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Infra Funds for Advisors? Managers Aim to Fill Product Gap

By Tom Stabile October 13, 2021

Alts managers are exploring ways to deliver private infrastructure assets in non-traded registered vehicles such as interval and tender offer funds, aiming to fill a stubborn product gap in the advisor market.

Brookfield Asset Management and KKR are among managers aiming to develop infrastructure products tailored for the advisor market that can invest in assets such as roads, ports, solar panel arrays, airfields, power plants, wind farms and railyards. While high-net-worth investors have access via non-traded alts strategies to most other alts asset classes, especially to private credit and real estate, and to a lesser extent private equity and venture capital, few if any such strategies have a dedicated infrastructure focus.

But a new trust vehicle registered in Canada is tackling the challenge, giving accredited investors in that market direct exposure to private infrastructure assets – and possibly providing an outline to structure U.S. versions.

The new offering from $208 billion Mackenzie Investments lets high-net-worth clients in Canada invest in its fund, which in turn is a limited partner in the third private infrastructure fund of its Northleaf Capital Partners affiliate, a $17 billion institutional alts manager. The product echoes a similar Mackenzie launch earlier this year that invests in a Northleaf direct lending fund.

The Mackenzie infrastructure vehicle echoes certain attributes of Securities and Exchange Commission-registered alts products such as interval funds, including its continuously offered sales format, monthly new subscriptions, lower investment minimums and offer of limited liquidity, though it also benefits partly from unique regulatory provisions in Canada

An advisor-friendly vehicle that taps the steady income, low public markets correlation and low volatility features of institutional infrastructure investing could be attractive to yield-hungry retail investors, said Eileen Duff, chief client success officer at iCapital Network, a platform that delivers alts products to advisors. And various managers are trying to crack the code, she said.

"It has all the attributes a high-net-worth investor would want," she said.

But to date, no offerings – particularly in the interval fund format closest to Mackenzie's model – are widely available that focus on infrastructure assets, said Luke Schmidt, senior financial analyst at Blue Vault Partners, which tracks non-traded alts funds.

"There are some that invest in private corporate credit or even funds that invest in municipal bonds, which would potentially finance these infrastructure assets," he said in an email. "There are also others that invest in real estate funds as a strategy, with those funds potentially holding these private infrastructure assets. But... none that invest primarily in real, hard infrastructure assets."

One reason may be the comparatively limited appetite for private fund infrastructure over the years from high-net-worth investors eligible to invest through feeder structures, Duff said. Infrastructure strategies have lower returns than the high teens targets for private equity or real estate funds, she said.

"Generally, when retail investors are putting in capital for long-hold funds, they're looking for higher returns," she said.

A registered fund format allowing periodic liquidity and new subscriptions, while aiming for 10%-plus net returns, may strike the right balance for retail investors, said Michael Schnitman, head of alternative investments at Toronto-based Mackenzie.

"These are essential assets in an asset class with high barriers to entry, predictable cashflows and different return patterns from equities and fixed income," he said. "This will be the same institutional-quality private infrastructure that institutional clients get."

Some managers are already discussing plans to develop similar vehicles for the U.S. market, including $625 billion Brookfield, which over the summer launched a joint advisor market product development and distribution platform with its Oaktree Capital Management affiliate. One goal the joint team is "actively working on" is developing non-traded alts vehicles focused on real assets and infrastructure to fill a void in the market, as reported.

KKR similarly outlined its plans to develop advisor market versions over time of its core investment strategies, including infrastructure, said Craig Larson, head of investor relations at the $429 billion manager, during its second quarter earnings call over the summer.

"[Y]ou should expect us to explore the best ways for us to package and bring these types of products also to the retail market," he said.

Mackenzie's vehicle offers several retail investor-friendly features, including $25,000 investment minimums, an annual redemption option, quarterly distributions, monthly new subscriptions and monthly valuations. The product charges a 155-basis-point management fee and 15-basis-point administrative fee, while the fund itself will pay a 15% performance fee over a 7% hurdle rate as a limited partner in the Northleaf vehicle, Schnitman said.

The fund invests alongside institutions directly into Northleaf's strategy, which targets assets such as wind farms, fiber optic networks and toll roads in developed countries. The Mackenzie vehicle will put 75% to 80% of its capital into Northleaf's strategy and the remaining 20% to 25% into infrastructure exchange-traded funds in order to provide liquidity for redemptions. Mackenzie would have discretion to gate the fund under certain circumstances, including redemption requests exceeding 10% of its net asset value.

The product recipe also entails a big commitment from Mackenzie – a large seed investment from its balance sheet that allowed the new fund to buy its limited partner stake in Northleaf's strategy, which already has invested in five infrastructure assets, Schnitman said. That means when investors put cash into Mackenzie's product, their capital will replace the seed investment, and they will get instant exposure to the five hard assets, he said.

"When you put in $25,000, you'll end up with $22,000 in the five Northleaf infrastructure assets, and $3,000 in the ETFs," he said.

Mackenzie intends to keep the seed investment available as needed to cover future capital calls when the Northleaf strategy acquires additional assets. But once enough new investor capital flows into the fund to cover capital calls and redemptions, Mackenzie eventually would remove the seed money, Schnitman added.

The continuous offering format means that once Northleaf's third fund winds down, the Mackenzie product can reinvest its capital into the next Northleaf infrastructure strategy or into co-investment deals, Schnitman said.

One key feature of Mackenzie's strategy is not available to U.S. managers – the ability to invest directly into an affiliated private fund, iCapital's Duff said. SEC-registered managers face restrictions preventing them from investing capital from retail investor products into their own private funds, she said.

"You would need some sort of significant workaround," she said.