DALMORE CAPITAL

Why the UK is a Great Destination for Infrastructure Investment — and Why Now

THE DALMORE INFRASTRUCTURE SERIES

With infrastructure representing around 10% of Canadian pension portfolios and around 7% of Australian ones, UK pension schemes are playing catch-up. Alistair Ray, Chief Investment Officer of Dalmore Capital, analyses the scale and potential of UK infrastructure investing — and why the next several years may represent a particularly favourable window in which to deploy capital.

1. KEY POINTS

- The UK offers a rare combination of political stability, strong legal protections, deep capital markets and openness to foreign investment, making it one of the world's most attractive destinations for long-term infrastructure capital.
- It is also one of the world's most proven infrastructure markets, with decades of successful private-sector participation under established regulatory frameworks — and a history, across debt and equity strategies, of behaving as investors want infrastructure to behave: reliable, income-generative, with low realised loss rates.
- A significant pipeline of future investment opportunities is emerging, driven by ageing infrastructure, the government's £725 billion ten-year Infrastructure Strategy, and the substantial capital requirements of the transition to net zero.
- Current market dynamics create a potentially attractive entry point. Global and pan-European capital has drifted away from the UK since Brexit; the London-listed infrastructure trusts — historically the backbone of the mid-market — have been unable to raise new capital since interest rates rose and their shares moved to discounts to net asset value; and the global mega-funds are focused on a handful of much larger transactions.
- A new generation of domestic buyers is set to emerge over the next five to ten years, supported by the Mansion House Accord, the Pension Schemes Act 2026 and related reforms that could direct tens of billions of pounds of UK pension capital into infrastructure.
- Investors deploying capital today may therefore benefit twice: from attractive acquisition valuations now, and from stronger future exit opportunities as assets bought in today's less competitive market are ultimately sold into a deeper and more active domestic buyer pool — an outcome we treat as upside to, rather than part of, the base case.

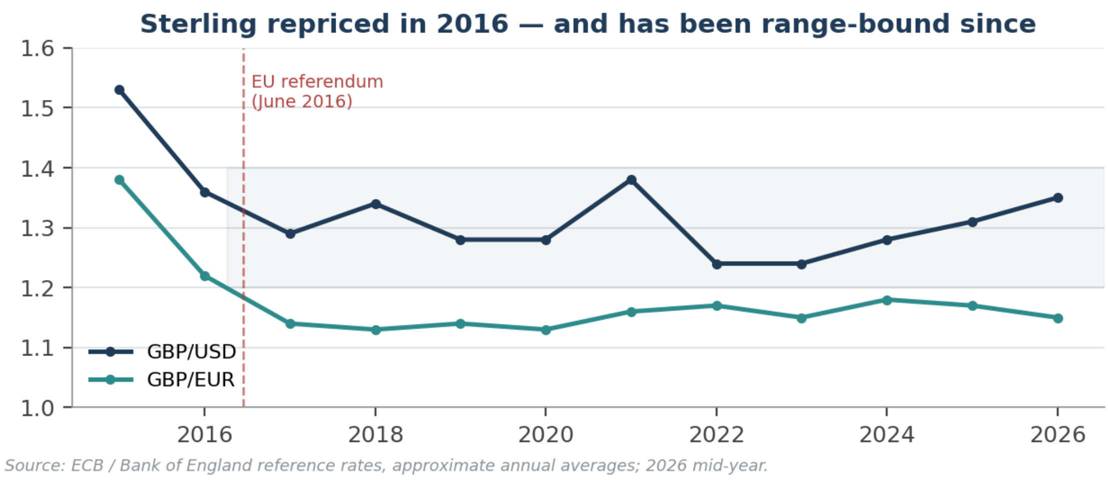
Most institutional investors access infrastructure through global or pan-European funds. That approach has served the asset class well, but it can leave allocators underexposed to individual markets at the moments they offer the best risk-adjusted entry points. We believe the UK is at such a moment. This paper sets out why the UK remains one of the world's most attractive destinations for infrastructure capital, and why the next several years represent an unusually favourable window in which to deploy it. For the UK's own pension capital — the investor this series ultimately addresses — the case carries a further, structural advantage: sterling assets pay sterling income against the sterling retirement spending they ultimately fund, so the currency question that occupies overseas allocators largely nets out at home. The same logic applies to inflation: UK assets whose revenues are explicitly linked to UK inflation indices offer a direct match against the inflation that erodes members' savings.

2. THE UK AS AN INVESTMENT DESTINATION

Proven political stability. The UK has weathered genuine political stress over the past decade — most obviously Brexit — without any erosion of the fundamental protections investors rely on. There has been no expropriation and no abandonment of contracted frameworks; where policy has reduced investor returns — the reform of RPI indexation, the windfall levy on generators — the change was legislated, prospective and priceable rather than confiscatory. That is a track record, not a guarantee: what should endure is the process by which the UK makes such changes. Successive governments of both parties have courted private infrastructure capital rather than threatened it, and the current government has made mobilising private investment into infrastructure an explicit pillar of its growth strategy.

A legal framework built for investors. English law is the governing law of choice for infrastructure contracts globally, for good reason: sanctity of contract, an independent and commercially sophisticated judiciary, and centuries of precedent. Investors in UK infrastructure hold rights that are enforceable, predictable and respected.

Deep capital markets and a manageable currency. London remains one of the world's great financial centres, with deep pools of debt financing, a mature advisory ecosystem, and liquidity across the capital structure that few markets outside the US can match. On currency, the first point is the one most often missed: for UK pension funds and insurers — the domestic capital this series ultimately addresses — sterling infrastructure assets pay sterling income against the sterling outgoings they exist to fund: pension payments for DB schemes and insurers, retirement spending for DC savers, and the currency question largely nets out; the exposure that needs managing is the one they take when they invest abroad, not at home. For overseas investors, the entry point is undeniably cheap: sterling repriced sharply at the 2016 referendum but has since traded in a comparatively narrow band — broadly €1.10–1.20 against the euro and, the brief 2022 episode aside, $1.20–1.40 against the dollar — and it remains well below pre-referendum levels of around $1.46–1.50[1]. We do not treat that discount as a free lunch: a cheap currency can be cheap for a reason, and an investor who reads sterling's level not as a dislocation but as the market pricing a long relative decline — Brexit as one step in it, the concentration of AI-era economic power in the United States and China as another — is making a serious macro argument, not a mistake. Our answer is that the argument tells you which UK assets to hold, not whether to hold any: long-dated, inflation-linked, domestically regulated cash flows are precisely the instrument for an investor who is uncertain about the macro path, because their returns are set by regulatory settlement and indexation rather than by the exchange rate. And sterling remains among the deepest and cheapest major currencies to hedge, with liquid forward markets and hedging costs driven by modest rate differentials rather than structural risk premia.



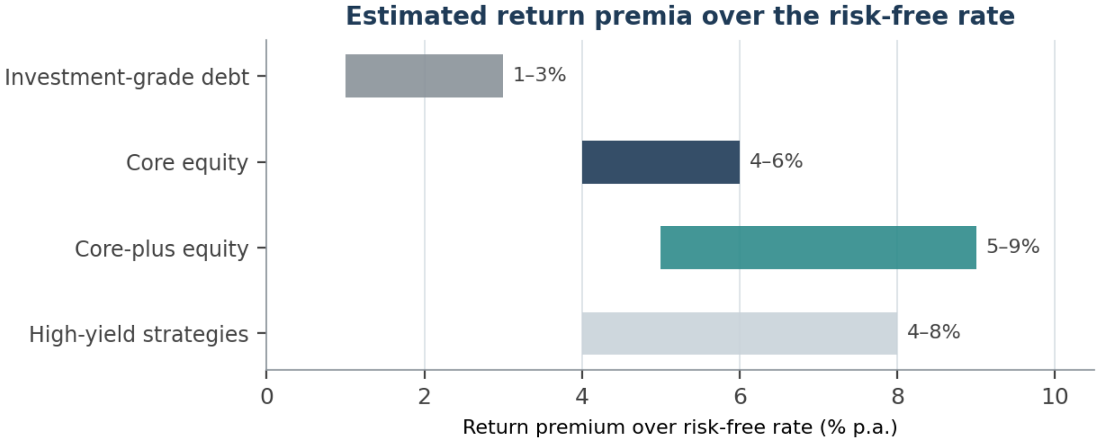
Openness to foreign capital. The UK is arguably the least nationalistic of any major infrastructure market. Overseas investors have owned UK airports, water companies, ports, and energy networks for decades without political interference in ownership. At a time when economic nationalism is rising across the OECD, this openness is an increasingly rare and valuable feature.

[1] GBP trading ranges since late 2016; sterling traded at approximately US$1.46–1.50 and above €1.25 immediately before the June 2016 referendum. Sources: ECB euro reference rates; Bank of England.

3. ONE OF THE WORLD'S MOST PROVEN INFRASTRUCTURE MARKETS

The UK has one of the longest track records of private infrastructure investment anywhere in the world. It pioneered project finance in power and energy in the late 1980s, developed the Private Finance Initiative through the 1990s and 2000s, privatised its utilities under independent economic regulation, and continues to innovate through structures such as Contracts for Difference and the Regulated Asset Base (RAB) model. Each generation of structuring has deepened the market's institutional knowledge and legal precedent.

That long history has produced a remarkably stable market. Failed transactions have been rare, and core and core-plus assets have behaved much as investors want them to: as reliable, income-generative proxies for fixed income with equity upside. Our working estimates, drawn from two decades of observing the UK market, are that investment-grade infrastructure debt has typically delivered returns of 1–3% above the risk-free rate, core equity 4–6%, core-plus 5–9%, and high-yield strategies 4–8%[2]. These are estimates rather than published benchmarks, but the pattern they describe — dependable premiums to the risk-free rate with low realised loss rates — is consistent with the global unlisted infrastructure data.



Source: author estimates based on c. 20 years of observed UK market experience; illustrative, not published benchmark data.

"The test of an infrastructure market is not that nothing ever goes wrong — it is how losses are allocated when something does."

Alistair Ray, Chief Investment Officer, Dalmore Capital

Sceptical investors will rightly raise the counterarguments, and they deserve a direct answer. The water sector has been through a genuine crisis, and equity investors in Thames Water have lost money. The Electricity Generator Levy imposed a windfall tax on renewable generators. The planning system remains slow. These are real costs of investing in the UK, and we do not minimise them. But the test of an infrastructure market is not that nothing ever goes wrong — it is how losses are allocated when something does. Thames Water is being worked out through creditor negotiation, regulatory process and the courts, under published rules, rather than by expropriation or political fiat. The generator levy was legislated, time-limited and prospective. In each case investors could price the outcome using the framework in front of them — which is precisely what distinguishes the UK from markets where the framework itself is the risk.

Fibre is the other cautionary tale, and it teaches a different lesson. In the Covid years capital rushed into UK fibre: build costs and timelines overran, customer take-up lagged, market prices fell, and rising financing costs finished the job — many networks have significantly underperformed, and many investors carry the scars. But those were market

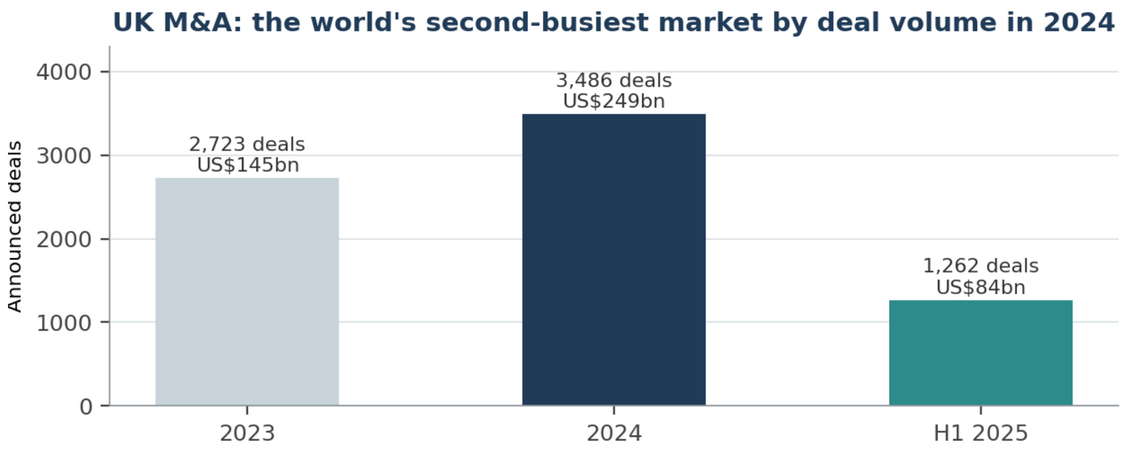
[2] Author estimates based on observed UK market experience over approximately 20 years; these are working estimates rather than published benchmark data. For context, the infra300 index of unlisted infrastructure equity globally has delivered an annualised return of approximately 9.8% over ten years (EDHEC Infrastructure & Private Assets Research Institute / Scientific Infra & Private Assets, infra300 Index).

losses, not framework losses: they arose where revenues were neither regulated nor contracted. That is the boundary of the asset class, not a failure of it — and it is why Dalmore, with a long record of delivering greenfield infrastructure, focuses on opportunities where the source, basis and amount of revenue can be determined at the start of construction.

The same system that allocates losses under published rules also builds solutions before difficulty arises. When the Thames Tideway Tunnel's scale and construction risk exceeded what a conventional utility balance sheet could bear, the answer was a purpose-built RAB model: an independently regulated, ring-fenced delivery vehicle, with government support for defined tail risks, that attracted long-term institutional equity at a cost of capital far below what the raw risk implied. The UK meets challenging circumstances through structure, not renegotiation of investors' rights — an approach since extended to nuclear, with Sizewell C reaching final investment decision on a RAB basis in 2025.

The forward demand picture is equally compelling. The UK's infrastructure is ageing, and the government's ten-year Infrastructure Strategy commits at least £725 billion of funding over the coming decade[3], supported by a published pipeline of some £530 billion of projects and programmes — of which a substantial share requires private capital[4]. As one of the leading OECD economies in the transition to net zero, the UK requires investment estimated by the Climate Change Committee at around £50 billion per year across the economy by 2030[5], the majority of which must come from private sources.

Nor is this a market where opportunities are scarce or hard to transact. The UK was the world's second-busiest M&A market by deal volume in 2024, behind only the US, with almost 3,500 deals worth around US$250 billion[6], and it remains comfortably the largest M&A market in Europe. A single legal system, well-understood sale processes and a deep bench of experienced advisers make the UK a materially easier market in which to execute than most of its European peers.



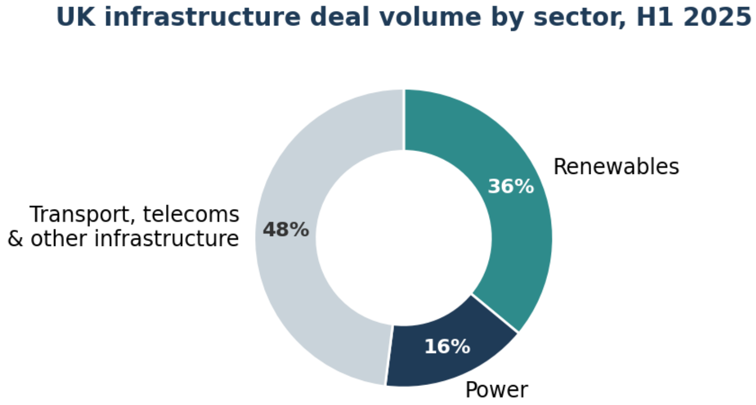
Source: White & Case M&A Explorer / Mergermarket-Dealogic. 2024: second globally by volume after the US; largest in Europe.

[3] HM Government, *UK Infrastructure: A 10 Year Strategy*, June 2025.

[4] House of Commons Library, Infrastructure in the UK, Research Briefing SN06594 (June 2025); National Infrastructure and Service Transformation Authority (NISTA), Infrastructure Pipeline, 2025.

[5] Climate Change Committee estimates, cited in House of Commons Library, *The UK's Plans and Progress to Reach Net Zero by 2050*, 2025.

[6] White & Case, *M&A Explorer*: the UK recorded 3,486 deals worth US$248.6 billion in 2024, the world's second-busiest market by volume after the US and the largest in Europe.



Source: RSM UK, UK infrastructure M&A in H1 2025.

4. WHY NOW: A WINDOW OF LIMITED COMPETITION

If the structural case for the UK is long-standing, the tactical case is new — and it rests on a simple imbalance: too little capital is currently chasing UK infrastructure, and a great deal more will arrive in five to ten years' time.

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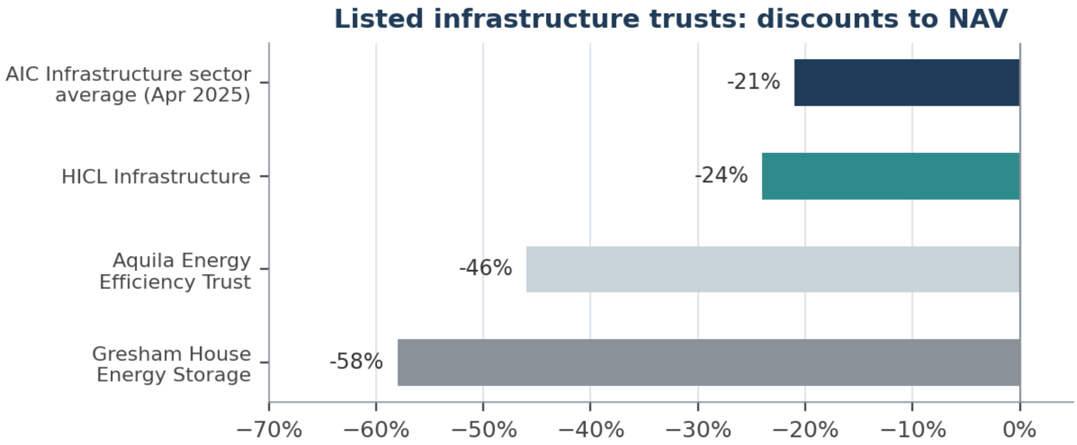
Capital has drifted away from the UK since Brexit. With the UK sitting outside pan-European mandates' natural centre of gravity, many global and European investors have quietly reduced their UK focus. Some significant overseas investors also find themselves overweight sterling assets from past investment programmes, making them net sellers rather than buyers. The result is thinner competition for assets than the quality of the market justifies.

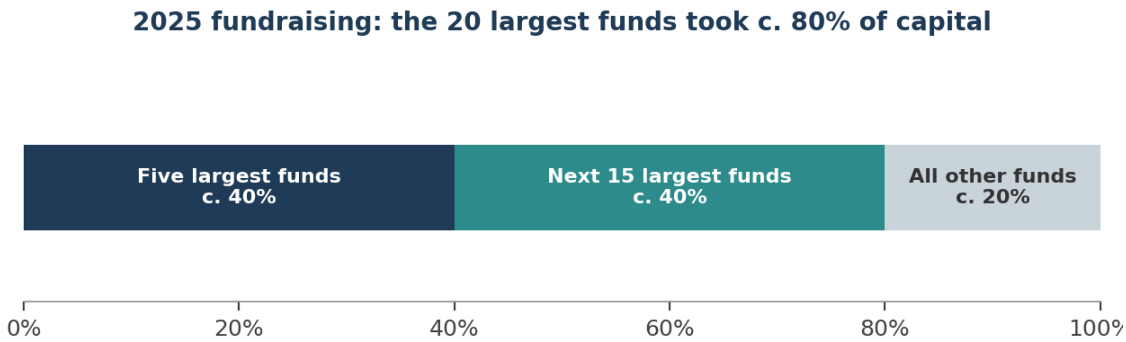
Most investors are structurally underweight the UK. The consequence of accessing infrastructure through global and pan-European vehicles is that UK exposure arrives incidentally, at whatever weight those managers happen to hold — and for the reasons above, that weight has drifted well below the UK's share of investable deal flow in Europe. For an allocator, the test is simple: compare the look-through UK weight of your existing infrastructure portfolio with the UK's position as Europe's largest infrastructure M&A market. For most, the gap is substantial — and it is not the product of a deliberate decision. For investors with net-zero or climate-solutions mandates, the gap is harder still to justify: the UK offers one of the deepest, most investable pipelines of transition infrastructure in the OECD, under frameworks built precisely to attract private capital into it. These allocators are underweight the very market best aligned with their own climate commitments.

The listed trusts — historically the backbone of the UK mid-market — are sidelined. A significant share of capital for UK mid-market infrastructure came from London-listed investment trusts. Following the rise in the risk-free rate, effectively all of the thirty-plus listed infrastructure and renewables trusts now trade at discounts to net asset value, and the sector has been essentially unable to raise new equity since 2022[7]. Trusts trading below NAV cannot issue shares to fund new investment, and there is little prospect of this changing soon.



Sources: AIC (April 2025); company/press data 2025. Effectively all 30+ London-listed infrastructure trusts trade at discounts.

The mega-funds are looking elsewhere. Global infrastructure fundraising has hit record levels, but it is extraordinarily concentrated: in 2025 the twenty largest funds accounted for close to 80% of all capital raised[8]. Vehicles of that size (KKR, EQT, GIP and peers) can only sensibly deploy into a handful of very large UK transactions — which are, in effect, global deals that happen to be located in Britain. They are not competing for the UK mid-market.



Source: Infrastructure Investor fundraising data, 2025. Share of global infrastructure capital raised.

And there are few dedicated routes in. Even an investor persuaded of the UK case has limited means of acting on it: the number of managers offering a dedicated, sterling-denominated UK mid-market infrastructure strategy is remarkably small — managers have followed the capital, and many of the UK-focused firms of ten or fifteen years ago have redirected their teams and funds towards European and global mandates — and much of the UK-dedicated capital that did exist sat in the listed trusts now unable to grow. The opportunity is not merely under-capitalised but under-served — scarce on the manager side as well as the capital side.

[7] See *Infrastructure Investor*, "What's the matter with listed UK infra funds?": all London-listed infrastructure trusts trading at discounts to NAV, with several in wind-down and new equity issuance effectively closed since rates rose in 2022–23.
[8] *Infrastructure Investor* fundraising data, 2025: the 20 biggest funds accounted for nearly 80% of total capital raised, with the top five vehicles alone capturing over 40%.

The consequence is a buyer's market in precisely the segment where the UK's deal flow is richest: mid-market, often regional, often bilateral situations where disciplined capital can transact off-market at attractive entry valuations.

5. THE NEXT BUYER POOL IS BEGINNING TO FORM

What makes this window particularly interesting is that the capital that could deepen competition — and support exit valuations — is already visible, although not yet fully mobilised.

Under the Mansion House Accord of May 2025, seventeen of the UK's largest workplace DC pension providers committed to allocate at least 10% of default funds to private markets by 2030, with at least half of that directed to UK assets — an estimated £50 billion of additional private-markets investment, around £25 billion of it into UK assets including infrastructure[9]. This has since been reinforced by the Sterling 20 partnership of the UK's largest pension funds and insurers[10], and by the Pension Schemes Act 2026, which requires multi-employer DC schemes used for automatic enrolment to operate at least one main default fund of £25 billion or more from 2030 — megafund-scale pools able to invest in private assets, including UK infrastructure[11].

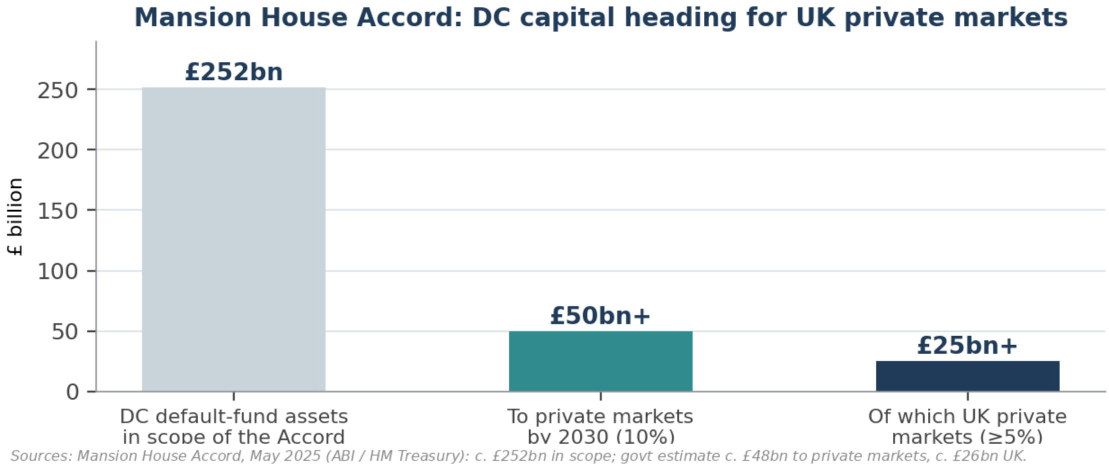
UK pension reform: the buyers of tomorrow are already committed

Sources: HM Treasury; Mansion House Accord (May 2025); Pension Schemes Act 2026. Deployment timing: author view.

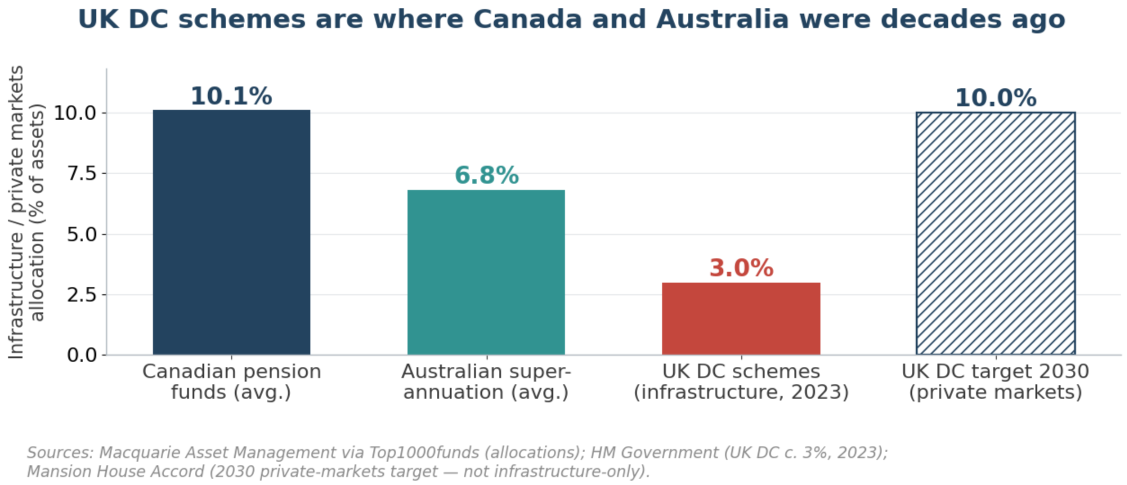
[9] Mansion House Accord, May 2025: 17 signatories representing c. £252 billion of DC assets committed to a minimum 10% private markets allocation by 2030, at least 5% in the UK. Government estimated £50 billion of additional private-market investment, of which £25 billion UK-based (Pensions Investment Review: Final Report, 2025). This is not an infrastructure-only target.

[10] HM Treasury / City of London Corporation, Sterling 20 announcement: twenty of the UK's biggest pension providers and insurers partnering to channel capital into UK growth and infrastructure.

[11] Pension Schemes Act 2026 and DWP implementation roadmap: multi-employer schemes used for automatic enrolment must have at least one main scale default arrangement of at least £25 billion, commencing 2030 with transition pathways running to the end of 2035; single-employer trusts are not subject to the scale requirement.



There is a well-trodden precedent for what happens next. Canada's largest public pension plans — the "Maple 8" — and Australia's superannuation funds each built their infrastructure programmes from a standing start in the 1990s and 2000s. Today, infrastructure represents around 10% of Canadian pension portfolios and around 7% of Australian ones[12], and those investors have become among the most influential infrastructure buyers in the world — including in the UK, where Canadian and Australian pension capital already owns stakes in airports, utilities and networks. UK DC schemes, by contrast, held an estimated 3% in infrastructure as of 2023 — higher than once thought, but still a fraction of the comparators. The UK's reforms are explicitly modelled on this playbook: megafunds to create Canadian-style scale, an accord to kick-start allocations. The 10% private-markets target for 2030 creates a credible route towards the same road — and if UK DC follows even part of the Canadian and Australian path, the resulting flow of domestic capital into UK infrastructure could be measured in tens of billions of pounds and could arrive on the five-to-ten-year horizon on which assets bought today may be sold.



Nor is accumulation the only channel. As schemes turn to the design of retirement-phase defaults — where members drawing an income face sequencing risk above all — infrastructure's stable, inflation-linked yield is arguably a better fit for decumulation than for the growth phase, in which private-markets allocations compete principally with private equity for return. Retirement income design is a second, structural source of domestic demand that today's defaults barely address — and one that would deepen the future buyer pool further still.

[12] Canadian pension funds allocate on average c. 10.1% of assets to infrastructure and Australian superannuation funds c. 6.8% (Macquarie Asset Management, as reported by Top1000funds, March 2026). UK DC schemes' allocation to infrastructure is estimated at c. 3% as of 2023 (HM Government, Pension Fund Investment and the UK Economy).

Any such capital will take time to mobilise. Platforms must be built, allocations phased, and teams assembled; mobilisation at scale is likely to take five to ten years. For an investor deploying today, that timing is close to ideal: assets acquired in today's thinly competed market could be sold into a substantially deeper and more competitive domestic buyer pool.

Two further points support the exit case. First, in an increasingly unstable world, the UK's political and legal stability is reasserting itself as a safe-haven characteristic that should compress required returns over time. Second, the UK infrastructure market is less concentrated in digital, data centres and AI-linked assets than the US and some global portfolios — making it a lower-beta exposure at a time when parts of the global infrastructure market are taking on distinctly growth-like risk. Infrastructure allocations exist to be boring; the UK delivers that virtue.

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>
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The central caveat is timing. If DC capital mobilises more slowly than the reforms intend, assets bought today could face a thinner exit market than we expect. The right response is to treat the re-rating as upside rather than base case: returns should be underwritten from entry pricing, running yield and operational growth alone, with the strategy built so exits can be timed rather than forced — a meaningful yield component, a ten-year fund life, and assets grown to a scale that attracts global capital as well as domestic pension money. Framed that way, the DC reforms change the shape of the return distribution rather than its centre. The base case stands on its own whether or not the reforms deliver on schedule — but the UK has an unusually visible, legislated catalyst that could push realised returns above it. That creates plausible upside beyond the base case.

6. CAPTURING THE OPPORTUNITY: A CLEAR-SIGHTED INVESTMENT STRATEGY

We believe the themes above are best captured through a strategy with the following characteristics:

- **UK mid-market focus**, prioritising off-market and bilateral transactions across the country, including regional assets that sit below the radar of global funds.
- **Discipline on crowded global themes** — caution towards investment opportunities where pricing is set by global capital flows rather than UK market dynamics.
- **A ten-year fund life**, giving the flexibility to hold assets through the period in which DC pension capital mobilises, and to retain the option to sell into any resulting valuation uplift rather than rely on it.
- **Core and core-plus assets only**, targeting net returns of 10–12% with a yield component of 5–6% once fully invested — consistent with the historical premium the UK mid-market has offered over the risk-free rate, and underwritten without assuming any DC-driven exit re-rating, which is treated as pure upside[13].
- **Strong governance through controlling or co-controlling stakes**, ensuring the business plan and, crucially, the timing and manner of exit remain in investors' hands.
- **Assets with a path to scale**, which grow over the holding period into targets for global capital or the emerging UK DC megafunds.

[13] Return targets are objectives only and are not guaranteed.

7. CONCLUSION

The UK offers what infrastructure investors say they want: legal certainty, political stability, a deep and proven market, and structural demand for capital measured in the hundreds of billions of pounds. What it offers today, unusually, is all of that at a discount — because the traditional buyers of UK mid-market infrastructure are sidelined and the new ones have not yet arrived. Investors who position ahead of the mobilisation of UK pension capital could benefit twice: from attractive entry pricing now, and from a deeper, more competitive exit market in five to ten years' time. Windows like this do not stay open indefinitely.

8. ABOUT DALMORE CAPITAL AND ROYAL LONDON ASSET MANAGEMENT

Dalmore Capital is part of Royal London Asset Management, the asset management arm of Royal London. Dalmore Capital is a UK infrastructure investment manager overseeing more than £5.7 billion of capital on behalf of institutional investors. The firm currently holds a diversified portfolio of 128 infrastructure assets accumulated since its formation in 2009, across Core, Core+ and PPP social infrastructure assets.

Alder Castle
10 Noble Street
London
EC2V 7JX

Caledonian Exchange
19A Canning Street
Edinburgh
EH3 8EG

+44 (0)20 3372 0490

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