

# Infrastructure debt: Resilient income for institutional portfolios

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## Key takeaways

1. Infrastructure debt delivers premium, resilient income for institutional portfolios, featuring structurally lower default rates and stable, inflation-linked cash flows backed by essential services.
2. In Canada, OSFI's (Office of the Superintendent of Financial Institutions) February 2026 amendments significantly enhance capital efficiency for Canadian property and casualty (P&C) insurers investing in domestic infrastructure debt, strengthening its investment case.
3. The asset class offers flexibility across credit and duration spectrums, allowing for tailored strategies for both long-term and short-term institutional mandates.
4. Compared to commercial mortgages, infrastructure debt provides superior credit resilience, cash flow certainty, and less sensitivity to economic cycles due to regulatory and contractual protections.
5. Infrastructure debt strongly aligns with environmental, social and governance (ESG) and policy objectives, supporting Canada's energy transition, digital infrastructure, and social goals, making it a compelling choice for institutional portfolios.

Infrastructure debt has emerged as one of the most compelling allocations within institutional fixed income, offering a disciplined yield premium over public markets while exhibiting structurally lower default rates and a natural inflation linkage that few comparable asset classes can match. Backed by essential services with regulated or contracted revenue streams, infrastructure borrowers have demonstrated resilience across multiple credit cycles.

This paper provides the investment case for infrastructure debt, draws a direct comparison to conventional commercial mortgages – a common institutional credit allocation – and examines where infrastructure debt offers complementary or superior characteristics across the risk spectrum.

The timing is particularly opportune for Canadian P&C insurers. OSFI's February 2026 amendment to its Minimum Capital Test guidelines reduces credit risk factors on domestic unrated infrastructure debt by up to 50%, directly enhancing the return on regulatory capital for P&C allocations to this asset class.

## What is infrastructure debt?

Infrastructure debt encompasses loans and bonds extended to assets that form the backbone of modern economies: energy generation and transmission, transportation networks, water and waste utilities, digital infrastructure, and social facilities, such as hospitals and schools. These assets are characterized by high barriers to entry, long economic lives, and revenue streams that are typically regulated by a government authority, underpinned by long-term offtake contracts, or supported by availability payments from public-sector counterparts.

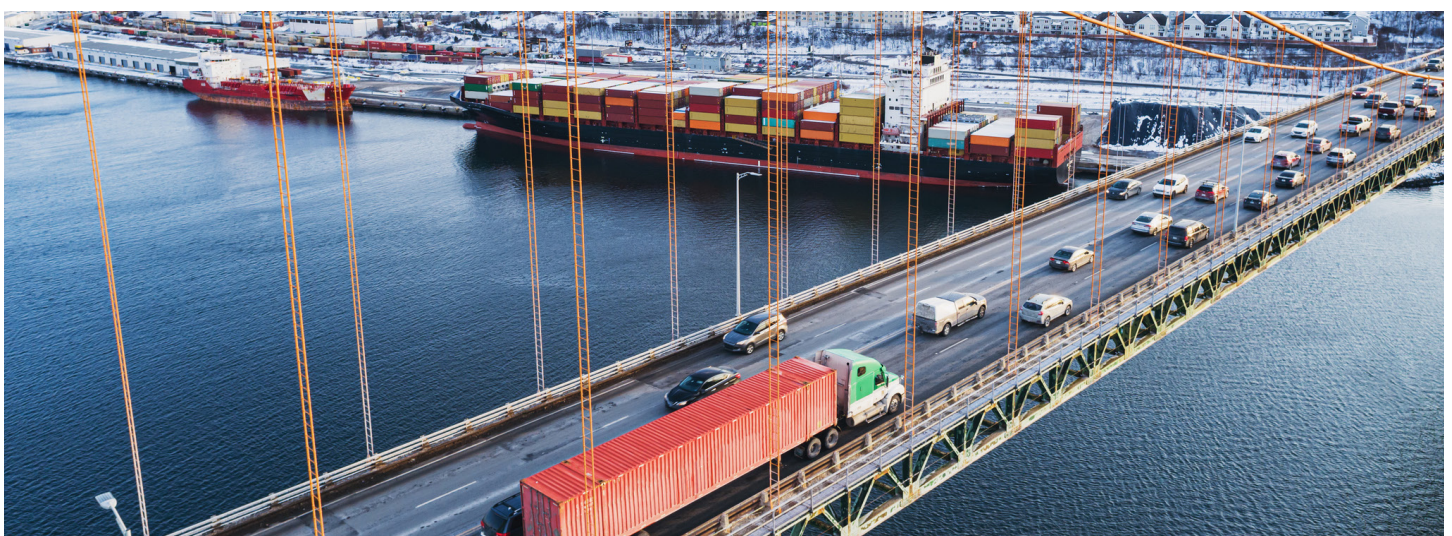
A key distinction from commercial real estate (CRE) debt, a structurally similar asset class, is the nature of the underlying revenue. A commercial mortgage is secured against a property whose income depends on occupancy, tenant creditworthiness, lease rollover and prevailing market rents. Infrastructure debt is secured against an asset whose revenue is typically determined by a regulatory framework or a long-term contract, independent of market demand fluctuations. This structural difference is the foundation of infrastructure debt's credit resilience.

The infrastructure debt asset class spans the credit spectrum and, critically, the duration spectrum. Senior secured investment grade transactions carry ratings in the BBB to A range and can be structured with maturities ranging from short-term instruments of one to three years to project finance loans expanding beyond 20 years.

From a portfolio construction perspective, infrastructure debt is typically classified within the private credit bucket. However, given its cash flow predictability, amortizing loan structures and credit risk profile comparable to investment grade debt, it can also be considered a component of broader fixed income.

## The infrastructure debt opportunity

The investment case for infrastructure debt is underpinned by an unprecedented and growing pipeline of real assets requiring patient institutional capital. Both within Canada and globally, the gap between what governments can fund from public balance sheets and what economies actually need to build is widening. As a result, the infrastructure debt market is poised for significant growth.



It is estimated that over \$150 trillion in investment by 2050 will be required, with projects typically financed using 50–70% debt. This unprecedented capital requirement is underpinned by powerful secular trends, including digitization, decarbonization, and demographic shifts. Meeting these needs will require massive capital expenditures.

In 2025, global infrastructure fundraising reached a record of roughly \$200 billion, well ahead of the \$123 billion raised in 2024. Yet, this private capital formation still falls well short of the aggregate needed<sup>1</sup>.

## Canada: A nation-building moment

Policy support for infrastructure development in Canada is robust, with federal incentives such as Clean Economy Investment Tax Credits (ITCs) totaling approximately \$93 billion by 2034–35, in addition to 15% Clean Electricity and 30% Clean Technology credits<sup>2</sup>. Public capital, including the Canada Infrastructure Bank’s \$35 billion mandate, is actively seeking private partners to invest in clean power, green infrastructure, transit, broadband, and trade / transportation, aligning private investor interests to government-backed policy. The scale of this transition, spanning trillions of dollars over more than 25 years, offers substantial visibility through a high proportion of regulated or long-term contracted cash flows, often with inflation linkage. With public budgets under pressure, private balance sheets will be essential to closing the funding gap, de-risking capital expenditures, and supporting the bankability of projects through strong federal and provincial policy support.

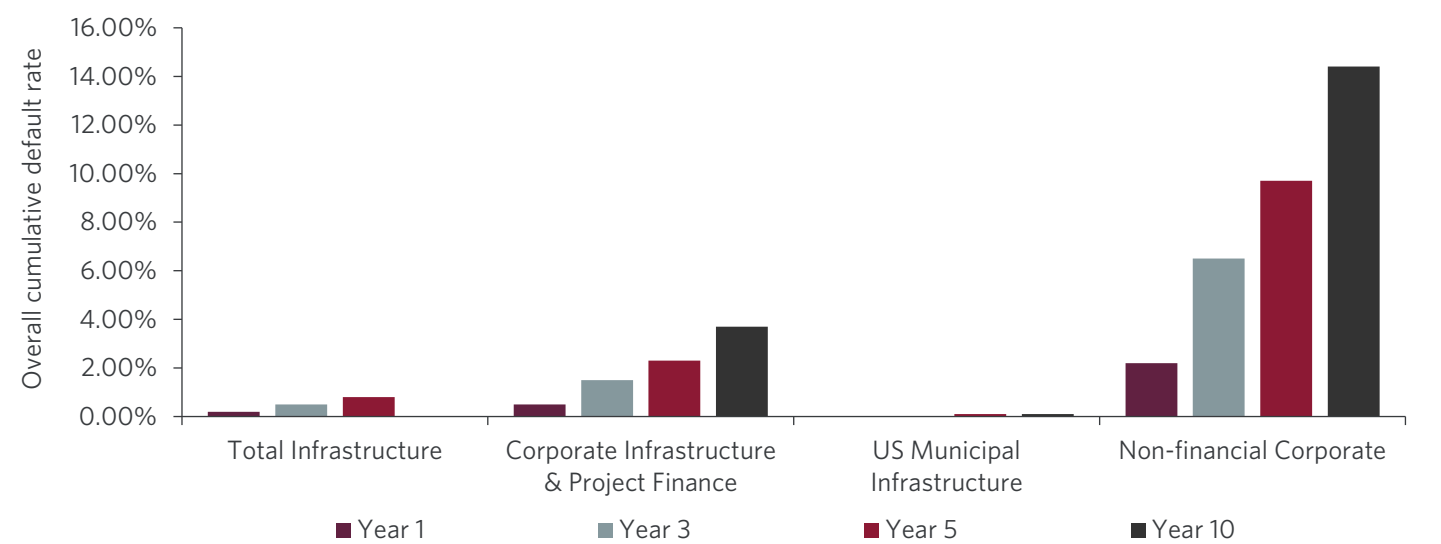
## The structural credit advantage

### Lower defaults, higher recoveries

Infrastructure debt defaults remain rare: as exhibited in the chart below, the sector’s average five-year and ten-year cumulative default rates were just 0.8% and 1.2%, respectively, far below those observed for non-financial corporate bonds. This is driven by the structural protections of infrastructure, high credit ratings and stable underlying assets.

Recovery rates further distinguish the asset class. The recovery rate for senior secured infrastructure debt averages approximately 70% compared with just 52% for direct lending and 38% for corporate debt<sup>3</sup>.

### Infrastructure debt exhibits lower default rates



Sources: Moody’s Analytics (default & recovery, 1983–2024), CIBC Global Asset Management, June 2026. Macquarie Asset Management, Cliffwater and Moody’s, 2023.



## Rating stability

Credit ratings on infrastructure securities exhibit materially lower volatility and migration than corporate ratings. This stability translates directly into more predictable capital requirement treatment under OSFI's Minimum Capital Test (MCT) for Canadian P&C insurers and Minimum Continuing Capital and Surplus Requirements (MCCSR/LICAT) for life insurers.

As of year-end 2024, 92% of infrastructure securities held investment-grade ratings, over twice the proportion seen in non-financial corporates, demonstrating the sector's overall credit strength and stability (Moody's Ratings, "Infrastructure default & recovery rates, 1983-2024," September 3, 2025).

## Inelastic demand

Unlike corporate borrowers whose revenues are generally correlated with GDP, essential infrastructure assets serve demand that is structurally inelastic. Electricity transmission, water supply, and toll roads do not experience material volume declines in recessions. Long-term contracts and regulated tariff frameworks mean cashflow can be modelled with consistency and predictability.

## Duration flexibility

While the structural credit benefits of infrastructure debt are common to all maturities, constructing an institutional portfolio that includes an infrastructure debt strategy differs meaningfully depending on the investor's liability profile.

### Long-duration infrastructure debt

Long duration strategies target investment grade infrastructure loans and bonds with maturities of 10-25 years, providing a natural match for the long-tailed liability profiles of defined benefit pension funds and life insurance companies. Revenue streams are often explicitly or implicitly inflation-linked, via CPI tariff escalators or regulated asset base mechanisms, delivering real income in a way that nominal bonds cannot.

### Short-duration infrastructure debt

Short duration strategies are specifically designed to address the constraints of Canadian P&C insurer mandates: shorter liability tails, tighter liquidity requirements, and sensitivity to interest rate risk in the investment portfolio. These strategies are typically benchmarked to the FTSE Canada Short Term Corporate Bond Index through a combination of floating rate loans and fixed rate infrastructure bonds at the shorter end of the maturity curve (one to five years); infrastructure borrowers access the bond market rather than bilateral loan markets, offering greater price transparency and liquidity.

The result is a portfolio that delivers an infrastructure credit premium, typically 150-200 basis points above the Government of Canada (GoC) curve, within a duration envelope comparable to the short-term corporate bond benchmark. This is a deliberate tool to access the premium income of infrastructure debt while managing interest rate sensitivity to match Canadian P&C balance sheet requirements.

# The regulatory tailwind for Canadian insurers: OSFI capital relief for unrated infrastructure debt

The investment case for infrastructure debt for Canadian insurers has been materially strengthened by OSFI's February 2026 amendment to its Minimum Capital Test (MCT) Capital Adequacy Guidelines. Under the revised MCT guidelines, P&C insurers' domestic infrastructure investments benefit from reductions in credit risk factors for unrated long-term and short-term infrastructure debt.

The measure is part of a broader OSFI strategy of ensuring regulatory efficiency and better enable Canadian financial institutions to take risks and grow the Canadian economy. The practical implication is direct: a P&C insurer can now hold more qualifying Canadian infrastructure debt for an equivalent amount of regulatory capital, improving the return on equity of the allocation.

For a short-duration infrastructure debt strategy focused on domestic assets, this capital efficiency enhancement directly compounds the yield advantage over conventional corporate bond exposure, making the risk-adjusted, capital-adjusted return differential versus the benchmark particularly compelling.

For additional details on the specific benefits to insurers, please see CIBC Global Asset Management white paper "New OSFI rules make infrastructure debt an essential asset for Canadian insurers" and reach out to a CIBC representative.

## Infrastructure debt vs. Commercial mortgages

Canadian commercial mortgages have historically been a well-performing institutional asset. The cumulative loss rate on Canadian CMBS loans between 1998 and 2022 was just 0.2%, according to credit rating agency KBRA.

However, commercial mortgage credit performance is an output of property market conditions, occupancy levels, cap rates, debt service coverage ratios, and the broader economic cycle. In contrast, infrastructure debt credit performance is driven by regulatory frameworks and contractual obligations. In a stress scenario, an office building's income can theoretically fall to zero if tenants vacate. A regulated utility's revenue continues flowing, with less sensitivity to economic conditions. Infrastructure debt's credit resilience is thus more structurally durable, and is less subject to the tail risks that make commercial real estate credit a cyclically sensitive exposure.

## The case for commercial mortgages

Conventional commercial mortgages, secured against office, retail, industrial, multi-family, and other income-producing properties, are a well-established institutional asset class in Canada. They offer pricing based on a spread above Government of Canada bond yields, typically GoC plus 150–300 basis points depending on property type, loan-to-value, and debt service coverage, translating to all-in yields of approximately 5.0–6.5% in the current environment.

The strengths of commercial mortgages are well understood; physical collateral with appraised value, direct recourse to a tangible asset in default scenarios, and a well-developed origination and servicing ecosystem. For conservative lenders with strong property underwriting capabilities, conventional commercial mortgages have delivered stable long-term returns with low realized losses in the Canadian market.

## The infrastructure debt advantage

While commercial mortgages rely on property market stability, infrastructure debt relies on contractual and regulatory certainty.

Three structural components differentiate infrastructure for institutional investors focused on long-term capital preservation:

1. Revenue inelasticity vs. market exposure: A commercial mortgage's debt serviceability depends on the property's net operating income, which is directly exposed to vacancy rates, market rents, tenant defaults, and cap rate movements. Infrastructure debt's cash flows are typically driven by regulatory tariffs or long-term contracts, creating a defense against cyclical demand fluctuations.
2. Cyclicity: Commercial real estate has well-documented cyclicity, driven by interest rates, development pipelines, and sectoral structural shifts (most recently, the secular decline in office demand). Infrastructure debt, by contrast, is designed to perform through cycles: essential service revenues are non-cyclical, and lender protections prevent cash leakage in stressed periods.

3. Inflation linkage vs. fixed net operating income: Many infrastructure debt investments carry explicit CPI linkage through regulated tariff mechanisms or inflation-escalated contractual revenues. Commercial mortgage income is generally fixed by lease terms, limiting protection in inflationary environments.

It is worth acknowledging that commercial mortgages and infrastructure debt are not mutually exclusive. For a diversified institutional fixed income portfolio, both can coexist, with commercial mortgages providing collateral-backed income from the domestic property market, and infrastructure debt providing contractually protected income from essential services. The strategic question is one of weighting and relative value. We believe the current environment, with elevated commercial real estate cycle risk (high borrowing cost, maturing debt), a deep infrastructure investment pipeline, and OSFI capital incentives for Canadian infrastructure, tips the balance towards infrastructure debt.

## At-a-glance comparison

The table below compares the key characteristics of long-duration infrastructure debt, short-duration infrastructure debt, and conventional commercial mortgages across the dimensions most relevant to institutional portfolio construction.

| Attribute                    | Infrastructure debt long duration investment grade | Infrastructure debt short duration | Conventional commercial mortgage |
|------------------------------|----------------------------------------------------|------------------------------------|----------------------------------|
| Indicative yield (2026)      | ~5.5–6.5%                                          | ~4.5–5.5%                          | ~5.0–6.5%                        |
| Spread vs. GoC               | ~130–170 bps                                       | ~100–140 bps                       | ~150–300 bps                     |
| Effective duration           | 10–20 yrs                                          | ~2–3 yrs                           | 3–7 yrs                          |
| Duration management          | Long-term asset matching                           | Fixed bonds + derivatives          | Term-driven; refinance risk      |
| Revenue / cashflow source    | Regulated / contracted                             | Regulated / contracted             | Property NOI / tenant leases     |
| Benchmark                    | FTSE LT Corp Bond/<br>EDHECinfra index             | FTSE ST Corp Bond                  | N/A – bespoke                    |
| Illiquidity premium          | Meaningful                                         | Moderate                           | Moderate                         |
| Default rate (Canada hist.)  | <1%                                                | <1%                                | ~0.2% cum. loss (CMBS 1998–2022) |
| Recovery / loss severity     | ~77–80% recovery                                   | ~77–80% recovery                   | Property-value dependent         |
| Key credit risk              | Policy / regulatory risk                           | Policy / regulatory risk           | Vacancy / NOI decline / cap rate |
| Inflation linkage            | Often CPI-linked                                   | Partial / floating                 | Indirect via NOI / rent resets   |
| Prepayment / refinance risk  | Low (make-whole)                                   | Low (make-whole)                   | Moderate-high (5–10 yr terms)    |
| OSFI MCT capital relief      | Yes (infra debt)                                   | Yes (infra debt)                   | Standard CRE risk weight         |
| Cycle sensitivity            | Low (essential services)                           | Low                                | Moderate-high (CRE cycle)        |
| Correlation to public credit | Moderate (lag)                                     | Moderate (lag)                     | Moderate (property cycle)        |
| ESG / transition alignment   | Strong                                             | Strong                             | Improving (green buildings)      |

Sources: Moody's Analytics (infra default & recovery, 1983–2024); KBRA (Canadian CMBS cumulative loss, 1998–2022); Morningstar DBRS (CMBS delinquency, 2025); Cedar Commercial / LendCity (commercial mortgage spreads, June 2026); MetLife IM (infra spreads, 2025); Schroders Capital (2026); Fidelity Canada (FTSE ST Corp Bond Index, March 2026); GoC 5yr: Bank of Canada, June 2026; OSFI MCT letter, Feb. 24, 2026.

## Portfolio construction implications

Infrastructure debt and commercial mortgages can both belong in a well-constructed institutional private credit portfolio, but they serve distinct roles. Commercial mortgages provide property-backed income with collateral optionality and a well-understood origination process. Infrastructure debt provides contractually protected income with structural downside protection and, now, regulatory capital efficiency advantages for Canadian P&C insurers.

For a P&C insurer operating with a two- to four-year effective duration target, the short-duration infrastructure strategy can complement commercial mortgages in the core private credit allocation, with several advantages over a comparable commercial mortgage exposure:

- **Regulatory capital efficiency:** Following OSFI's February 2026 MCT amendments, short-duration domestic infrastructure debt carries a capital risk factor of 3% versus the standard CRE risk weight applicable to commercial mortgages. For a P&C insurer, this improves the risk-adjusted, capital-adjusted return of the infrastructure allocation materially.
- **Cashflow certainty:** Infrastructure debt cashflows are contractually or regulatorily determined. Commercial mortgage cashflows depend on property occupancy and market rents, introducing income variability that is difficult to model through stress scenarios.
- **Reduced mark-to-market sensitivity:** Private infrastructure debt spreads lag and dampen public credit and commercial real estate market cycles. Commercial mortgage valuations are more directly linked to observable property market transactions and cap rate movements.
- **ESG and policy alignment:** A Canadian focused infrastructure debt strategy supports Canada's energy transition, digital infrastructure, and social housing objectives, areas where government policy is explicitly directing capital incentives. ESG-aligned institutional investors are increasingly expected to demonstrate real-economy impact.

### **Practical implementation considerations include:**

The combination of short-dated infrastructure bonds and floating rate infrastructure loans allows precise duration targeting to the FTSE Canada Short Term Corporate Bond Index benchmark.

OSFI's capital relief applies to Canadian infrastructure investments. A Canadian focused origination strategy maximizes the regulatory benefit while maintaining access to global markets for sectors where Canadian deal flow is thinner.

## Conclusion

Infrastructure debt offers institutional investors a rare combination of premium yield, structural downside protection, and cash flow characteristics that align with liability mandates, all derived from the essential services that underpin modern economies. Historical data demonstrates materially lower default rates and higher recoveries than comparable corporate credit, while the structural revenue certainty of infrastructure borrowers provides a counter-cyclical portfolio asset.

Relative to conventional commercial mortgages, infrastructure debt offers superior cashflow certainty, lower correlation to property market cycles, more robust structural protections, and, following OSFI's February 2026 MCT amendments, meaningfully better regulatory capital efficiency for Canadian P&C insurers. The case is not to abandon commercial mortgages, which remain a valuable component of a diversified private credit allocation, but to recognize that a strategic infrastructure debt allocation can improve the overall risk and capital-adjusted return.

For P&C insurers in particular, the short-duration infrastructure strategy solves the traditional duration objection while preserving every structural advantage of the asset class. This opportunity arrives at a moment when the Canadian infrastructure pipeline has never been deeper, OSFI capital incentives have never been more favourable, and the global supply-demand imbalance between infrastructure investment needs and available institutional capital has never been greater. CIBC Global Asset Management's infrastructure debt capabilities provide a compelling way to access these opportunities.



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<sup>1</sup> Source: Pitchbook.

<sup>2</sup> Source: Natural Resources Canada.

<sup>3</sup> Macquarie Asset Management, Cliffwater and Moody's, 2023.

<sup>4</sup> CIBC Global Asset Management (previously known as TAL Global Asset Management Inc.) was founded in 1972 as a privately-owned investment manager. CIBC took an ownership stake in 1994, eventually assuming 100% in 2001.

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