



## UK infrastructure update: Sept 2025



William Argent, manager of the TM Gravis UK Infrastructure Income Fund, and Shayan Ratnasingam, senior research analyst, share their thoughts on the outlook for UK infrastructure.



*“Our optimism for UK infrastructure is tilted to the upside with evidence of strong signals for investor appetite and support from both government and regulators.”*

### Government and regulatory backdrop

We are encouraged by the government and regulators' progress in taking a long-term view in the way large projects are identified, assessed, and funded. This includes the publication of a 10-year Infrastructure Strategy, 10-year Industrial Plan, Clean Power 2030 Action Plan, and the recent Cunliffe review which recommended a 25-year National Water Strategy.

Regulators have been looking at appropriate long-term funding models to deliver projects such as the Regulatory Asset Based model, Contract For Difference, Cap and Floor Regime, the Accelerated Strategic Transmission Investment regulatory framework to fund the large strategic onshore transmission projects, and the Direct Procurement for Customers to deliver large-scale water infrastructure projects.

Through these long-term initiatives the government and regulators have shown their commitment to address the balance of risk between the public and private sector to “get Britain building” through financial incentives and risk sharing.

Examples include:

- The UK water regulator, Ofwat, approving £104bn investment programme to upgrade key water infrastructure across the UK, quadrupling the investment package over previous regulatory periods.
- We see the UK government's clearing of the landmark deal to secure funding for new

nuclear plant Sizewell C under the Regulatory Asset Based model as a clear signal to the private sector that the UK is ready to support key infrastructure projects. Listed infrastructure company International Public Partnerships has committed £250m to the project.

- Up to 126 GW of clean power generation will be connected to the grid by 2030 alongside additional flexible storage and technologies<sup>1</sup>.
- Following the summer's clarification on zonal pricing, attention now turns to the upcoming Contract for Difference Allocation Round 7 (AR7). Across the next two auction rounds (AR7 and AR8) the UK must secure over 20GW of offshore wind, up to 8GW of onshore wind and up to 24GW of solar PV to meet the government's 2030 Action Plan. To put this into context, the previous auction round, AR6, which was allotted the highest-ever budget for a funding round, secured 5GW offshore wind, 900MW onshore wind and 3.3GW solar PV<sup>2</sup>. Following a market consultation, the government has introduced investor-friendly reforms—extending contracts to 20 years, enabling earlier bidding, supporting repowering projects, and creating a dedicated pot for offshore wind. These measures are expected to benefit the sector and the Fund's portfolio companies.





- We further welcome the National Wealth Fund investing alongside Equitix and Aware Super (the Australian pension fund) to build a 1GW platform of Battery Energy Storage assets. This should have a positive read across to the early movers in the sector such as Gresham House Energy Storage (GRID) which has a 1.0 GW operational portfolio and over 600MW of development opportunities. It's also a positive that GRID was able to secure a combination of tolls, floor arrangements, and capacity market contracts with credible counterparties such as EDF and Statkraft and unlock project financing highlighting the maturity and bankability of the sector.
- It was recently announced that United Utilities has signed a £3bn agreement to refurbish the 100km Haweswater aqueduct under the Direct Procurement for Customers model which shares similarities with previous PPP/PFI schemes. The project has attracted investment from GLIL, The Pension Protection Fund, and annuity providers Just Group and Aviva<sup>3</sup>. This example demonstrates the appropriate delivery structure can crowd in long-term, institutional investment from major institutional investors. We have previously flagged the importance of such structures to reinvigorate the UK investment landscape. We hope this momentum will extend to the conclusion of the Ofgem's final determinations for the RIIO-T3 price control period, the regulatory mechanism that supports the gas and electricity transmission network for the 2026–2031 period. Ofgem has highlighted this will be the “biggest expansion of the electricity grid since the 1960's” which will see upgrades to over 4400km of overhead lines and deliver 3500km of new circuits, including investments offshore, doubling the total build in the last 10 years.
- The government has recently courted £31bn of investment commitments from US tech companies in AI related spending. This includes the UK's version of Stargate bringing together £11bn from OpenAI, Nscale and Nvidia. Microsoft has also committed £22bn over the next four years with 50% earmarked from AI infrastructure. The required infrastructure to support the UK's burgeoning AI sector such as data centres

and power generation are key opportunities for our companies to be involved in.

## Transactions

Many listed infrastructure companies have embarked on disposal programmes over the past 18 months, and we have observed transactions across different sectors closing at or near NAV, highlighting a disconnect with prevailing share prices.

- We have also seen notable transactions more broadly in key infrastructure sectors this year, including La Caisse announcing a 25% acquisition of UK pumped storage firm First Hydro, which has generation capacity >2GW and represents 76% of the total pumped hydro storage in the United Kingdom. Global Infrastructure investor Brookfield acquired a 12.45% stake in a 3.5 GW UK offshore wind portfolio from Ørsted. Earlier in the year the Competition Market Authority cleared Iberdrola's acquisition of Electricity North West (ENW) through its subsidiary ScottishPower. The deal valued ENW at c.€5bn and Iberdrola further committed £30bn of investment in the UK over the next decade.
- Data from Infralogic<sup>4</sup> highlighted UK infrastructure financing deals are on track to hit a record this year with £38bn of new debt issued in the first eight months and is set to reach £57bn by the year-end. The FT article the data was published in also highlighted the following supportive comments:

*“UK infrastructure market is robust and even the troubles at Thames haven't shaken the appetite for the essential regulated utilities”. [Alexander MacLeod, head of data analysis at Infralogic]*

*“We've seen a notable uptick in deal activity over the past few months, continuing the trend of vast amounts of private capital looking for deployment opportunities,” [Jessamy Gallagher, co-head of energy and real assets at law firm Freshfields.]*

*“Investors are seeing that supportive government policy and the decision to retain a national energy market across the UK provides a stable backdrop for investment.” [Minal Patel, global head of infrastructure at Schroders]*





## Reallocation of capital

There are several companies in the listed real assets space (including REITs) that are undergoing corporate activity that will see capital returned to investors that may be redeployed in the sector. This includes Aquila European Renewables, Downing Renewables, Empiric Student Living, GCP Asset Backed Income, PRS REIT, RMI Infrastructure Income, Victory Hill Global Energy Infrastructure, and Warehouse REIT. We estimate these companies collectively represent c.£3.1bn of NAV<sup>5</sup>.

## Attractive income on offer

With 10-year UK government bonds currently trading at a 4.6% yield<sup>6</sup> widening c.8bps YTD, we can see dividend yields in the broader infrastructure sector offering an attractive premium. UK renewables are offering yields of more than 9%, diversified infrastructure 6-10%, healthcare and logistic REITS offer 5-7.5%, and regulated utilities yield over 4.0% but also offer attractive capital returns with the enlarged capex programme they are embarking on.

## Valuations

Whilst the sector has weakened a little over the summer, following a very strong second quarter, generally the ratings of companies within the broader UK listed infrastructure sector are on a firmer footing. By way of example, and where relevant, companies held within the TM Gravis UK Infrastructure Income Fund were trading at an average discount to NAV of approximately 27% at the start of 2025. On 31st August, the average discount had contracted to approximately 24%<sup>6</sup>.

With regards to asset valuations, at present, we do not anticipate that the shift in UK reference yields will feed through directly (or perhaps phrased better: on a 1:1 basis) to the Discount Rates used by infrastructure companies to value their assets. In recent years, companies have allowed the Risk Premium within the overall Discount Rate to increase, and this provides scope to absorb modest moves in reference yields.

<sup>1</sup> <https://www.ofgem.gov.uk/press-release/ofgem-approves-initial-ps24-billion-operate-and-maintain-critical-gas-networks-and-upgrade-britains-electricity-supergrid#:~:text=These%20projects%2C%20which%20are%20also,clean%2C%20stable%20and%20secure%20energy.>

<sup>2</sup> <https://www.solarpowerportal.co.uk/energy-policy/next-two-renewable-energy-auctions-must-procure-up-to-52gw-to-achieve-clean-power-2030>

<sup>3</sup> <https://www.pensions-expert.com/investment/lgps-funds-and-ppf-among-pension-investors-in-3bn-aqueduct-upgrade-project/69640.article>

<sup>4</sup> <https://www.ft.com/content/adca64d0-17b3-49e8-83c6-78d4af670e62?shareType=nongift>

<sup>5</sup> Gravis estimate based on latest NAV adjusted for offer prices and FX

<sup>6</sup> Gravis analysis



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