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**Infrastructure Investors Swap Debt for Equity**

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Institutional investors are stepping back from investments in infrastructure debt in favor of equity alternatives amid fears of an overheating market, according to fund managers.

These asset managers echoed views expressed in a Preqin survey conducted in June and released this month, which found that 54 percent of fund managers thought there was more competition for infrastructure debt assets than there was a year ago.

The survey, which polled fund managers at 29 different firms, also found that managers believed that infrastructure assets had become more expensive over the last 12 months, irrespective of the size of the firm that they worked for.

Speaking to *Institutional Investor*, John Mayhew, head of infrastructure finance at London-based asset management firm M&G, said his team is taking a cautious approach to new infrastructure debt investments in the current market.

“It is a frothy market so we are quite disciplined,” he said.

[II Deep Dive: The Rise of Infrastructure Mega Funds]

Mayhew said that there have been fewer public-private partnership (PPP) deals this year than there have been in recent years. These deals are often preferred by investors because they are viewed as safer due to having government funding.

In the U.K., M&G has been a prolific investor in PPP initiatives within the healthcare sector, funding the development of the Alder Hey Children’s Hospital in 2013 and the new Edinburgh Children’s Hospital in 2015. However, Mayhew more recently passed up the opportunity to invest in the development of the Midland Metropolitan Hospital.

“It was less that the risk had changed, but that the relative pricing had moved to a price where we no longer saw value,” he said.

According to the Preqin report, the increased competition has not altered the investment strategies for the majority (56 percent) of managers. But some, like Mayhew, have taken a flexible approach to investing in order to navigate the competitive environment.

Anton Pil, managing partner of J.P. Morgan Global Alternatives, said portfolio allocations to debt investments are gradually declining and being replaced by equity, based on the consensus view that the interest rate super-cycle that started in early 1980s has just ended.

Pil explained that for infrastructure debt, which is often an umbrella term for project finance and other private placement loans to infrastructure assets, the opportunity has moved as spreads (over Libor) have declined rapidly. This, he says, is pushing investors towards equity alternatives.

“As the attractiveness of infrastructure debt diminishes, equity investments remain a viable alternative,” he said.

William Argent, fund manager at Gravis Capital Management, agreed, saying that he expects pension funds in particular to be increasingly looking at listed alternatives to infrastructure debt.

“The public-private partnership and private finance initiatives have retraced somewhat and the premiums are not as high in that sector at the moment,” he said. “But, there are attractive returns to be made on healthcare-linked REIT vehicles, those providing healthcare related real estate solutions and residential care homes.”