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# Big 12: 3i Infrastructure plans to become ‘too big to ignore’

In the latest interview in our Big 12 series, trust giant 3i Infrastructure outlines plans for growth in a market that is stalling.

BY MICHELLE MCGAGH

Heavy discounts may have brought the investment trust sector to a standstill, but 3i Infrastructure (3IN) is still aiming for FTSE 100 inclusion, intending to be ‘too big to ignore’.

The 2007 launch of 3IN along with HICL Infrastructure (HICL) and International Public Partnerships (INPP) marked the beginning of what became a booming infrastructure trust sector.

Since then, 3IN has surpassed its peers to become the largest listed infrastructure trust in London with a huge £4bn of total assets and market cap of £3.3bn, the latter of which chief financial officer James Dawes said puts the group in the top 15 companies of the FTSE 250.

However, growing in the current environment is no easy feat. Dawes said the increase in interest rates post-pandemic has moved trusts in the sector – including 3IN – from healthy premiums to persistent discounts, cutting off funding supplies.

‘In terms of funding, the equity market shut when we moved to a discount,’ he said.

Although 3IN was never much in the market for equity raises despite taking in £100m in 2023 as one of the last raises before markets hoisted the ‘closed’ sign, Dawes said they have been ‘infrequent’ over the past 10 years.

Interest rates may be moving lower once again but Dawes isn’t relying on this to catalyse the market and return 3IN to growth.

‘If you’re relying on interest rate cuts and assuming we will go back to the days of big premiums, well, it’s not happening,’ he said.

‘What we think is going to happen to the sector is more take-privates, like BBGI Global Infrastructure [which was taken private by British Columbia earlier this year]...with more assets ending up in private funds or pension vehicles. This is already starting to play out but it has a long way to go.

‘For the big beasts that remain, it will be good for our share prices and I expect us to grow and move into the FTSE 100. That should unlock more interest in our shares because we will just be too big to ignore.’

That’s not to say that Dawes is waiting around for consolidation to change the course of the 3.7% yielding fund. 3IN has, like many alternative trusts, been selling assets to fund new investments.

The latest sale rumours centred around TCR, which leases ground handling equipment for airports. 3IN initiated a strategic review into its largest holding last month after a trading update confirmed TCR was operating ahead of expectations.

‘We have grown our investments with the occasional sale, reinvestment, and recycling of capital,’ said Dawes, adding that focusing on growing the net asset value (NAV) rather than raising equity was the reason 3IN’s share price currently sits at 359p versus 120p and 127p for peers HICL and INPP.

‘Exits have been a bit slower, but I still think there is a lot of demand and dry powder for good quality assets. There are large funds raising and a lot of money is choosing really good quality companies like those that we own and there are further growth prospects.’

## Megatrends

The companies 3IN invests in fall into four categories – or ‘megatrends’ – consisting of energy transition, digitalisation, renewing essential infrastructure, and demographic change.

Investments in these categories are considered ‘core-plus’ assets and are a long way from the ‘core’ focus 3IN took at the start of its life, which typically centered on government-backed assets. This included a stake in Anglian Water when it was listed in 2007, having been taken private by a consortium including 3i Group the year before.

It sold its position in Anglian Water in 2017 after a change of tack in the mid-2010s. The portfolio ditched regulated utilities, and public-private partnership (PPP) projects and shifted to a ‘core-plus’ strategy that offered a better return, allowing 3IN to hit its own target return of 8-10% a year.

Shareholder total returns of 185% over the past decade have topped the Association of Investment Companies Infrastructure sector, where

the average has been 72%.

Now 3IN's portfolio of 11 assets fit into at least one of its megatrends, but sometimes in a 'niche way'.

This includes energy transition, where it owns power generators such as Future Biogas in the UK and Joulz in the Netherlands, but also Esvagt, which offers wind farm maintenance support vessels and emergency response vessels.

It is benefiting from the growing number of offshore wind turbines, with new contracts recently added in the US and South Korea. It supplies vessels with specialist platforms that allow maintenance engineers to 'walk to work' from the boat to the wind turbine.

The employees, which are contracted separately by the wind turbine owner, live onboard the vessels, which Dawes said were like 'floating hotels with canteens and gyms'.

The vessels are in constant use as maintenance is

ongoing and 'proactive' given the cost of a turbine failing, and the contracts can run between 10 to 20 years. Esvagt had two specialist wind turbine vessels in operation when 3IN first invested and now has 13.

It also has vessels undertaking legacy operations on oil and gas platforms in the North Sea, patrolling areas with hospitals and fire stations onboard.

Although this legacy business will dry up as the oil and gas platforms are decommissioned, Dawes said this part of the business is a 'cash generator and has been funding the building programme for new offshore wind farm vessels'.

Digitisation is a theme that has received a lot of attention in recent years as the artificial intelligence (AI) boom dominates stock markets. While infrastructure funds have been busily snapping up data centres – more of which will be needed to power AI technology – Dawes said 'we are wary' about investing in this area.

'We kissed a few frogs but have not found a prince,' he said.

'As far as data centre are concerned, if we have a power connection in an industrial park and an internet connection, then what's to stop someone building a server warehouse over the other side of the road and stealing our customers? We didn't want to play there,' he said.

Instead, the digitalisation megatrend has been focused on investing in three internet connection businesses. One of these is offshore telecom network Tampnet which connects offshore platforms which need 'low latency and higher bandwidth' in the North Sea and Gulf of Mexico.

The offshore link to Esvagt is not lost on Dawes and 3IN has put a member of the Esvagt team on the Tampnet board to 'share experience'.

These businesses should both benefit from future opportunities offshore such as end-of-life gas plants being used to store decarbonised

emissions by 'pumping gas back into the ground' and effectively creating 'underground gas tanks'.

'These are operations that can help...the energy transition over the next 20 years,' said Dawes, although he added the potential for new business ventures is not yet priced into the businesses 3IN owns.

Dawes would not be drawn on whether TCR will be exiting the portfolio but he said the 'natural size' of 3IN is '10 to 15 companies, so if we sell we are at the bottom end'. He added that if they sold 'one large asset they would invest in more than one [company] across a range of megatrends'.

'If we sold a large asset like TCR it would put us in a liquid position to make new investments and we would want to,' he said, adding that a priority will be to pay down the £350m debt facility before diversifying the portfolio any more.