InfraRed
Capital Partners

Infrastructure Strategic Outlook H2 2025

Adapting to shifting global trade dynamics

InfraRed Capital Partners, June 2025. For illustrative purposes only.

KEY TAKEAWAYS FOR H2 2025

What has changed
(Since January 2025)

- The macro landscape has changed with U.S. tariffs introducing uncertainty to the outlook.
- Infrastructure fundraising and deal activity are on the rise, with valuations and return expectations appearing to have found an equilibrium.
- Infrastructure allocations are shifting with a tilt towards global portfolios, now somewhat favouring Europe. North America, nevertheless, remains a key market.

Macro[1]

- A global recession is unlikely, but investors anticipate softer growth ahead.
- Inflation is diverging, being higher in North America than Europe, USD is depreciating, while long-term bond yields remain sticky.
- Trade barriers raise the risk of shifts in global supply chains, increased regional competition, and structurally higher inflation and bond yields.

Financial markets[2]

- Commodities have repriced ahead of weaker growth, mitigating short-term inflation risk.
- High yield credit spreads have widened, and a weakening of the credit cycle is possible.
- Equity markets show volatility and some rotation to value stocks and alternatives is likely.

Alternatives capital flows[3]

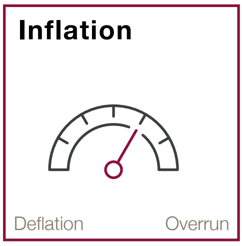
- Alternatives fundraising and transaction volumes remain below historical peaks, as investors continue to scrutinise portfolio liquidity and capital commitments amid slower exits.
- Infrastructure fundraising is improving, and strategies are somewhat polarising, with a focus on value-add for capital appreciation and core for income.
- Infrastructure deal volume continues to rebound, with digital and energy transition deals in North America and Europe dominating the market environment.

Infrastructure performance[4]

- Infrastructure performance remained resilient, with December 2024 data showing some improvement compared to September 2024.
- Economic weakness increases the risk of weaker performance in energy and transport, with the port sector particularly exposed to trade volatility.
- Valuations in the private infrastructure space have begun to stabilise, providing investors with a likely attractive entry point into the asset class.
- Core and Value-Add entry returns are at c.10% and 14%.

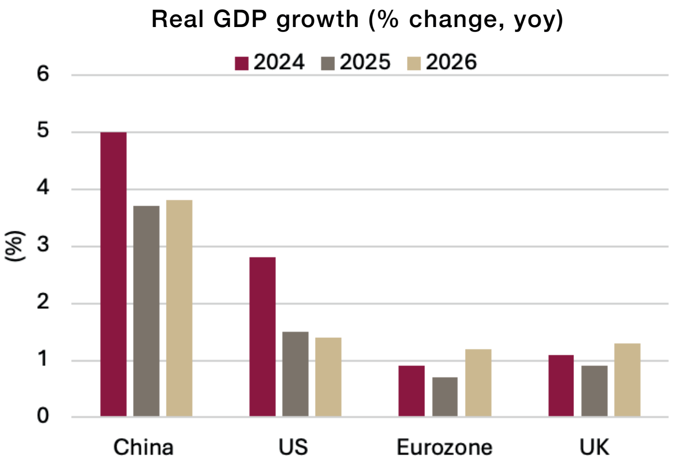
[1] Macrobond, May 2025
[2] Macrobond, May 2025
[3] Preqin, May 2025
[4] Returns indicated are estimates for 10-year net entry IRRs as at December 2024. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.

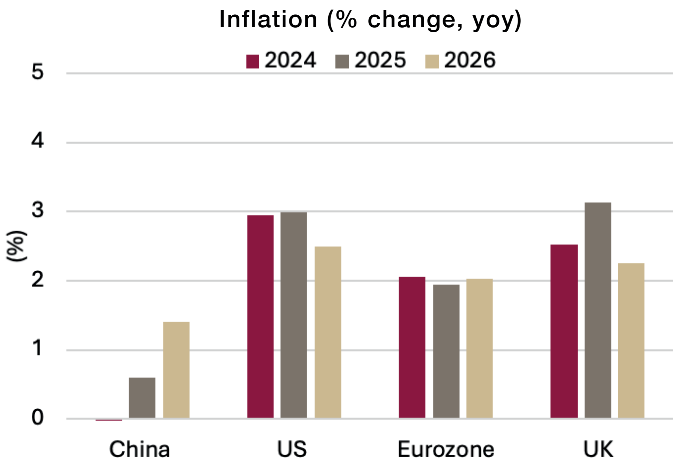
MACRO[5]



Growth tested by trade policy: The global economy is showing signs of weakness. A global recession is not our base-case, but the economy is increasingly challenged by trade tensions. The U.S. has implemented successive waves of tariffs since early 2025, with bilateral negotiations anticipated to add increased complexity to the outlook.

While negotiations appear to be leading to a gradual reduction of initially announced tariffs, these actions have contributed to heightened market volatility, softer investor sentiment, and weakening trade flows, broadening the downside risks to global growth. Early indicators suggest slowing consumption and softer business sentiment. Inflation has continued to decline across most advanced economies, yet it appears to remain sticky in the U.S. Central banks remain cautious as policy fragmentation and geopolitical frictions now dominate near-term risks.





Source: Macrobond, May 2025. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.

Regional divergence continues: In the U.S., the economy started the year on a strong footing, supported by robust fiscal spending and resilient consumption. The introduction of recent tariff measures increases the risk that the U.S. may face a shallow recession by the end of 2025, in our view. The recent government's stance on trade may also prolong inflation pressure, making interest rate cuts more gradual than previously expected, and leading to stickier long-term government bond yields. While the recent USD weakness may contribute to reducing the U.S. trade deficit and improve competitiveness, it may also amplify policy uncertainty.

In the Euro Area, momentum remains weak. Structural constraints in Europe's industrial base and high energy costs are weighing on investor confidence. Southern Europe now provides a more stable backdrop, with a growing number of investors targeting the region. Nevertheless, in our view, the region's growth outlook remains exposed to the risk of a global slowdown. Euro Area policy appears more coordinated, Germany has recently approved a EUR 1 trillion fiscal policy reform anticipated to strengthen the region's growth prospects.[6] The ECB continues to follow a path of monetary policy easing, despite recognising increased inflation risks driven by recent global trade dynamics.

[5] Macrobond, May 2025. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.
[6] InfraRed Capital Partners, Germany's €1 Trillion 'whatever it takes' moment: Implications for infrastructure investors, March 2025

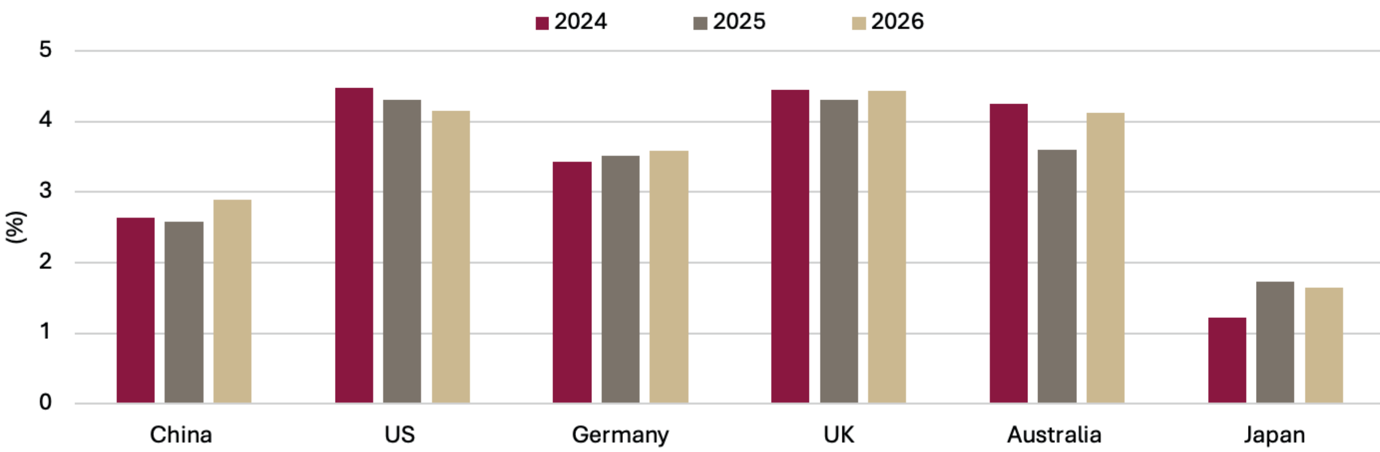
In the UK, the economic growth forecast for 2025 has been adjusted downward to 1.1% from a previous estimate of 1.6%, as trade disruptions exert pressure on the economic outlook and inflationary concerns persist. Nonetheless, the recent strength of the British Pound appears to be a contributing factor to the Bank of England's decision to lower interest rates further, without significantly increasing the risk of importing inflation.

Growth is anticipated to soften also across emerging markets and in China. Chinese authorities are deploying stimulus, but structural issues — especially in the property sector — continue to weigh on domestic demand. With growth in 2024 mainly supported by external demand, a weaker trade outlook may have meaningful ramifications on the economy.

Inflation normalising, but global trade effects loom: Inflation across advanced economies continues to trend downward toward central bank targets. However, disinflation is proceeding at an uneven pace, with some economies experiencing lingering stickiness due to supply-side frictions and service-sector price pressures.

Ongoing tariff negotiations have introduced additional cost pressures and uncertainty around global supply chains. As central banks weigh the risks of easing too soon against the drag from tight policy, cuts may only continue later in 2025, particularly in the U.S.

Long-term government bond yields (%, yoy)



Source: Macrobond, May 2025. Past performance is not indicative of future returns.

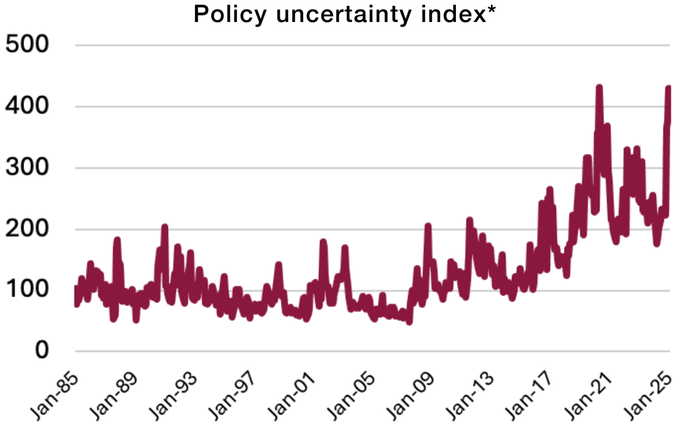
Long-term yields elevated: Long-term government bond yields remain elevated in most advanced economies, reflecting the interplay between policy caution, inflation expectations, and the resurgence of geopolitical risks. Real yields are now positive across several markets, pointing to tighter financial conditions and increased sensitivity to shocks.

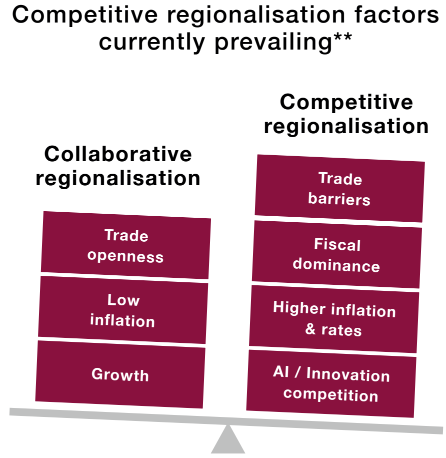
A new trade paradigm:[7] In our view, the global economy may be shifting away from the open, rules-based globalisation model that defined the past few decades toward a more fragmented, competitive regional model, which may contribute to inflationary pressures. Policy uncertainty is elevated by historical standards, likely signalling a structural shift in global trade dynamics and increased global competition.

[7] Roubini, April 2025.

Strategic blocs are forming: The West is doubling down on reshoring, industrial policy, and tech leadership, while China and the broader BRICS+ group are pushing for multipolar influence and increased financial autonomy. This fragmentation is being driven not just by trade frictions, but by competition over technological leadership — particularly in AI and energy transition. These themes are becoming strategic tools of geopolitical leverage — they will be shaping the economic landscape for the years to come.

In the U.S., recent policy measures curbing short-term growth sparked bond market volatility, highlighting how investor discipline is reasserting itself. However, U.S. technological leadership may also contribute to boosting U.S productivity, and the medium-term growth outlook may surprise on the upside as we get closer to the 2030s, contributing to a strengthening of the U.S. economy and of the U.S. Dollar. **Therefore, the U.S. remains a key region for long-term portfolio allocation.**





Source: *Policy Uncertainty Index, May 2025. ** InfraRed Capital Partners. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise. For illustrative purposes only.

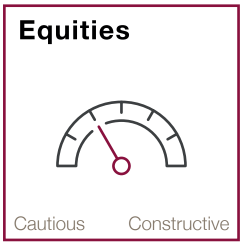
China's economic model may face structural headwinds in this environment amid debt-laden property markets, ageing demographics, and weak domestic demand. Beijing must sustain growth to fund redistribution from prosperous urban cores to more fragile inland regions. Like much of the world, China may be more reliant on its domestic bond market to finance stimulus in the future.

Fiscal policy and bond markets: With a weaker external engine of export-led growth, countries may have to be more reliant on fiscal policy and domestic investment, including increased infrastructure investment, to support economic growth and global competitiveness.

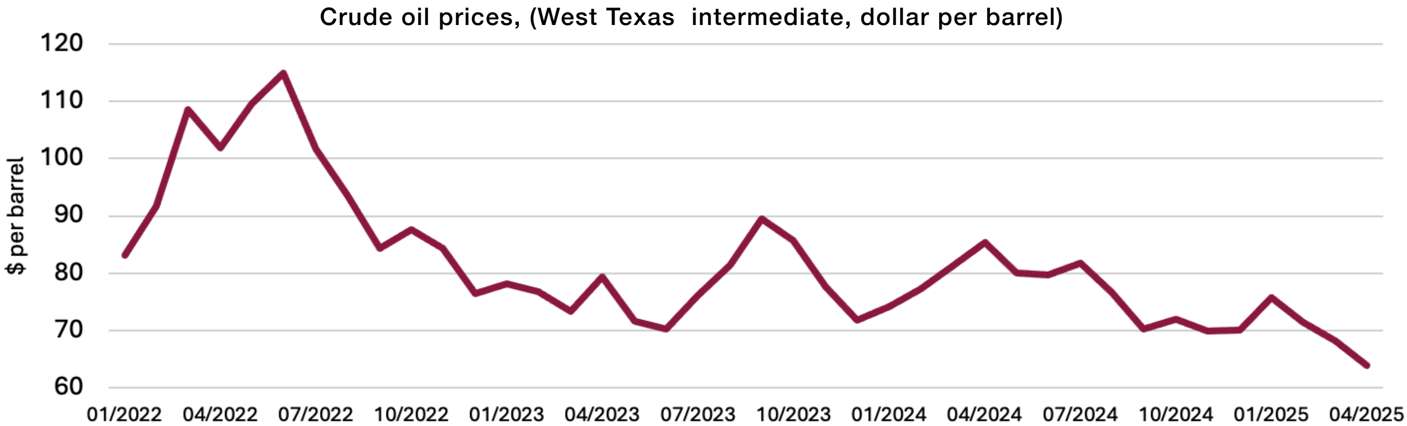
As trade weakens as a growth engine, fiscal policy, whether through green subsidies, defence budgets, or supply chain investment may grow in importance. If the fiscal bill grows, bond investors may be starting to demand greater policy diligence, leading to a risk of long-term government bond yields remaining higher for longer. In this environment, countries with deep, credible local bond markets and institutional trust will have more room to manoeuvre. Those without may find their policy options constrained by rising funding costs and tighter external conditions.

Strategic allocation considerations: We see an increased risk of volatile economic growth, inflation and policy divergence going forward. In our view, a globally diversified investment approach, with increased strategic focus on a combination of mature markets, such as Europe, North America and Australia, may contribute to mitigate emerging policy and trade risks. For infrastructure investors, in the short-term this may require cautious assumptions for transport and energy deals, and a more selected approach to assets with an exposure to global demand and trade, such as ports.

FINANCIAL MARKETS[8]



Commodities: Global commodity prices dropped significantly due to weak economic growth expectations and abundant supply. This decline could ease near-term inflation pressures exacerbated by rising trade barriers. In 2025, prices may fall further, with the World Bank forecasting a drop for crude oil and coal prices when adjusted for inflation. This decline may pose some challenges for the budgets of economies reliant on commodity exports, and, if persistent, may contribute to reducing foreign capital investment flows, also to global alternatives and infrastructure.[9]

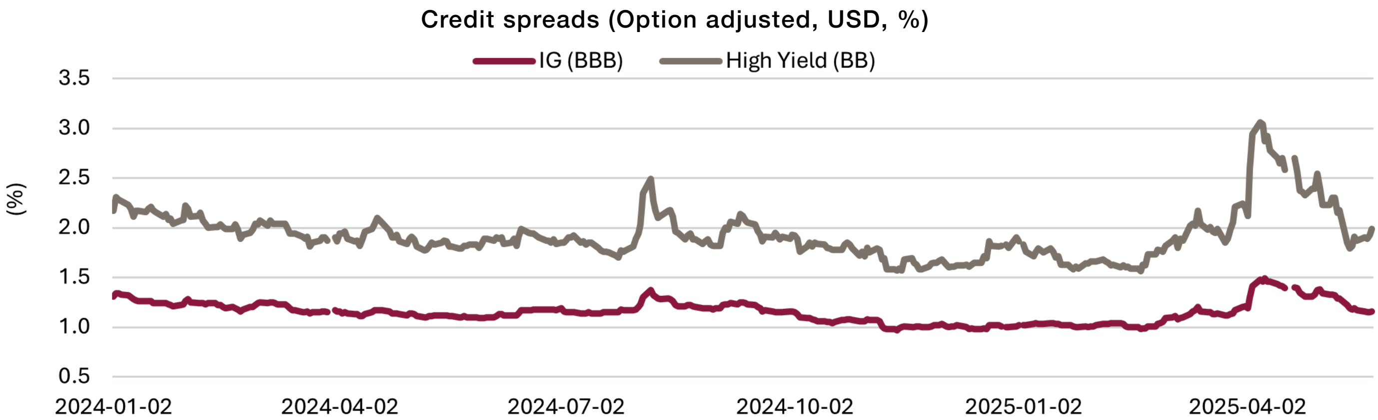


Source: Fred St Louis, May 2025. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise. For illustrative purposes only.

Fixed income: Our view on fixed income remains constructive. There is an improvement in expected returns for bonds compared to last year, with a positive emphasis on government bonds. European fiscal conditions, especially Germany's fiscal reversal, have created a more favourable scenario for European bonds, aligning euro-denominated yields closer to their long-term values. Additionally, credit assets within the investment grade segment are looking resilient.

Spreads widened rapidly in the aftermath of the introduction of U.S. tariffs in April and then somewhat normalised during May. However, the credit cycle may weaken for assets with lower credit quality due to a softer economic environment, and we see the risk of continued pressure on HY credit spreads. Despite the anticipated volatility in interest rates, fixed income remains a cornerstone in investment portfolios. If interest rates decrease due to economic deceleration, there is potential for further value upside.

[8] Macrobond, May 2025. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.
[9] World Bank, Commodities Markets Outlook, 29 April 2025



Source: Fred St Louis, May 2025. ICE BofA BB U.S. High Yield Index Option-Adjusted Spread, ICE BofA BBB U.S. Corporate Index Option-Adjusted Spread. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise. For illustrative purposes only.

Equities: Our view on equities for 2025 remains cautious amid a complex economic landscape and ongoing uncertainty in tariff policy. Despite some adjustments earlier in the year, valuations for U.S. equities remain relatively high by historical standards, making Europe comparatively more attractive from an entry valuation perspective, in our view. In the medium-term, expected returns for equities incorporate some discount rate compression. Moreover, earnings remain uncertain as the effects of an economic deceleration may weigh more heavily than currently anticipated in certain cyclical sectors, and there may be continued volatility ahead as the tariff outlook adjusts.

Listed infrastructure: If economic deceleration is coupled with persistent inflation, we might see a notable rotation from growth to value stocks. In such scenarios, equities in defensive sectors, providing income visibility and inflation linkage — such as those in listed infrastructure, including utilities and Real Estate Investment Trusts (REITs) offering exposure to brownfield tower or data centre businesses — could become tactically attractive. Signs of this rotation can be observed as of May 2025, with utilities amid the best performing sectors in the S&P 500.

S&P 500 monthly sector performance (Total Return, USD, %)

2019	2020	2021	2022	2023	2024	2025 so far
Information Technology 48 %	Information Technology 42 %	Energy 48 %	Energy 59 %	Information Technology 56 %	Comm. Services 39 %	Industrials 7.8 %
Comm. Services 31 %	Consumer Discretionary 32 %	Real Estate 42 %	Utilities -1.4 %	Comm. Services 54 %	Information Technology 36 %	Utilities 6.7 %
Financials 29 %	Comm. Services 22 %	Information Technology 33 %	Consumer Staples -3.2 %	Consumer Discretionary 41 %	Consumer Discretionary 29 %	Financials 5.9 %
Industrials 27 %	Materials 18 %	Financials 33 %	Health Care -3.6 %	Industrials 16 %	Financials 28 %	Consumer Staples 4.8 %
Consumer Discretionary 26 %	Health Care 11 %	Materials 25 %	Industrials -7.1 %	Materials 10 %	Utilities 20 %	Materials 2.3 %
Real Estate 25 %	Industrials 9 %	Health Care 24 %	Financials -12 %	Financials 9.9 %	Industrials 16 %	Real Estate 1.6 %
Consumer Staples 24 %	Consumer Staples 7.6 %	Consumer Discretionary 24 %	Materials -14 %	Real Estate 8.3 %	Consumer Staples 12 %	Comm. Services 1 %
Utilities 22 %	Utilities -2.8 %	Comm. Services 21 %	Real Estate -28 %	Health Care 0.3 %	Energy 2.3 %	Energy -0.43 %
Materials 22 %	Financials -4.1 %	Industrials 19 %	Information Technology -29 %	Consumer Staples -2.2 %	Real Estate 1.7 %	Information Technology -0.79 %
Health Care 19 %	Real Estate -5.2 %	Consumer Staples 16 %	Consumer Discretionary -38 %	Energy -4.8 %	Health Care 0.9 %	Health Care -5.3 %
Energy 7.6 %	Energy -37 %	Utilities 14 %	Comm. Services -40 %	Utilities -10 %	Materials -1.8 %	Consumer Discretionary -5.6 %

Source: Macrobond, performance data as at 6th of May 2025. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise. For illustrative purposes only.

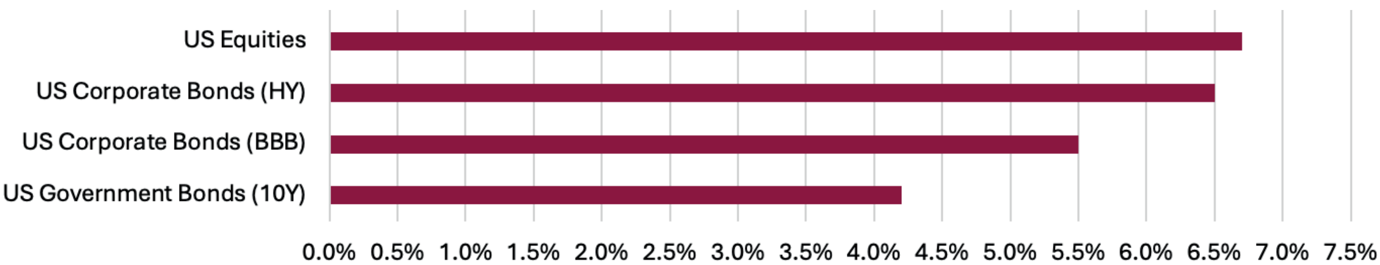
Strategic allocation considerations: The market environment may remain volatile, in our view. Investors should prepare for swift changes in market dynamics, focus on asset selection, and maintain diversification across sectors and regions to navigate this uncertainty.

In our view, long-term return assumptions for listed equities remain capped at around 6.5%, while IG USD debt (BBB) provides an entry yield of 5.5% and HY USD debt (BB) offers a 6.5% entry yield.[10] While these assumptions remain broadly unchanged since January 2025, leading to a return expectation of 6% to 7% for a traditional 60/40 portfolio, investors should consider the risk of higher volatility and its impact on long-term risk-adjusted returns.

With long-term return assumptions capped for listed equities, and inflation and interest rate uncertainty likely weighing on volatility, institutional investors are seeking a more diversified strategic asset allocation into alternatives, in our view.

We also observe an increased allocation to Asian emerging markets, as the region is anticipated to outperform global growth, underpinned by favourable demographics, and investment. Countries such as India, are anticipated to continue benefitting from a gradual improvement in the quality and predictability of its institutional framework, and some currency stabilisation.

LT listed market entry return assumptions (%, 10Y, USD)



Source: Fred St Louis, May 2025. Bonds returns equal to buy-and-hold entry yield, 10 Year Treasury Rate, ICE BofA BB U.S. High Yield Index Effective Yield, ICE BofA BB U.S. High Yield Index Effective Yield, S&P 500. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.

10 Fred St Louis, May 2025

ALTERNATIVE CAPITAL FLOWS[11]

Alternatives allocations

Cautious Constructive

Infrastructure allocations

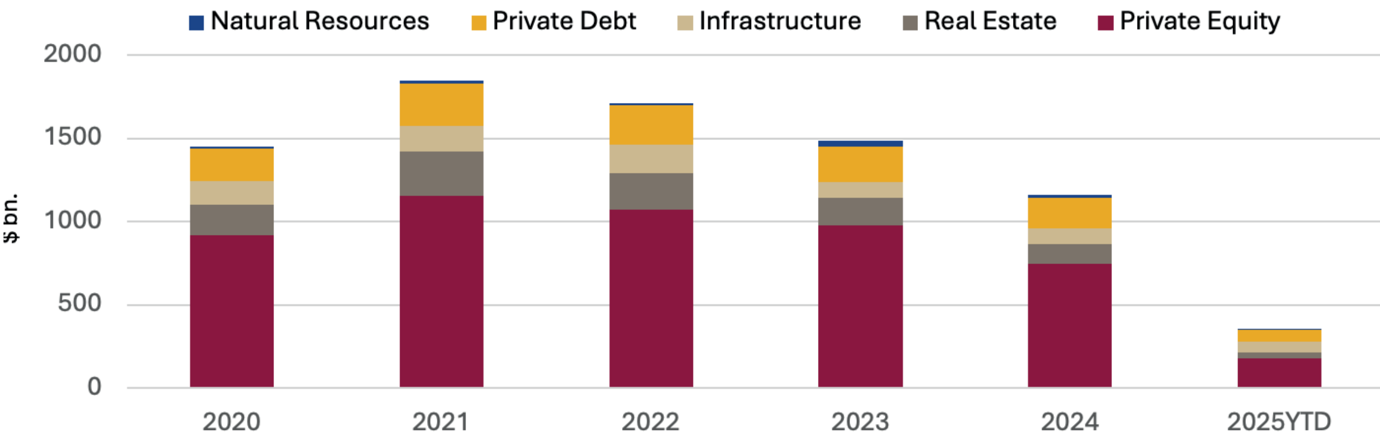
Cautious Constructive

Infrastructure transactions

Cautious Constructive

Alternatives allocations: Following three years of deceleration from the fundraising peak in 2021, the environment for alternatives in 2025 appears to closely mirror the performance observed in 2024. However, a shift in the composition of fundraising strategies continues to emerge, in our view. Historically, private equity accounted for over 60% of total fundraising volume but has decreased to approximately 50% as of Q1 2025. Conversely, infrastructure's share has grown significantly from around 8% historically to about 19%, indicating rising demand and its increasing role as a return enhancer, supported by strong secular trends. With $67 billion raised in Q1 2025, infrastructure is on track to surpass the $98 billion raised in 2024. Other asset classes remain consistent with historical performance on a relative basis.[12]

Alternatives - fundraising by asset class ($bn.)



Source: Preqin, May 2025. Past performance is not indicative of future returns.

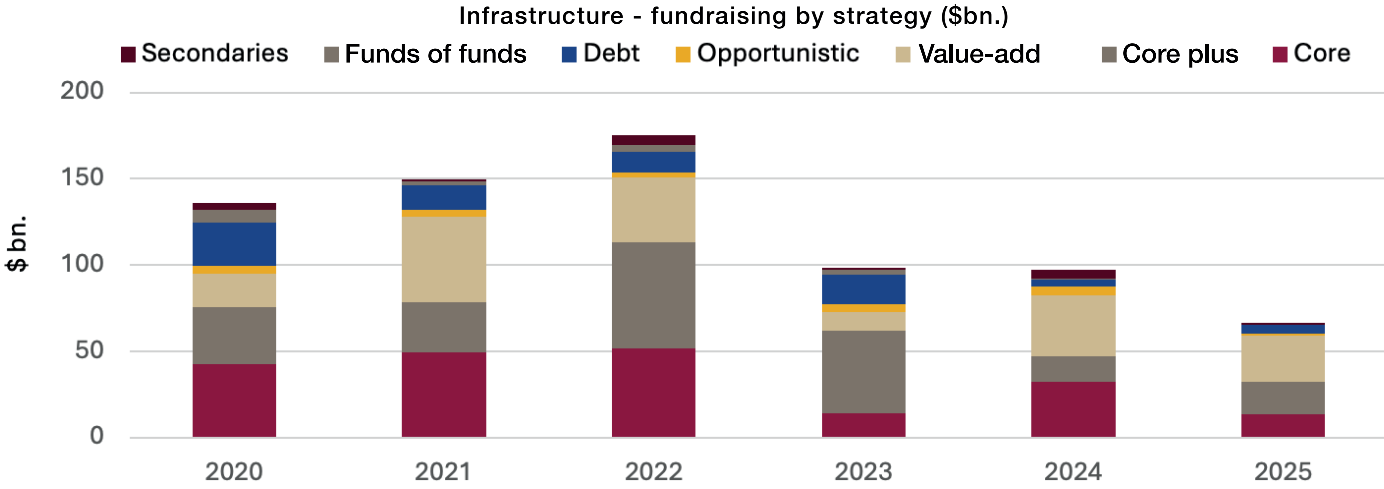
Infrastructure allocations: In 2025, the fundraising landscape for infrastructure offers key insights into a broader shift in investor sentiment and strategic allocations. As investors reassess their portfolios amidst higher interest rates, there has been a noticeable pivot towards strategies with higher return targets. Value-add strategies accounted for nearly 40% of fundraising in Q1 2025, highlighting investor confidence in their growth potential driven by secular tailwinds. This trend also reflects a comparative appeal over private equity investments, as value-add strategies continue to capture significant attention in the market.

Core strategies, which accounted for a robust 32% of allocations in 2024, saw a reduction to just 20% by Q1 2025. However, we expect Core infrastructure's share of fundraising to increase by the end of 2025. Our expectation is based on the repricing of Core infrastructure, that has somewhat contributed to rebalancing the relative attractiveness of private debt over Core that we observed in 2023 and 2024, and its appeal to long-term investors who are focused on income-generating strategies.

[11] Preqin, May 2025 Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.
[12] Preqin, May 2025

Core plus strategies, which peaked at 49% in 2023, have decreased to 29% by Q1 2025, aligning more closely with historical performance levels. Investors appear to increasingly polarise their allocations to Core and Value-add, as the risk/return profile of Core plus appears tactically less appealing in the current market environment.

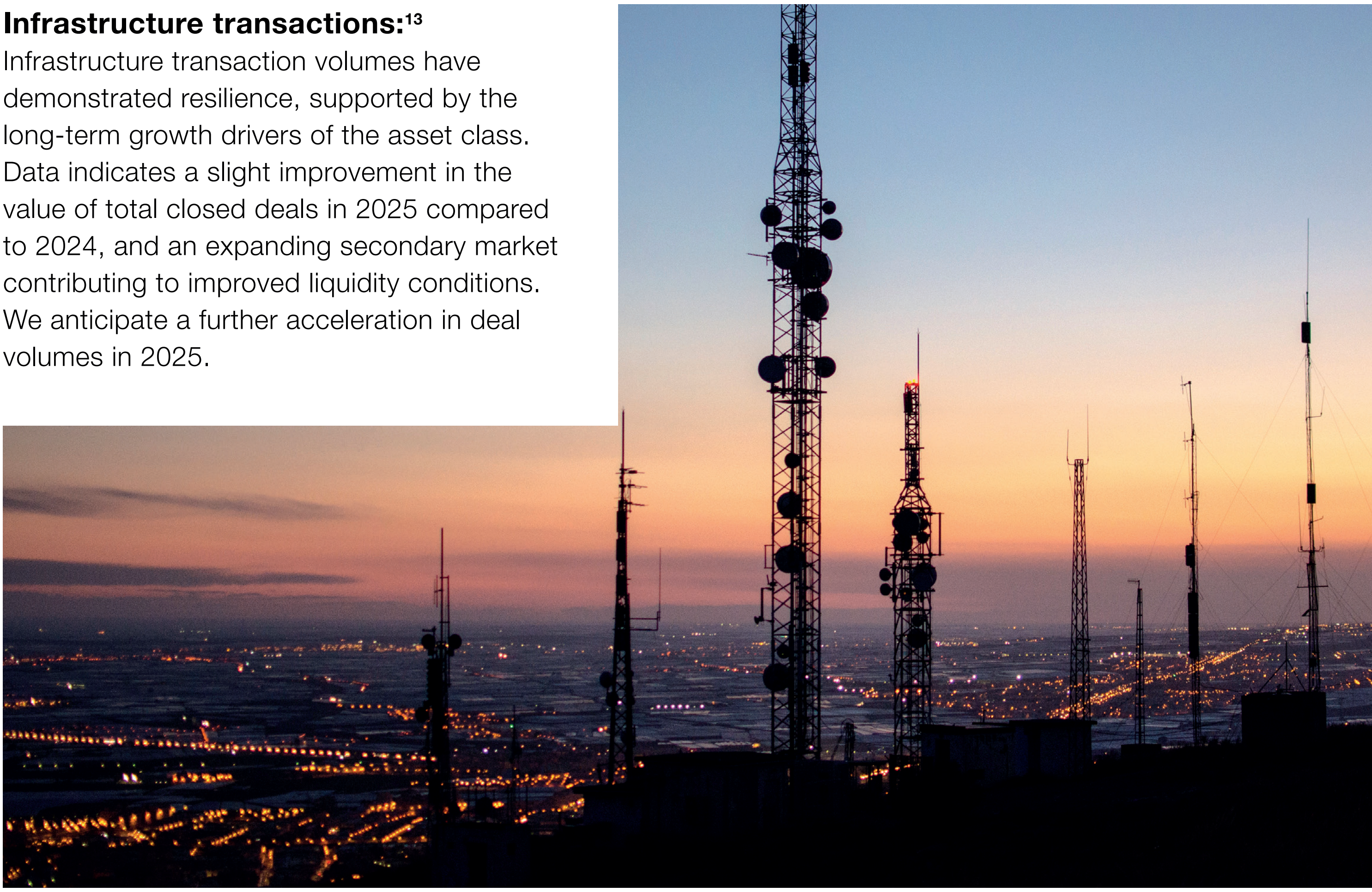
Private infrastructure debt fundraising reached a peak in 2023 with 17% of total funds raised. The prospects of lower interest rates amid weaker growth and the repricing of Core infrastructure seem to have dampened fundraising efforts in 2025. Despite this, we expect private infrastructure debt to continue expanding in the medium term as it becomes an essential component of investors' portfolios.



Source: Preqin, May 2025. Past performance is not indicative of future returns.

Infrastructure transactions:[13]

Infrastructure transaction volumes have demonstrated resilience, supported by the long-term growth drivers of the asset class. Data indicates a slight improvement in the value of total closed deals in 2025 compared to 2024, and an expanding secondary market contributing to improved liquidity conditions. We anticipate a further acceleration in deal volumes in 2025.



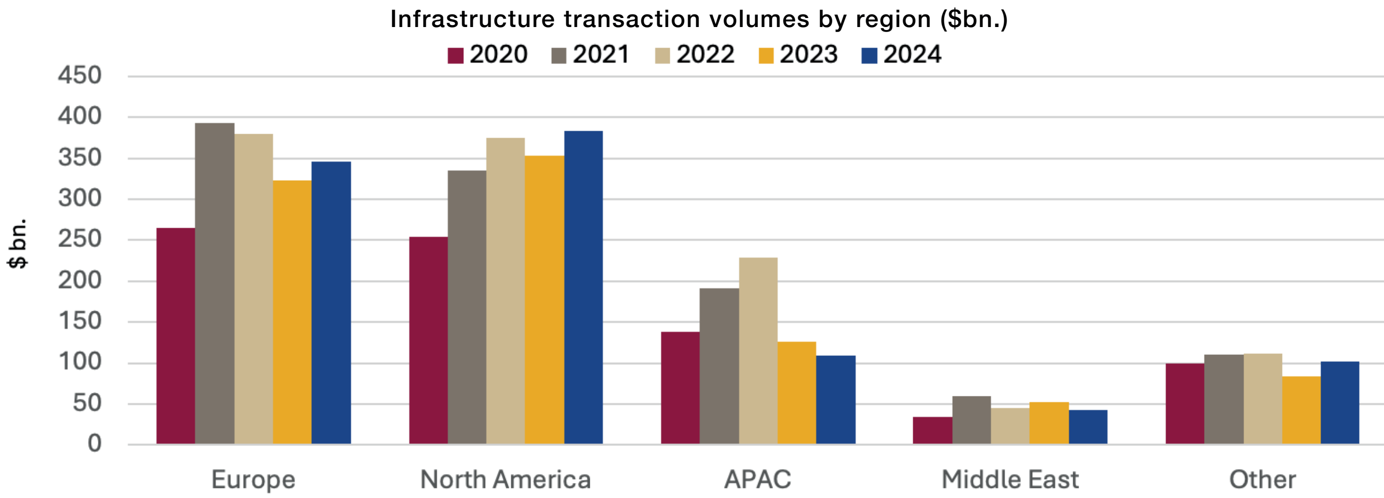
[13] InfraLogic, May 2025

By region: Transaction volumes in North America recently overtook those in Europe, with increased deal flow driven by policy initiatives like the Inflation Reduction Act (IRA) and the more favourable macroeconomic position of the U.S. in recent years. North America remains characterised by a vibrant energy sector with renewables capturing considerable transaction activity. We believe that the economic and political realities make significant retroactive changes to renewables' subsidies to the IRA unlikely.

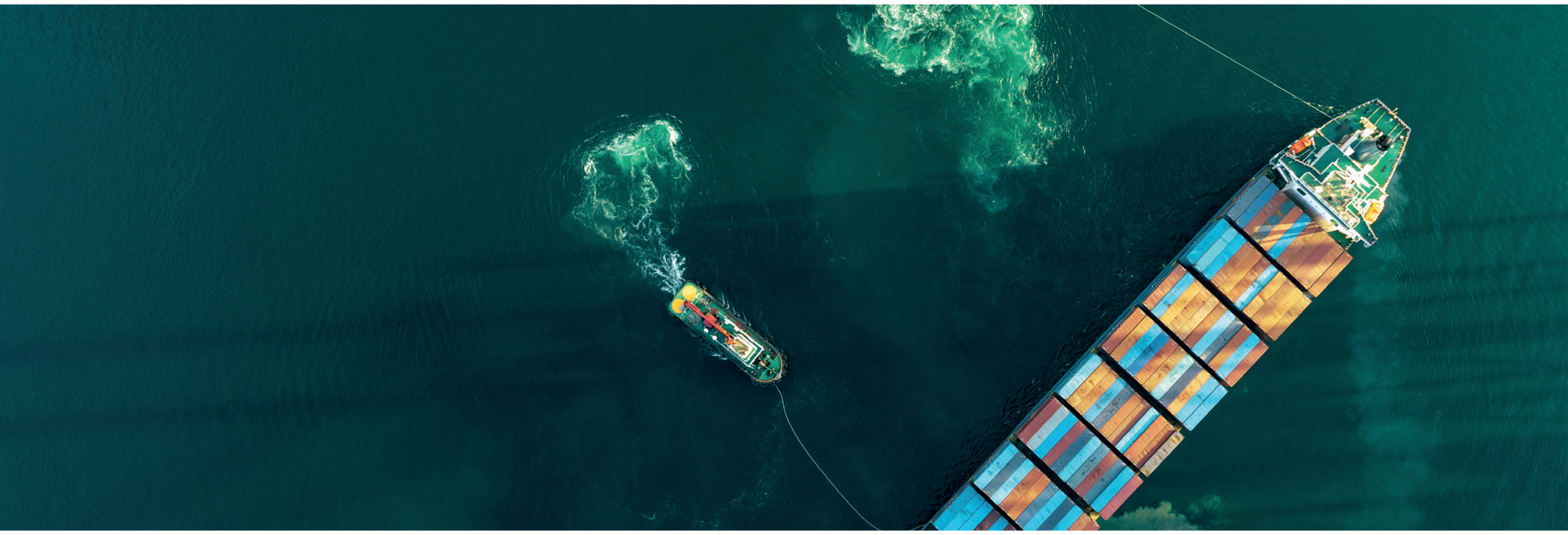
Europe and North America remain dominant in the market, with investors favouring regions with established institutional and regulatory frameworks. We do not expect this to change meaningfully, although we acknowledge that the recent U.S. policy uncertainty has contributed to somewhat tilting investors' preferences to other regions, such as Europe and Australia.

Despite the sluggish economic environment, Europe appears to be supported by an improving fiscal policy environment, with Germany's €1 trillion fiscal reform including a €500 billion infrastructure fund, which is anticipated to support the market environment for European deals.

Asia's strong economic growth offers expanding opportunities, and we acknowledge some increase in investment appetite, when it comes to rapidly expanding economies such as Indonesia, Malaysia or India. However, from an infrastructure investor perspective the outlook is tempered by comparatively higher perceived risks associated with institutional frameworks and currency volatility. We recently observed increased interest from investors in strategies focusing on Australia, a country which is supported by a favourable combination of growing macroeconomic and demographic fundamentals, and a mature and transparent institutional framework.



Source: Infralogic, May 2025. Past performance is not indicative of future returns.



U.S. infrastructure policy changes:[14]

Recent shifts in U.S. trade policy have somewhat weakened the perceived stability of the country's policy framework for long-term investors. Despite these challenges, the U.S. continues to be a robust market for infrastructure investment.

The new administration's executive orders have reduced support for renewables, particularly wind energy, while increasing backing for traditional oil and gas sectors by simplifying permitting procedures for new upstream gas and LNG projects. Although the effects on gas supply will take time to manifest, increased LNG capacity is expected to support domestic gas prices and contribute to lowering international LNG prices.

The precise impact of newly introduced tariffs is uncertain at the moment, given ongoing negotiations. Tariff measures may lead to increased construction costs and supply bottlenecks for existing infrastructure projects; however, these impacts are difficult to quantify and may vary on a project-by-project basis. While immediate challenges persist—such as delays in project timelines due to higher material costs—the outlook remains supportive.

We anticipate that renewables development activity may slow down in coming months, until there is higher certainty regarding tariff policy. Battery storage will likely be the most impacted of all generation technologies given Chinese dominance of the renewables supply chain. We expect that rising costs will put upward pressure on PPA prices, with cost increases largely passed to end customers. We anticipate renewables development activity to continue, albeit at a slower pace in the short-term, with potential changes to the investment plans of utilities and new regulatory approvals, adding to the risk of further slowdowns to new projects.[15]

Beyond direct economic impacts from tariff-induced cost hikes, reshoring manufacturing may prove slower than anticipated but presents strategic opportunities for U.S. infrastructure. The reconfiguration of supply chains can enhance local manufacturing capabilities, stimulating investment in digital networks, logistics, and distributed energy systems.

The U.S. draft budget reconciliation bill introduces the risk of a gradual phase-out of investment tax credits (ITC) and production tax credits (PTC) for renewables.[16] The proposed changes remain subject to congressional negotiations. Meaningful retroactive changes to the Inflation Reduction Act (IRA) support for renewables are unlikely, in our view, due to bipartisan support and the broad benefits these measures provide across U.S. states.

Even if such adjustments were made, they would primarily impact short-term growth in renewables; however, projections for photovoltaic and battery storage remain strong, with an anticipated increase of approximately 50 GW by 2027—comparable to 2024 levels even if IRA policies are repealed.

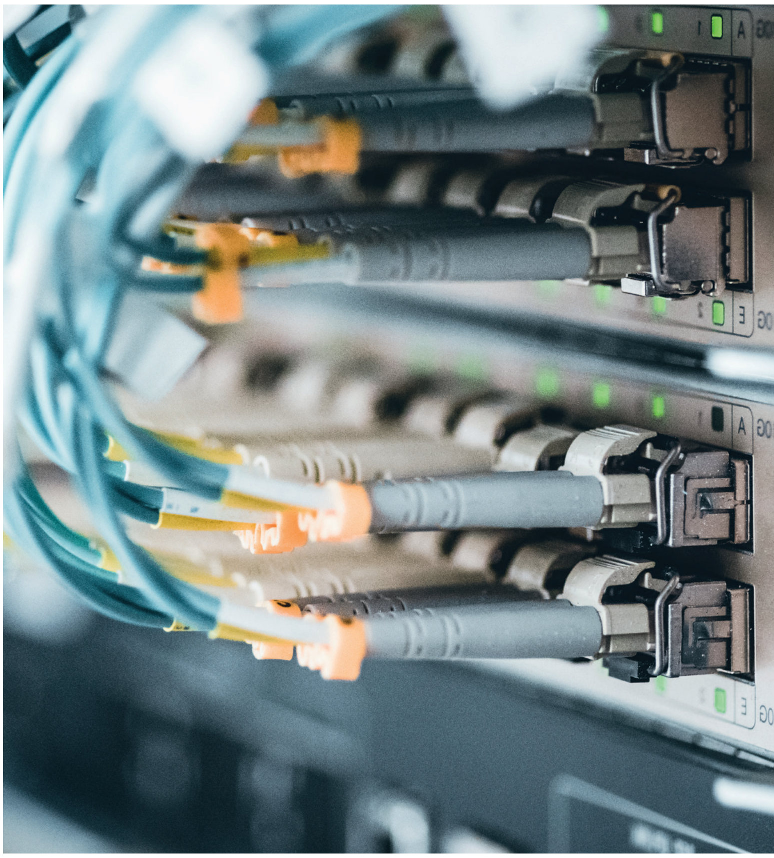
[14] Bloomberg New Energy Finance, April 2025
[15] Wood Mackenzie, May 2025
[16] Reuters, May 2025

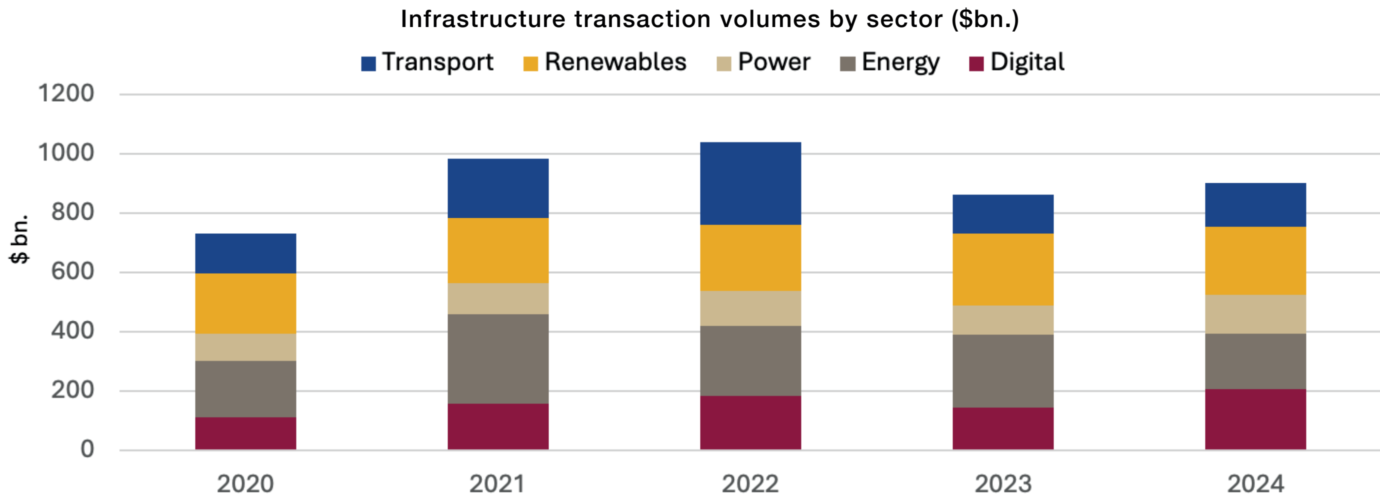
By sector: In recent years, there has been a clear shift in deal activity towards energy and digital infrastructure. These sectors have experienced significant transaction activity, driven by the secular tailwinds of the energy transition and digitalisation, and continue to provide a deep pipeline of investments. This focus has inadvertently led to a relative reduction in deal volumes for transportation, that nevertheless continues to play a key role in a diversified infrastructure portfolio.

We continue to observe an expansion in the deal volume for digital infrastructure, as Artificial Intelligence (AI) adoption and cloud computing continue to accelerate investment into data centres, expected to more than double leading up to 2030. This is also reinforcing the trend for increased energy demand, supporting the case for more renewables and for natural gas as a pivotal transition fuel. While data centres present significant opportunities, a growing number of investors are adopting a more prudent approach to the sector's valuations, particularly for brownfield assets.

Historically, transport accounted for approximately 30% of closed transactions; however, today it represents around 15% of deal volume. We anticipate transportation to gradually provide a new flow of opportunities in the transport decarbonisation space, as the trend of electrification becomes more robust, business models mature, and deal sizes grow.

We continue to see more investors focusing beyond their sector allocations and considering the interdependencies that key trends such as decarbonisation and digitalisation create across their infrastructure and alternatives portfolios. This is leading to a growth of investment opportunities across newer infrastructure sectors in the lower, mid-market, as investors seek to diversify portfolios and look for return-enhancing opportunities.

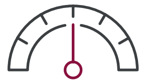




Source: Infralogic, May 2025. Past performance is not indicative of future returns.

INFRASTRUCTURE PERFORMANCE[17]

Performance



Cautious Constructive

Valuations

Cautious Constructive

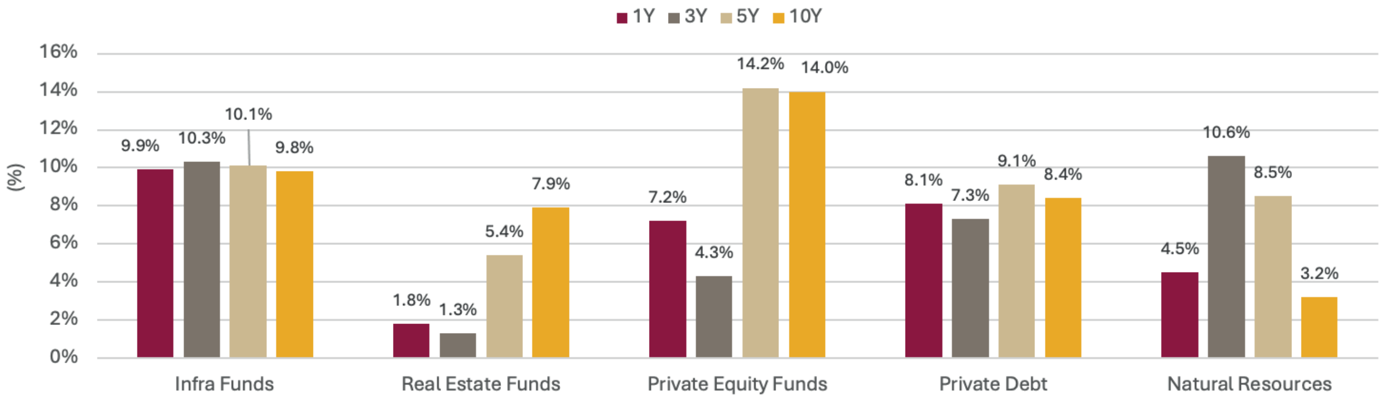
Returns

Cautious Constructive

Performance: Infrastructure has demonstrated performance resilience in recent years, outperforming other alternative asset classes despite challenging macroeconomic conditions and rising interest rates. Assets with inflation-linked revenue streams, particularly within core strategies, continued to provide stable cash flows. As of December 2024, data showed an improvement compared to September 2024, with one-year infrastructure performance rising to 9.9% from 8.7%.[18] Both one- and three-year performance remained higher than those of private equity and real estate, which nonetheless saw performance improvements in the last quarter of 2024.

Given infrastructure's alignment with megatrends such as decarbonisation and digitalisation, the asset class has elevated its role from merely a defensive strategy to a total-return enhancer, as evidenced by its stronger short-term performance relative to private equity. The real estate sector has been pressured by rising interest rates, while private equity has faced some return compression due to limited exits and high financing costs. The effects of these dynamics now appear to have somewhat stabilised compared to twelve months ago.

Performance analysis, (Total returns, 10Y to December 2024, %)



Source: Preqin, as at December 2024. Past performance is not indicative of future returns.

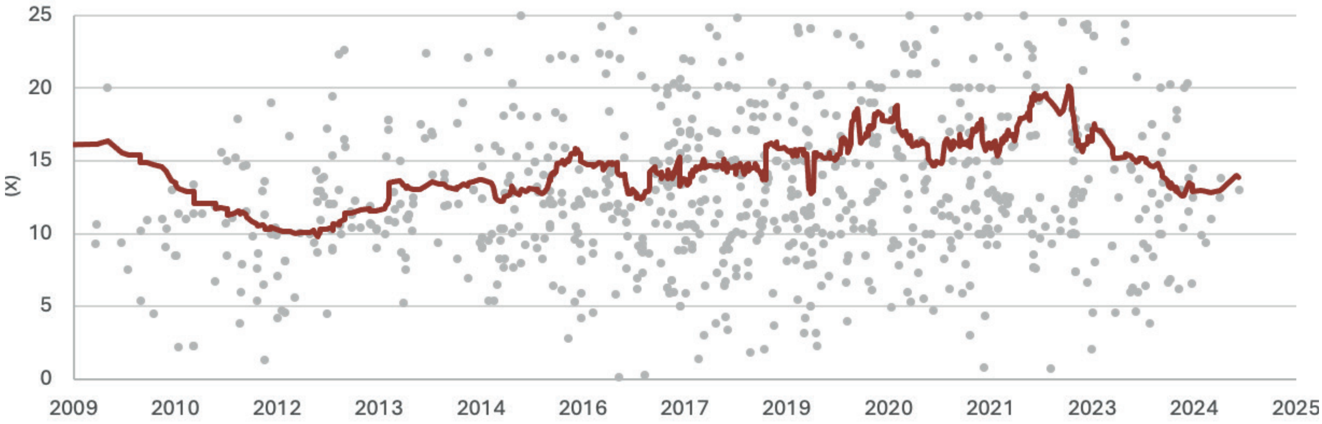
Valuations: Transaction multiple data, for the first half of 2025, suggest that valuations in the private infrastructure market may have begun to stabilise, following several quarters of downward adjustment. The negative valuation trend was mainly driven by rising interest rates, particularly at the core end of the investment spectrum where asset duration is longer.

Across sectors, utility valuations have corrected significantly, down to 11x EV/EBITDA in 2024 from a peak of 16x in 2018 – followed by transportation, where valuations continue to remain below historical averages. In contrast, energy sector valuations have risen, reflecting a supply-demand imbalance amid expectations of stronger energy demand linked to AI-driven growth. The digital infrastructure sector continues to exhibit elevated valuations relative to historical levels, though brownfield hyperscale data centres are facing growing pricing pressure, as the sector is also increasingly targeted by real estate capital, adopting a cap rate approach to pricing.[19]

[17] Preqin, Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.
[18] Preqin, May 2025. Past performance is not indicative of future returns.
[19] InfraRed Capital Partners, Infralogic, December 2024.

Looking forward, we believe that the impact of higher interest rates may have largely been reflected in pricing where transactions are actually closing. However, we anticipate that the influence of elevated discount rates on asset cash flows and valuations may continue in the short-term, especially for assets undergoing refinancing. Moreover, macroeconomic uncertainty may place some downward pressure on energy and transport valuations, especially if earnings expectations are revised down. Our base-case is one of relatively protracted pressure on long-term government bond yields. However, a weaker economic backdrop may drive a reduction in interest rates and a compression in discount rates. This could, in turn, support valuation recovery, particularly at the core end of the market.

Infrastructure transaction multiples (EV/EBITDA, x)



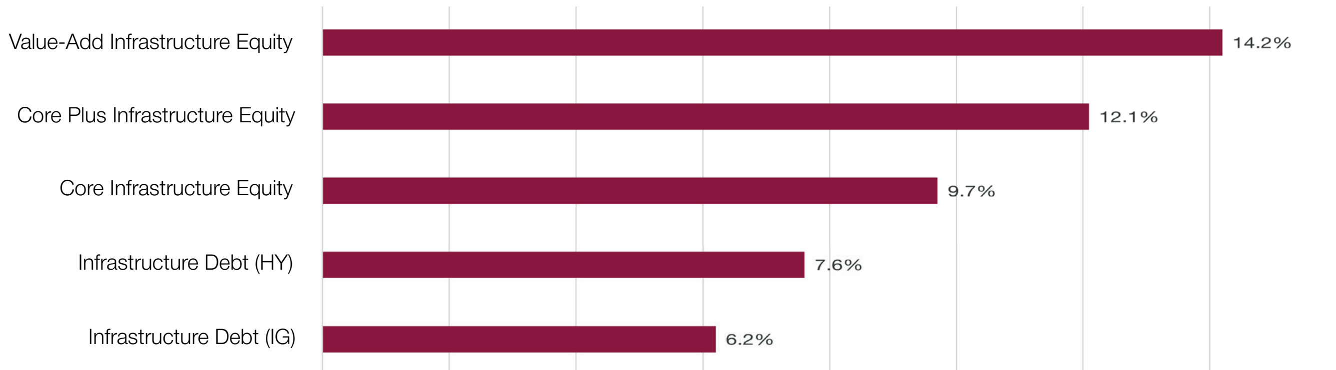
Source: InfraRed Capital Partners, Infralogic, December 2024. Past performance is not indicative of future returns.

Returns:[20] The repricing of infrastructure equity driven by a widening in interest rates has created compelling entry points, in our view. Overall, the reset in pricing has enhanced the relative attractiveness of infrastructure across the capital stack, particularly for long-term investors seeking stable income in the long-term and inflation indexation.

Core infrastructure now offers a premium over private credit in terms of total return potential. Sticky inflation may continue to act as a tailwind – providing potential upside to future cash flows for core infrastructure assets with inflation-linked revenue streams.

We forecast that in the second half of 2025, average entry returns for core infrastructure equity will be approximately 10%, a level that represents a material improvement compared to the recent historical average, which is closer to 8%. Value-add infrastructure strategies entry returns are at 14.2%. Meanwhile core-plus infrastructure equity delivers entry returns of 12.1%, supported by a combination of income and growth potential. We note that the premium offered by core plus strategies over core strategies has somewhat compressed, with core returns now closer to core plus. This is because many core assets, such as utilities, require increased capex due to the effects of energy transition, thus showing higher entry returns.

Private infrastructure, long-term entry return assumptions by strategy (%, 10Y)



Source: InfraLogic, Scientific Infra™ and Private Assets, used under permission data as at May 2025. Debt returns equal buy-and-hold entry yields, estimated from InfraLogic deal database. Equity indices are derived from Scientific Infra™ and Private Assets for Advanced Economies including Core Infrastructure Index, Core Plus Infrastructure Index and Opportunistic Infrastructure Index. Net returns, Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.

[20] InfraRed Capital Partners, May 2025. There is no guarantee that the forecast highlighted may materialise.

Allocations

Allocations - Tactical View, 2025[21]

By Type	Cautious				Constructive
Infrastructure Equity				●	
Infrastructure Debt IG			●		
Infrastructure Debt HY			●		
By Strategy					
Core				●	
Core plus			●		
Value-add				●	
By Size					
Large-cap		●			
Mid-market				●	
By Geography					
Eurozone			●		
UK			●		
United States			●		
Asia-Pacific Mature			●		
Asia Pacific Emerging		●			

Source: InfraRed Capital Partners, as at May 2025. No guarantee that the forecast highlighted may materialise.

Author

Gianluca Minella

HEAD OF RESEARCH

[21] InfraRed Capital Partners, May 2025. There is no guarantee that the forecast highlighted may materialise.

Important Information

InfraRed has based this document on information obtained from sources it believes to be reliable, but which have not been independently verified. All charts and graphs are from publicly available sources or proprietary data. Except in the case of fraudulent misrepresentation, InfraRed makes no representation or warranty (express or implied) of any nature or accepts any responsibility or liability of any kind for the accuracy or sufficiency of any information, statement, assumption or projection in this document, or for any loss or damage (whether direct, indirect, consequential or other) arising out of reliance upon this document. InfraRed is under no obligation to keep current the information contained in this document.

You are solely responsible for making your own independent appraisal of and investigations into the products, investments and transactions referred to in this document and you should not rely on any information in this document as constituting investment advice. This document is not intended to provide and should not be relied upon for tax, legal or accounting advice, investment recommendations or other evaluation. Prospective investors should consult their tax, legal, accounting or other advisors. Prospective investors should not rely upon this document in making any investment decision.

Investments can fluctuate in value, and value and income may fall against an investor's interests. The levels and bases of taxation can change. Changes in rates of exchange and rates of interest may have an adverse effect on the value or income of the investment or any potential returns. Figures included in this document may relate to past performance. Past performance refers to the past is not a reliable indicator of future results. There can be no assurance that the opportunity will achieve its target returns or that investors will receive a return from their capital. Investment in the products or investments referred to in this document entails a high degree of risk and is suitable only for sophisticated investors who fully understand and are capable of bearing the risks of such an investment, including the risk of total loss of capital originally invested. It may also be difficult to obtain reliable information about the value of these investments, which will often have an inherent lack of liquidity and will not be readily realisable.

This document is being issued for the purposes of providing general information about InfraRed's services and/or specific assets and their operational performance only and does not relate to the marketing of investments in any alternative investment fund managed by InfraRed.

InfraRed may offer co-investment opportunities to limited partners, or third parties. These circumstances represent conflicts of interests. InfraRed have internal arrangements designed to identify and to manage potential conflicts of interest.

This document should be distributed and read in its entirety. This document remains the property of InfraRed and on request must be returned and any copies destroyed. Distribution of this document or information in this document, to any person other than an original recipient (or to such recipient's advisors) is prohibited. Reproduction of this document, in whole or in part, or disclosure of any of its contents, without prior consent of InfraRed or an associate, is prohibited.

This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation.

InfraRed Capital Partners is a part of SLC Management which is the institutional alternatives and traditional asset management business of Sun Life.

InfraRed Capital Partners Limited

Authorised and regulated by the Financial Conduct Authority, with firm reference number 195766

Registered in England No. 3364976

Registered Office: Level 7, One Bartholomew Close, Barts Square, London EC1A 7BL, United Kingdom