

Private Infrastructure

Why Investing Makes Sense Now

Private infrastructure is under-utilized by wealth advisors as a strategic, all-weather staple in their clients' portfolios. Indeed, current supply and demand dynamics, in addition to global macro-economic conditions, may present a particularly opportune time to invest in private infrastructure based on the attractive characteristics unique to the asset class.

Providing Certainty During Uncertain Times

Infrastructure is critical to the functioning of society, and it's everywhere. Utilities bring power and water to our homes; ports, ships and containers move our goods; cell towers keep us connected; and data centers power our AI.

Given their essential nature and dependable revenue streams, private infrastructure investments often provide investors with diversification, stable income, downside mitigation, long duration and inflation protection, as well as resilient cash flows throughout most economic cycles.

Key Drivers for Investing Now

Immense global funding gap

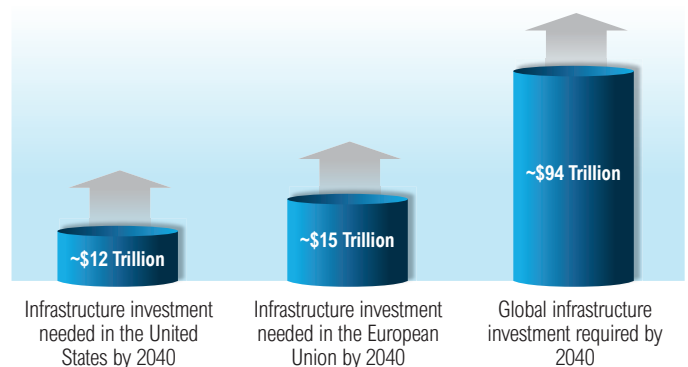
While infrastructure is compelling for investors in most market conditions, today's investment climate appears to be particularly rife with opportunity—especially considering the

global infrastructure funding gap. On top of available public funds globally, an estimated \$500 billion is needed each year by 2030. Private capital is essential to address this gap as governments and corporate asset owners worldwide face budgetary pressures and higher debt burdens.

A massive, growing mismatch exists between the demand for infrastructure—estimated at over \$90 trillion globally by 2040—and the supply of available capital, which currently falls short by approximately 4x annually (see Figure 1). Driven by a significant backlog of maintenance and replacement for current infrastructure, in addition to new sources of demand such as energy transition, digitization, and AI, this infrastructure gap has fueled increased private, institutional, and public-private investment despite rising costs.

FIGURE 1

The Global Infrastructure Funding Gap



Source: Oxford Economics, "Global Infrastructure Outlook," August 2023. Represents trends from 2016 to 2040.

FIGURE 2

Grading Current U.S. Infrastructure

| Segment Grades | | | | | | Grading Scale | |
|----------------|----|------------------|----|-------------|----|--|-------------|
| Aviation | D+ | Hazardous Waste | C | Roads | D+ | A | Exceptional |
| Bridges | C | Inland Waterways | C- | Schools | D+ | B | Good |
| Broadband | C+ | Levees | D+ | Solid Waste | C+ | C | Mediocre |
| Dams | D+ | Ports | B | Stormwater | D | D | Poor |
| Drinking Water | C- | Public Parks | C- | Transit | D | F | Failing |
| Energy | D+ | Rail | B- | Wastewater | D+ | Overall Infrastructure Grade: C | |

Source: American Society of Civil Engineers (ASCE). (2025, March). 2025 Report Card for America's Infrastructure.

Drivers of demand include:

- ▶ **Digital Transformation:** AI workloads and data center expansion are projected to nearly triple demand for digital capacity by 2030.
- ▶ **Energy Transition:** Renewables and grid modernization are driving massive, long-term capital needs.
- ▶ **Maintenance:** Aging infrastructure in developed nations requires urgent, large-scale replacement. In its most recent 2025 report card, the American Society of Civil Engineers gave the US infrastructure an overall grade “C” with 12 of the 18 major categories receiving a C- or worse. Not a single category earned higher than a B (see Figure 2).

Declining interest rates

Declining interest rates generally boost private infrastructure investment by reducing borrowing costs, enhancing project valuations, and increasing investor demand for predictable, high-yield cash flows.

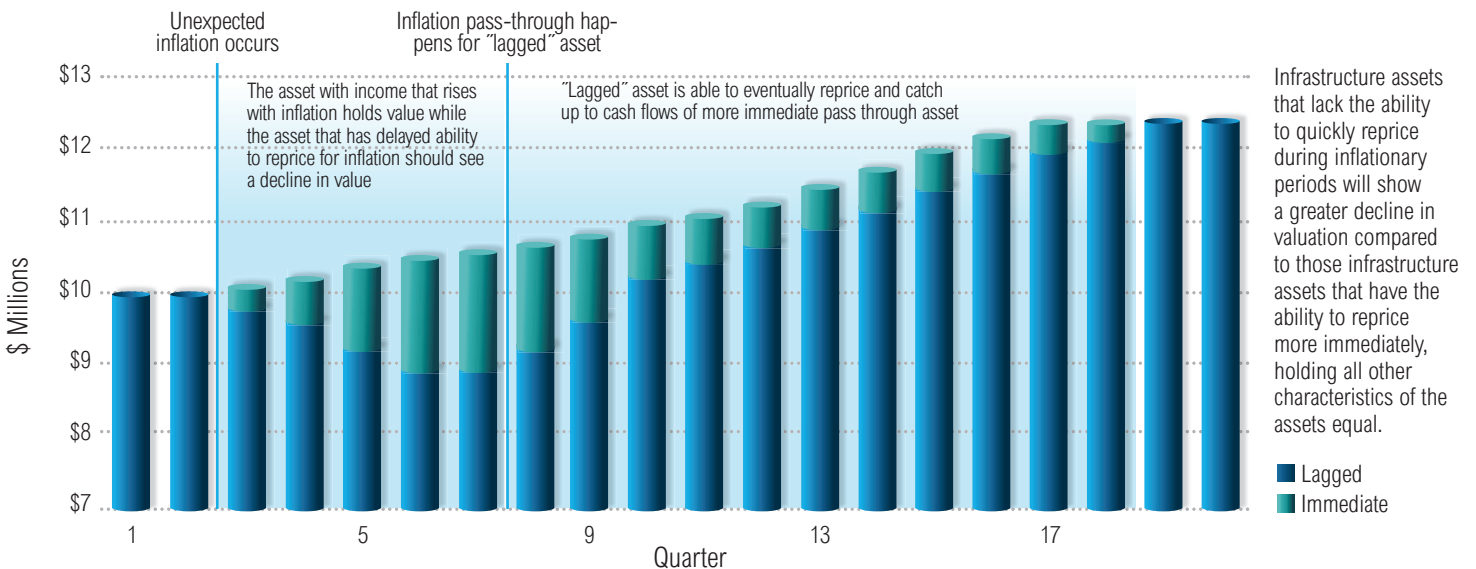
The impacts of lower interest rates on infrastructure investment include:

- ▶ **Reduced Financing Costs:** Lower rates significantly reduce the cost of debt, which is crucial for the highly leveraged infrastructure sector, thereby increasing the profitability of projects.
- ▶ **Boosted Valuations:** Decreased rates lead to lower discount rates, which in turn increase the present value of future cash flows, supporting higher asset valuations.
- ▶ **Increased M&A Activity:** Reduced borrowing costs can spark more mergers and acquisitions, facilitating more active portfolio management and asset transactions.
- ▶ **Potential for Enhanced Capital Appreciation:** While absolute yields may decrease with interest rates, the relative value of private infrastructure remains compelling due to its ability to generate stable, long-term returns.

Persistent inflation

Globally, inflation has proven “sticky” instead of quickly returning to historic low levels. In the U.S., inflation remains

Illustrative Examples Demonstrating Differences in Impact to Asset Values From Inflation



Source: Ares and EDHEC-infra, Inflation and Rising Rates: Impact on Infrastructure Assets, Oct 2022

above central bank targets even as it has eased from pandemic-era highs, reinforcing the view that price pressures aren't fading quickly. Analysts and investors warn that inflation could stay above targets longer than markets expect, due to structural and policy-driven forces.

Private infrastructure investment is widely considered an effective hedge against inflation due to characteristics that help maintain the real value of assets and potential cash flows during periods of rising prices.

How Private Infrastructure Provides Inflation Protection

The primary mechanisms for inflation protection are embedded within the nature of infrastructure assets and their business models:

- ▶ **Contractual Indexation:** Many private infrastructure assets, such as toll roads, utilities, and communication towers, operate under long-term contracts, concession agreements, or regulatory frameworks that explicitly include provisions for automatically increasing prices or tolls in line with inflation (often tied to the Consumer Price Index or a similar metric).
- ▶ **Essential Services and Inelastic Demand:** The services provided by infrastructure (e.g., electricity, water, transportation, data connectivity) are fundamental to the functioning of society and economies. Demand for these essential services tends to be stable and less sensitive to price changes or general economic downturns, allowing operators to pass through rising costs to end-users without a significant drop in volume.
- ▶ **Pricing Power:** Due to their often monopolistic or highly strategic market positions (high barriers to entry, hard-to-replicate assets), infrastructure owners generally possess strong pricing power. This allows them to raise rates to cover increasing operating and input costs, even without explicit contractual links.

- ▶ **Tangible Assets:** Infrastructure investments involve ownership of physical, "hard assets" (bridges, pipelines, data centers) that tend to appreciate in value along with the cost of materials and labor in an inflationary environment, providing a natural store of value.

High Valuations on Public Equities

Most major valuation indicators signal that U.S. equities are above historical norms — which many analysts interpret as overvalued compared to long-term averages.

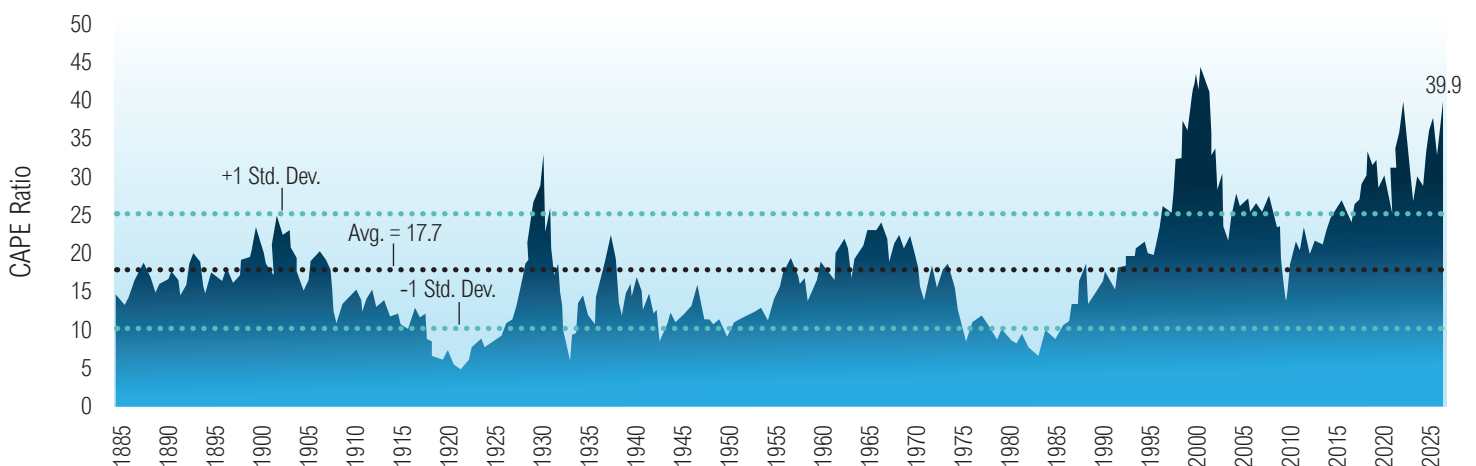
Private infrastructure investment can potentially serve as a potent counter to high valuations on public equities by offering diversification benefits, lower volatility, stable and predictable cash flows, downside mitigation, and a built-in hedge against inflation. These characteristics have the potential to make private infrastructure performance less correlated with broader public market sentiment and economic cycles.

The chart below details one valuation metric for U.S. equities. A higher (lower) figure indicates more expensive (cheaper) valuation relative to history.

Secular Trends Benefiting Infrastructure Investment

- ▶ **Secular Megatrends:** Long-term, structural forces are driving a super cycle of demand:
 - **Digitalization:** The rise of AI, cloud computing, and 5G networks necessitates significant investment in data centers, cell towers, and fiber optic systems.
 - **Decarbonization** (the Energy Transition): The global shift to cleaner energy requires substantial capital for renewable power generation, transmission grids, and storage solutions.
 - **Deglobalization:** Shifting supply chains and onshoring initiatives create demand for new logistics infrastructure, ports, and rail.

U.S. Equity Cyclically Adjusted P/E (As of December 31, 2025)



Harnessing Infrastructure's Tailwinds

While capital scarcity is a headwind for investments in existing assets and new project development, it is creating a buyer's market for investors. And combined with strong tailwinds from global long-term trends, infrastructure potentially offers a compelling opportunity for solid returns and enhanced diversification in portfolios.

From an investor's perspective, infrastructure assets have historically remained stable during periods of market volatility, making infrastructure a compelling asset class for all seasons. Institutional investors have taken note, and infrastructure assets among the nation's top 200 retirement plans were up 212% in the past five years to \$72.1 billion, according to Pensions & Investments data as of Sept. 30, 2023.

Infrastructure remains a compelling investment opportunity due to its long asset life, stable earnings profile, and strong secular growth drivers. The asset class can enhance portfolio diversification through exposure to a different asset class with historically low correlation to traditional stocks and bonds. Because infrastructure assets are essential to the day-to-day functioning of society, the demand for these assets continues despite economic downturns. The current higher inflation, lower growth environment underscores the strategic importance of infrastructure investments in providing stability and resilience to an investor's portfolio through economic cycles.

For more information on private infrastructure investments and how to incorporate them into client portfolios, please contact your Meketa Capital representative today.

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