SLC Management

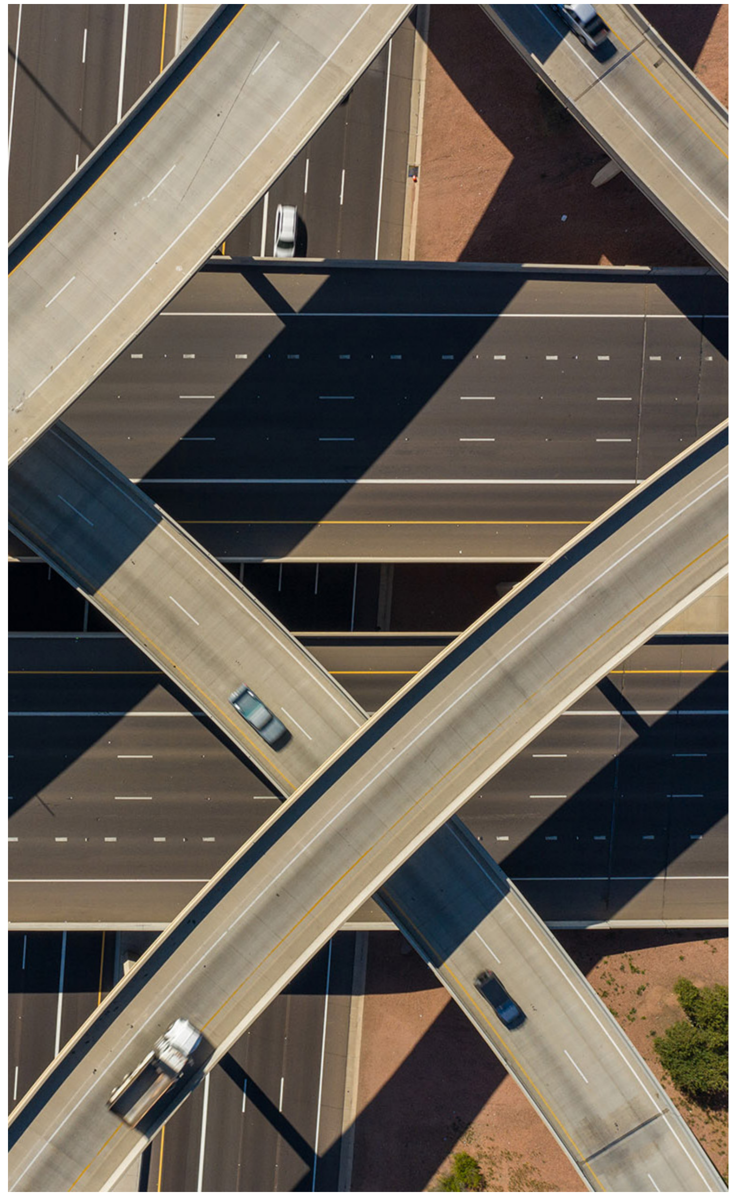
INVESTOR INSIGHTS

Infrastructure debt: expanding the opportunity set

JUNE 2026

As institutional investors seek to enhance portfolio resilience and diversify sources of income, infrastructure debt has become an increasingly prominent component of many portfolios. Long-term capital requirements driven by digitalization, energy transition and essential public services are expanding the opportunity set, while structural features of infrastructure assets continue to appeal to a broad range of investors.

This whitepaper provides an overview of infrastructure debt as an institutional asset class, examining its defining characteristics, recent market developments and role within diversified fixed income portfolios.



What is infrastructure debt?

Infrastructure debt refers to lending provided to support assets that deliver essential economic and social services. These assets underpin the functioning of modern economies and include infrastructure that societies rely on daily for power, transportation, communication and core public services.

The infrastructure opportunity set can be grouped into five core verticals:

- **Power generation** – includes renewable and conventional power assets
- **Energy infrastructure** – includes pipelines, midstream systems
- **Transportation** – includes roads, airports, ports, rail
- **Social** – includes hospitals, schools, stadiums, government buildings
- **Digital** – includes data centers, fiber networks, wireless towers

Key characteristics

As the infrastructure universe is a heterogeneous space, the underlying risk and return drivers of assets will vary depending on the subsector. However, they share common economic traits that distinguish infrastructure debt from other forms of corporate credit.

Financing is secured by assets that are essential and tangible. Given that infrastructure assets are critical for economies to function, demand tends to be resilient across economic cycles. These tangible assets form the basis of lenders' collateral packages and provide a clear link between cash flows and underlying asset value.

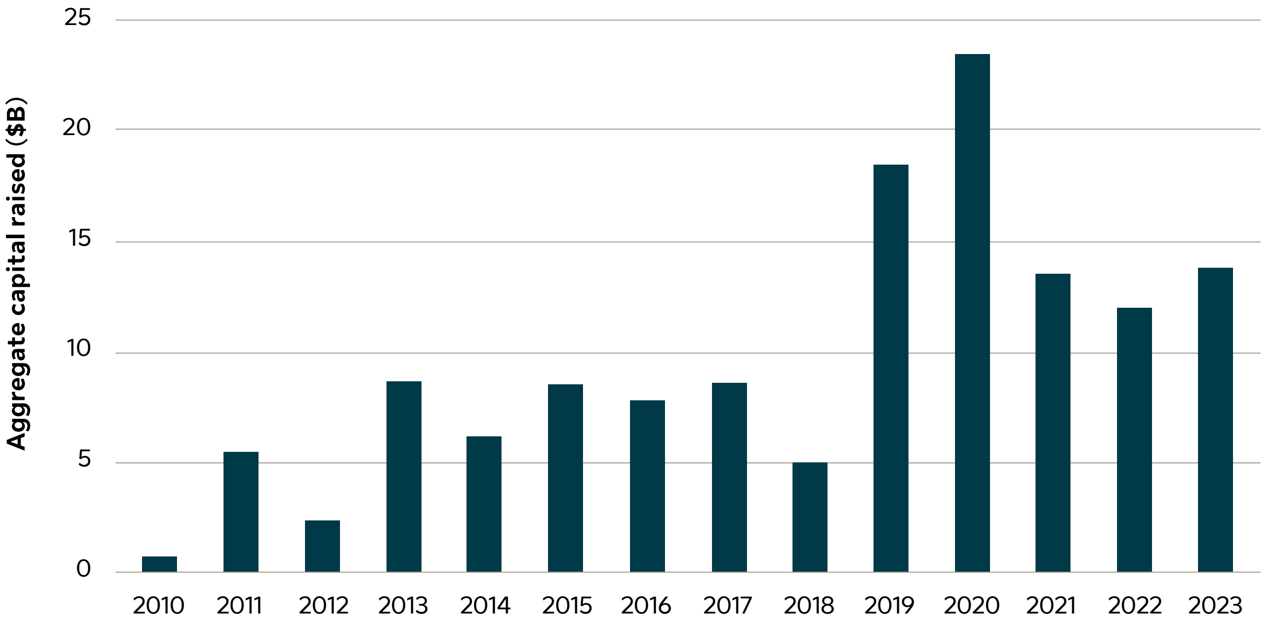
Cash flows tend to be stable and predictable over the long term. Revenues are frequently supported by long-term contracts, such as power purchase agreements, concession agreements or regulated tariff frameworks. These contractual or regulatory arrangements provide greater visibility into future revenue streams.

Assets tend to exhibit inflation resilience. The contracts or regulatory provisions underlying infrastructure projects often include clauses that allow for inflation costs to be passed through to the underlying user, meaning that cash flows to the investor would rise with inflation. Floating rate debt structures can provide investors with further protection as interest rates respond to inflationary pressures.

Trends in the infrastructure debt space

Over the past decade, the infrastructure debt market has expanded rapidly, driven by powerful secular trends. Digitalization and the accelerating adoption of artificial intelligence have led to significant investment in data centers, fiber networks and digital connectivity. At the same time, the global energy transition has created unprecedented capital needs across renewable generation, energy storage, transmission infrastructure and decarbonization technologies. The combined impact has been an upward trend in infrastructure fundraising worldwide.

Historical year-over-year capital raised by infrastructure debt funds



Source: Preqin (*2025 Global Report: Infrastructure*).

In Canada, interest in infrastructure debt has increased meaningfully among both pension plans and insurers. While investment grade (IG) infrastructure debt has long been a component of institutional portfolios, recent years have seen growing interest in the non-IG segment, where investors may be compensated with higher spreads for assuming incremental credit and illiquidity risk.

IG vs. non IG infrastructure debt

There are differences in risk profile, structure and return potential between these two segments:

- **Duration profile** – Deals in the IG space tend to be concentrated in medium to long durations, while non-IG deals tend to be available across short, medium and long durations
- **Debt structure** – IG tends to consist of senior secured loans, whereas non-IG tends to consist of structurally subordinated loans
- **Leverage** – Tends to be higher for non-IG compared to IG, although still supportable given the stability of cash flows

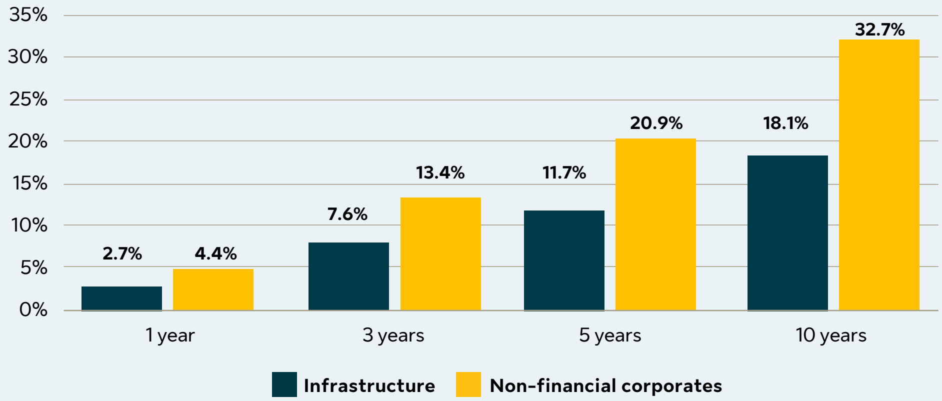
Commonalities between the IG and non-IG segments include the following:

- Both fixed and floating rate debt tend to be available
- Origination is from both direct and syndicated markets
- Both segments benefit from structural protection provided by mezzanine and equity tranches, which absorb losses ahead of debt holders
- Rigorous underwriting standards, conservative stress testing processes and ongoing asset monitoring play a critical role in mitigating credit risk across both segments

Potential benefits of investing in infrastructure debt

One of the primary attractions of infrastructure debt is the attractive downside credit risk profile that the asset class has historically demonstrated. This is largely due to the combination of essential underlying assets and strong contractual protections. This becomes particularly evident when looking at the non-IG side, where data show that default rates are notably lower for infrastructure debt compared to non-financial public corporate debt, especially over longer time horizons.

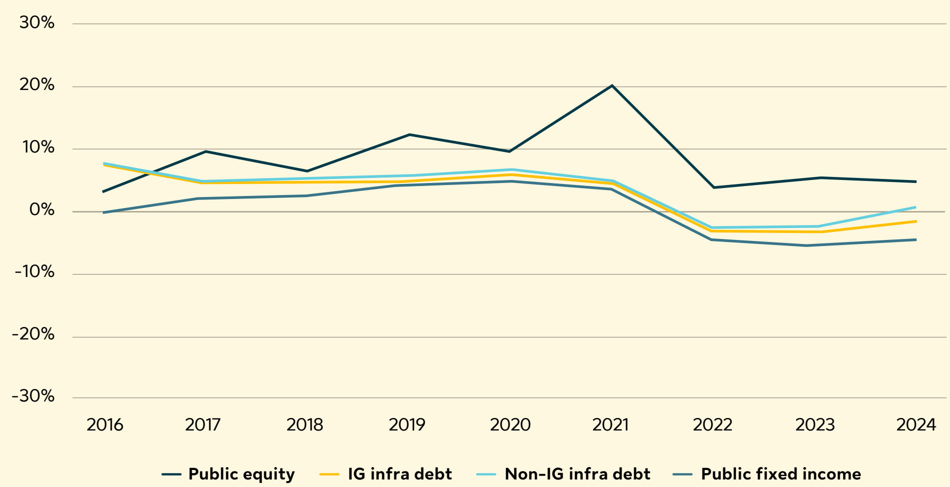
Average cumulative default rates for non-IG debt



Source: Moody's (Infrastructure Default and Recovery Rates, 1983-2023). These data encompass the credit performance of Moody's-rated infrastructure securities over the stated time period. The term "infrastructure" is used in a broad sense, and includes securities issued by both public and private issuers (operating companies and projects) that provide large, capital-intensive critical assets that underpin economic activity.

Infrastructure debt can also offer stability in returns across business cycles, reflecting its backing by tangible assets producing resilient cash flows. As shown by the following chart, the three-year rolling return profile for both IG and non-IG infrastructure debt shows a level of variability comparable to public global fixed income, with relatively stable and tightly clustered outcomes over time. In contrast, public equities exhibit materially greater variability, with a wider range of outcomes and more pronounced cyclical swings. The return streams of many infrastructure assets also include implicit or explicit inflation linkage, which can help investors preserve real returns in environments of rising prices.

Three-year rolling returns (annualized) of global private infrastructure vs. global public equity and fixed income



Sources: InfraMetrics (The performance of Infrastructure Debt), eVestment. Three-year rolling returns are calculated based on annual returns data. Asset classes are represented by the following indices: Public equity – MSCI ACWI All Cap (Net Dividends), public global fixed income – Bloomberg Global Aggregate Fixed Income Index, IG infrastructure debt – infra100 IG Debt, Non-IG Infrastructure Debt – infra100 Project NIG Debt, 2026.

Another potential benefit of investing in infrastructure debt is the ability to earn a modest spread premium relative to corporate bonds with similar credit ratings, particularly in the IG segment. It is important to note that the level of this spread premium can vary depending on market conditions and is typically heterogeneous across different infrastructure sectors. This incremental spread is intended to compensate investors for a combination of factors, including structural complexity and illiquidity. However, in non-IG markets spreads for infrastructure debt are typically lower than corporate bonds, consistent with the asset class's lower credit risk. A comparison of spread ranges for infrastructure debt relative to corporate bonds in both IG and non-IG segments is provided in the following table.

Although infrastructure debt is inherently illiquid, as reflected in its spread, this illiquidity is often well aligned with the liability profiles of pension plans and insurers. Many of these investors have long-dated obligations and can tolerate holding assets to maturity, particularly when liquidity is available elsewhere in the portfolio. As a result, infrastructure debt can represent an efficient way to harvest illiquidity premia without compromising overall portfolio flexibility.

Furthermore, liquidity can differ depending on the investment vehicle used to implement the infrastructure debt allocation. Open-ended funds offer periodic conditional redemption windows, which tend to increase the liquidity profile of these assets when compared to their closed-ended counterparts.

Historical observed spread ranges for corporate bonds vs. infrastructure debt

	Infrastructure debt	Corporate bonds
IG	100–130 bps	90–150 bps
Non-IG	250–400 bps	300–600 bps

Source: InfraMetrics (*The performance of Infrastructure Debt*), 2025.

Outlook

The scale of anticipated capital expenditures required to support trends such as population growth, digitalization, artificial intelligence and energy transition is substantial and expected to persist for decades. Infrastructure debt provides an opportunity for investors to capture this momentum. We believe this asset class can potentially provide investors with attractive risk-adjusted returns, in addition to favorable downside protection and diversification within fixed income portfolios. When implemented thoughtfully and diligently, infrastructure debt can offer investors an opportunity to access stable cash flows backed by essential assets, while seeking to enhance portfolio efficiency in an increasingly complex investment landscape.

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Disclosure:

Investments in infrastructure debt are subject to risks, including but not limited to:

- Credit risk – borrowers may fail to meet their contractual obligations. Risks may be elevated in non investment grade or subordinated structures.
- Construction and completion risk – greenfield projects may experience delays, cost overruns, or failure to achieve operational status.
- Operational risk – asset performance may be affected by maintenance requirements, asset degradation or lower-than-expected utilization.
- Regulatory and political risk – infrastructure assets are often subject to evolving regulatory frameworks and government policies that may impact tariffs, subsidies or overall asset economics.
- Interest rate risk – long-dated, typically fixed-rate cash flows may be sensitive to changes in interest rates and broader market conditions.
- Liquidity risk – infrastructure debt investments are generally illiquid, which may limit the ability to reposition portfolios in volatile markets.
- Structural complexity – investments may involve complex capital structures, including varying levels of seniority, security, and covenant protections, requiring detailed due diligence.

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