



Quarterly valuation update for the energy and infrastructure sector **Q2 2025 update and the price of politics: assessing the impact of political, policy and regulatory risk on valuations**

August 2025

Quarterly valuation update

Introduction



Welcome to the Q2 2025 edition of our quarterly valuation update, which provides a snapshot of some of the main publicly available valuation trends across the energy and infrastructure sector, covering both debt and equity metrics.

This quarter we continue to look at trends in debt and equity metrics relying primarily on publicly available information. In relation to the equity trends, we use the Forvis Mazars indices of listed infrastructure funds and listed renewable energy funds, compiled on the basis set out in Appendix 1 of our blog.

In addition, this quarter we have included a spotlight on the impact of political, policy and regulatory risk on valuations and key market trends.

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01

Valuations Q2 2025 market update

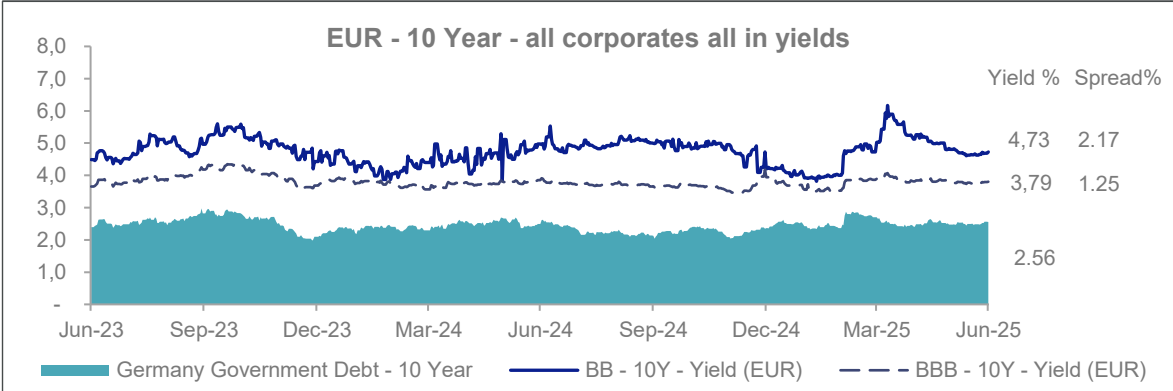
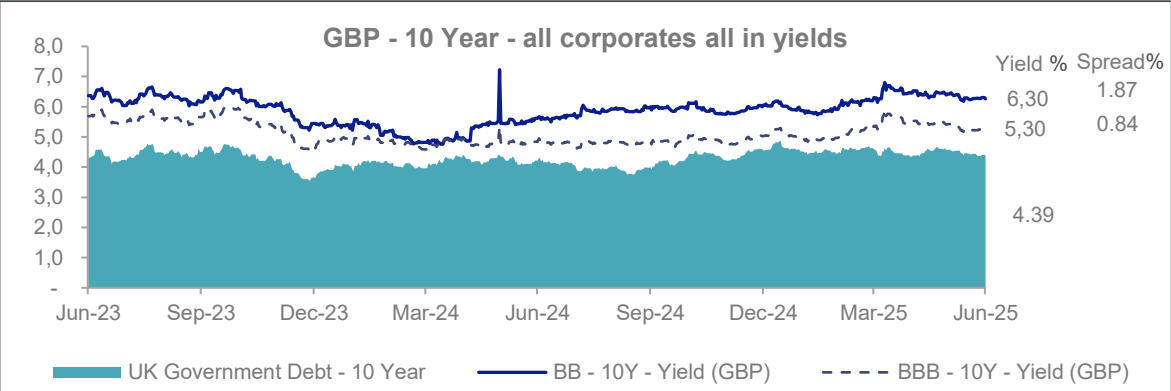
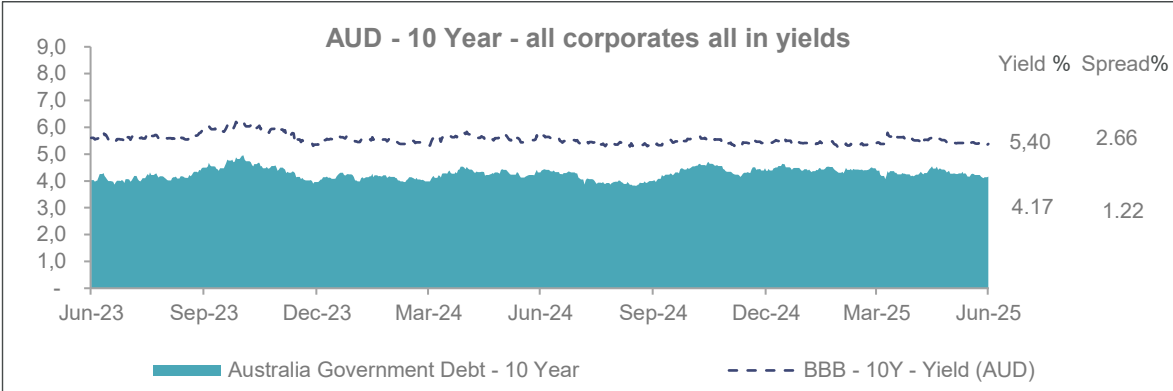
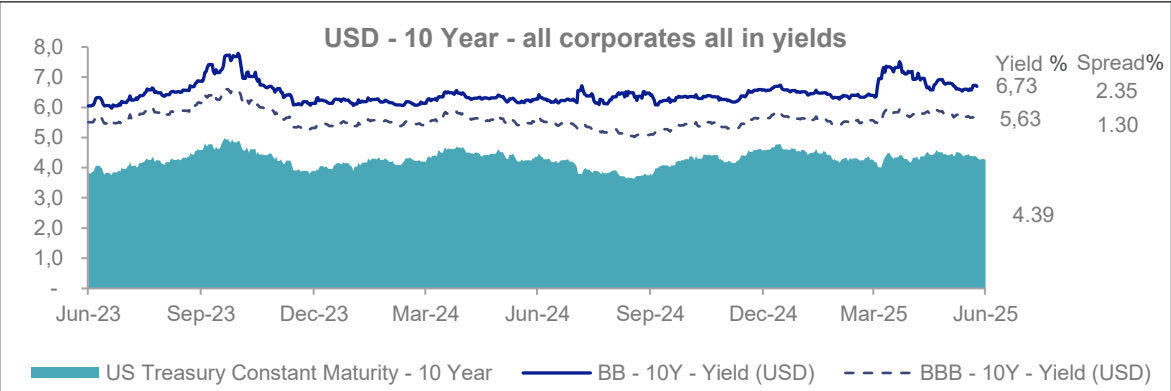


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Debt valuation trends

Q2 2025 was characterised by initial spikes in bond yields following US tariff announcements

- These mostly unwound through the quarter as tariffs were eased or delayed
- The US was an exception to this, with T-bond yields remaining elevated above levels at the end of Q1 2025

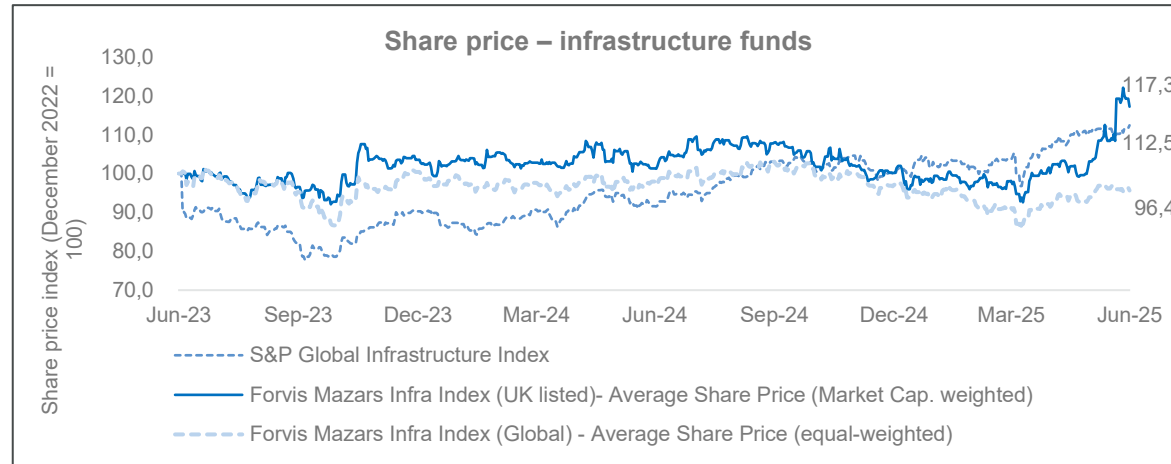


Source: Capital IQ, Forvis Mazars analysis

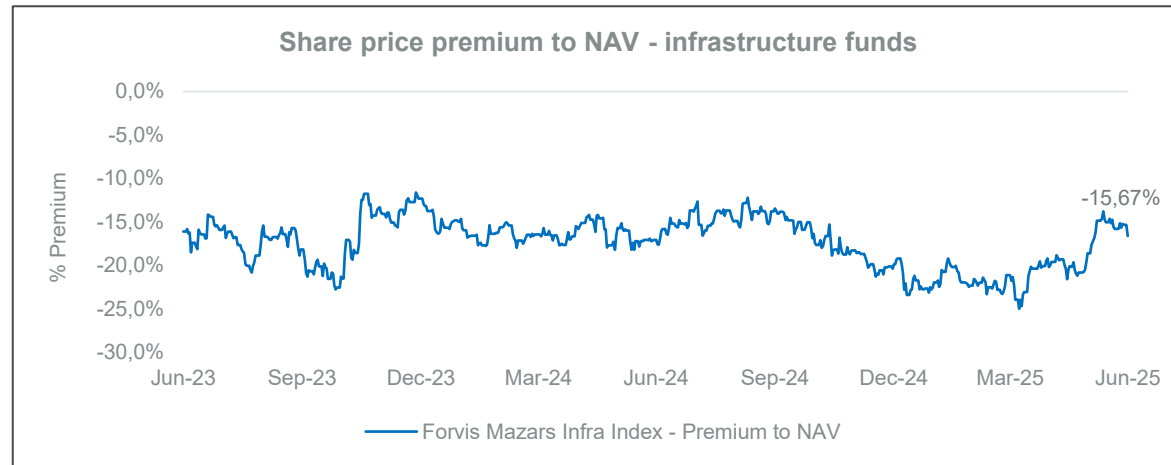
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Equity valuation trends – infrastructure funds

Infrastructure funds have continued to trade at deep discounts to NAV



- Upward share price trends this quarter reflect stronger sentiment towards infrastructure funds. Although infrastructure funds will not be unaffected by tariff-related dynamics, they are likely to be protected from significant changes in forecast performance overall, thus underlining their defensive qualities.
- The result has been a narrowing of the discount being applied to the share prices of listed funds in comparison to NAV, back to levels last seen in mid-2024.
- Underlying discount rates have risen slightly in some geographies over the past three to six months, reflecting increases to risk-free rates.



Source: Capital IQ, reports from funds, Forvis Mazars analysis

“The weighted average discount rate used to value the portfolio increased by 40bps over the year to 8.4%, of which 10bps relates to the previously highlighted increased forecast cost risk across a subset of UK PPP assets. The balance largely reflects significant increases in government bond yields across HICL’s key geographies, most significantly in early 2025.”

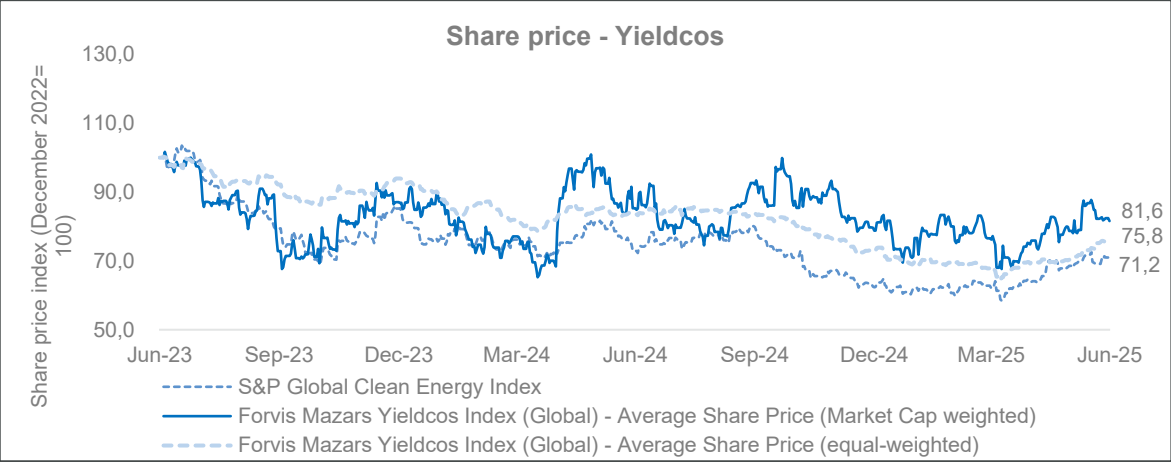
“These macroeconomic changes were balanced against relevant transactional data, including the announced acquisition of BBGI Global Infrastructure and HICL’s own live transaction data, which suggests highly robust valuations for core infrastructure assets.”

– HICL, March 2025 annual report

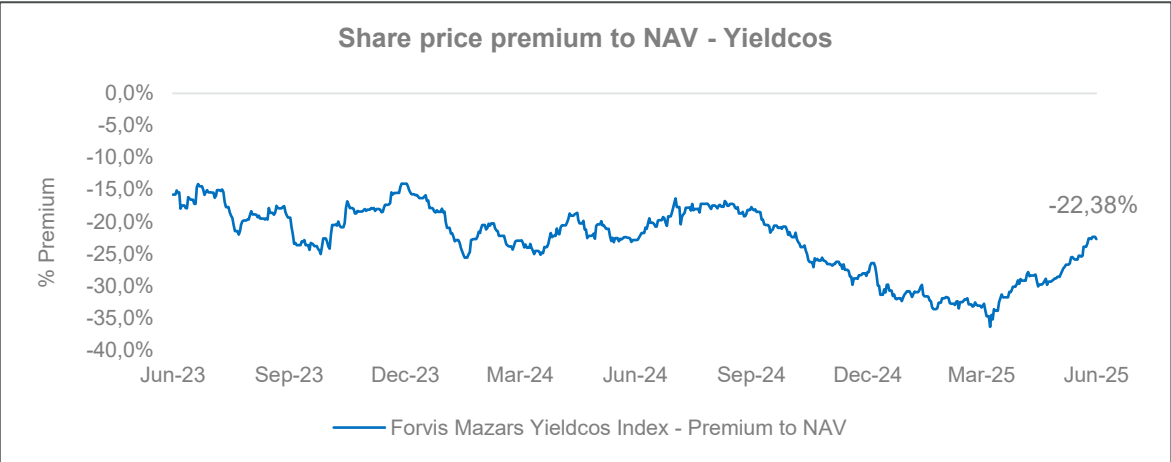
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Equity valuation trends – renewable energy funds

Listed funds have traded at deepening discounts to NAV, but NAVs continue to be supported by transaction outcomes in the sector



- Share prices for Yieldcos increased in Q2, reflecting improved sentiment. Slight upward trend in share prices across all indices, recovering from losses at the end of 2024.
- Listed funds reported slightly increased discount rates for the periods ending December 2024 and March 2025, mostly reflecting increased risk-free rates
- Funds continue to trade at significant discounts to NAV, although the level of discount has reduced this quarter. These discounts remain despite continued evidence of private market transactions taking place at, or near NAV – examples include take-private transactions involving Harmony Energy Income Trust and Downing Renewables and Infrastructure Trust.



“European discount rates have been increased by 30bps, reflecting movements in government bond yields during Q1. This change resulted in a -1.2p impact on the NAV per share. No adjustment was made to UK discount rates which were increased by 30bps in Q4 of 2024. The portfolio weighted average discount rate is now 8.7% representing a 4.7% equity risk premium over the portfolio weighted average reference rate.”

- TRIG, Q1 2025 Net Asset Value Update

Source: capital IQ, reports from Funds, Forvis Mazars analysis

02

The price of politics: assessing the impact of political, policy and regulatory risk on valuations



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Political, policy and regulatory risk in infrastructure valuations

Although political, policy and regulatory risks are very real for infrastructure and energy assets, it is common for the market to value them only implicitly – or to ignore them altogether

What is meant by political, policy and regulatory risk?

- There is no universal set of definitions (and there can be some overlap), but the following table provides a summary for working purposes:

Risk	Key features of the risk	Recent UK examples
Political risk	The risk of political changes or instability in a country, with potentially unpredictable outcomes	<ul style="list-style-type: none">BrexitPotential fragmentation of two-party system
Policy risk	The potential for negative impacts from changes to Government policies, which can include the way they are enforced	<ul style="list-style-type: none">Review of Electricity Market Arrangements (“REMA”) consultation
Regulatory risk	Sometimes refers to the risk of changes to regulations (a subset of policy risk) but can also mean the risk of non-compliance or adverse enforcement action	<ul style="list-style-type: none">Ofgem audits of historic renewable energy certificate (ROC) awards

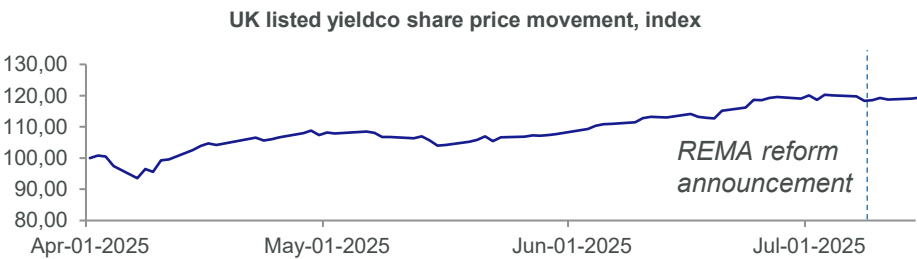
- All of these risks have the potential to crystallise into outcomes for investments that are materially different from base case forecasts.
- However, they are often not valued explicitly by the market until or unless the risk is seen as likely to transpire and the outcome for the underlying project is understood. We explore examples of this on this and the next page.

Case study 1 – applying a “wait and see” approach to policy risk

In July 2025, the UK Government published its policy decisions in relation to REMA, including the decision that it would not move to a zonal pricing system. This change was heavily debated in the industry, with uncertain costs and benefits, but one key argument was that the resulting uncertainty around electricity prices received by generation assets would increase their cost of capital.

Ahead of the announcement, not one listed fund or independent power producer reported that it had increased discount rates used to value existing projects to reflect the risk of this potential change.

The share price graph below indicates that share prices were rising steadily during Q2, linked to broader sentiment in the sector. There was a very marginal dip just ahead of the REMA announcement, quickly reversed – but overall policy risk was not a material driver.



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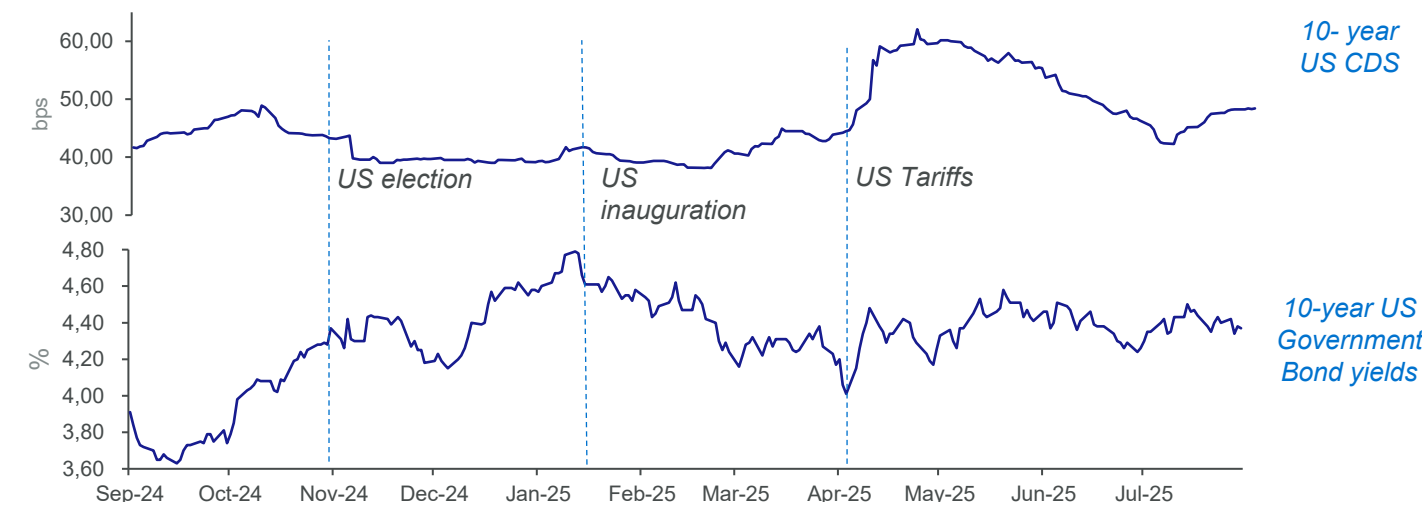
Political, policy and regulatory risk in infrastructure valuations

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Case study 2 – treating the risk as reflected in country risk

Political risk (and to a lesser extent policy or regulatory risk) can in some cases be treated by investors and valuers as being linked to underlying country risk, or the risk-free rate, rather than being valued separately. This is because Government bond yields and credit default swap rates typically react to significant political and economic policy developments and because this provides an objective, data-driven approach to quantifying the risk.

The graphs below demonstrate the movements in bond yields and CDS rates in the US in response to recent election results as well as tariff announcements. The challenge for valuers lies in deciding which period to base the risk-free rate on. Using the spot rate in January 2025 would have meant including a significant premium for political risk – but this would have meant volatility in a valuation conducted on the same basis at the end of March 2025.



Case study 3 – going behind headlines to assess the real risk

Many renewable energy markets have been supported by Government policies to incentivise renewable energy, including feed in tariffs, green certificates or contracts for difference (CfDs).

In 2014, the Italian Government implemented retrospective cuts to feed in tariffs for solar PV projects larger than 200kW. It became standard for valuers to apply a risk premium to Italian renewable energy discount rates as a result for many years afterwards. This was not arbitrary – it reflected observed lower valuations flowing from reduced investor appetite.

More recently, the Reform Party in the UK issued a letter to prospective bidders for CfDs threatening to revoke contracts awarded under AR7 if it gets into power. Investors are generally not changing their cost of capital assumptions, however, in part because the CfD counterparty is not the UK Government, but a private company – therefore investors believe (whether rightly or wrongly) that the threat is unlikely to be implemented in practice.

Investors have been considering the risk that tariffs are changed retrospectively for many years across multiple markets. A key area of focus is often on whether the tariff (or allowable return) is unusually high and therefore more at risk of being targeted.

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Conclusions

Three key themes from Q2 2025:

Falling government debt yields, but rising yields in the US

- This quarter saw a general fall in government debt yields across markets
- The main exception was the US, with broader pressures linked to tariffs and federal-level spending plans amongst other things

Recent transactions continue to benchmark NAV performance

- Discounts to NAV have mostly reduced this quarter, with share prices of infra and energy funds generally increasing following tariff announcements
- Recent public to private transactions have continued to help validate net asset valuations

Political, regulatory, policy risks will often not impact valuation until they crystallise

- The market is often slow to value political and policy risk unless/until they materialise or are seen as significant
- Political and policy risks can be subsumed within wider country risk
- Uncertainty may not just be reflected in price signals in a transactional context – making life more difficult for valuers

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