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Alternative Asset Class-Infrastructure Investment

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ABSTRACT

In this context, infrastructure is one sort of alternative investment that merits greater attention. This asset type offers long-term, consistent, and predictable cash flows with limited downside risk, inflation hedge. Infrastructure assets closely resemble the liability profile of a traditional defined benefit plan while out performing the alternatives in terms of risk adjusted return. The importance of infrastructure as an alternative asset class is discussed in this research paper. Infrastructure is one type of alternative investment that should be given more consideration in this context. This asset class provides long-term, stable, and predictable cash flows, as well as a built-in inflation hedge. Infrastructure assets have a liability profile that is quite similar to that of a standard defined benefit plan, but they exceed the alternatives in terms of risk-adjusted returns. This research paper discusses the significance of infrastructure as a different asset type.

Key Words : Asset class, Infrastructure, Conventional asset class, Long-term, Inflation

INTRODUCTION

According to surveys, one of the most appealing asset classes is infrastructure. According to the most recent surveys, investment intentions are on the mend. According to procure and 43 per cent of investors were planning new commitments to infrastructure funds over the next 12 months in August 2010, while 18 per cent had no intention to invest. The rest were either undecided or unsure about future investment opportunities.

Alternative investments are perceived to behave differently than traditional investments. Investors can choose between absolute and relative returns. Some investors believe that alternative investments will provide positive returns throughout the economic cycle; this is referred to as an absolute return goal. Alternative investments, however, are not without risk, and their returns can be negative and/or correlated with other investments, including traditional investments, especially during times of financial crisis.

Infrastructure as an Asset Class is the most comprehensive infrastructure investment book available, with in-depth professional insight and extensive coverage. This new second edition has been completely revised to reflect the current situation of the global infrastructure market, its sector, and capital requirements, and gives a useful overview of the knowledge foundation needed to enter the market safely. To help you comprehend the mechanics of this complex, but potentially rewarding market, step-by-step instruction leads you through different infrastructure assets, emphasising project financing structures, risk analysis, and instruments.

Infrastructure continues to be a focus of global investment growth in both established and emerging nations. Conditions change constantly, markets fluctuate, and new concerns emerge; only the most recent reference can offer practitioners with the information they require to succeed.

Asset class:

A group of assets with comparable investment characteristics is known as an asset class. At the same time, they have different investment characteristics than other asset types. For example, stocks and bonds share similar properties. Infrastructure, too, has its own set of features as a type of asset. These are the qualities that

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attract investors to infrastructure financing as a viable investment option.

What is infrastructure:

Infrastructure is defined as the "groundwork basis of essential services, facilities, and institutions on which a community's growth and development is based." This definition emphasises the community's importance of infrastructure assets, as well as the asset class's inherent low risk. Without good infrastructure, societies and economies are unable to grow. Stable legal and political systems are just as crucial as reliable transportation routes, telecommunication networks, and electricity distribution networks to an economy's health**.**

Infrastructure -as an asset class some financial features are as follows:

– Good attractive investments

– Low sensitivity to economic and market fluctuations

– Low return correlation with other asset classes

– Long-term steady and predictable income flows

– Good inflation hedge

– Logical fit with long-term inflation-linked pension liabilities

– Socially responsible investing

Limitations of investing in infrastructure:

– High entry barriers

– Scale economies

– Inelastic demand for services

– Low operating costs and high target operating margins

Demand for infrastructure:

Because public infrastructure projects/assets in areas such as transportation, supply and disposal, health and social care, education, science, and administration are only a few examples, there is a significant need for both economic and social infrastructure assets all over the world. one of the most essential aspects in every economy's location and growth Despite the fact that governments are responsible for both new and existing infrastructure assets, and thus have the ability to positively influence their countries' economic development, the combination of the economic upturn, insufficient investment in these sectors, and the insufficient, even most basic, upkeep of existing ageing facilities has resulted in a combination of insufficient, even most basic, upkeep of existing ageing facilities.

Population expansion has exacerbated the problem, resulting in increasing expenses for developing, modernising, or replacing existing assets. The world's investment gap Infrastructure spending is expected to reach at least $1 trillion each year (WEF, 2014a). According to the Bank, this surplus demand accounts for 1.3 per cent of world GNP (World). 2015 Bank Database). Meanwhile, there is a mismatch between the demand for infrastructure investments and the funding available. And national budgets' ability to accommodate this demand is growing globally over time.

This article outlines the distinguishing characteristics of infrastructure as an asset class.

High Hurdles to entry:

Infrastructure projects frequently include public works initiatives. As a result, organisations bidding on such projects must have extensive technical experience in the relevant subject as well as substantial financial resources. Political contacts are also required in many regions of the world to land such projects. As a result, it's safe to assume that breaking into this area is challenging. As a result, investors are often keen to spend their money if a company already has approvals in place to complete an infrastructure project. This is because such projects have limited competition and hence deliver consistent and predictable cash flows.

Inelastic demand:

Infrastructure projects are often placed in industries with reasonably constant demand that does not fluctuate dramatically in reaction to minor price changes. Toll road users, for example, get a lot of value for their money. They are unlikely to abandon the plant due to a small price hike. Furthermore, toll highways are frequently the only alternative. As a result, demand is completely rigid. Dams, power plants, and ports are examples of inelastic infrastructure projects. Infrastructure financing is desirable as an investment class because of this feature.

Economies of scale:

The scope of infrastructure projects is usually quite large. As a result, the project's sponsoring corporation will reap the benefits of scale economies. When a business creates a telecommunications network, for example, it pays a set price. Adding a new network subscriber has a negligible marginal cost. Investors will earn handsomely from infrastructure investments as a result of this element, as well as economies of scale. Infrastructure developments are typically limited mainly by supply restrictions. Such projects are attracting a lot of attention. Infrastructure financing has become a favoured asset type as a result.

Tax benefit:

Many countries around the world consider infrastructure financing to be a key concern. As a result, governments are attempting to make it easier for infrastructure firms to raise funds. As a result, infrastructure firms around the world benefit from a slew of tax incentives. So much so that infrastructure investment has become linked with tax reductions. Infrastructure-related investments provide a higher return to both people and enterprises as a result of these tax benefits.

Long gestation period:

Infrastructure projects are expected to be long-term investments. Roads, bridges, dams, and railway lines are all designed to last a long time. Infrastructure projects, on the other hand, can take a decade or more to complete. During the construction phase, the project earns no revenue. The project, however, is still alive and healthy thanks to the extended duration of the loan that was issued. The lifespan of infrastructure finance bonds is often very long. Perpetuities are commonly utilised to fund these kind of initiatives. Infrastructure projects have a long life cycle, stable cash flows, and limited return potential. As a result, a lot of infrastructure companies rely on leverage to succeed.

Low sensitivity to economic fluctuate:

Finally, infrastructure funding has a low vulnerability to economic swings, which is one of its most essential attributes. In layman's words, this suggests that even if there is a recession, the number of people who use infrastructure projects will remain essentially consistent, as will the revenue earned by such investments. Many investors value this trait since it allows them to diversify their portfolio by utilising infrastructure. Infrastructure funding can be included into an existing stock and debt portfolio. Debt lowers as equity rises, and vice versa.

Conclusion:

There is a lot of misunderstanding in the sector, both among practitioners and scholars. Specifically, the definition of infrastructure, as well as the ostensibly appealing investment features and acceptable investment vehicles. Despite the current activity and substantial investment interest, the topic is still heavily understudied. Early analyses of Australian funds in deed indicate relatively modest correlations to other asset classes as the function of infrastructure investments for portfolio diversification and optimal portfolio locations. Correlation swings, on the other hand, were particularly noticeable during the financial crisis. Infrastructure asan Asset Class offers a clear reference based on current global infrastructure markets, as well as in-depth research and professional guidance on how to invest wisely in infrastructure.

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