TIERA CAPITAL

PRIVATE MARKETS PERSPECTIVES

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The four corners of the infrastructure world

In our previous article, 'The structural case for infrastructure', we focused on the investment potential of private infrastructure – spanning cutting-edge transport networks, transformative energy transition projects, data centres and essential services such as education and healthcare. We now move from the structural backdrop to the practical question of how investors can work through the variety of options available.

The infrastructure market is often discussed as if it were a single block, yet it spans a wide spectrum of assets, operating models, and risk profiles. To bring clarity, private infrastructure investments are commonly grouped into four strategies: *Core*, *Core Plus*, *Value-Added*, and *Opportunistic*. Each reflects a different mix of operational complexity, risk, and return expectations. Understanding these distinctions gives investors a clearer framework for building exposure that fits their goals, preferences, and risk appetite.

1. Core infrastructure

Core infrastructure forms the basis of the sector. These are mature, fully functioning assets that already serve established demand. They are often regulated and supported by long-term contracts that extend well beyond twenty years. Revenues tend to be stable, linked to inflation, or secured through agreements with public authorities. This structure results in lower volatility and a clear, predictable cash flow profile.

Examples include water utilities, operational toll roads, and regulated energy networks. These assets are essential parts of daily life and typically operate with limited competition, which helps reinforce the stability of returns.

Because the risks are relatively low and the business models are well understood, expected returns usually fall in the 5 to 8 per cent range per year on a net basis with a high proportion of income return. For many large institutional investors, *core infrastructure* serves as the anchor of their allocation. Its long duration and consistency can help balance a broader portfolio, particularly for those seeking reliability over several economic cycles.

2. Core plus infrastructure

Core plus investments extend the characteristics of *Core* but introduce a measured level of enhancement or commercial opportunity. The assets remain established and generally stable, but revenue may depend partly on performance or demand. Operational adjustments or expansion can also play a role in strengthening long-term prospects.

Typical examples include solar parks that are expanding their capacity or fibre-optic networks that are scaling up. These assets already function and generate income, yet they also offer room for improvement through efficiency gains, network growth, or optimisation of operations.

The risk level is moderate, reflecting a mix of stability and calculated development. Expected returns generally sit between 8 and 10 per cent a year on a net basis with a mix of income return and capital appreciation. *Core plus* can work well for investors who want a combination of resilience and growth. It remains a measured part of the sector, without the higher uncertainty associated with early-stage or heavily restructured projects.

3. Value-added infrastructure

Value-added infrastructure involves assets that require active intervention to drive performance. These assets exist and operate, but improvements, renovations, or strategic repositioning are needed to raise their long-term value. The focus is on upgrading and refining, rather than simply maintaining.

Examples include modernising a regional airport or acquiring a district heating network that needs material upgrades. The work involved can be extensive, whether through construction, commercial renewal, or operational restructuring.

The risk level is higher than *Core* or *Core Plus* because the outcome depends on successful execution of these improvements. Investment horizons tend to be shorter, often between five and ten years, reflecting the time required to complete the work and realise the added value. Expected net returns usually fall between 10 and 12 per cent with a lower portion of income return and a higher portion of capital appreciation.

These projects require technical expertise, hands-on management, and a clear strategy. They appeal to investors comfortable with more active involvement and the uncertainties of transformation. When managed effectively, they can deliver stronger returns while contributing to modern, efficient infrastructure networks.

4. Opportunistic infrastructure

Opportunistic infrastructure sits at the far end of the spectrum. These investments involve assets in development, emerging markets, or situations with specific risks linked to construction, regulation, or market demand. They often start without an operational base and rely on successful delivery of a project plan.

Examples range from building a new port in Africa to installing digital infrastructure in a growing economy. These ventures carry multiple layers of risk, from securing permits to managing construction timelines and forecasting future demand.

The return potential is the highest, generally above 12 per cent a year on a net basis with limited income return and a high proportion of capital appreciation, but the uncertainty is also the greatest. These projects suit experienced investors or specialist funds with the capacity to assess complex conditions and manage volatility. They play a distinct role in the market for those seeking higher rewards and prepared for greater variability.

Between stability and high returns

Separating infrastructure investments into these four strategies gives investors a practical way to assess how each segment aligns with their priorities. The market was once dominated by *Core assets* with low risk, modest returns, and long duration profiles, but the landscape has evolved. Many managers have shifted toward value creation models inspired by private equity playbooks, focusing on operating companies and driving improvements over shorter periods. This has broadened the space for strategies that sit between stability and higher-return ambitions.

We see the *Core Plus* and V*alue-Added* segments as a particularly relevant position today. It offers an appealing balance between risk and return while capturing long-term growth driven by the infrastructure megatrends. A clear understanding of the framework is essential to help investors combine resilience with potential for capital growth and adjust their exposure accordingly.

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