



The Case for Accessing Infrastructure through Co-Investment Programs

Introduction

We are witnessing a boom in private infrastructure investing. Because of the strategy's ability to provide an inflation-hedged, low beta, late-cycle option, infrastructure can provide a haven from the potential volatility of other private investment strategies.

Against this backdrop, record capital has flowed into unlisted infrastructure. From 2017-2021, capital commitments for unlisted infrastructure grew significantly, from ~\$83 billion to ~\$121 billion - an average growth rate of 10% per year.¹ However, considering the proliferation of dry powder and, consequently, competition for assets in the infrastructure sector, GCM Grosvenor believes that building a well-diversified, stable, and strong performing portfolio is both more challenging and more critical. To address these challenges, investors have taken various approaches. Some have focused on stable "core" infrastructure assets, even at the expense of skyrocketing valuations that have become increasingly detached from fundamental value. Others have shifted away from high-priced, more conservative, income-oriented core infrastructure assets in favor of value-add opportunities that take on greater risk and require more aggressive growth assumptions to meet their return targets.

We at GCM Grosvenor are not convinced that underwriting multiple expansions for core assets or broadening the definition of infrastructure to include riskier, less proven opportunities are necessary or proper to deliver the asset class in a manner consistent with the underwriting considerations of most investors. In particular, we believe that co-investing is a fee-efficient opportunity to gain diversified, appropriately risk-adjusted exposure to infrastructure. A well-curated portfolio of co-investment opportunities can, we believe, deliver the broadest access to the asset class and the greatest potential to meet investors return expectations.

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¹ Source: Preqin; data as of 1Q 2022.

Past performance is not necessarily indicative of future results. No assurance can be given that any investment will achieve its given objectives or avoid losses. Unless apparent from context, all statements herein represent GCM Grosvenor's opinion. Select risks include: information risk, foreign country exposure risk, construction risk, commodity price risk, operating risk, and technological risks. Please review the disclosures following this report.

Implementation Options: A Closer Look

Managed direct investment programs are plentiful and offer exposure based on a number of characteristics, including, among other things, risk-return orientation, geography, and asset class. However, the price of this breadth of mandate is a typically higher aggregate fee and carry load, a longer j-curve, greater asset concentration and ultimately higher loss ratios.

Managed direct investment programs with co-investment rights provide a high quality supplement to a traditional direct investment program commitment. The co-investment rights are often offered fee- and carry-free, and will typically be at the discretion of the investor, thus allowing the LP to lower their blended fee and carry burden, while having a greater influence on portfolio characteristics that would otherwise be out of their control.

Secondary investment programs have become a growing part of the infrastructure environment in the last ten years, with a key advantage being the elimination of much of the blind pool risk typically associated with a managed direct investment program. However, secondary funds have certain challenges, including fee layering (the secondary fund and underlying fund managers typically extract fees) and duration (because these funds provide capital to existing assets/portfolios, the timeframe for such investments is typically shorter, and can result in lower multiples of capital to the investor).

Investor-led direct investments provide the greatest control over portfolio construction and risk-return considerations, but require a robust, experienced internal team and the ability to source enough opportunities to be effective. In this regard, investor-led direct investing is often only accessible to the largest, most sophisticated pension investors.

Co-investment programs, in our view, provide investors with the benefits of each of the delivery methods described above, while mitigating many of the risks and challenges associated with each. We also believe that a properly curated co-investment program can be either complementary to an existing portfolio of primary infrastructure fund interests or can be an effective stand-alone approach to investing in the infrastructure sector.

Benefits of Infrastructure Co-Investments Vs. Other Implementation Options

To highlight the benefits of a diversified infrastructure co-investment program, it's worthwhile to contextualize co-investments relative to other ways to access infrastructure investments: (1) managed direct investment programs, (2) managed direct investment programs with co-investment rights, (3) managed secondary programs, and (4) investor-led direct investments. On the following page, we compare some characteristics of each.

Delivery method	Access	Investment Mandate	Fee Paradigm	Carry Paradigm	Sourcing	Execution Certainty	Pace of Deployment	Diversification
Managed direct inv. programs	●	●	●	●	●	●	●	●
Managed direct inv. programs w/ co-inv. rights	●	●	●	●	●	●	●	●
Managed secondary investment programs	●	●	●	●	●	●	●	●
Investor-led direct inv.	●	●	●	●	●	●	●	●
Co-investment programs	●	●	●	●	●	●	●	●

● Positive trait
● Neutral
● Negative trait

While there are benefits of each implementation approach, we believe an infrastructure program implemented through co-investments is most advantageous in the current market environment.

More specifically, we believe that co-investment programs provide broad access to the infrastructure market and the potential for well diversified portfolio construction, coupled with efficient deployment, strong execution certainty and an attractive fee and carry paradigm.

Infrastructure Co-Investing at GCM Grosvenor

We believe our sourcing capabilities, global investment platform, and implementation expertise make GCM Grosvenor well-suited to amplify the advantages of a co investment program.

Best-in-class sourcing

We have covered hundreds of managers and sourced over 2,250 infrastructure deals since 2003. Our deep industry relationships provide us with coverage and access to managers, including emerging and diverse managers, that may not be as well-known to other market participants. Similarly, our flexible capital largely eliminates the potential for competition with the best direct investment funds, allowing us to be an important partner to them.

Portfolio construction/diversification

The breadth of our infrastructure platform allows us to contemplate relative value, creating less risk of deploying capital into sectors that face macroeconomic challenges than specialist investors. Similarly, the universe of opportunities tracked by our team of 15 professionals who focus on infrastructure investing allows us to be selective as we consider relative value from both a “top down” and “bottom up” approach.² Finally, our ability to invest across all securities and to size capital opportunistically allows us to further broaden the scope of what we see, and ultimately, what we select.

² Employee data as of January 1, 2022.

Deals sourced data as of December 31, 2021.

Greater execution certainty

Since 2003, we have made over 125 infrastructure investments, and this position in the market allows us to deploy capital into opportunities that have either closed or have a high degree of closing certainty. Thus, we may avoid or minimize broken-deal costs or other early stage, diligence related expenses. It also eliminates “must do” transaction risk associated with such diligence costs that can result in overpaying, and positions us well to avoid competitive auctions, which tend to be inefficient and expensive.

Efficient deployment

Our flexible capital allows us to fill gaps created by jurisdiction, tax efficiency, or other issues. For example, we may invest through our contractual co-invest rights, where funds reach their diversification limits, or where a special need requires a knowledgeable, bespoke pool of capital. As a result of the benefits we provide to transactions sponsors, we are typically able to leverage the resource-intensive up-front diligence and structuring activities of our partners. This facilitates more efficient and expedient deployment than most direct investment funds, without compromising due diligence and evaluation rigor.

Greater fee & incentive efficiency, less J-curve impact

In addition to the important considerations above, we also believe for several reasons that GCM Grosvenor’s approach to co-investing can be more efficient than a traditional direct investment fund fee-and-carry structure. First, many of the co-investments we execute are provided from sponsors on a fee- and carry-free basis. When that is not the case, we are often able to negotiate advantageous terms. Second, as mentioned, the timing of our participation allows us to avoid most, if not all, diligence and other structuring costs. Third, our own fee-and-carry structure is based on invested capital and is charged at a heavily discounted rate relative to most direct investment funds. Finally, our pace of deployment allows for a shorter investment period and a harvesting period of similar length, resulting in real J-curve mitigation and lower overall fees.

Conclusion

GCM Grosvenor continues to be excited about the opportunities that we see across the infrastructure space. As with any fast-growing sector, we urge caution as investors consider the best deployment options, and we encourage investors to explore co-investment funds and similar structures as efficient ways to deliver broadly diversified portfolios. Among the limited co-investment offerings in the sector, we believe that our team, our products, and our track record make us a manager of choice to deliver infrastructure as a potentially lower risk, higher alpha, higher yielding complement to an otherwise well-diversified unlisted portfolio.

Infrastructure investments data as of September 30, 2021.

About GCM Grosvenor

GCM Grosvenor (Nasdaq: GCMG) is a global alternative asset management solutions provider with approximately \$72 billion in assets under management across private equity, infrastructure, real estate, credit, and absolute return investment strategies. The firm has specialized in alternatives for more than 50 years and is dedicated to delivering value for clients by leveraging its cross-asset class and flexible investment platform. GCM Grosvenor's experienced team of approximately 520 professionals serves a global client base of institutional and high net worth investors.

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