Cantor Fitzgerald, Infra Specialist Partner on Interval Fund

By Lisa Fu, January 6, 2022

Cantor Fitzgerald and **Capital Innovations**, an asset manager specializing in alternative investments, have entered into a strategic partnership to distribute infrastructure equity and debt strategies at scale.

Capital Innovations will handle origination and will operate and manage the infrastructure equity and debt assets, according to a firm statement. The partnership will leverage Cantor Fitzgerald's distribution and product management capabilities. The two firms do not have any overlap in terms of product, according to **Michael Underhill**, co-founder of Capital Innovations.

The first product distributed by the new joint venture will be the Cantor Fitzgerald Sustainable Infrastructure Interval fund, which combines private markets and public markets infrastructure investments in a single vehicle, according to Underhill. The vehicle, launching during the second quarter, will be open to investors globally. The strategy invests 70 cents of every dollar in private infrastructure and the remaining 30 cents in public market infrastructure. The target audience is investor classes that have made alternative assets core to their portfolios such as endowments, foundations, public pension funds, as well as the wealth management market, ranging from mass affluent to ultra-high-net-worth individuals, he said.

Institutional investor demand for infrastructure has ramped up over the last year. The appetite for the asset class was demonstrated by **Brookfield Asset Management** announcing a **$7 billion first close** within a year of launching its new Brookfield Global Transition fund, an infrastructure vehicle focused on the energy transition with a $12.5 billion fundraise target.

President **Joe Biden**'s $1 trillion infrastructure bill combined with inflation concerns and an increasing focus on sustainable investing may further boost demand, **as reported**.

But there are few infrastructure-focused interval funds that combine private market assets and public market investments into a single vehicle, at least compared to infrastructure's real asset cousin, real estate. As of the fall of 2021, 97 public interval funds recorded a total of $92.6 billion across equity and debt across all sectors, according to a **Stanger Research** report. Though the report did not break out an infrastructure-specific sector, it recorded $101 million in energy-focused interval funds and more than $21 billion in real estate sector-focused funds as of Sept. 30.

"There's demand for the asset class because it tends to produce steady cash flows and high yields," said **Scott Gockowski**, senior manager at **Casey Quirk**, a **Deloitte** company. "The inflation sensitivity can be attractive and [so can] those ESG tailwinds… we might see more diversified real asset income [vehicles] before we see a ton of dedicated infrastructure interval funds just because of the relative market size."

Gockowski estimates there are around five infrastructure-specific interval funds on the market currently. The term "infrastructure" can be difficult to define as it can also encompass assets like natural resources and social infrastructure, he added. With interval funds, the longer hold period associated with infrastructure can also present a challenge as the vehicle must offer quarterly liquidity. In contrast, real estate tends to benefit from a shorter hold period and greater deal volume, he said.

Asset managers interested in infrastructure interval funds must also be prepared to tackle some distribution challenges.

"There's a particular education that's required," with interval funds and "there's also a lot of asset owners that do not have a dedicated infrastructure allocation," Gockowski said. These institutional investors may also require more guidance from the manager as they decide where and how the mandate will fit into the greater portfolio, he added.

"The redemptions and the liquidity, as well as the fee structure — I get a lot of questions from advisors," Gockowski said. "There have been a number of liquid alternative products that have blown up over the years or have had troubles with liquidity — that's the primary concern managers are tasked with addressing when selling this to institutional buyers."

Though institutional investors can handle more illiquidity than retail investors, the 15- to 20-year time frame associated with typical private infrastructure investments can make some investors uncomfortable, said **Daniel Celeghin**, managing partner at **INDEFI**. That's part of the reason why infrastructure allocations have been historically in the low single digits.

"Managers are getting asked to do [infrastructure interval funds] by their U.S. institutional investors," Celeghin said. "We've been asked, 'can you guys help us think about how to structure this…hybrid, (public and private assets), like you described?'" However, an interval fund does trade some return and some stability associated with private funds infrastructure for liquidity, he added.

Capital Innovations has been in the U.S. institutional market since its start in 2007, and has received backing from the **California Public Employees' Retirement System** and **China Investment Corporation**. The partnership with Cantor Fitzgerald "will continue to expand our depth and breadth of products and services to [the U.S. institutional market]," Underhill said. "Cantor Fitzgerald brings its experience in operating a large-scale marketing, client service and distribution platform." The financial services firm also has pre-existing relationships and selling agreements with wealth management firms in the U.S.

At this point, Capital Innovations isn't planning for a more permanent merger scenario or exit, Underhill said. "Presently, we are simply focused on continuing to attract and retain excellent talent to deliver the best risk-adjusted returns," he added.

There may be opportunities to distribute other products in addition to the initial public and private infrastructure strategy, such as sustainable agriculture, sustainable infrastructure, sustainable real estate, sustainable timber and green infrastructure and municipal bonds, he said.

Cantor Fitzgerald is a financial services firm with four main business lines: investment banking, capital markets, commercial real estate and asset management and private equity. It's $6.5 billion asset management subsidiary, **Cantor Fitzgerald Asset Management**, offers global fixed income and equity to institutional investors and high-net-worth individuals. CFAM includes groups such as Cantor Fitzgerald Investment Advisors — which creates proprietary investment strategies and offers asset-backed commercial paper vehicles, absolute return hedge fund specialist **Fintan Partners**, distressed commercial real estate loan specialist **Resolution Recovery Partners** and wealth management division **Cantor Fitzgerald Wealth Partners**.