Kepler | Trust Intelligence

Investing in infrastructure

Infrastructure can provide uncorrelated returns and reliable income.

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Gravis

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Julius Caesar may have managed to impressively build a bridge over the river Rhine near Koblenz in western Germany in just ten days and with the help of around 40,000 soldiers, but, as the saying ‘Rome wasn’t built in a day’ suggests, this was an abnormal feat.

Of course, most towns and cities are already built, but the fact is that today many are in desperate need of modernising. The infrastructure underpinning them is long overdue for an expensive and time-consuming upgrade.

In fact, Aberdeen Investments forecasts that all of this will cost the world $64 trillion (c. £48 trillion).

Fortunately, we believe that this creates a real opportunity for investors to share in and benefit financially from this build-out, especially in our home country.

What is infrastructure?

Infrastructure encompasses a broad array of assets and essentially makes up the heart of a country. It encompasses everyday structures that we all use and most take for granted. Infrastructure is critical to the functioning of society.

The Association of Investment Companies’ (AIC) universe of infrastructure investment trusts is broad and diverse, with some choosing to focus solely on UK investments, and others branching out into other jurisdictions such as the US, Australia, and Continental Europe.

We’ll take a quick and non-exhaustive spin through the kinds of assets that one might gain access to when investing in any of the London-listed infrastructure-related investment companies.

Transport

Transport infrastructure assets tend to be things like highways and toll roads, which drivers have to pay to use; airports and aircraft; high-speed railway lines; and ferry ports.

Housing

There are a few popular sectors here, with student accommodation often being one, particularly around universities that are popular with foreign students. At the other end of the scale, social housing sites pop up in some infrastructure funds. These developments often include homes for vulnerable people such as the disabled or victims of domestic abuse.

Social infrastructure

Again, a diverse bunch of assets including hospitals and medical centres; prisons and correctional facilities; schools and universities; fire stations; sports and leisure facilities; and courthouses.

Digital structures

Digitisation tends to be a key plank of any investor’s portfolio – and that’s no different from infrastructure funds, as this is the newest and shiniest sub-sector. The assets in this sector are crucial in supporting the backbone of the digital economy.

Data centres in particular have become popular both for general infrastructure funds and also as specialist vehicles. These are physical facilities that house computer servers used by organisations to store and process large amounts of data.

We also find things like communication towers that enable TV, radio, and telecommunications; and fibre-optic networks for internet connectivity.

Renewables

There is a separate AIC sector reserved for renewable energy infrastructure trusts, but many of the core infrastructure companies also invest in renewables, aiming to give shareholders a one-stop infrastructure shop.

Most often, these investments include solar panels, wind farms, energy storage facilities, anaerobic digestion plants, and biomass plants. Investments can also include the transportation and distribution networks – the pipes and cables – associated with renewable projects.

Utilities

Core, regulated utilities such as water, wastewater, and electricity networks also form part of several infrastructure portfolios: these are typically corporates that own monopolistic assets that operate under a regulated framework.

Why invest in infrastructure?

Infrastructure has long been a part of the investment portfolios of large organisations such as sovereign wealth funds, private equity houses, hedge funds, and university endowments, but it has matured rapidly over the past decade or so.

Indeed, private equity infrastructure funds under management have grown by 17% annually since 2013, hitting almost $1.2 trillion in global assets under management, while private infrastructure debt funds under management have expanded at an impressive annual rate of 27%, according to Preqin.

There have been a few reasons for this: governments have long been encouraging private capital to help fund the necessary build-out and renewal of infrastructure, an initiative that has only grown as post-financial crisis austerity measures and soaring public debt-to-GDP levels have constrained government balance sheets. This has also led to the introduction of long-term revenue support models, which provide a steady stream of income payments over many years, rather than unpredictable one-time payments.

In addition, the period of low or zero interest rates and consequently low bond yields pushed many investors into higher-yielding asset classes, of which infrastructure is one.

Several mega-trends – demographics, decarbonisation, digitalisation, and deglobalisation – also support the development of new infrastructure, whether this is healthcare to support a growing and ageing population; renewable energy to decarbonise electricity generation; data centres; or securing local supply chains. Policy and public-sector-backed support mechanisms are being introduced and expanded in recognition of this need.

Diversification

The purpose of an investment portfolio is, of course, to provide the best risk-adjusted return relative to one's risk tolerance. Therefore, diversification is key.

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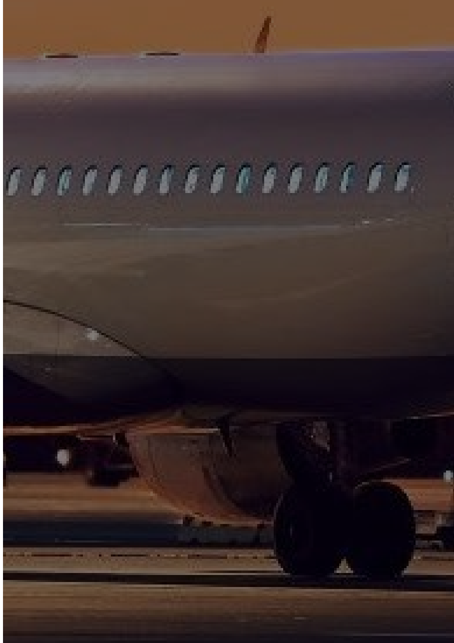
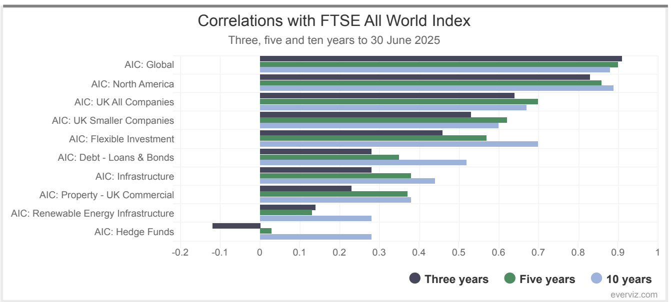


While we won't rehash old and hackneyed phrases just for the sake of it, you can certainly see from the chart below that infrastructure provides investors with real diversification versus global equity markets.

Of the key asset class groups within the investment company universe, infrastructure peers offered some of the lowest correlations with the FTSE All-World Index, a popular global stock benchmark.

Fig.1: Uncorrelated Returns



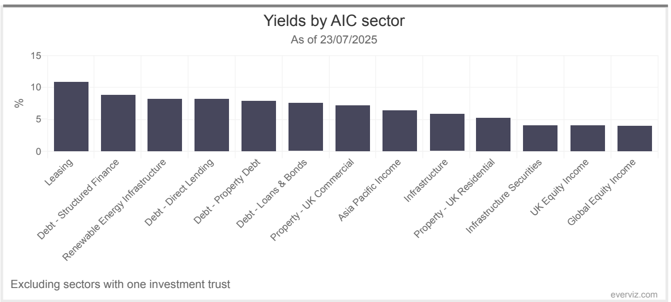
Source: FE fundinfo

Over three and ten years, only UK commercial property and hedge funds had a lower correlation than infrastructure and renewable energy infrastructure, which we've grouped together in this section since many infrastructure trusts straddle both sectors.

Reliable income

As well as offering returns that are uncorrelated with equity markets, infrastructure can be seen as a vital part of a diversified portfolio targeted at generating a high, growing, and sustainable income in retirement.

Fig.2: Highest-Yielding Sectors



Source: JPMorgan Cazenove

To give you the headline stats, the chart below shows that infrastructure-related AIC sectors all rank within the top 11 highest-yielding sectors. For the purposes of this article, we've excluded sectors with only one fund in them.

Those high yields are well backed up. Most infrastructure investment companies' revenues tend to have an element of protection from inflation, in that they will have built-in mechanisms that mean cash flows may increase alongside a chosen measure of inflation.

Revenues generated by infrastructure projects are the result of the provision of critical goods and services performed by real assets: high upfront capital costs, high barriers to entry and the ongoing need for such goods or services mean there is a natural defensiveness in those revenues.

In addition, these incomes generated by the companies are often government-backed – being funded by local authorities or central government – and have long, contractual cash flows attached.

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Policy support

Not only is allocating to infrastructure attractive from both an income and growth perspective, but it also makes sense because of the long-term support from governments underpinning the asset class.

We mentioned earlier that infrastructure is critical to the functioning of society, and that has never been truer today, particularly in a world where developed economies badly need to upgrade their infrastructure stock.

On the home front, the UK government unveiled a new ten-year infrastructure strategy in June 2025, which committed up to £725 billion in public investment over the next decade, aiming to boost economic growth, modernise national infrastructure, accelerate the shift to clean energy, improve digital connectivity, and strengthen environmental resilience.

The government envisages private capital playing a major role in this rollout, and the strategy includes a targeted reintroduction of public-private partnerships to help finance and deliver major infrastructure projects. The ten-year strategy pointed to over £500bn of private sector investment in sectors including decarbonisation, the digital economy and water.

In addition, numerous government bodies have been rolled into one, a consolidation aimed at cutting red tape, improving oversight and streamlining project delivery. If successful, the strategy could mark the beginning of a new phase in UK infrastructure investment and lead to attractive returns for retail investors, with investment companies having already deployed £17 billion of capital across UK infrastructure.

How difficult is it to invest in infrastructure?

It is pretty much impossible for ordinary savers to invest directly in infrastructure – this asset class tends to be the preserve of institutional investment houses or sovereign wealth funds. This is because you would typically need tens of millions of pounds just to fund part of one project, let alone a diversified portfolio of them.

After that, you would also need to have the knowledge of how to run the assets, which includes operating and maintaining them, among other things.

As a result, most investors will get their exposure to infrastructure through the collective funds space. These funds are managed by experts in their field and are large enough to put together a well-diversified portfolio across geography, sub-sector, and contract type.

Direct v indirect infrastructure funds

There are essentially two different ways of investing in infrastructure through collective funds. You can invest in funds that own listed infrastructure companies, which gives you indirect exposure to the asset class.

However, because these funds are invested directly into equities, they are more correlated with global stock markets. Indeed, while the three-year correlation of the AIC Infrastructure sector with the MSCI World Index is 0.24, the IA Infrastructure sector's correlation with the MSCI World Index is more than two times higher at 0.55. Over ten years, the IA Infrastructure sector has a 0.75 correlation with the MSCI World Index, versus 0.42 for the AIC Infrastructure sector.

The next section will deal with the second way of investing directly in infrastructure through collective funds.

Why invest in infrastructure via investment companies?

If you want to invest directly in physical infrastructure, you only really have one choice, and that is through listed investment companies.

Investment companies in the infrastructure sector invest directly into the actual assets that we've highlighted in this guide. Therefore, you directly benefit from all the attractive characteristics that we've also outlined, such as predictable revenue streams, government-backed contracts and inflation protection.

It is worth noting that there are two different ways of financing infrastructure: through taking equity stakes and offering debt obligations.

This is analogous to the differences in financing companies through stock markets and bond markets: you can either take direct ownership of the equity of an infrastructure asset, or you can help to finance it by lending money to the owner and charging interest.

Again, the difference between equity and debt is in risk profile: debtors are always higher up in the pecking order if things go south, so they are more likely than equity holders to receive their money back. Conversely, they share in less of the capital upside should things go well. This makes debt-related infrastructure less risky and arguably provides a smoother return profile. However, equity-related infrastructure investments have higher potential upside, including the opportunity to benefit from a growing income stream.

The reason investment companies are the perfect vehicle for investing directly into infrastructure is that the asset class is inherently illiquid: that is, it is hard and time-consuming to sell your infrastructure assets. The permanent capital structure of investment companies means that it's easy for investors to buy and sell shares without having to wait for the investment manager to offload parts of the portfolio in order to manage redemptions.

It also means that investment managers can be longer term in their philosophy – not having to trade in and out of assets often.

Other benefits include the fact that investment trusts can hold back up to 15% of their income in reserve, which can be used to smooth dividend payments if there is any unexpected drop off in income.

Finally, investment companies are able to use gearing – borrowing money to enhance returns and deliver a higher yield. It should also be noted that this can work in the opposite direction and exacerbate losses if the fund manager makes the wrong call.

Case Study

GCP Infrastructure Investments (GCP)

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Launched: 2010

Manager: Gravis Capital Management Ltd

Ongoing charges: 1.2%

Investment policy: GCP Infrastructure Investments (GCP) seeks to provide shareholders with regular and sustained long-term dividend income whilst preserving the capital value of its investments through investing in a diversified portfolio of UK infrastructure projects with long-term, public-sector-backed revenues, with a focus on debt.

GCP Infrastructure Investments (GCP) was launched in 2010 to provide investors with reliable government-backed income, secured against essential UK infrastructure.

Unlike equity-focused funds, GCP lends to a diversified portfolio of infrastructure projects benefiting from long-term, government-backed cash flows, often with an element of inflation-linkage. These revenues tend to be resilient through economic cycles, offering investors both stability and diversification with a lower correlation to bond and equity markets.

The UK infrastructure landscape has undergone a significant transformation over the past 15 years. GCP's diversified approach and early-mover strategy have enabled it to evolve with market dynamics, capturing enhanced returns and mitigating sector-specific risks. For example, within the renewables sector, the trust was able to lock in 9-10% yields from early investments in solar energy (in 2011), and anaerobic digestion (2013), significantly above the prevailing 0.5% base rate and the low single-digit yields offered to later lenders.

As solar and wind infrastructure markets have matured and risk-adjusted returns have fallen, GCP has reoriented its portfolio to take advantage of new opportunities, such as anaerobic digestion. This approach has helped GCP construct a portfolio that now generates enough clean energy to power almost a million homes each year.

Against a favourable policy backdrop, including the UK's new £725 billion ten-year infrastructure strategy, GCP is well-positioned to benefit from rising public and private investment. With structural drivers such as decarbonisation, deglobalisation, ageing demographics and digital connectivity accelerating, the trust offers investors access to long-term trends through a defensive, income-oriented lens.

1) What is the investment trust's goal?

To provide consistent, long-term dividend income and preserve capital through investing in a diversified portfolio of UK infrastructure assets that benefit from public-sector-backed cash flows, with a focus on debt.

2) Are investment decisions driven by a particular investment style?

GCP focuses on providing exposure to a diversified range of infrastructure assets in the UK which are underpinned by public-sector-backed cash flows, focusing on debt. These assets range from renewables, with revenues predominantly underpinned by government subsidies, PFI/PPP with unitary charge payments backed by the UK government, and public-sector-backed lease income from the supported living assets within the portfolio. Around half of the current portfolio is inflation-protected.

The team focuses on assets with high barriers to entry, monopolistic characteristics and low sensitivity to economic cycles. Rather than chasing capital growth, the trust prioritises risk-adjusted returns and capital preservation, seeking assets that deliver reliable income irrespective of the macro environment, with the diversified nature of the portfolio supporting this ambition.

GCP also favours projects with high upfront capital expenditure and limited ongoing operating risk, supporting dependable long-term returns, with just 1% of the portfolio exposed to construction.

3) How many assets does the trust typically hold?

GCP holds a well-diversified portfolio of almost 50 investments spanning 17 infrastructure sectors. Around 60% of the portfolio is invested in renewables (primarily solar, biomass, wind and anaerobic digestion), just over a quarter in PFI projects (with healthcare and education as the largest constituents), with supported living making up the remainder.

In terms of capital structure, the majority of the portfolio is invested in senior and subordinated debt, which offers greater security than equity exposure.

4) What is the trust's dividend policy?

GCP has delivered consistent dividends for the last 15 years and is currently trading at a dividend yield of just over 9% (as at 08/08/2025). It set a medium-term 7.0 pence per share dividend target in 2020 and continues to deliver on this.

5) What are the trust's ongoing charges?

GCP has an ongoing charge of 1.2% per annum (which is deducted from the net asset value and not from the shareholder).

6) Does the investment trust have performance fees?

No.

7) Does the investment trust use gearing and, if so, is it structural or opportunity-led?

GCP has a maximum allowable structural gearing of 20%, although this has typically been in the 10-15% range in recent years. It reported a net debt position of £36 million as of 30 June 2025, equivalent to 4.2% of NAV.

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