# Uncovering the Asia Premium in Infrastructure without Increasing Risk

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HSBC Asset Management

# Uncovering the Asia Premium in Infrastructure without Increasing Risk

Sector-focused, mid-market strategies in developed Asia Pacific can offer institutional investors differentiated access to growth, policy certainty, and a pathway to higher risk-adjusted returns.

## Introduction

Within the world's fastest growing economic region, we see developed Asia Pacific markets on the cusp of an energy revolution.

At a time when the world is becoming increasingly fractured along geopolitical and economic lines, energy security and affordability are becoming higher priorities. Most Asia-Pacific countries, including the developed markets, are fossil fuel importers, so have a clear incentive to achieve energy self-reliance through switching to renewable energy and building energy infrastructure and grid capacity. The energy transition also comes with the potential for economic benefits in the form of transition-related manufacturing and exports and job creation. These economic and security drivers sit alongside important environmental objectives, collectively underpinning strong government policy positions for the transition to clean, domestically-sourced, affordable energy.

Therefore, it's not surprising that Asia has emerged as a key player in the global energy landscape, both as a major consumer and as a rapidly growing market for renewable energy. For institutional investors, we believe these shifts represent an opportunity to gain exposure to energy infrastructure developments in fast-growing and well-governed countries with the potential for stable inflation-protected yields and valuable portfolio diversification.

## Rethinking Infrastructure Value in the Energy Transition Era

Energy transition infrastructure (ETI) is a major infrastructure sector and represents an active pathway to growth that is aligned with government policy and corporate objectives, and that generates long-term value. For institutional investors, ETI should no longer be viewed solely as a defensive yield play or as a niche sustainability play.

Addressing climate mitigation in line with the Paris Agreement goals and ensuring effective climate adaptation, as well as achieving the additional objectives of security and affordability, requires a systems-level multi-sector approach. Reducing emissions requires a shift away from polluting fossil fuels to renewable energy. Yet, going renewable requires grid modernisation. Upgraded interconnected grids enable the integration of renewables, ensuring efficient energy distribution and demand-side management.

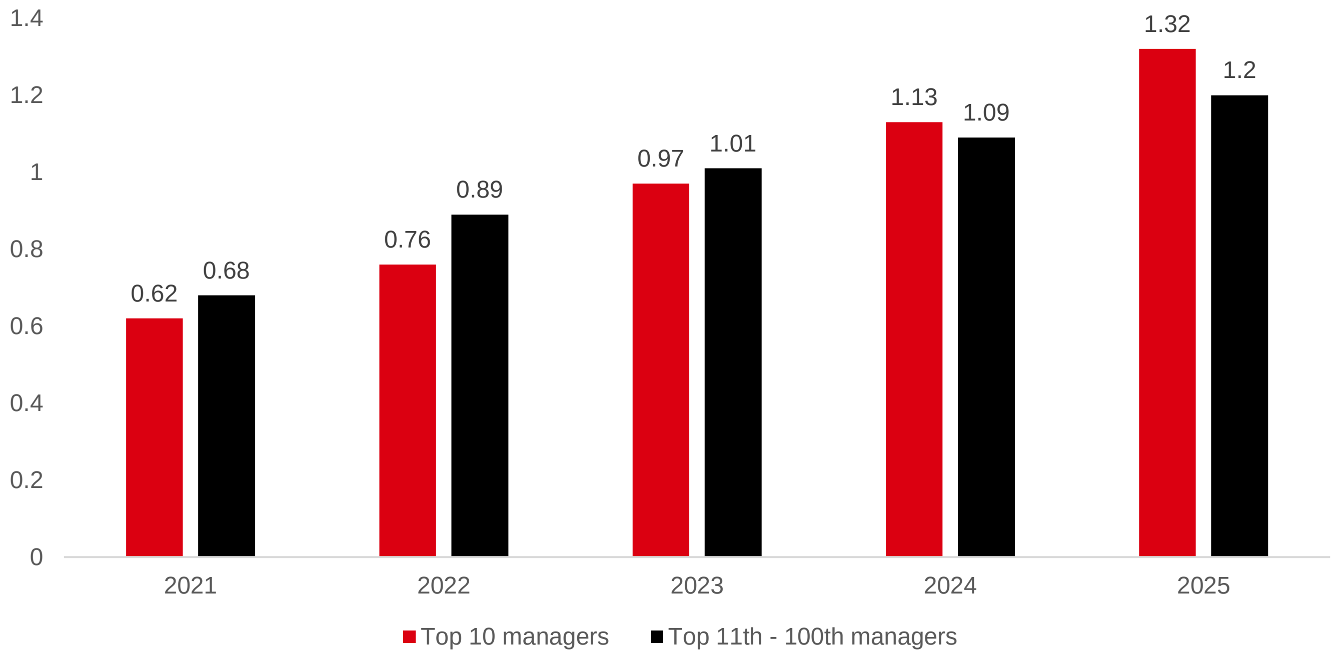
Another challenge is the intermittency of wind and solar energy, which is being addressed by increasingly effective energy storage solutions. Battery Energy Storage Systems (BESS) are scaling rapidly, with costs falling in recent years, and 40% from 2023-24 alone.[1] Greening power systems enables the scaling of electric vehicles without a concurrent increase in emissions.

Investors can benefit from these trends, and indeed large amounts of capital has and is flowing to this major sector globally. However, capital flows have been unbalanced - most investor portfolios are overallocated to large, global, generalist infrastructure funds, which tend to focus on (i) brownfield or stabilised assets in (ii) crowded Western

[1] BNEF finds 40% year-on-year drop in BESS costs- Energy-Storage.News

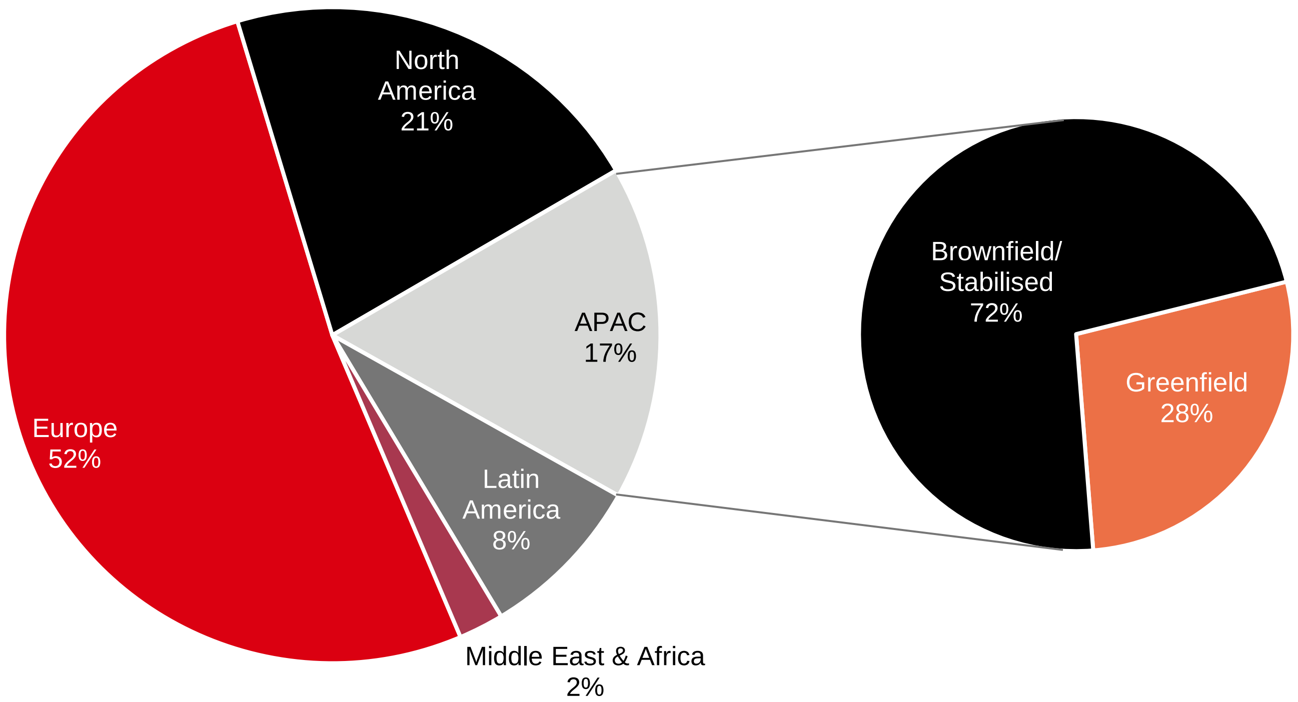
markets. They are underexposed to the large growth opportunities in development of new assets and sectors, and the growth engine of Asia Pacific.

**Allocations to top 10 managers vs the rest (EUR trillion)**




Source: IPE Research, Aug 2025

**Renewable Transactions (Equity) by Geography, 2015 – 2024**




Source: Infralogic, 2025

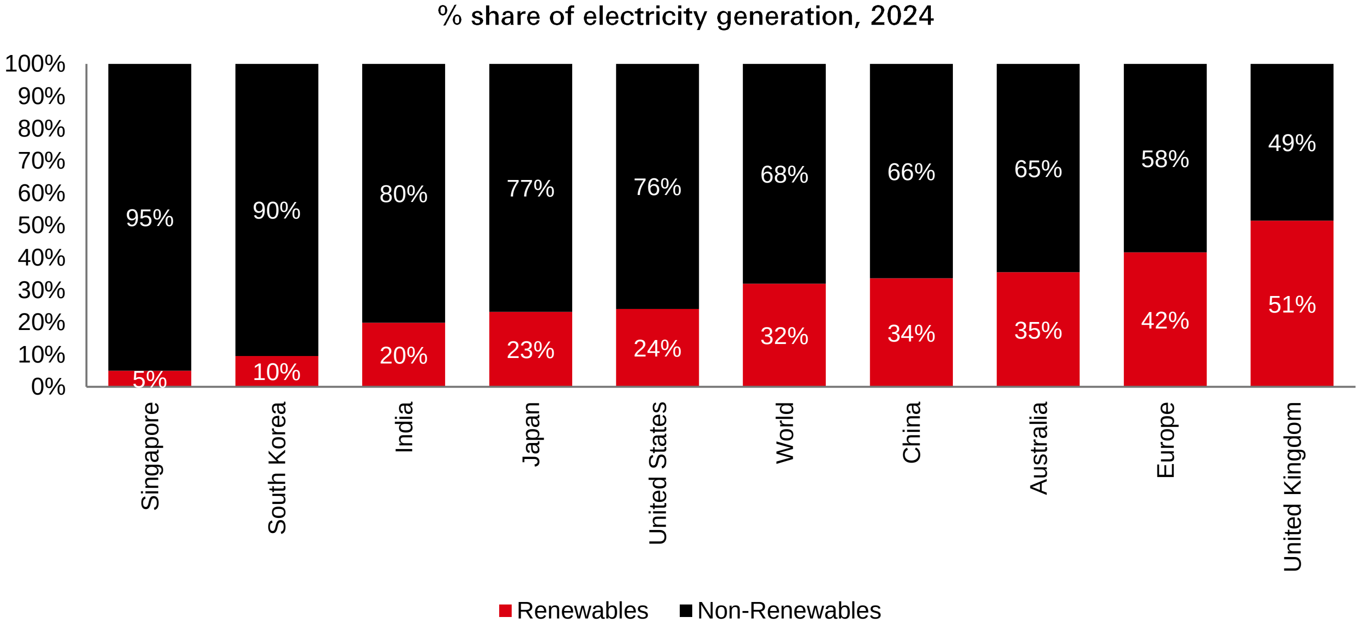
A large driver of this unbalanced approach is perceived (in some cases, actual) lower risk and consequently increased investor comfort in Western markets, as compared to Asia-Pacific (as a whole).

So how can investors uncover the return premium that comes with increasing exposure to the growth opportunities and diversification benefits of ETI in Asia-Pacific, without having to take on actual (or perceived) additional risk? A potentially compelling alternative could be sector-specialist, mid-market infrastructure, focused specifically in the developed Asia-Pacific markets. Here, investors can access differentiated asset creation opportunities, including development, construction, system integration, and lifecycle repowering. Investors can also gain early exposure to high-growth sub-sectors like electric vehicle charging, energy storage, and other ancillary technologies, where Asian countries are playing catch up to their Western counterparts. Finally, a mid-market approach can open up a larger opportunity set of potential deals than the large- or mega-cap market, with potentially more attractive entry valuations and value creation levers.

## Why Developed Asia-Pacific? Examining the Policy Bedrock

Collectively, Bloomberg NEF estimates that $88.7 trillion is required by 2050 to align the Asia-Pacific region with the Paris Agreement goals. The Asia-Pacific renewable energy market, valued at $330.5 billion in 2024 is projected to more than double to $711.8 billion by 2033, representing an 8.9% compound annual growth rate. [2]

A significant component of that growth is the simple fact that key markets in Asia Pacific are behind their Western counterparts (especially UK and Western Europe) in terms of renewable energy penetration and overall progress towards transition goals. This means multiples more annual investment is needed compared to historical investment, in order to catch up.




Source: Ember, 2025

The Asia Pacific region has higher growth prospects than North America and Europe, and many countries in the region, including developed markets, are materially less progressed in the energy transition, so the potential opportunity set for institutional investors is compelling.

[2] Source: Bloomberg NEF, 2025

Further underpinning the investment opportunity in ETI, many developed Asia-Pacific countries have implemented ambitious national policies aimed at decarbonization. Policy certainty is a cornerstone of infrastructure investing, and so policy support (on both sides of politics) reduces overall risk in the sector.

| | Japan | South Korea | Australia | Singapore |
|---|---|---|---|---|
| Renewable Energy Generation Targets | **40-50%** of electricity from renewables by 2040 | **33%** of electricity from renewables by 2038 | **82%** of electricity from renewables by 2030 | **33%** of electricity from renewables by 2035 |
| | **23-29%** of Solar PV power by 2040 | **11%** of Solar PV power by 2038 | **55%** of Solar PV power by 2030 | **2GWp** of Solar PV power by 2030 |
| | **4-8%** of wind power by 2040 | **6%** of wind power by 2038 | **37%** of wind power by 2030 | **100%** of vehicles to run on clean energy by 2040 |
| Net Zero Target | **Carbon Neutral** by 2050 | | | |

Source: Japan METI: "7th Strategic Energy Plan"; South Korea MOTIE: "11th Basic Plan for Long-Term Electricity Supply and Demand"; Australia Government DCCEEW; Singapore EDB and MND.

**In addition, across developed Asia Pacific, governments are not just regulators, they are also market-makers, for example:**

- Australia: The federal government is backing AUD 2 billion in green hydrogen subsidies, and state-level auctions for solar-plus-storage are scaling rapidly, particularly in New South Wales and Victoria.[3]
- Japan: The Ministry of Economy, Trade and Industry (METI) supports large-scale battery energy storage auctions with 20-year fixed capacity payments. **The 2040 renewables target of 40-50%** is backed by transparent feed-in premium systems and long-term procurement frameworks.[4]
- Singapore: Through its Carbon Pricing Act, energy import targets **of 4–6 GW by 2035 (33% of forecasted energy demand then)** , and floating solar/storage pilots, Singapore is creating a low-carbon investment framework built on certainty and international credibility.[5]
- South Korea: With the Hydrogen Economy Roadmap and SAF mandates, Korea is investing heavily in infrastructure for industrial decarbonisation, while expanding grid storage and clean tech manufacturing zones.[6]

Across these markets, infrastructure policy is institutionally embedded, long-term, and backed by budgetary mechanisms—lowering entry and operational risk for asset creation investors.

Finally, countries like Australia, Japan, Singapore and South Korea also possess many of the general political and economic hallmarks of developed Western countries that are positive for capital investment. This includes adherence to the rule-of-law, strong governance, robust institutions, stable currencies, and deep capital markets.

[3] Hydrogen Headstart program - DCCEEW
[4] Japan: Strong fundamentals for energy storage drive expectations despite challenges - Energy-Storage.News
[5] Regional Power Grids | EMA
[6] h2council.com.au/wp-content/uploads/2022/10/KOR-Hydrogen-Economy-Roadmap-of-Korea_REV-Jan19.pdf

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This uncommon combination of a high growth, policy-backed sector within politically and economically stable markets, provides the opportunity to capture growth-market returns with developed market risk.

## Value Drivers: Where the Asia Premium Is Found

Rather than relying solely on de-risked, large-scale, brownfield assets, regional specialists in Asia Pacific are delivering returns through a variety of mechanisms:

### a) Asset Creation (Development + Construction)

By entering earlier in the asset lifecycle, investors can capture the premium from origination, permitting, and project structuring. The developed Asia-Pacific market has mature permitting frameworks and structured auctions, which help de-risk early-stage exposure while preserving return uplifts.

### b) High-Growth Sub-Sectors

Examples include:

◆ Solar and wind generation across Asia: penetration of renewable energy generation capacity in Asia Pacific, including developed markets, is materially lagging more mature Western markets, meaning multiples more annual investment is needed compared to historical investment. [7]

◆ Electric vehicle (EV) charging in Singapore: The government aims for 60,000 public chargers by 2030—up from under 5,000 today—creating investable cashflow models in a highly urbanised and regulated environment.[8]

◆ Battery storage in Japan: The Ministry of Economy, Trade and Industry (METI) Battery Energy Storage System (BESS) auctions in 2024 alone supported over 1.3 GW of new capacity with multi-revenue models, blending capacity payments with spot price arbitrage.[9]

◆ Green hydrogen in Australia and Korea: Export-linked hubs in Northern Australia and demand-side incentives in Korea make these early-stage subsectors key drivers of long-term alpha.[10]

### c) System Optimisation & Lifecycle Value

The ability to add co-located storage to solar, extend project life through repowering, or secure merchant market enhancements over time creates a second layer of upside—often missing in fully stabilised portfolios.

Example: Adding two-hour storage to a 50 MW solar plant in Japan can increase project IRR by 300–500bps through stacked revenues (capacity, arbitrage, and system services).

### d) Mid-market Focus

In the energy transition sector and when narrowing focus to selected developed Asia-Pacific markets, the mid-market offers vastly more investment opportunities, allowing greater deal selectivity, lower competition, bilateral negotiating positions, and greater value creation potential during ownership.

[7] EMBER, 2025
[8] MOT | Electric Vehicles
[9] Battery storage steals the spotlight in Japan's renewables race
[10] Export-scale Hydrogen Production | Australia's Northern Territory, Hydrogen City Projects – Policies - IEA

## A Return Profile Built on Structural Differentiators

| Metric | Developed APAC Mid-Market | Europe / North America |
|---|---|---|
| Target IRRs | 12–15% | 8–10% |
| Competition for Mid-Market Deals | Low–Moderate | High |
| Contracted Revenue Share | 70–85% | 60–70% |
| Currency Risk | Low-Medium (JPY, KRW, AUD, SGD) | Low–Medium |
| Sub-sector Growth Trajectory | High | Medium |

Source: HSBC Asset Management, 2025

## Why Regional Sector Specialists Are Key

The complexity of energy markets—policy nuances, grid access regimes, procurement processes—favours teams with deep local presence. Generalist funds and/or funds headquartered out of region are often structurally disadvantaged in sourcing or executing such deals.

Regional specialists in Asia Pacific:

- Understand the subtleties of each market
- Leverage local developer partnerships for origination and execution
- Are equipped to manage project risk across the lifecycle, not just post-COD

## Portfolio Design for Institutional Investors

To capture the Asia Pacific premium, investors should consider:

- Allocating a meaningful (e.g. 5–10%) portion of their infrastructure portfolio to mid-market, sector-focused Asia mandates.
- Prioritising asset creation strategies with flexibility to invest across development, construction, and early operations.
- Diversifying across high-growth subsectors (EVs, BESS, Hydrogen) and core technologies (including solar and grid infrastructure).
- Partnering with managers offering local expertise and boots-on-the-ground, with alignment through co-investment or milestone-based fee structures.

## A Potentially Compelling, Underappreciated Opportunity

Developed Asia Pacific infrastructure is often overlooked by global allocators due to its perceived complexity or unfamiliarity. However, the region offers a rare alignment of factors:

- Policy stability and support
- Structural growth
- Under-capitalised mid-market access

- Multiple value drivers beyond yield

By pivoting from passive allocations in generalist mega-funds toward focused, regional asset creation strategies, investors can unlock growth-like returns with infrastructure-like risk profiles in some of the most investable jurisdictions in the world.

Multiple tailwinds exist for investors considering allocating to energy transition infrastructure in Asia-Pacific, including an increasing focus on green growth and green alignment across the region, maturing of blended finance mechanisms, and long-term incentives for supply chain resilience. Now is the time to invest in the Asia green transition.

## Key risks

Risk considerations: there is no assurance that a portfolio will achieve its investment objective or will work under all market conditions. The value of investments may go down as well as up and you may not get back the amount originally invested. Portfolios may be subject to certain additional risks, which should be considered carefully along with their investment objectives and fees.

◆ Illiquidity: an investment in alternatives is a long-term illiquid investment. By their nature, the alternatives' investments will not generally be exchange traded. These investments will be illiquid.

◆ Long-term horizon: investors should expect to be locked-in for the full term of the investment.

◆ Technological risk exists when the technology, on the scale proposed for the project, will not perform according
to specifications or will become prematurely obsolete. The risk of technical obsolescence following completion becomes particularly important when a project involves a state-of-the-art technology in an industry whose technology is rapidly evolving.

◆ Economic conditions: the economic cycle and prevailing interest rates will impact the attractiveness of the underlying investments. Economic activity and sentiment also impacts the performance of underlying companies and will have a direct bearing on the ability of companies to keep up with interest and principal repayments.

◆ Valuation: these investments may have no or a limited liquid market, and other investments including those in respect of loans and securities of private companies, may be based on estimates which cannot be marked to market until sale. The valuation of the underlying investments is therefore inherently opaque.

◆ Strategy risk: Investments into alternatives may, among other risks, be negatively affected by adverse regulatory developments or reform, credit risk and counterparty risk. The credit market bears idiosyncratic risks such as borrower fraud, borrower bankruptcy, prepayment risk, security enforceability risk, subordination risk and lender liability risk.

◆ Political and economic risks: General economic conditions may affect the activities. Changes in economic conditions, including, for example, inflation, unemployment, competition, technological developments, political events and other factors, none of which will be within the control of the General Partner or the service providers, can substantially and adversely affect the business and prospect investors. Due to the geographic scope of its activities, the strategy may be vulnerable to country or regional-specific political, macroeconomic and financial environments or circumstances.

◆ Investor's capital at risk: Investors may lose the entirety of invested capital.

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