InfraRed Capital Partners

InfraRed+Insights

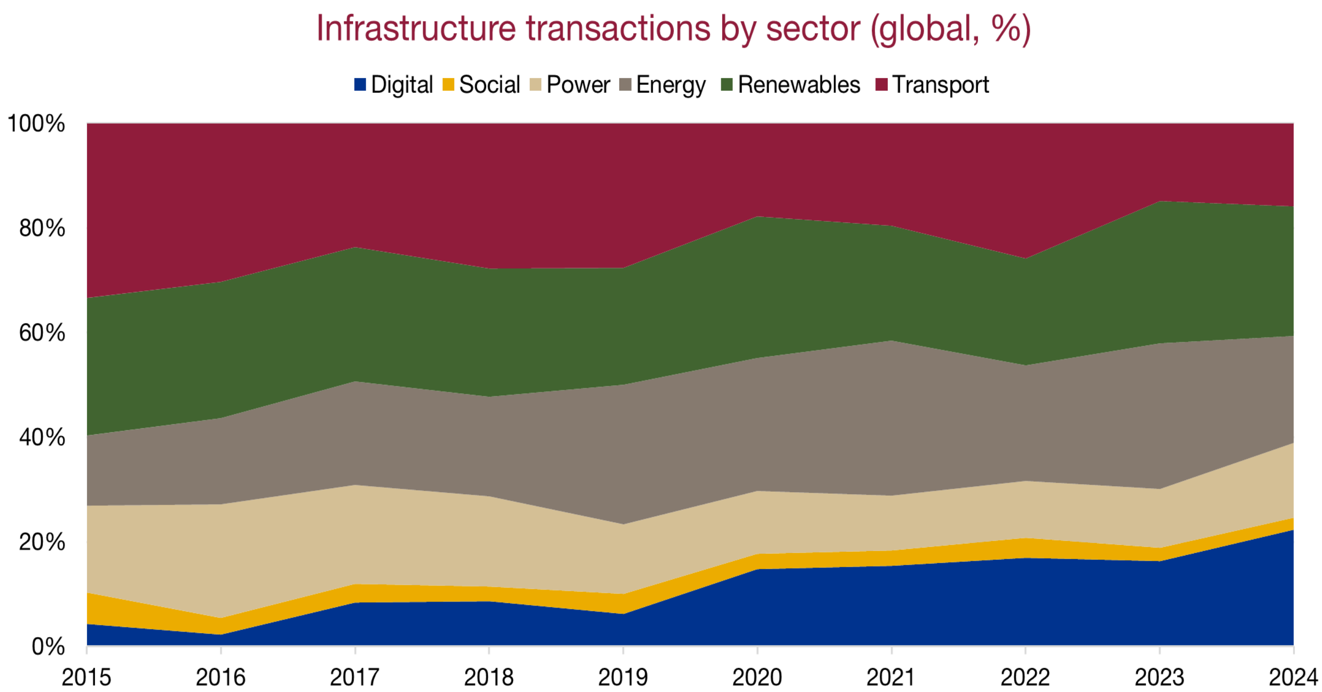
Are investors underallocated to transport infrastructure?

(5-minute read)

Rotating portfolios with market trends and aligning them to newer sectors, such as digital infrastructure is logical, but investors shouldn't overlook the long-term role of transportation.

Transport's declining deal share: 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. We believe they represent compelling opportunities, but this focus has inadvertently led to a relative reduction in deal volumes for transportation.

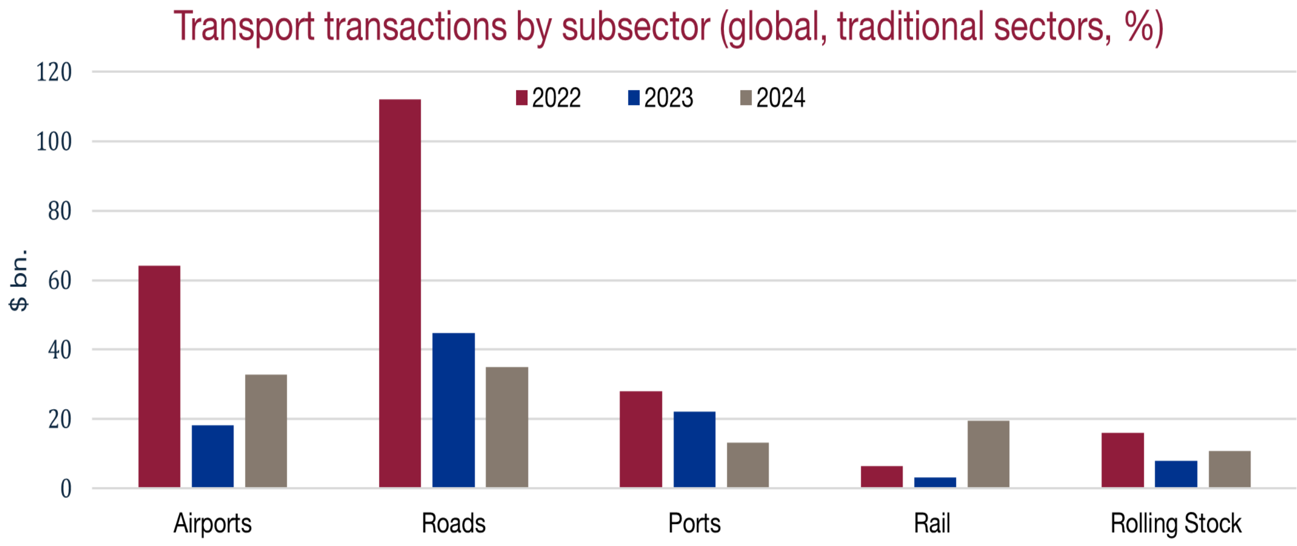
Historically, transport accounted for approximately 30% of closed transactions; however, as at the end of 2024, transportation represents around 15% of deal volume, with the sector expected to maintain a similar share in the future (1). This trend is further influenced by the fact that long-term investors are often cautious about rotating out of quality transport assets, such as airports, ports and roads, as their portfolio exposure may not be easily replicable.



Source: Infralogic, as at December 2024. Includes transactions reaching financial close for the sectors mentioned in the chart, excluding sectors labelled as Environment, Commodities and Other. Past performance is not indicative of the future.

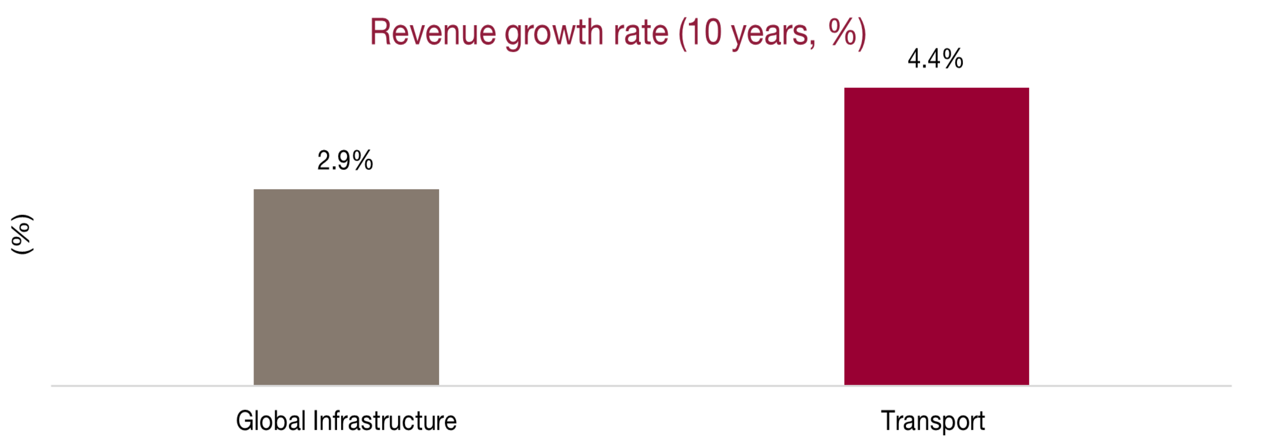
Transport's legacy: Transportation has historically been a cornerstone of investors' portfolios. Over the past decade, transport infrastructure has significantly contributed to the resilient performance of infrastructure as an asset class, often accounting for a substantial portion of index weights (2). Globally, sub-sectors such as toll roads, ports, rolling stock and airports are generally underpinned by mature and relatively homogeneous business and regulatory models, but their market availability has generally become scarcer in the market.

Most transport sub-sectors have a long and well-understood historical record of performance data across geographies, particularly when compared to newer infrastructure sectors, such as fibre, or EV charging, aligning them with the risk/return profile of core strategies. These factors enable investors to assess future demand patterns with relative precision, underpinning business plans and contributing to the optimisation of capital structures for additional value creation.



Source: Infralogic, as at December 2024. Includes transactions reaching financial close for the sectors mentioned in the chart, excluding sectors labelled as Environment, Commodities and Other. Past performance is not indicative of the future.

Income and growth engine: Traditional transport sub-sectors, such as airports, roads or ports, offer an opportunity for regulated revenues, inflation recovery and some potential for growth, driven by an overall exposure to the macroeconomic environment. As a result, revenues have historically grown at 4.4%, above the 2.9% rate for broader global infrastructure (3). Transportation assets have generally provided a combination of yield, and some capital appreciation, with the underlying demand growth and expansion capex often providing a base for capital appreciation.

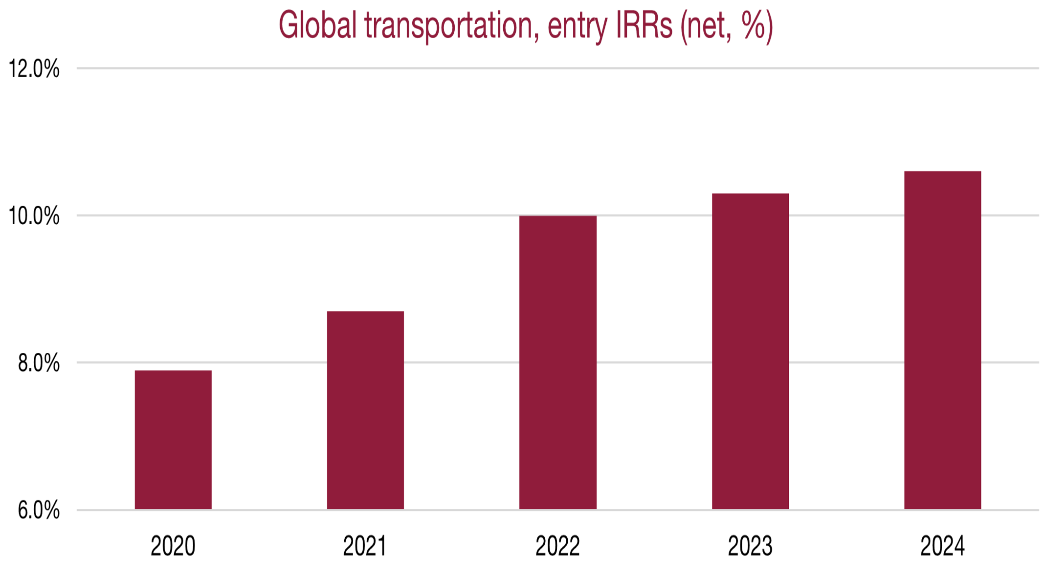


Source: Macrobond, S&P Global, Dow Jones Brookfield, as at December 2024. Past performance is not indicative of the future.

Economic slowdown and trade disruptions: The transport sector is not exempt from various risks and disruptions, think about those experienced during the COVID-19 pandemic or uncertainties surrounding concession renewals, as recently seen in French toll roads. Different sub-sectors within transportation have varying macroeconomic exposures; for instance, rolling stock and toll roads may be more closely tied to domestic economic activity, while airports and ports are more dependent on global GDP.

With heightened risks of economic slowdown and trade disruptions, the port sector might experience deceleration—particularly affecting North American ports that are vulnerable to tariff impacts. Since each transport asset is unique, investors can construct diversified transport portfolios that balance downside protection and upside potential from economic growth.

Looking ahead to the remainder of 2025, tactically acquiring transport infrastructure could offer long-term investors—especially those focused on yield and mature assets—a chance to secure assets at attractive valuations. This is due to sector repricing influenced by rising interest rates combined with anticipated macroeconomic weaknesses and increasing trade barriers. While these factors pose risks, particularly for ports, they may also provide favourable entry prices for investors with a long-term perspective, in InfraRed's view.



Source: Scientific Infra™ and Private Assets, used under permission data as at March 2025. Past performance is not indicative of the future. There is no guarantee that the forecast highlighted will materialize.

Secular tailwinds for growth: Strategically, the transportation sector is on the cusp of transformative megatrends including a shift in global trade patterns, a reconfiguration in supply chains and decarbonisation — a factor that investors may want to consider in deal selection and from both a risk and return perspective. These trends can enhance the sector's value proposition and offer avenues for long-term capital appreciation beyond what may currently be priced in traditional assets, particularly as transport electrification matures.

At the same time, this can also offer investors an avenue for investment into newer and maturing sub-sectors, such as logistics, green transport leasing businesses, EV charging, biofuels, or sustainable aviation fuels.

Portfolio strategy: In today's environment of higher interest rates and persistent inflation, the recent under-allocation to transport deals may warrant reconsideration, with a growing number of investors likely displaying some under-allocation to the sector as their portfolios expanded across other sectors, based on market data (4).

Although transport deals have become scarcer in a market environment dominated by digital, energy, and renewables, their established track records (5) offer critical diversification benefits, underpinned by an exposure to inflation and GDP factors (6), making them a valuable component of any diversified investment strategy, in InfraRed's view.

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To discuss any of the themes covered in this latest InfraRed insight, please send an email to info@ircp.com and one of the team will be in contact.

References:

1. Infralogic, as at December 2024. Past performance is not a guide for the future.

2. Transport accounts for c. 38% of the Edhec Infra300 index as at March 2025. Scientific Infra™ and Private Assets, used under permission data. Past performance is not indicative of the future.

3. Macrobond, S&P Global, Dow Jones Brookfield, as at December 2024.

4. Based on InfraRed Capital Partners interactions with long-term investors.

5. Based on a number of sources, including S&P Global, Dow Jones Brookfield, Scientific Infra™ and Private Assets, as at March 2025.

6. MSCI Private Infrastructure Model.