

## InfraRed+Insights

# The Return Dispersion Paradox: Why Value-Add defies expectations

### An unexpected result:

An analysis of the historical performance of all infrastructure funds in the Preqin database, since 1993, across: core, core-plus, and value-add strategies challenges conventional expectations. It could be expected that value-add strategies, which promise greater return but inherently carry higher risk, would display a wider return dispersion of fund performance compared to their lower risk/return counterparts across vintages.

However, an analysis of historical performance reveals an unexpected pattern. Core strategies, as expected, provided the most stable return proposition across vintages, but value-add funds offered a lower return dispersion combined with a higher return than core-plus funds.[1]

### Infrastructure Funds, Net IRR Return Analysis

%	Core	Core-Plus	Value-Add
No. of Funds (1993-2024)	101	153	109
Net IRR Mean	9.8	11.7	14.8
Net IRR Median	9.2	9.9	12.3
Net IRR St. Dev.	9.3	13.1	12.2

Source: Preqin database, analysis includes full dataset across all fund vintages (1993-2024), excludes top 3 performing and worst 3 performing funds by strategy (outliers). Past performance is not indicative of future returns. [2]

### What's going on:

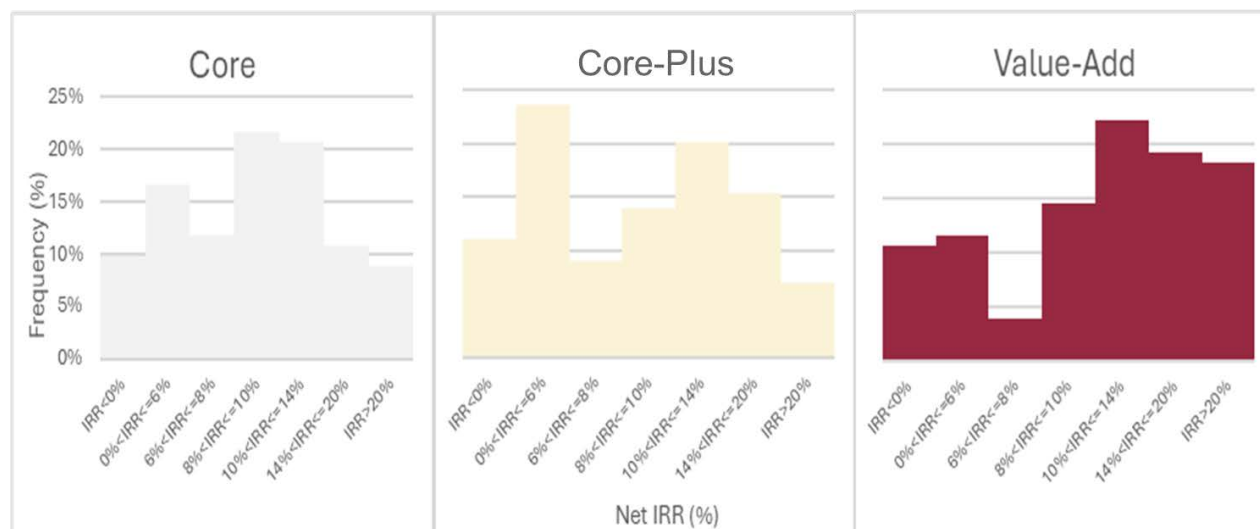
As an asset class, core-plus is broad, and includes the highest number of funds in the database. Strategies have evolved over time to focus on a diverse mix of geographical and sector propositions, as well as on assets across various development stages.

Nevertheless, core-plus assets may typically focus on assets with longer duration cash-flows and have a yield element compared to value-add assets. So, on an individual asset basis, value-add assets may experience wider return dispersion compared to individual core and core-plus assets, as they rely more on exits for value creation.

However, fund-level diversification tends to smooth out volatility of individual assets for value-add strategies.[3] This is likely a result of value-add assets typically having lower exposure to systematic risks than core-plus assets, particularly long-term interest rate changes across macroeconomic cycles.

Value-add assets are more exposed to idiosyncratic risks, particularly business risk or development risk. This can support portfolio diversification at the fund level, due to the low performance correlation across assets in a fund, which can contribute to reducing overall fund performance volatility. [4]

## Distribution of Infrastructure Funds Returns By Strategy



Source: Preqin database, includes full dataset across all fund vintages (1993-2024), excludes top 3 performing and worst 3 performing funds by strategy (outliers) for data normalisation purposes. Past performance is not indicative of future returns.

### Downside & upside risks:

Looking at the return distributions across strategies, value-add funds also appear to have exposed investors to less downside risk historically. Compared to core and core-plus strategies, a lower proportion of value-add funds displayed returns below 6%, and the strategy appears also more positively skewed in comparison to the highest share of funds returning above 14%.

These findings suggest that by adopting a diversified allocation across multiple value-add funds and managers along with a multi-vintage investment approach, investors would have historically captured the strong risk-adjusted market performance (beta) of value-add strategies, while mitigating the risk of excessive return dispersion.[5]



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To discuss any of the themes covered in this latest InfraRed+Insight, please send an email to [infraredhighlights@ircp.com](mailto:infraredhighlights@ircp.com) and one of the team will be in contact.

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## REFERENCES

[1] Based on an analysis of net IRRs across all vintages for funds available in the Preqin database. Past performance is not indicative of future returns.

[2] Net IRRs include the impact of fund-level borrowing through subscription facilities. Net IRR may be favourably impacted when the fund uses its line of credit to facilitate investments, or to make follow-on investments in such companies, because it defers the calling of capital from investors. Since IRR is calculated as of the date the investors' capital is called, rather than at the earlier time of funding the portfolio company purchase or follow-on investment, the use of a line of credit may have a favourable impact on performance returns and may not reflect the actual return an investor would achieve without the leverage effect. To the extent that expenses of the subscription facility do not fully offset this leveraging effect, IRRs experienced by investors and presented herein will be higher than IRRs experienced by the fund.

[3] Based on IRCP proprietary database of infrastructure transactions, as at December 2024. Past performance is not indicative of future returns. There is no guarantee that the forecast highlighted may materialise.

[4] InfraRed Capital Partners, Value-Add Infrastructure, December 2024.

[5] Past performance is not indicative of future returns.

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