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# Sustainable and Digital Infrastructure in the Private Markets

Identifying key forces shaping past, present, and future investment in private infrastructure funds

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

## Key takeaways

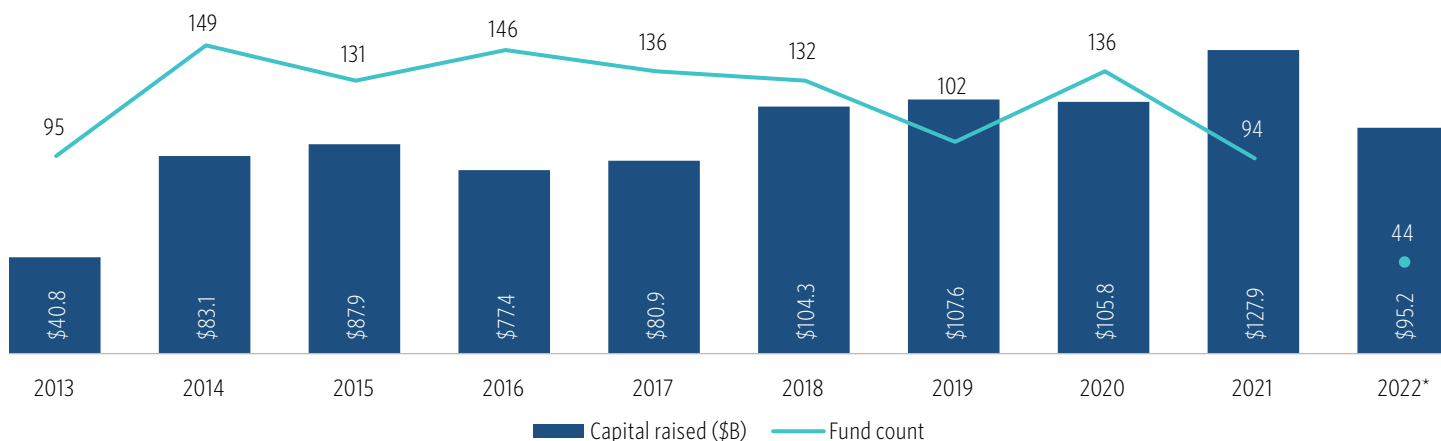
- Driven by a need for improved infrastructure and energy security, concerns around climate change and socioeconomic equality, and an attractive regulatory and government spending environment, private fund investment in sustainable infrastructure has increased over the past 15 years and will continue to draw more investors in the future.
- Digital infrastructure fundraising has also been increasing rapidly over the last 15 years and is expected to continue along this path, supported by the digitization of the economy, increased needs around data due to technological developments such as artificial intelligence & machine learning, and less polarized and more widespread political and regulatory support.

## Introduction

For a multitude of reasons, more eyes have turned to infrastructure in recent years, particularly those of LPs and other private market participants. Macroeconomic trends of volatility, inflation, and the possibility of recession have all increased its appeal. Additionally, an attractive government spending environment, the energy crisis and push toward sustainability, and the expanding definition of infrastructure have created more investment opportunities. With several of the past few years showing more capital raised by private infrastructure funds than at any other point in history, the question arises of what key forces are shaping the present and future of infrastructure across the globe.

To provide a picture of overall fundraising, raised capital figures have climbed over the past decade, with 2021 representing an all-time high, at \$127.9 billion raised by 94 funds. In 2022, these numbers appear to have softened, with \$95.2 billion raised by 44 funds by the end of Q3 2022—although the year will likely end with fundraising in line with averages of recent years. Our fundraising and performance data covers only primary, closed-end funds, but there are a number of large evergreen infrastructure vehicles into which capital is being poured. We know of at least 16 evergreen funds over the \$1.0 billion size mark.<sup>1</sup> As such, committed capital numbers for the overall private infrastructure fund universe are likely understated.

### Infrastructure fundraising activity

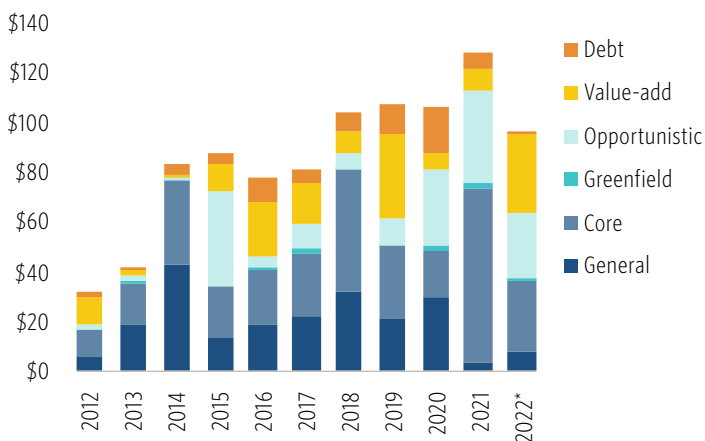


Source: PitchBook | Geography: Global  
\*As of September 30, 2022

1: Some of these evergreen funds are massive, such as [Blackstone's Infrastructure Partners fund \(BIP\)](#), which had \$25.8 billion in assets as of September 30, 2022.

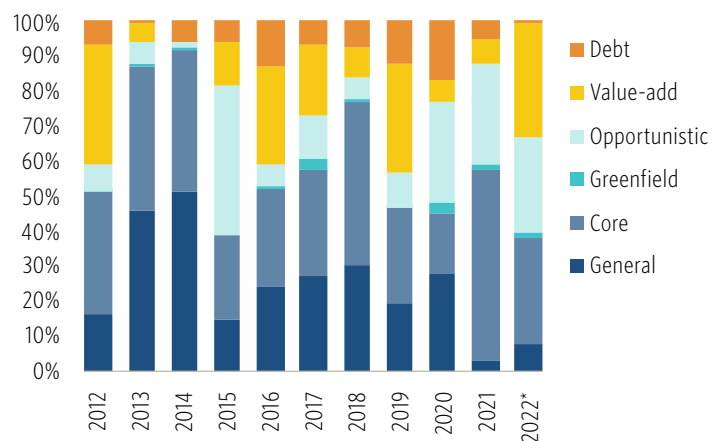
Diving a little deeper into infrastructure strategies, through Q3, 2022 had seen infrastructure core, value-added, and opportunistic receive the most capital, raising \$29.1 billion, \$30.9 billion, and \$26.1 billion, respectively. Previous years have shown considerable variability among which categories receive the bulk of raised capital, although infrastructure core is typically well-represented among raised funds, with either value-added or opportunistic having a more robust year than the other. The strategy of the fund informs the types of assets in which it can invest, as the risk-return profile of an asset impacts the strategies for which it qualifies. For example, based on recent returns, digital infrastructure assets are now considered low risk enough to qualify as core.<sup>2</sup> This was not always true, though—when telecommunications and broadband technologies were less mature and widely adopted, they were considered too high risk to sit in a core fund. Thus, the attractiveness of various types of infrastructure may also influence the number of funds raised by each strategy, as investors looking to capitalize on a particular opportunity may more frequently raise funds of one strategy over another.

### Infrastructure capital raised (\$B) by type



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

### Share of infrastructure capital raised by type

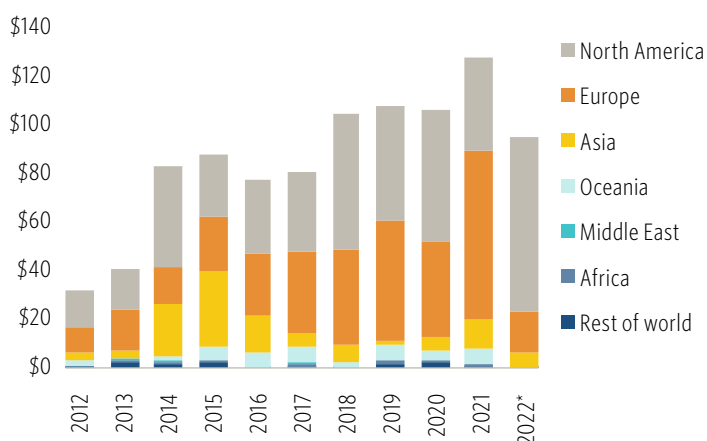


Source: PitchBook | Geography: Global  
\*As of September 30, 2022

2: "Infrastructure Investing Will Never Be the Same," McKinsey & Co., Marcel Brinkman and Vijay Sarma, August 1, 2022.

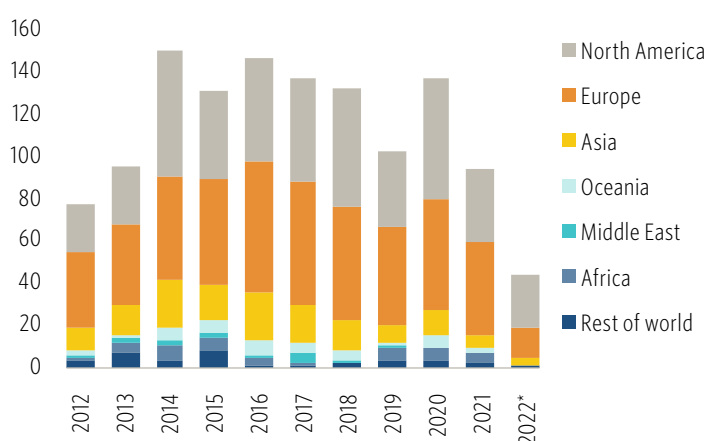
Geographically, North American funds dominated the fundraising scene in 2022, due both to the number and size of funds raised that are domiciled in the region. In 2022 through Q3, more capital was committed to funds in North America than in any other full year on record, at \$71.9 billion, 75.5% of capital raised in 2022 through Q3. In contrast, Europe had one of its least successful fundraising years in recent history, with only \$17.4 billion committed to vehicles in that region, making up 18.3% of raised capital as of Q3 2022. This has been a role reversal from 2021, when European funds received 54.3% of commitments and North America received 30.2%. As North America and Europe have historically raised fairly equal proportions of capital, these shifts are unusual but likely to regulate in coming years. An important consideration when looking at these numbers is that funds domiciled in one geography, which is what our data captures, may invest in others. As such, while it might be surprising to see so few funds raised out of Europe in 2022 given the European energy crisis and resulting demand for energy infrastructure assets, North American mega-funds are likely capitalizing on those opportunities.

### Infrastructure capital raised (\$B) by region



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

### Infrastructure fund count by region



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

## Demand for better, sustainable, and digital infrastructure

The need for better infrastructure has existed in most communities across the globe for as long as civilization has. Now, with concerns about Earth's ability to support the human population and its economic activities, that need is being felt more acutely. As the population continues to grow and the globalized nature of the economy persists, preserving and optimizing natural resources through infrastructure while increasing access and connectivity has become more important. Increased demand in two key areas of infrastructure highlights where improvements are being focused, financed, and executed. Private market infrastructure funds seem increasingly to have been investing in sustainable and digital infrastructure, with activity stimulated by the digitization of the economy and modern life, as well as the sociopolitical, regulatory, and government spending conditions.

In order to provide some backing for this assertion, we created a dataset of 300 funds, comprised of the top 20 largest infrastructure funds raised each year from 2008 to 2022 through Q3. Those funds were evaluated to determine whether they:

- invest in sustainable infrastructure
- are dedicated sustainable infrastructure funds
- invest in digital infrastructure
- are dedicated digital infrastructure funds

For the sake of this research, investing in sustainable or digital infrastructure means the asset manager has communicated that sustainable or digital infrastructure—or the asset types they involve—is an area in which the fund will invest and/or the fund has at least one asset in its portfolio that fits into that category. A dedicated sustainable or digital infrastructure fund is one that the asset manager has communicated has sustainable or digital infrastructure—or the asset types they involve—as the focus of the fund and/or the fund’s portfolio is comprised almost exclusively of assets fitting into one of those categories.

We chose to review the top 20 largest funds raised each year given:

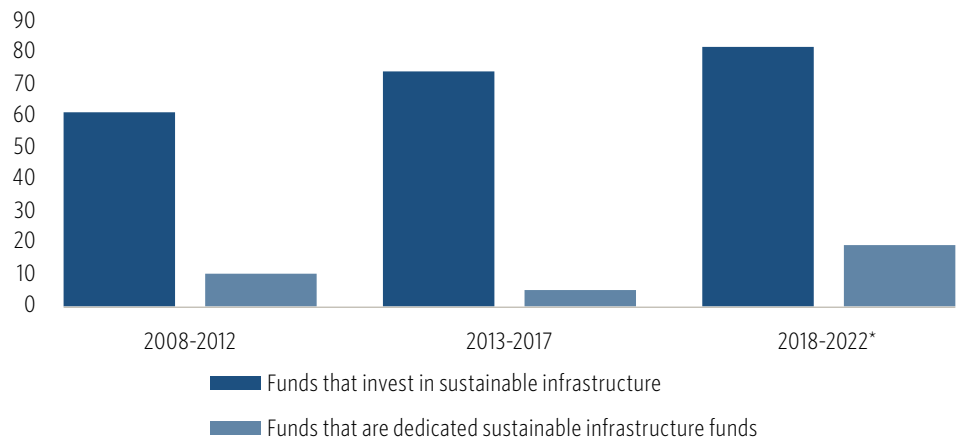
- Review of the largest funds offers greater insight into where the bulk of capital is flowing.
- Due to the size of the top 10 or 15 funds, they are less likely to have specialization, so including the top 20 generally offers a better sense of where specialization is occurring, if at all.
- A review of the top 300 funds raised in the last 15 years would skew the dataset toward recent years, as infrastructure has been raising increasingly large funds each year.

Still, this dataset is not representative of the entire infrastructure fund universe, nor is it intended to be. Rather, the aim of this data is to offer some quantitative support for claims around the direction of investment in sustainable and digital infrastructure. This is also the reason why we combine the data into five-year increments in some graphs, as data based on 100 rather than 20 funds is less lumpy and yields more comprehensible insights.

## Sustainable infrastructure

Sustainable infrastructure refers to assets that further progress toward either environmental or social sustainability, although most sustainable infrastructure-focused funds tend toward investment in the environmental side of things. Examples of environmentally sustainable infrastructure investments include renewable energy assets such as solar or wind farms and carbon-capture assets. Examples of socially sustainable infrastructure investments include hospitals increasing access to essential healthcare and schools increasing access to education. Looking at the 20 largest infrastructure funds raised every year going back to 2008, it is evident that the number of top funds investing in sustainable infrastructure has increased over time. While the numbers have not always increased year to year, combining the data into five-year increments shows a clear escalation in the popularity of sustainable infrastructure.

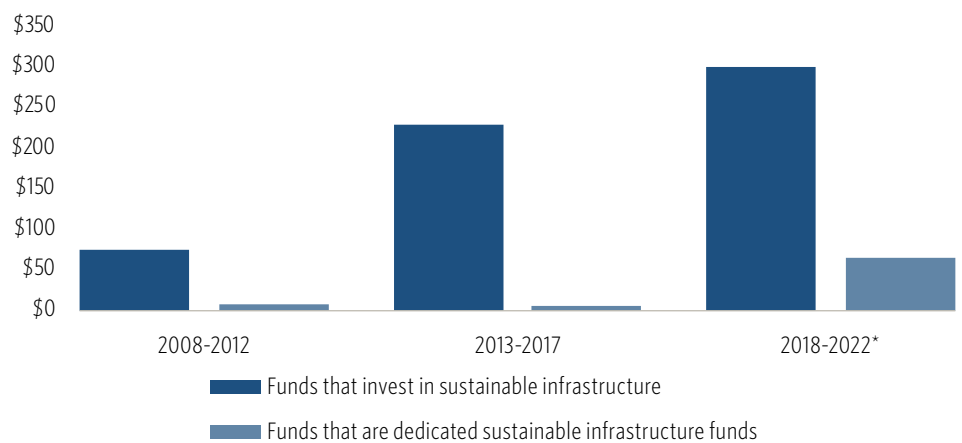
### Number of top 20 funds raised annually that invest in sustainable infrastructure (divided into five-year brackets)



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

The number of top infrastructure funds dedicated to sustainable infrastructure has had a less linear upward trend, with 2013 to 2017 showing a decrease. Yet, in the 2018 to 2022 period, 19.0% of the reviewed funds were dedicated to sustainable infrastructure. Breaking down that data, 2018, 2019, and 2020 had one such fund each, while 2021 and the first three quarters of 2022 saw the numbers jump to seven and nine, respectively. When examining the amount of capital raised by the funds in the top 20 that invest in sustainable infrastructure or are dedicated sustainable infrastructure funds, the same story is told, albeit more dramatically. From 2008 to 2019, the average amount of capital raised by funds in the top 20 dedicated to sustainable infrastructure was \$1.8 billion. In 2020, 2021, and the first three quarters of 2022, those numbers increased to \$4.9 billion, \$28.5 billion, and \$25.5 billion, respectively.

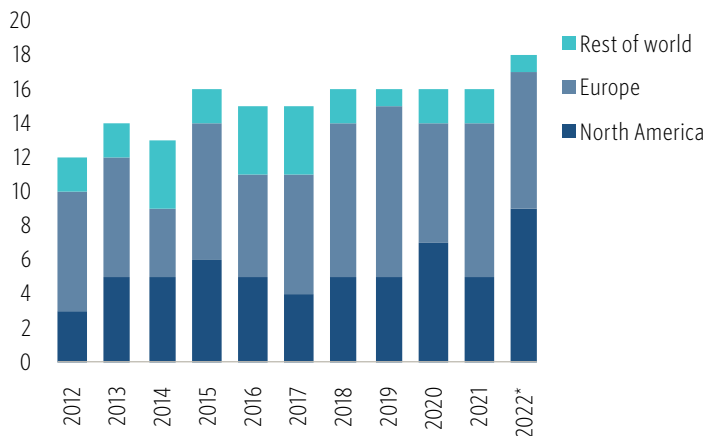
### Capital raised (\$B) by funds in the top 20 raised annually that invest in sustainable infrastructure (divided into five-year brackets)



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

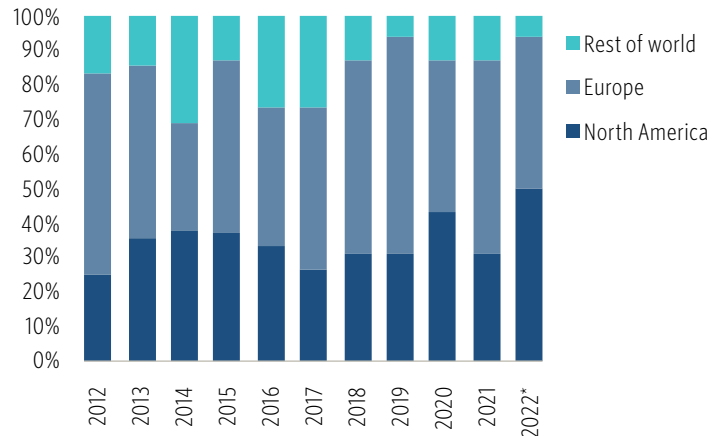
Heightened fundraising of sustainable infrastructure-investing or -dedicated funds has several major causes. For one, not only has the urgency of climate change and the reality of its impacts been increasing, but awareness of it and social movements working to combat its continued exacerbation have, as well. These forces have made their impact on elections across the globe, which, in turn, have resulted in significant regulatory shifts and legislation that has made sustainable infrastructure more appealing and mainstream. Second, a shift toward sustainable infrastructure is pragmatic—in countries like the US where infrastructure condition ratings are low (a C- as of 2021), improvements need to be made independent of a push for sustainability.<sup>3</sup> However, it is reasonable to improve upon infrastructure in ways that will be most compatible with future needs, systems, and structures where possible, such as those minimizing carbon emissions, utilizing energy-saving technologies and renewables, or possessing water-efficient features.

**Number of top 20 funds raised annually that invest in sustainable infrastructure by region**



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

**Share of the number of top 20 funds raised annually that invest in sustainable infrastructure by region**

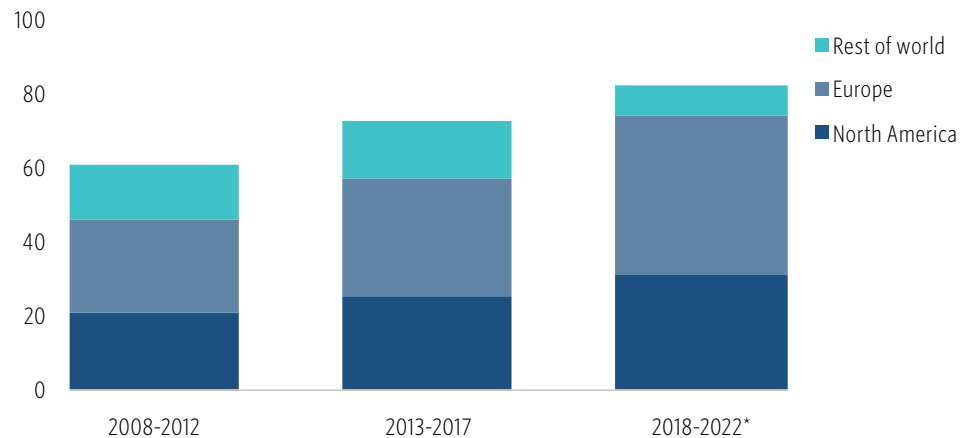


Source: PitchBook | Geography: Global  
\*As of September 30, 2022

Breaking out the number of the top 20 funds raised each year that invest in sustainable infrastructure by region shows a fairly consistent split between North America and Europe, with Europe typically coming out ahead in its share of funds raised. When divided into five-year increments, the data indicates that while North American sustainable infrastructure-investing funds in the top 20 have increased incrementally over time, European funds have made up a greater share of those raised. Furthermore, the number of funds investing in this area coming out of Europe has been increasing at a faster rate. In the EU, openness to sustainable investing and sustainable infrastructure is more typical and has been more widely accepted for decades. This has manifested in policies, including the European Green Deal, approved in 2020, which systematically work toward climate neutrality through a variety of policy initiatives. More recently, the energy crisis in the EU, catalyzed by the Russia-Ukraine War and resulting energy shocks, has reinforced the need for sustainable infrastructure. However, that factor likely impacts only 2022 fundraising data, if that, given how long it takes to raise and close a fund.

3: "America's Infrastructure Scores a C-," Report Card for America's Infrastructure, 2021, n.d., accessed December 1, 2022.

## Number of top 20 funds raised annually that invest in sustainable infrastructure by region (divided into five-year brackets)



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

As far as how sustainable infrastructure will continue to shape European infrastructure investing, the EU energy crisis seems to have both reinforced the need for renewables and movement away from fossil fuels while simultaneously causing member states to revert to carbon-intensive energy.<sup>4</sup> It is likely that, while the EU's progress toward carbon reduction goals may slow, investment in sustainable infrastructure will persist, as fossil fuels are used as a short-term crutch, but goals around a transition to low-carbon, renewable energy remain a priority. The sociopolitical tailwinds to sustainable infrastructure investing in the EU are enduring and, as climate change and its impacts become ever-more pressing, intensifying. As more European countries adopt clean energy and work toward an interconnected energy grid, network effects of renewable energy will also make it even more cost-effective and thus accelerate adoption.<sup>5</sup> As is, it is already cheaper to build and operate renewables plants than coal or gas plants.<sup>6</sup>

Continued sustainability-related technological developments may also benefit more traditional infrastructure assets. For example, autonomous electric vehicles (EVs) could potentially quadruple the capacity of toll roads, thereby increasing their ability to generate returns.<sup>7</sup> The increased feasibility of and support for sustainable smart cities has also furthered the opportunity to improve infrastructure sustainability and outcomes through technology. Smart cities utilize a wide range of technologically enabled solutions to improve quality of life, efficiency of operations and services, and competitiveness for cities.<sup>8</sup> For example, smart water and waste management, through sensors and other connected technology, enable earlier leakage and pollution detection, just-in-time waste collection, and predictive maintenance planning.<sup>9</sup>

4: "Despite Climate Commitments, the EU Is Going Back to Coal," *Le Monde*, September 2, 2022.

5: "The European Super Grid: A Solution to the EU's Energy Problems," *Eyes on Europe*, Tommasco Rucci, January 27, 2022.

6: "Renewable Power Costs Rise, Just Not as Much as Fossil Fuels," *Bloomberg*, David R. Baker, June 30, 2022.

7: "Tailwinds Until 2050: How Net-Zero Is Fueling Infrastructure Investments," *LiveWire*, Shane Hurst, April 27, 2022.

8: "Sustainable Smart Cities," *UN Economic Commission for Europe*, n.d., accessed December 1, 2022.

9: "The Future of Smart Cities," *Barclays*, November 13, 2020.



In the US, the voting-age population, political parties, and private markets alike have been generally slower to prioritize sustainability over the past decade and a half, a fact that has had a repressive influence on the number of funds investing in that space, including in infrastructure. Still, with increasing awareness around climate change and social justice issues, support of infrastructure enabling a transition to a low-carbon economy and access to affordable healthcare and education have increased in recent years, especially among younger generations. This bodes well for investors in the space, as more of the population voting in favor of candidates and laws that fund sustainable infrastructure projects means more opportunities for public-private partnerships and tax incentives. In turn, this results in more—and more attractive—investment opportunities.

On the regulatory side, both a need for improved infrastructure and a political push toward sustainability had a role to play in the passage of the US Bipartisan Infrastructure Law in 2021 and the Inflation Reduction Act (IRA) in 2022. These pieces of legislation benefit sustainable infrastructure in different ways, with the Infrastructure Law supporting projects related to EV charging infrastructure, electric school buses, modernization and electrification of port and freight infrastructure, and clean energy transmission, among others.<sup>10</sup> The private markets can benefit from public-private partnerships coming out of this law as local and state governments are short-staffed, are facing budgetary constraints, and have long hiring approval processes. The IRA is most impactful on the tax incentive front for renewables infrastructure tied to solar & wind and battery storage.<sup>11</sup> Legislative developments such as these also create a perception that local governments will be more receptive to infrastructure projects and reduce the uncertainty of bureaucratic red tape, thus lessening one barrier faced by investors in the space.

These policies are important to private market investors for reasons beyond their influence on the number of infrastructure opportunities, ability of investors to complete projects, and presence of tax incentives. Overarchingly, they offer a sense of confidence in the permanence and widespread adoption of sustainable technologies and infrastructure for at least the coming decade, if not longer.<sup>12</sup> Elections of the past decade have created uncertainty around the US economy and direction of sustainability-related policy, with the perception of there being dramatic swings from one political extreme to the other.<sup>13</sup> The fact that environmental, social & governance (ESG) and sustainable investing have come under fire from those on the far right, with many critics equating clean energy and transportation with ESG, has further called into question whether sustainable investments will be a fixture of private market portfolios. Yet, with legislation passed that will have a decadeslong positive reach, investors have greater assurance in the future of sustainable infrastructure in the US.<sup>14</sup>

10: "FACT SHEET: The Bipartisan Infrastructure Deal Boosts Clean Energy Jobs, Strengthens Resilience, and Advances Environmental Justice," *The White House*, November 8, 2021.

11: "The Inflation Reduction Act Is Spurring Interest in Clean Energy and Climate-Conscious Investing," *Morningstar*, Jon Hale, Ph.D., CFA, August 12, 2022.

12: "The Inflation Reduction Act Is About to Jumpstart U.S. Climate Policy and Change the World," *Time*, Justin Worland, August 12, 2022.

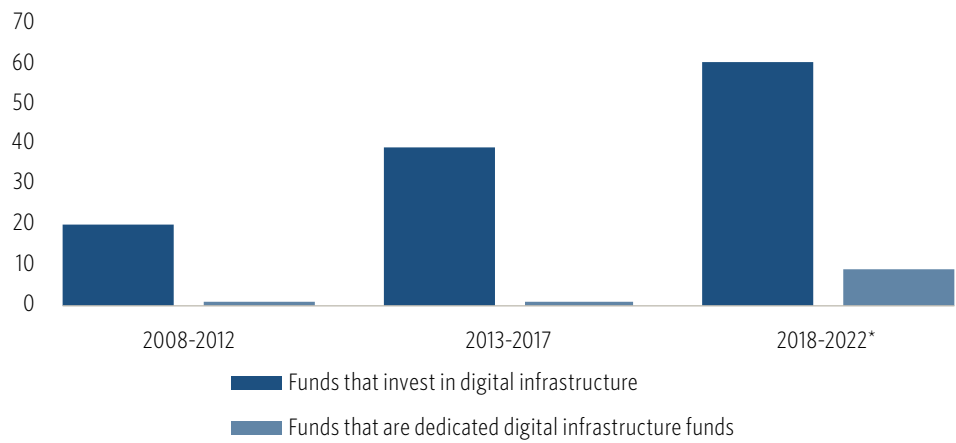
13: "How Political Uncertainty Hurts the US Economy: Lessons from Italy," *Brookings*, Carlo Bastasin, December 18, 2022.

14: "Climate, Macro Drivers Create Tailwinds," *Franklin Templeton, ClearBridge Investments*, Charles Hamieh, Shane Hurst, and Nick Langley, December 2022.

## Digital infrastructure

Digital infrastructure investment—which includes telecommunications, broadband, and data centers—in the top 20 largest funds raised each year has been scaling more quickly over the past 15 years than investment in sustainable infrastructure. However, it has traditionally been less well-represented overall, potentially in part because activity was occurring outside of private market funds or in non-infrastructure PE funds. As with the sustainable infrastructure numbers, year-to-year fundraising does not always increase, but with the data combined into five-year increments with 100 funds in each, a trend emerges. The numbers for 2013 to 2017 were essentially double that of 2008 to 2012, and those for 2018 to 2022 through Q3 tripled 2008 to 2012’s. Looking to dedicated digital infrastructure funds, it also becomes clear that they popularized in the 2018 to 2022 period, with one dedicated digital infrastructure fund raised for each of the prior two time periods and nine for the most recent.

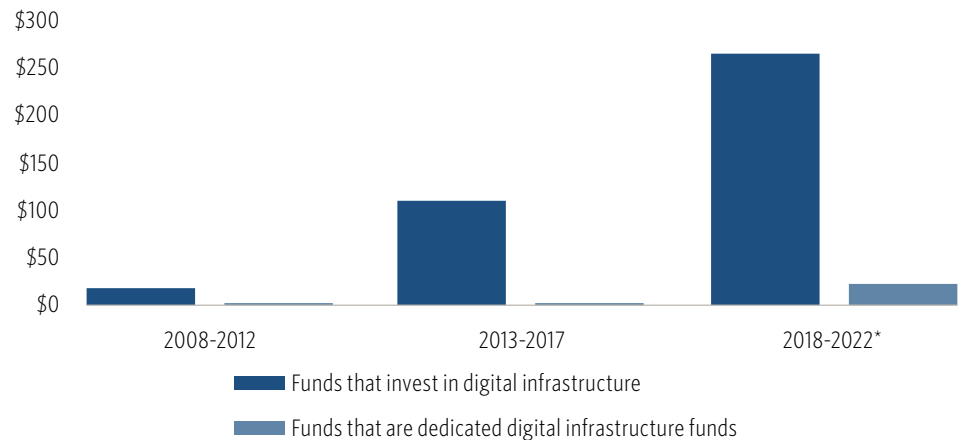
### Number of top 20 funds raised annually that invest in digital infrastructure (divided into five-year brackets)



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

The amount of capital raised by funds in the top 20 investing in or dedicated to digital infrastructure also rose rapidly over the past decade. For funds investing in digital infrastructure, capital raised was nearly six times higher in the 2013 to 2017 period compared with the preceding one. In the 2018 to 2022 through Q3 period, capital more than doubled from the previous period. For funds in the top 20 dedicated to digital infrastructure, the 2018 to 2022 period saw \$22.6 billion committed compared with \$1.1 billion and \$1.0 billion in the 2008 to 2012 and 2013 to 2017 windows, respectively. While interest in digital infrastructure may be increasingly common, specialization in this area appears to be limited to a few major players, including DigitalBridge Partners and Keppel Capital.

### Capital raised (\$B) by funds in the top 20 raised annually that invest in digital infrastructure (divided into five-year brackets)

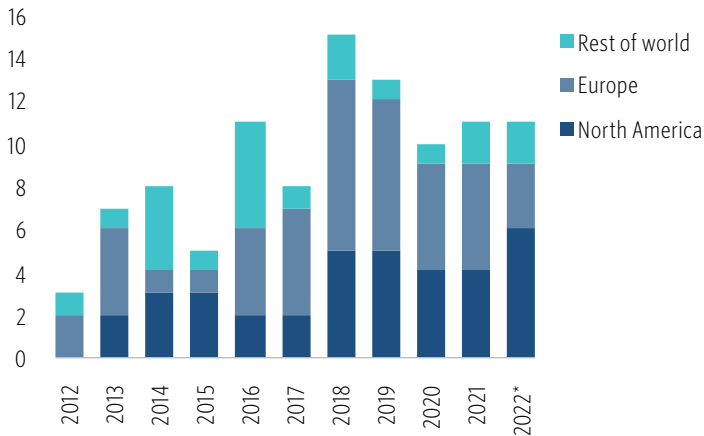


Source: PitchBook | Geography: Global  
\*As of September 30, 2022

Although this dataset does not aim to prove the overall size of the digital infrastructure fund universe but rather that the number of digital infrastructure funds has been increasing, it is worth noting that our data collection process may result in understated numbers in this area. A main reason for this is that some real estate-focused asset managers characterize their data center-focused funds as real estate funds. Our tagging process accepts the categorization of the asset manager, meaning some dedicated data center funds or data center-investing funds are not captured in our infrastructure data, thus leading to figures that are likely lower than the reality.

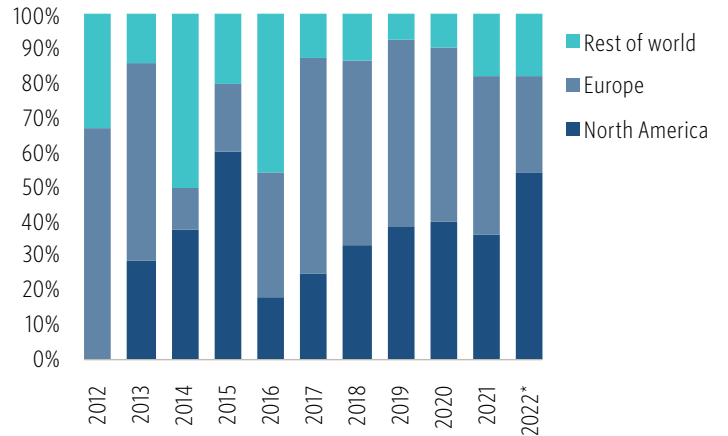
With regard to what is driving digital infrastructure fundraising, digital infrastructure has been considered a part of the overall asset class for more than a decade. Yet, its popularity has increased for several reasons. First, the economy has been increasingly digitized, with the expansion of online commerce and business activity heightening demand for connectivity, both in developed countries and developing nations. Second, technologies such as Internet of Things (IoT), artificial intelligence (AI), and machine learning (ML) have been experiencing increased adoption, so not only are more elements of daily life digitized, but they are requiring more data and thus data centers. Third, some of the legislation that has passed recently, such as the Bipartisan Infrastructure Law and the IRA, which has supported sustainable infrastructure, also contains stipulations benefiting digital infrastructure.

### Number of top 20 funds raised annually that invest in digital infrastructure by region



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

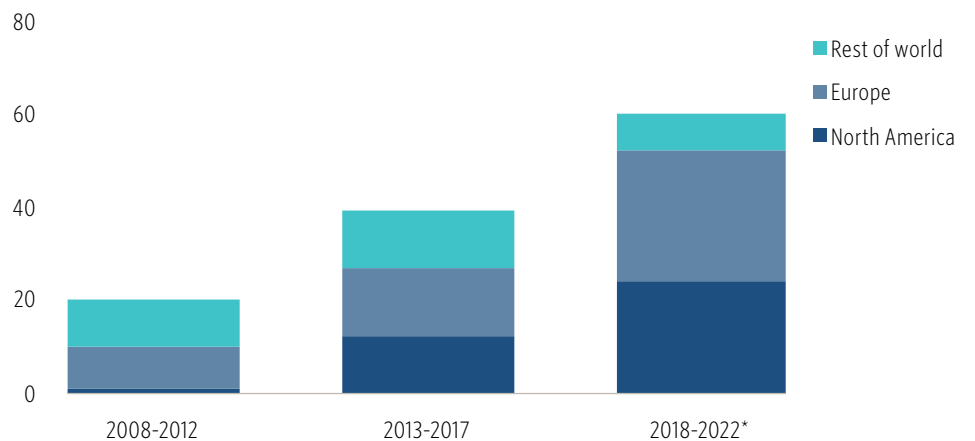
### Share of the number of top 20 funds raised annually that invest in digital infrastructure by region



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

Geographically, digital infrastructure fundraising in the top 20 funds each year has generally shown North American and European shares of funds raised increasing substantially over the past 15 years, with the share from funds domiciled elsewhere decreasing over time. This trend is more evident when the data is combined into five-year periods and likely is due in part to how the definition of digital infrastructure has evolved. While telecom and broadband have remained popular as infrastructure investments, in developed nations where access to those resources is more widespread, opportunities may be fewer and marketplaces more crowded as projects are completed. There is still demand to be met in developed nations, particularly in rural areas, but the rise in digital infrastructure fundraising has likely been supplemented by the popularization of data centers.

### Number of top 20 funds raised annually that invest in digital infrastructure by region (divided into five-year brackets)



Source: PitchBook | Geography: Global  
\*As of September 30, 2022

Data center investments are a good fit for private funds because they are extremely capital-intensive to build and operate, but have robust and resilient cash flows once developed, a fact that has been drawing in infrastructure and real estate investors. Publicly traded data center performance offered support to asset managers' confidence in the space's fundamentals during the pandemic, as it proved to be one of the best performers.<sup>15,16</sup> Digital infrastructure overall also lacks the politicized nature of sustainable infrastructure. In the US, both the Trump and Biden administrations, on opposite ends of the political spectrum, passed legislation supporting telecom infrastructure improvements.<sup>17</sup> Government spending support, combined with some consensus that telecom is good for economic growth and employment, affords investors more security around the future of the sector.<sup>18</sup>

Regulatory support for digital infrastructure is not limited to the US. The European Union's Connecting Europe Facility, started in 2014, promotes the development of trans-European networks in the fields of transport, energy, and digital services.<sup>19</sup> This is done, in part, by fostering public and private investments in those areas through grants, project bonds, and other financial instruments.<sup>20</sup> More recently, in 2021, the Digital Europe Programme was established to provide funding to address challenges around digital technology and infrastructure in Europe, complementing funding available through other programs such as the Connecting Europe Facility.<sup>21</sup> In Asia, however, private capital has traditionally funded most of the region's digital infrastructure capacity in established markets, with public funding less active in the space.<sup>22</sup> Although development banks fall into that category, some, such as the Asian Development Bank, provide digital infrastructure funding in developing nations.<sup>23</sup>

With more asset managers aligning their portfolios with frameworks like the United Nations Sustainable Development Goals (UN SDGs) and the Global Impact Investing Network's (GIIN) IRIS+ in recent years, especially in Europe, as discussed in our [2022 Sustainable Investment Survey](#), digital infrastructure has benefited from its qualification as positively impactful. When investments are made in rural areas of developed countries rather than emerging markets, this sector also seems to escape the political stigma of sustainable investing while being praised for positive social impact. Movements to improve equal access to resources such as the internet due to the economic advantages associated with that access will also strengthen as more of the social justice-oriented younger generation enters voting age. Given that fact, digital infrastructure is well-positioned to take advantage of its status as acceptable both to impact-oriented investors and those opposed to ESG in the coming years.

15: "Here's What's Driving Private Equity's Interest in Data Centers," [DataCenter Knowledge](#), Soni Brown, September 30, 2022.

16: "There Seems To Be More Caution About Data Centers Lately. Is It Justified?" [WealthManagement.com](#), Buck Wargo, September 14, 2022.

17: "Trump's New Infrastructure Plan Allocates \$50B to Rural Area Investments, Eases Small Cell Deployments," [Fierce Telecom](#), Sean Buckley, February 13, 2018.

18: "Investment in Telecommunications Infrastructure, Growth, and Employment - Recent Research," [ResearchGate](#), Reinhard Wieck and Miguel Vidal, January 2011.

19: "Connecting Europe Facility," [Innovation and Networks Executive Agency](#), May 1, 2023.

20: "ANNEX to the Commission Implementing Decision on the Financing of the Connecting Europe Facility - Digital Sector and the Adoption of the Multiannual Work Programme for 2021-2025," [European Commission](#), December 16, 2021.

21: "The Digital Europe Programme," [European Commission](#), n.d., accessed December 1, 2022.

22: "Digital Infra at a Crossroads in Asia," [Latham & Watkins](#), Don Stokes and Kieran Donovan, June 2022.

23: "Digital Technology," [Asian Development Bank](#), n.d., accessed December 1, 2022.

## Conclusion

As sustainable and digital infrastructure have become increasingly important elements of the asset class, due to economic, political, and societal tailwinds, they will likely continue to shape the space. Many of those forces will either remain constant or become recurring phenomena as global challenges related to climate change, equal access to key resources, and connectivity persist. Of course, infrastructure fund managers should—and will—continue to track developments on these fronts, as regulatory shifts, technological innovation, and market dynamics will impact the profitability of individual investments. LPs looking to get exposure to funds making investments in these areas can elect to invest in those with an exclusive focus on one area or with exposure to varied infrastructure sectors, each coming with its own risks and potential benefits.