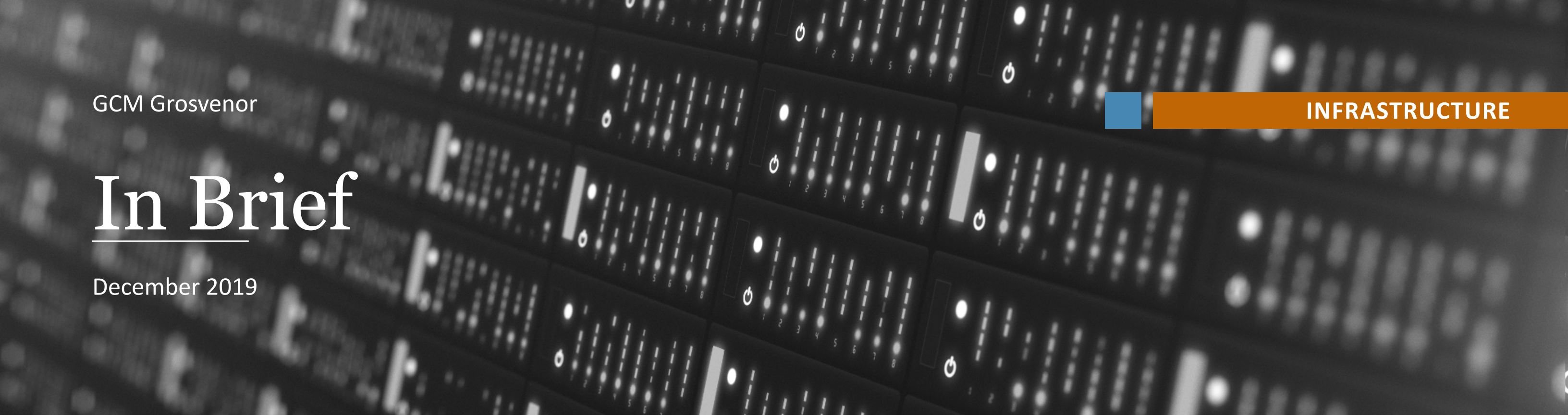

GCM Grosvenor

INFRASTRUCTURE

In Brief

December 2019

A Missed Opportunity? 3 Infrastructure Tailwinds for U.S. Investors to Consider

As the largest economy in the world, the United States has by far the largest pool of investment capital globally. However, according to Infrastructure Investor's "The Global Investor 30," U.S. institutions make up merely five of the world's top 30 infrastructure investors, representing only 8% of the committed $321BN by the top 30. Further, not one of the top 10 on the list is a U.S. investor. As continued investor demand for long-term yields with compelling risk/reward profiles, we question U.S. institutions' underinvestment in infrastructure compared to other markets.

We believe this lack of investment is due to the small pool of available investment opportunities and institutional investors' unfamiliarity with the relatively new asset class. Perhaps the most pertinent reason is that, unlike other countries, the United States has complicated regulatory frameworks that include over 90,000 units of government. Many of these governing units influence the development, optimization, and privatization of infrastructure assets. This framework may prove challenging for U.S. investors.

Of course, many infrastructure investment revenue streams are dependent on factors that may be challenging to control, like timeframes and governance, which investors should evaluate with caution. However, we believe specific spheres of the infrastructure landscape, like energy and telecom, are providing significant opportunities for private investment in infrastructure worldwide.

Here we explain three powerful tailwinds for infrastructure investing.

ON THE RISE: PRIVATE SECTOR INVESTMENT

Public-sector budgets across the developed world are strained and over-leveraged. When paired with the countless infrastructure needs around the globe, the opportunity for more private infrastructure funding is abundant. Institutional investors – like pension funds, insurance companies, and sovereign wealth funds – typically have the most significant and patient amount of capital to invest, making infrastructure an attractive portfolio-diversifier that can provide attractive returns and reduced volatility.

McKinsey estimates the world needs to invest, on average, $3.7 trillion per year in infrastructure to keep up with a projected global GDP growth rate of 3.3% through 2035.[1] Governments currently spend an aggregate of $2.5 trillion every year, creating a substantial annual funding gap.[2] This need could increase further by up to $1 trillion annually in order to meet the United Nations' sustainable development goals.[3] We believe this persisting "infrastructure gap" between the supply of public capital for infrastructure and the demand for investment in the world's infrastructure in the coming years creates an attractive market opportunity for private investors.

1 McKinsey & Company, "Bridging Global Infrastructure Gaps – Has the World Made Progress?" (October 2017).
2 McKinsey & Company, "Bridging Global Infrastructure Gaps" (June 2016).
3 United Nations Department of Economic and Social Affairs, Population Division (2015)

SHIFT IN GLOBAL GROWTH OPPORTUNITIES IN INFRASTRUCTURE

For long-term investors, we believe this asset class holds great promise. This is particularly true for non-traditional infrastructure investment opportunities, which consist of the fastest-growing segments of the global economy—like energy and telecom.

Renewable energy is moving to the center of the global energy landscape due to the increased focus on clean energy. Green energy projects provide a compelling investment option as they can generate stable cash flows over the longer-term with their historically low-correlation to commodities and the broader market. Also, the move away from traditional fuel sources not only provides cost savings for these projects, but it makes a positive impact on the climate.

The proliferation of telecommunication developments – like fiber technology, cell towers, and data centers – are happening all over the world. In our experience, this massive shift is due to a strong market demand for mobile data and internet usage and the transition to the cloud on both the individual and the enterprise level. The massive shift in telecom infrastructure provides investors with attractive, long-term investment opportunities that aren't likely to go away in the foreseeable future.

HUNT FOR YIELD IN A LOW-INTEREST RATE WORLD

With interest rates staying lower for longer, infrastructure investing may provide an attractive solution for institutional investors who are battling to generate appropriate returns to meet their objectives. We believe infrastructure investing has garnered significant–and warranted—investor attention due to its potential to provide lower long-term interest-rate sensitivity versus other asset classes. Furthermore, as the longest bull market on record continues to mature, investors realize the portfolio stabilizing benefits beyond low interest-rate sensitivity—like inflation hedging and limited volatility. This increased appetite for infrastructure investments has resulted in a mounting number of managers investing in infrastructure, which in turn created a wide variety of strategies and vehicles for investors to choose from to tap the return potential of the asset class.

For more about how the asset class has evolved due to market factors, such as low-interest rates, see our post: [The Infrastructure Landscape: Evolution, Growth, and Opportunities].

Infrastructure Investments Can Deliver

CONCLUSION

Finding sustainable yields in today's markets can be challenging. In our view, the fundamental way to build portfolios is to identify the best long-term investments and allocate appropriately based on risk-tolerance, income objectives, and investment horizon.

We believe institutions—especially U.S. institutions who have committed less capital to the asset class— should consider infrastructure investing as a strategic portfolio allocation. A large percentage of infrastructure investors remain below their targets, as evidenced by the U.S. institutions on The Global Investor 30 list averaging only an 3.5% allocation. Given the asset class' attractive historical performance, favorable risk/reward profile, inflation-hedging potential, and income-generation ability, we believe infrastructure assets warrant a higher allocation to reap the rewards.

4 Relative to other alternative investments.

No assurance can be given that any investment will achieve its objectives or avoid losses.

To capitalize on the growth opportunities in infrastructure and to appropriately meet return targets, we believe investors must have access to the deep expertise needed to source these investments. Investors will benefit from knowing that infrastructure assets are varied in nature and require a broad sourcing platform, flexible implementation, and an experienced team to execute on them. Also, the vehicle type through which investors allocate to infrastructure is important. Entry cost, alignment of interests, fees, investment period, and the manager's "mentality" are some of the key factors to consider when choosing between a closed-end or open-end structure.

ABOUT GCM GROSVENOR

GCM Grosvenor is a global alternative asset management firm with over $55 billion in assets under management in hedge fund strategies, private equity, infrastructure, real estate, and multi-asset class solutions. It is one of the largest, most diversified independent alternative asset management firms worldwide.

GCM Grosvenor has offered alternative investment solutions since 1971. The firm is headquartered in Chicago, with offices in New York, Los Angeles, London, Tokyo, Hong Kong, and Seoul, serving a global client base of institutional and high net worth investors.

Important Disclosures

Note: Infrastructure investments are exposed to risks associated with changes in the availability or price of inputs necessary, including but not limited to, electricity and fuel, for the operation and/or construction of infrastructure assets as well as events outside the control of the investor. The operation and maintenance of infrastructure assets involve various risks and is subject to substantial regulation and such operation and maintenance may be delegated to a third party unaffiliated with the investment and the failure of such third-party to perform its duties could have an adverse impact on the investment. Infrastructure projects are especially sensitive to government regulations and such regulations may add additional costs that would be indirectly borne, in part, by investors.

Past performance is not necessarily indicative of future results. No assurance can be given that any investment will achieve its objectives or avoid losses. Investments in alternatives are speculative and involve substantial risk, including strategy risks, manager risks, market risks, and structural/operational risks, and may result in the possible loss of your entire investment. The views expressed are for informational purposes only and are not intended to serve as a forecast, a guarantee of future results, investment recommendations or an offer to buy or sell securities by GCM Grosvenor. All expressions of opinion are subject to change without notice in reaction to shifting market, economic, or political conditions. The investment strategies mentioned are not personalized to your financial circumstances or investment objectives, and differences in account size, the timing of transactions and market conditions prevailing at the time of investment may lead to different results. Certain information included herein may have been provided by parties not affiliated with GCM Grosvenor. GCM Grosvenor has not independently verified such information and makes no representation or warranty as to its accuracy or completeness.

CONTACT

Headquarters
Chicago
900 North Michigan Avenue
Suite 1100
Chicago, Illinois 60611
+1 312 506 6500

New York
+1 646 362 3700

Los Angeles
+1 310 651 8270

London
+44 (0) 20 3727 4450

Tokyo
+81 3 5573 8110

Hong Kong
+852 3420 1777

Seoul
+82 2 2158 8500

For more information:
inquiries@gcmlp.com
gcmgrosvenor.com

GCM GROSVENOR