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## Too much of a good thing?

*Appetite for infrastructure debt is booming, but is investor exuberance causing markets to overheat? Six industry insiders tell Amy Carroll and Kalliope Gourntis what they think*

Infrastructure debt has seen unprecedented momentum in recent years; fundraising reached \$14.6 billion globally in 2025, up from \$10.3 billion in 2024. And this appetite is being driven, in large part, by a desire to diversify away from direct lending.

“We are seeing some investors re-evaluate their private credit exposure given everything that has taken place in that market over the past year, and that is leading to more capital flowing into infrastructure debt,” says Jessica Bailey, global head of infrastructure at Nuveen.

“Investors are looking for diversification away from direct lending and

LBO financing,” adds Vikas Agrawal, managing director, private credit, at Goldman Sachs Alternatives. “Infrastructure debt has very little correlation with those types of markets.”

Agrawal adds that the higher interest-rate environment has also led to a reallocation away from equity strategies. The danger, however, is that infrastructure debt becomes a victim of its own success, should the market become overly exuberant, underwriting standards slip or lenders stray into uncharted territories in a bid to put more money to work.

Orhan Sarayli, head of North America infrastructure debt at Barings, says he sees signs of overheating taking

place. He adds that the definition of what constitutes infrastructure is being stretched, citing turbine financing and chip financing as examples. “What investors want from infrastructure debt is a strong risk-reward proposition in exchange for illiquidity,” Sarayli says. “There is a danger, however, that the asset class is expanding into areas where there is less of a track record.”

Agrawal agrees: “We are seeing some lenders taking more uncontracted risk or more development risk as they look to deploy increasing amounts of capital. We are also seeing lenders move into areas such as chip finance or inventory finance, which do not offer true infrastructure characteristics.

**Jessica Bailey**

Global head of infrastructure,  
Nuveen

Jessica Bailey leads Nuveen's global infrastructure platform. She previously served as president and CEO of Nuveen Green Capital and co-founded Greenworks Lending, which was acquired by Nuveen in 2021.

**Orhan Sarayli**

Head of North America,  
infrastructure debt, Barings

Orhan Sarayli has more than 24 years of experience in project finance. Prior to rejoining Barings in 2021, he worked at Global Infrastructure Partners, a part of BlackRock. He has also worked for UBS.

**David Cooper**

Head of EMEA and Australian  
infrastructure debt, IFM Investors

David Cooper has more than 20 years' experience in banking, focused on project finance, infrastructure debt and structured credit. He joined IFM Investors from Barclays UK, having begun his banking career with RBS and HBOS.

**Sylvain Jérôme**

Managing director, energy and  
infrastructure group,  
Crédit Agricole CIB

Sylvain Jérôme, who has been at Crédit Agricole CIB since June 2008, advises and lends to clients on the financing of large-scale infrastructure assets across Europe and the Middle East.

**Lindsay Scully**

Partner, private debt infrastructure,  
QIC

Lindsay Scully joined QIC in 2021. She previously worked at Crédit Agricole CIB, Dexia Credit Local and XL Capital Assurance.

**Vikas Agrawal**

Managing director, private credit,  
Goldman Sachs Alternatives

Vikas Agrawal joined Goldman Sachs in 2006 and is focused on lending to companies and infrastructure in the climate space. He previously worked in the Sustainable Investing Group and Alternative Energy Investing Group within the Special Situations Group.

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ORHAN SARAYLI  
Barings

The whole market is very fast-moving and complex right now, which is why remaining disciplined is so critical.”

### **Underwriting discipline**

The good news is that the surge in the supply of capital is being met with an equally powerful surge in demand. “The sheer scale of infrastructure financing need around grid modernisation, the energy transition and everything that comes with onshoring means that demand for capital is huge,” says Bailey.

Nonetheless, the need to maintain underwriting discipline has undeniably become a mantra for the asset class. Lindsay Scully, partner, private debt infrastructure, at QIC, says that, while the macro themes underpinning the infrastructure debt opportunity are compelling, it is the job of the lender to underwrite the assets themselves. “We do see situations where lenders are underwriting future growth without sufficient evidence of that growth coming to fruition,” she explains. “Strong sector tailwinds don’t automatically make individual credits a good [choice]. It is vital to be selective.”

Scully adds that periods of strong investor enthusiasm, without proper

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SYLVAIN JÉROME  
Crédit Agricole CIB

diligence and discipline, can also lead to leverage creep and a weakening of protections. This is not only true of riskier core-plus or value-add strategies but is taking place in the core infrastructure market too.

“We are seeing a lot of enthusiasm for core-plus opportunities being underwritten with core infrastructure assumptions and some of that exuberance is starting to spill over into how core infrastructure deals are being structured,” says Sylvain Jérôme, managing director, energy and infrastructure group, at Crédit Agricole CIB. “Leverage is creeping up, covenants are getting looser, and we are also seeing increasingly aggressive holdco proposals that would not have been acceptable a few years ago.”

These structural manifestations of competitive intensity are particularly evident in the larger deal space, which is inevitably increasing the appeal of the mid-market, as Agrawal attests. “We play at the smaller end of the market where we feel there is less competition compared to the large deal market of \$500 million or more, which is being driven by a lot of project finance paper.”

“Some small and mid-market sponsors may feel overlooked by the big banks that tend to focus on the next \$20 billion-plus financing from larger sponsors,” Sarayli adds. “Ratings agency methodologies tend to emphasise scale as a favourable factor, but we see value in well-structured small and mid-sized deals. The issue is how small do you go, given the resources and time involved in pursuing those smaller deals?”

Jérôme, meanwhile, says banks can be interested in smaller deals, particularly when they offer the promise of growth and potential future ancillary opportunities. “Banks tend to be very relationship-driven. A phone call from a key client can often go a long way,” he says.

“Some banks will back relatively small deals where *they are* supporting

*“Don’t get drawn to the latest shiny object. If something goes badly wrong, it will involve an investment that everyone has piled into, not an investment that everyone has avoided”*

VIKAS AGRAWAL  
Goldman Sachs Alternatives

## Market dislocations

### **Overheated sectors often cool over time, prompting a fresh look from investors seeking reasonably priced assets**

Excessive leverage, overly optimistic growth forecasts and exposure to merchant risk have led to some high-profile failures, most notably in Spanish solar, and UK and German fibre.

This is, in turn, creating opportunities for some. “There have been situations where aggressive views have been taken on merchant power prices. There are also lots of renewables going onto the grid in Spain, which has created issues in terms of the price being achieved for the power being produced. We avoided those deals at the time, which means there may now be opportunities stemming from that dislocation,” says IFM’s David Cooper.

“We have seen something similar play out in German fibre,” Cooper adds. “We were careful about getting involved in early alt net deals and we are now seeing opportunities as certain players look to reduce their exposure to the sector.”

construction, for example, perhaps providing revolving facilities with an opportunity to refinance later. Equally, the appeal may be the opportunity to provide hedging, advisory or DCM work over the next refinancing, or future M&A, or financing a bridge to disposal. Banks come at these things from a different angle to institutional investors.”

Scully agrees that creep on terms is starting to take place in the larger, more competitive, infrastructure deals: “That is why we are now doing more in the mid-market. Deals take longer, but we are able to work directly with sponsors on opportunities that fit squarely within our definition of infrastructure.” However, Scully adds that market dynamics differ by geography. “There are more opportunities to go direct in the US,” she explains. “In Europe, the competitive dynamics are often different.”

### Geographical differences

Different regions certainly appear to be operating on different competitive cycles. “Right now, we believe Europe offers good relative value. The market is less overheated than the US or Australia, where there is a lot of demand but limited supply given the size of the economy,” says David Cooper, head of EMEA and Australian infrastructure debt at IFM Investors, adding that European renewables is a notable exception to this rule. “Some investors and banks are willing to do those deals at almost any price in order to tick their sustainability objectives.”

These regional differences provide a strong argument for having a global platform, Cooper explains. “It allows you to shift your focus depending on the specific market conditions that exist at any one time.”

Bailey agrees. “Our clean energy private equity business is historically focused on Europe and is now looking to the US for yield given compression in the European market. Conversely,

*“I don’t think infrastructure debt is going to replace private credit in portfolios but investors are certainly re-examining their concentration risk in direct lending”*

JESSICA BAILEY  
Nuveen

our infrastructure debt business, which has a North America focus, is looking to Europe for attractive financing opportunities to complement the overall portfolio. You need to be able to move between the two regions in search of the best relative value at any given time.”

Geopolitical volatility is also driving investor behaviour. “A lot of European investors are citing geopolitical risk in the US as a concern,” Agrawal says. “Investors need to have a global investing presence. Energy markets in particular are being affected. The ability to pivot is therefore critical.”

Scully, however, believes that both the US and Europe continue to resonate with investors. “In our experience, investors continue to look to both markets, as each provides different strengths driven by relative value, sector diversification and opportunity set.

“Europe remains a deep and mature market and offers investment opportunity across renewables, regulated utilities and transport. The US offers scale, sector diversity and attractive direct origination opportunities, which in particular can yield higher returns.

Major themes in the US market currently are power generation and digital infrastructure. Both regions contribute to a diversified global infrastructure debt position.”

### Lessons from direct lending

Maintaining underwriting discipline, focusing on the fundamental infrastructure characteristics of the underlying assets and pivoting to less heated segments and geographies are all tools that lenders have at their disposal when navigating today’s competitive market. But are there other lessons that the asset class can learn from recent experiences in direct lending? And what

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DAVID COOPER  
IFM Investors

can infrastructure credit do to avoid a similar fate?

Bailey says direct lending’s woes are in some ways being overstated. “The sky is not falling in. You need to separate what is actually happening from the noise,” she says.

However, Bailey adds that she does think infrastructure debt should learn from mistakes that have been made with regard to leverage levels. “That

is an important market signal that we need to pay attention to. I worry about what could happen if interest rates were to rise further,” she says, adding that Nuveen has a significant insurance client base, which means that the firm has limited its use of leverage, thereby protecting against interest rate volatility.

Sarayli, meanwhile, says private credit may be facing two key headwinds,

one being software overexposure and the other being the deluge of capital that has entered the market, leading to spread compression, or in some cases deployment challenges. “I don’t think infrastructure debt managers are struggling to deploy. There has been some spread compression but, collectively, I believe we are still managing to hit yield targets.

“With respect to software, there is no direct parallel in infrastructure debt. The closest comparable, however, may be data centres. We are not hearing many investors ask for increased data centre exposure today. Quite the opposite. They want to make sure we are being extremely selective in that space. It all comes back to underwriting discipline.”

For Agrawal, there are some important distinctions between the infrastructure credit and private credit markets. “Private credit is typically secondary financing. Most of what we are doing involves deploying primary capital into assets with high cashflow visibility. We are also underwriting the underlying assets themselves, first and foremost.”

Cooper adds that the tangible nature of infrastructure credit is a key selling point for investors, when compared to their private credit books. “Investors often tell us they have no idea what is actually in their private credit portfolios. With infrastructure, they can see what those assets are. They can visit them. They are real and tangible, and that counts for a lot in the current market,” he says.

Indeed, it seems probable that infrastructure debt will continue to benefit from the fallout from direct lending’s travails. “Investors are focused on macro exposures and geopolitical risks, and are therefore looking for assets that may offer greater resilience,” says Sarayli.

“I don’t think infrastructure debt is going to replace private credit in portfolios, but investors are certainly

re-examining their concentration risk in direct lending,” adds Bailey. “Infrastructure debt is starting to look like a nice complement in that context, given its real assets backing, lower default and loss rates, and reduced correlation to macroeconomic cycles and disruptions.”

Scully agrees that infrastructure debt is complementary to private credit, rather than being a substitute: “Investors evaluate how much of their private credit allocation should be dedicated to infrastructure debt as this segment of the market offers a different risk-return profile. Infrastructure is supported by long-term demand drivers, strong collateral values, and foundational essential services, all characteristics that provide downside resilience and portfolio balancing attributes along with meaningful yield. The balancing of the two is often what creates successful portfolio diversification.”

Jérôme, meanwhile, says he is seeing a convergence taking place between the two strategies. “Infrastructure debt has gradually evolved from project finance structures with amortisation, covenants, security and long tenors into an asset class that includes acquisition financing, holdco dividend recaps and revolving capex – all different spectrums of credit risk,” he explains. “That is understandably appealing to investors that have historically focused on corporate private credit. They are seeing those same features applied to a tangible asset class.”

Sarayli adds that the institutional infrastructure debt market is still providing only a fraction of the overall infrastructure financing need. “We have a lot more work to do to capture a larger share of the market,” he says. “We shouldn’t be thinking of ourselves as an alternative to private credit, but rather be thinking about how we can get the best of the infrastructure market into our investors’ hands. At the moment, we are only scratching the surface.”

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LINDSAY SCULLY  
CIC

### Broadening the appeal

Indeed, despite concerns about the amount of money flooding the market, the sheer scale of infrastructure financing needed means there is a strong argument that the infrastructure debt industry needs to be doing even more to widen its appeal.

According to Sarayli, institutional access to infrastructure continues to be constrained by the varying needs that different investors have when it comes to the asset class.

“Some investors have yield targets, while others have requirements around ratings, duration or risk-reward profile,” Sarayli says. “It is up to us to provide as many different entry points as we can to try to align with those objectives, whether that is through investment-grade, non-investment-grade or CLO strategies.

“Every pension fund, bank and insurance company has its own unique constraints, so that is how we are

looking to expand the universe of investors that can access this asset class.”

Agrawal says there are different strategies to fit different risk profiles: “It is going to be interesting to see how this all evolves over the coming decades. There is no doubt that there is a lot more change to come.”

The continued growth and evolution in infrastructure debt relies on its ability to sidestep any major pitfalls along the way, of course. For Scully, that means remembering that secular tailwinds can’t replace lending discipline.

“You need to make sure your structures have the necessary downside protection, especially when markets are good and liquidity is abundant,” says Jérôme.

“Be aware of mission creep,” adds Agrawal. “Don’t get drawn to the latest shiny object. If something goes badly wrong, it will involve an investment that everyone has piled into, not an investment that everyone has avoided.” ■