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## Infrastructure Investment Trusts (InvITs)

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***On this page:** Learn more about the objectives of InvITs and the main goals of their two key stakeholders: the asset owners and the investors. Read more below, or visit the main page for the [Asset Recycling Handbook](#) and [Content Outline](#), or [Download the Full Report](#)*

### Description of Infrastructure Investment Trusts

Infrastructure Investment Trusts or InvITs are pooled investment vehicles like a mutual fund that allow infrastructure assets owners to monetize their assets by pooling multiple assets under a single entity via a trust structure. This enables investors to invest in these assets without having to directly own these assets in return for distributable cash flow of the InvIT. This monetization mechanism as a form of asset recycling unlocks capital invested in these asset and fund new projects.

The asset owner sets up an InvIT through the transfer of one or more revenue generating assets to the InvIT. Typically, InvITs are structured as a trust and an independent trustee appointed by the asset owner holds the assets on behalf of the investors. InvITs can either be publicly listed on stock exchanges or privately placed and are able to raise capital through both debt and equity.

The features that make InvITs unique are the mandatory distribution of a specific percentage of the net distributable cash flow to the unitholders and the requirement to invest a specified percentage of the value of InvIT in revenue-generating projects. This ensures the stability of the returns to unitholders.

## Objectives of InvITs

Like IABS, asset monetization through InvITs presents an alternative form of financing for infrastructure assets from the usual debt instruments and equity funding. Below sets out the main objectives of the two key stakeholders of InvITs, the assets owners and the investors.

### Infrastructure asset owners

Lower cost of borrowing through the InvITs: Through the pooling and the diversified asset portfolio InvITs can potentially borrow at a lower cost as compared to the project level.

Access to a larger pool of funds: InvITs tap into a different class of investors apart from the usual strategic investors, private equity, and mutual funds investors in infrastructure assets. InvITs are attractive to sovereign wealth funds, pension funds and insurance companies and if publicly listed enable small retail investors to invest in large infrastructure projects, unlocking a fresh pool of funds for the infrastructure sector.

Early realization of revenue: The sponsor of the asset is to realize future revenue from the infrastructure assets when it transfers its shareholdings to the InvITs. In doing so, the sponsor receives a lump-sum, upfront payment.

### Investors

Diversification of investor and investment: Retail investors usually are not able to invest in infrastructure assets due to the capital-intensive nature; however, through InvITs, retail investors are able to invest.

Stable returns on investment: A stipulated portion of the net distributable cash flow is mandated to be distributed to the unitholders. It is generally stipulated that not less than a certain percentage (90% in case of India) of the net distributable cash flow must be distributed to the unitholders. In addition, there is a requirement to invest a specific percentage of the value of InvIT in completed and revenue-generating assets. These mandatory requirements allow the investors to generate steady earnings over the course of the investment.

Quality asset management: Investors can be reassured that the portfolio of assets is managed professionally by a project manager. The project manager is also responsible for the management of E&S risks and impacts. Higher standards of corporate governance into infrastructure development and management: There are strict reporting and disclosure requirements in place that InvITs are required to ensure such disclosures are in accordance with the guidelines and regulations set out. This contributes to a more robust corporate governance in InvITs, which provides assurance to the investors through the transparent use of funds and governance.

## Table 12: Key risks managed and mitigated through InvITs

### Risk Category Risk Mitigation

Development risk	Usually, the regulator specifies the percentage of the assets of the InvIT to be invested in revenue generating, operating assets, thus protecting the investors from assets which have significant construction risk.
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Concentration risk	The pooling of multiple sources of revenue from different infrastructure assets helps to mitigate concentration risk resulting from a single infrastructure asset. InvITs also provide an opportunity to grow by adding more operating projects and increasing the yield.
Credit risk	Regulator may have a set of conditions to control the gearing ratio for InvITs that wish to issue debt securities which can help to prevent overborrowing and mitigate credit risk.
Liquidity risk	Exiting InvITs is similar to selling equity investments, making them highly liquid and easy to sell without any lock-in period as compared to other asset classes with fixed maturity or illiquid trade.

## **Monetization Process and Structure of InvITs**

The process involved in setting up an InvIT is presented in the figure below.

### **Figure 14: Activities in InvIT model**

## Screening

Screening brownfield asset(s) suitable to be pooled into the InvIT, including ascertaining revenue generation potential and E&S assessment

1

## Project Preparation

Deciding on the objectives of the trust, appointment of key stakeholders and filling with the regulator as per the regulations

2

## Review and Approval

As required by the regulator, to submit all required documents and complete any formalities to commence the allotment of units

3

## Allotment of Units

Allot units to successful bidders.

4

## Compliance Monitoring

Ensure continuous compliance with the regulations and submit required documents regularly as prescribed by the regulator

5

## Stakeholders of InvITs

The following table presents the stakeholders, including respective roles and responsibilities in an InvIT transaction.

**Table 13: Stakeholders in InvITs**

<b>Stakeholders</b>	<b>Roles and Responsibilities</b>
Sponsor	The Sponsor is the infrastructure asset owner which sets up the InvIT with the objective to monetize the assets. The Sponsor transfer its shareholdings of the SPVs to the InvITs.
Trustee	The trustee holds the assets of the InvIT assets for the benefit of the unitholders. The trustee is also required to oversee the activities of the investment manager in the interest of the unitholders.
Unit Holders	The unit holders are investors who subscribe to the units of the InvIT in return for the distributable cash flows.
Investment Manager	The investment manager is responsible for taking investment decisions in the interest of unit holders including but not limited to the addition of new assets and sale of existing assets.
Project Manager	The Project Manager brings in operational expertise and is responsible for the operations of the assets and for E&S management. The Project Manager can be the sponsor, or an associate of the sponsor for a period of minimum number of years unless suitable replacement is appointed by unit holders through the Trustee.
Valuer	The valuer values the assets and ensure that the valuation is fair and reasonable. A periodic valuation of the asset may also be required.

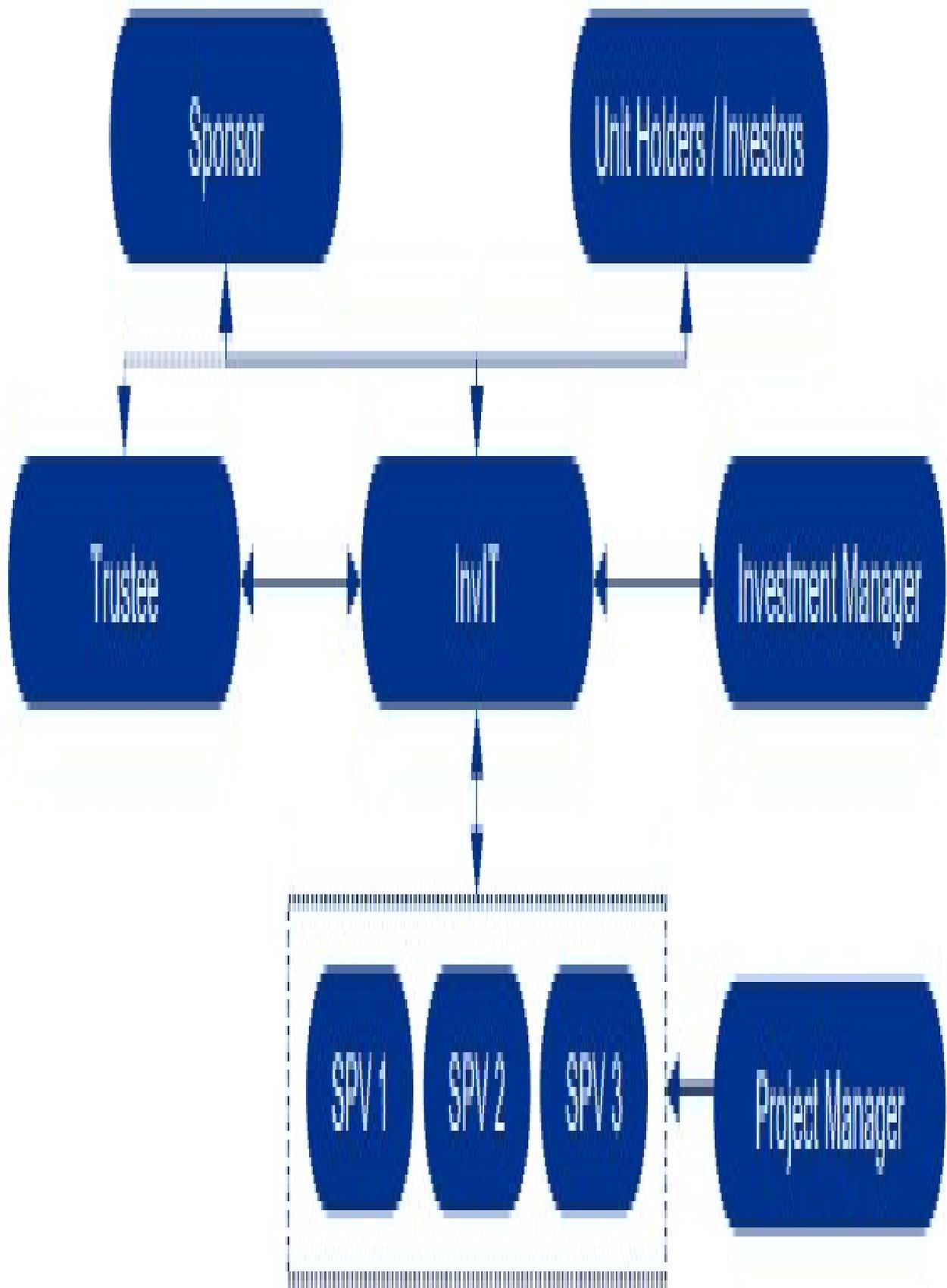
## Monetization process

The following steps presents the monetization process for an InvIT model.

The government as the asset owner pools assets (held in SPVs) into an InvIT.

- The government as the Sponsor also appoints a Trustee to hold the investments in a trust.
- Unitholders invests in the InvIT by way of subscribing for its units through a placement or public offering. Unitholders are the eventual beneficiaries of the InvIT and are entitled to distributions which are sourced from revenue generating by the pooled assets.
- The InvIT holds the assets transferred by the Sponsor.
- The Trustee holds the investments on behalf of the Trust in return for a fee.
- The Investment Manager manages and makes investment decisions in relation to underlying assets in return for an asset management fee, governed by the investment management agreement.
- The Project Manager oversees the day-to-day operations and management of the InvIT assets in return for a fee governed by the project implementation agreement or the project management agreement.

## Figure 15: Structure of InvITs



## Investor Class

Investors of InvITs are typically institutional investors such as sovereign wealth funds, pension funds and insurance companies for both publicly listed and privately placed InvITs. For publicly listed InvITs, retail investors are also allowed to invest. Typically, InvITs are especially attractive to investors that look to benefit from portfolio diversification, generating regular cash distributions and stable yields with long term investment horizons.

Strategic investors will most likely not be attracted to investing in InvITs as strategic and operational control over the infrastructure assets is not present.

**Table 14: Examples of institutional and financial investors in InvITs**

<b>Asset Classes (Sectors)</b>	<b>Examples of Institutional Investors</b>
Roads	KKR, GIC (Singaporean Sovereign Wealth Fund), Retail Investors
Power and Utilities	KKR, Retail Investors

## Required Setting of InvITs

### Macro-economic, legal, and accounting considerations

**Legal and political stability:** Any changes in the regulatory framework and policies concerning the infrastructure sector at large will have effects on the earnings of the InvITs. A stable and credible regulatory framework will instill confidence in the private investors spurring the growth and attractiveness of InvITs.

**Presence of established framework and legislation:** Clear and transparent legislation that provide clarity and instill trust in the investors. Established framework and legislation will provide grounds especially for risk adverse and long-term horizon investors that are typically attracted to InvITs.

**Accounting and taxation framework:** Clear accounting and taxation frameworks provide investors with clarity on the accounting and tax implications of investing in InvITs. In addition, if the tax regime on the earnings of the InvITs are favorable, investors will view this as longterm tax optimal investment spurring interests in InvITs.

### Credit rating

**Credit rating to issue debt securities:** The regulator may have a set of conditions to control the gearing ratio for InvITs that wish to issue debt securities.

### Financial market conditions

**Restrictions on foreign investment in infrastructure:** Low restrictions on foreign investment in infrastructure is important to attract foreign institutional investors typically interested in longterm, low risk, revenue-generating infrastructure assets.

### Robust corporate governance

**High standards of governance:** A pre-requisite for any form of investment, investors of the InvITs also seek the highest of standards of corporate governance. Transparency and accountability build the trusts and

confidence of the investors in the InvITs.

## Nature of Assets

Assets with stable cash flow: Investors of InvITs are usually risk averse and have a long investment horizon and require stable returns and cash flow backed with strong operational track record. Assets in the InvITs must have the ability and potential to generate stable revenue which will contribute to a stable stream of distributable cash flows. Coupled with an established regulatory framework, such assets provide a promising and stable stream of returns for the investors. Assets should have good, proven E&S performance.

## Key Features

Monetization Models	Key Objectives	Model Structure	Key Stakeholders	Investor Class	Required Setting	Consideration for choice of model
<b>Structured Finance Mechanisms</b>						
Infrastructure Investment Trusts	Monetizing operational assets through a pooled investment vehicle, broadening the investor class in addition to strategic investors	Equity funding from investors through private placement or public listing, debt financing at InvIT level or at SPV level	Sponsor, Trustee, Unit Holders / Investors, Investment Manager, Project Manager, Regulator, Valuer, Auditor	Predominantly institutional investors (such as insurance companies, pension funds, asset managers) and other financial institutions; retail investors if the trusts are publicly listed	Strong governance, strong regulatory requirements, robust accounting, and taxation standards	Suitable for transfer of revenue risk to private sector and mobilization of institutional capital

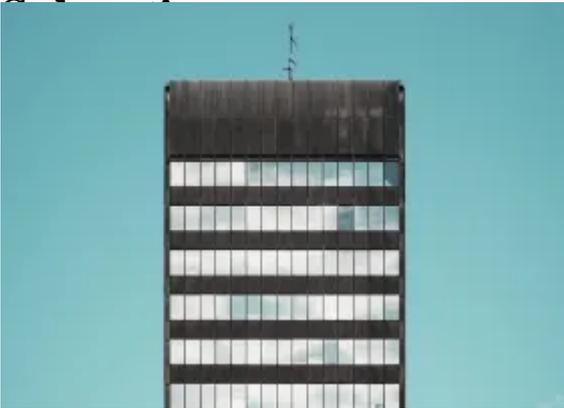
## Case Studies

Find examples for [Infrastructure Investment Trusts \(InvITs\) - Case Studies](#)

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*This section has not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the content will be reviewed and adapted for specific transactions.*

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