is expanding.

## Conclusion: What's next for infrastructure equity?

In this article, we've outlined why we believe now is the right time to invest in infrastructure equity, but looking further ahead, the asset class looks set to benefit from a number of global megatrends[8]. From decarbonisation and electrification to digital connectivity and circular–economy solutions, these trends point to a sustained opportunity, reinforcing infrastructure equity's role as a strategic, forward-looking allocation for insurers.

> **We believe investing in infrastructure equity via an open-ended fund has the potential to enhance portfolio resilience, improve capital efficiency, and provide the flexibility to scale allocations long term.**

[8] Megatrends: building a sustainable investment portfolio - Briefings | Barnett Waddingham

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