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Macquarie Asset Management

The case for infrastructure debt

A conversation with Macquarie Asset Management's Harlan Cherniak

Macquarie Asset Management (MAM) has spent more than three decades building relationships, expertise and scale to be a trusted provider of infrastructure financing. Now the firm is bringing that access and discipline to private credit investors seeking true diversification and a reliable source of cash yield.

We recently sat down with Harlan Cherniak, Americas co-head of private credit and head of infrastructure debt at Macquarie Asset Management, to discuss the role infrastructure debt can play within an investor's portfolio.

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Macquarie Asset Management

Harlan has more than 20 years of institutional principal investing experience across the global infrastructure landscape. He joined Macquarie in 2023 after serving as chief business officer at The Forest Road Company, a leading specialty and incentive tax credit finance business. Harlan led several key strategic initiatives and was responsible for the development of Forest Road's renewable-energy and asset-based finance platform with a strategic and targeted focus on distributed generation. He previously held senior investment and portfolio management positions at KKR and other active investment firms.

MAM has been investing in infrastructure for decades. How has the market changed?

The perimeter of infrastructure has evolved and continues to expand. When we started, infrastructure assets were huge, bulky structures – roads, bridges, tunnels, airports and large utilities. Today, that infrastructure is often invisible, even as it supports everything we do: the water that comes out of the tap, the GPS that routes you to a client meeting, the subway car, streaming content on the train, the coffee-shop app, the turnstile you swipe through, the newspaper you log into, the voice assistant you talk to and the video call that starts your day. That's the infrastructure ecosystem at work. Infrastructure has always been the backbone of the economy. It's still doing its job – just more often behind the scenes.

How is the firm staying relevant as these markets and assets evolve?

Our approach has expanded in parallel with the asset class. One of our primary strategic moves was adding a private infrastructure debt team. When MAM entered the business, infrastructure debt was largely a bank market. We saw an opportunity for private financing when banks began to retrench after the global financial crisis ended in 2009, and we stepped in to fill the gap. The market then was much narrower – almost exclusively focused on transportation, bridges, utilities and public-private partnerships. Today, the fastest-growing sectors are digital infrastructure and the full spectrum of energy, from renewables to traditional power generation.

Private capital now plays a much larger role because many of these financing needs can't be met by banks or the traditional bond market. Sometimes we offer something more bespoke in risk or structure; sometimes it's a longer-dated asset that fits better on an insurance balance sheet than inside a bank. As the market has grown, its capital structure has become more sophisticated, and we've stayed relevant by providing those complex financing solutions – figuring out what investors want and how to deliver it.

The opportunity set keeps growing. Capital available across private credit – investment-grade and subinvestment-grade combined – now approaches $40 trillion. We expect private infrastructure financing to keep expanding because it works well for pension funds, insurers, sovereign wealth funds and private investors alike. With rates higher than they've been in years, overall risk-adjusted yields are drawing more attention.

How does MAM remain competitive as more managers enter private infrastructure financing?

There's a natural foundation for a firm like MAM that's hard for new entrants to replicate. We were an early pioneer in establishing infrastructure as an asset class more than 30 years ago. We've built deep relationships with owners, operators, advisers, sponsors and developers across every major infrastructure market. When someone needs a financing solution, MAM is often a first call. That position lets us see a vast amount of deal flow and enables us to be highly selective about the opportunities we pursue.

The market has evolved, but the fundamentals we underwrite haven't: hard assets, durable cash flows and strong structural protections with covenants. Our portfolio companies have weathered the Sept. 11 attacks, the global financial crisis, the COVID-19 pandemic and every pocket of episodic volatility in between – giving us a differentiated perspective as lenders. Infrastructure assets are often complex, and we have approximately 380 dedicated infrastructure investment professionals worldwide who focus exclusively on this asset class. This creates a knowledge network that's both a competitive advantage and difficult for others to replicate. Where others shy away from complexity, we lean in.

That's the distinction investors should draw: firms with an established foundation and a defensible market position versus what I'd call the infrastructure tourists. Many firms have recently positioned themselves as asset-based finance or "infrastructure-like." There's been real mandate creep into this corner of the market as competition has intensified and other areas of private credit have become more efficient or commoditized. In contrast, our platform encompasses deep infrastructure expertise across individual sectors – from airlines to utilities – drawing on decades of data, management relationships, board access, independent engineers and technical advisers, layered on top of the broader Macquarie ecosystem, including Macquarie Capital, and our Commodities and Global Markets trading platform. We believe relatively few firms have developed that kind of resource base built entirely in-house the way Macquarie has over 30 years.

A successful platform needs both breadth and scale, efficient access to sector expertise, and enough capacity to monitor a large volume of cash flows while staying relevant to sponsors as the firm they want to call when they need capital. Track record, expertise and scale – that combination is what we look for as an originator, and it's what we've built over three decades. We've stayed consistent in our approach even as banking and insurance regulation, institutional mandates and the growth of private wealth investors have reshaped the market around us. That consistency and a repeatable investment process are what we believe has kept us among the leaders in this market.

What exactly are private infrastructure debt investors investing in?

Concretely, infrastructure credit finances capital structure solutions for infrastructure private equity sponsors, project developers and owners of assets essential to the economy: roads; bridges; tunnels;

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and water, gas and electric utilities. That perimeter continues to widen to include digitalization and decarbonization; deglobalization due to the shift in supply chains and onshoring; as well as the aging demographics of our population. The structure is similar to a home mortgage: A bank needs to understand who's building the house, what it looks like when finished, what the paydown schedule looks like and the risks around it before it will lend or extend credit. If you understand how a mortgage works, you generally understand how infrastructure debt financing works.

How does infrastructure debt differ from corporate financing?

What distinguishes it from corporate credit is the collateral underneath and the debt documents. Infrastructure credit is focused on deep pools of hard assets – the physical foundation beneath the economy that supports essential services day to day. It's often characterized as idiosyncratic, largely uncorrelated to broader macroeconomic or microeconomic conditions, and benefits from long-duration, contracted cash flow that offer stability, transparency and high-quality cash-flow over time. Infrastructure credit today is roughly where the broader corporate credit markets stood 17 years ago, coming out of the financial crisis: significantly less competition from banks as they retrench under risk-based capital regulations worldwide, and less competition from business development companies, exchange-traded funds or collateralized loan obligations. We believe our global network and more than 30 years of experience of owning, operating and financing infrastructure assets help us identify emerging trends and position portfolios for evolving market conditions. Combine the macroeconomic backdrop, the total addressable market for infrastructure credit, and an opportunity set around these global themes, and we see a meaningful supply/demand imbalance for the financing solutions.

What is driving deal flow right now, and where does infrastructure debt fit in a portfolio?

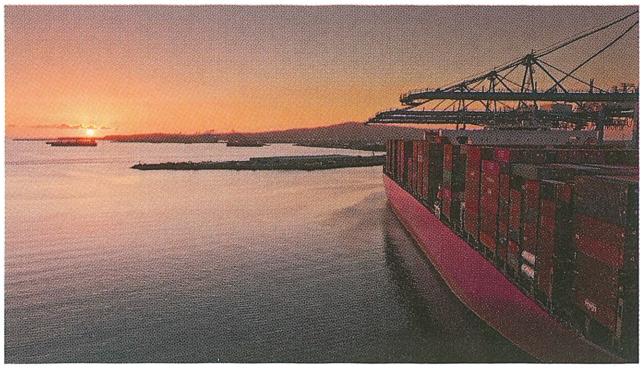
The themes we're focused on aren't unique to Macquarie. There's a massive amount of capital and macroeconomic momentum behind four forces: the digitalization of the economy, the decarbonization of the power grid, deglobalization driven by geopolitical shifts, and aging demographics. More than a billion people are over 65 today, a figure expected to double within the next decade. The gap between what's needed to fund essential assets and services and what's actually available will translate into trillions of dollars of investment opportunity. Meanwhile, investment banks continue to retreat from the space, and few global players offer end-to-end capital solutions across equity and the full spectrum from investment-grade to subinvestment-grade debt. Those dynamics have the potential to produce attractive risk-adjusted returns and allow us to be highly selective about our partners, borrowers and capital structure protections.

> *"[Infrastructure debt] spans the capital stack, so it can fit a broad range of credit investor needs, offering a wide range of yield, risk and duration profiles across an asset's lifecycle."*

Our investments are somewhat unique because the underlying assets and services run around the clock and are generally resilient to many economic cycles and market conditions. We call it the HALOID dynamic: hard asset, low obsolescence, inelastic demand. That's exactly what credit investors look for – a stable, consistent and transparent source of income and cash distributions.

Is infrastructure debt appropriate for a core investor, or is it more of a niche allocation?

Once a niche allocation, infrastructure debt is increasingly being considered by investors. It spans the capital stack, so it can fit a broad range of credit investor needs, offering a wide range of yield, risk and duration profiles across an asset's lifecycle. Our investors come to us seeking diversification and yield delivered



through consistent, repeatable cash flows, and we believe infrastructure offers private credit investors one of the most attractive risk-adjusted return profiles available today. For investors already in infrastructure equity, it's a strong diversifier – base rates, credit spreads and illiquidity premiums are all at levels that make the return profile compelling right now.

How do newer themes like energy transition and digital infrastructure fit into your approach?

We have different risk appetites across our credit spectrum, but we stay focused on what's proven – we don't invest in science projects. When we do take risk, particularly in our higher-yielding strategies, we lean on areas where we have deep expertise through the Macquarie ecosystem. We also avoid binary bets in credit. We're lenders, not equity investors – we don't get paid for the upside. We collect interest and seek to preserve capital, so we won't lend behind a technology with a sample size of one. That doesn't rule out newer technologies entirely or development capital, but it rules out the earliest-stage ones in certain cases. We design portfolios around diversification – of project type, geography, long-term contracted counterparty risk and the underlying asset generating the cash flow. There's a much larger sample set now in solar, for example, and that dataset is expanding into battery storage and related technologies.

Think of the infrastructure market as one large convertible bond. There's a large base of repair-and-replacement assets – well understood, maintained for decades – that behaves like traditional fixed income. Then there's the growth piece or the convexity: technology, energy, disruptive change. That's where the convexity is, and our advantage is the experience within the Macquarie ecosystem, which gives us the ability to source data and conduct diligence with a high degree of confidence.

Digital infrastructure is a good example of how we apply that. We're tactical by design. You won't find us in the herd, lending into $10 billion, $20 billion or $30 billion capital structures – that's not our niche. We often seek opportunities where we can be the sole, lead or largest lender in a transaction, which points us toward the middle market. As a platform we look

MACQUARIE ASSET MANAGEMENT BY THE NUMBERS

30+ year track record

190+ portfolio companies

~380 infrastructure investment professionals.

$517.9 billion assets under management

for a broad theme, then find the first- or second-order opportunity within it where capital deployment is least efficient and the risk-adjusted return is most attractive. In the U.S. today, the biggest bottleneck is access to power, and within that, the biggest constraint is finding combined-cycle gas turbines. The large majority of the market is controlled by just three manufacturers – GE, Siemens and Mitsubishi – and lead times can run to several years.

We recently financed a portfolio of equipment destined for a data center under development. We structured the credit agreement and covenants to help mitigate downside risk for our clients while seeking to deliver an asymmetric, attractive risk-adjusted return. We didn't finance the data center itself – we financed a critical, long lead-time component needed to bring it online. We're bullish on AI, large language models and digital infrastructure broadly, but every deal has to align with our clients' capital and risk tolerance, and we look for pockets of inefficiency where our expertise gives us an edge in underwriting.

Have today's higher rates affected your strategy?

Nearly every asset class performed well over the past decade, much of it spent in a near-zero interest rate environment. The next decade will look different, and our strategy is well positioned for that because our contracts are long-dated and carry embedded interest-rate and inflation protections – if rates rise, our returns tend to rise with them given our loans are largely floating rate in nature. Historically, infrastructure debt has exhibited relatively low default rates and relatively high recovery rates compared with many credit asset classes, which tracks given how essential and durable these assets and services are. Combining this with geographic and sector diversification can further reduce the impact of macro and rate cycles. We're not betting on the consumer or on economic growth, and our portfolios aren't pro-cyclical. We're optimistic about the next five to 10 years; we seek to build portfolios that are designed for stable, long-term cash flow generation.

Where do you see private infrastructure debt opportunities in the next couple of years?

As we noted at the beginning, the definition of infrastructure keeps evolving – it's no longer just roads, bridges and tunnels, but is expanding into areas like defense, space and blockchain. I'm most excited about transportation and asset-based finance, plus the broader suite of technology services around those opportunities.

For us, it's not about labels; it's about the underlying fundamentals of what we finance, and about being bilateral or the lead lender so we have real influence when things go wrong, because in this complex business, sometimes they do. We stay excited, but never too excited – we're always weighing the downside.

There is an enormous capital need ahead, and institutional and private wealth investors are becoming more sophisticated about infrastructure debt. Banks will keep playing a role, but nonbank lenders will play an increasingly larger one. Where the best opportunities land over the next few years is something we'll find out together.

COMPANY OVERVIEW

Macquarie Asset Management is a leading global asset manager, trusted by institutions, individuals and communities. We provide clients with a diverse range of investment solutions – including real assets, real estate, and credit – delivering superior risk-adjusted returns. The infrastructure investments we manage are relied on by more than 310 million people every day.

CORPORATE CONTACT

For additional information, visit
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