

Infrastructure Spotlight

September 2009 / Volume 2 - Issue 9

Welcome to **Infrastructure Spotlight**, the monthly newsletter from Preqin, providing insights into performance, investors and fundraising. Infrastructure Spotlight contains information from our online product, Infrastructure Online.

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The Evolution of Funds of Funds in the Infrastructure Market

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- Fundraising
- Fund Performance
- Investor Profiles
- Plus more...

We take an in-depth look at the product, and how it can help you. Includes information on ordering and registering for your free trial.

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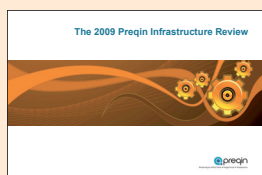
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The 2009 Preqin Private Equity Infrastructure Review

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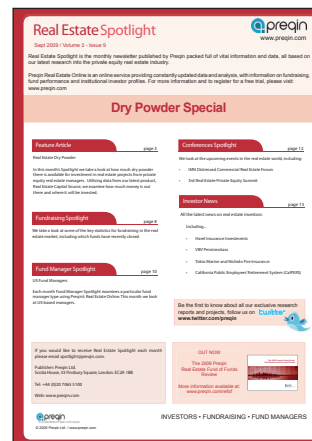
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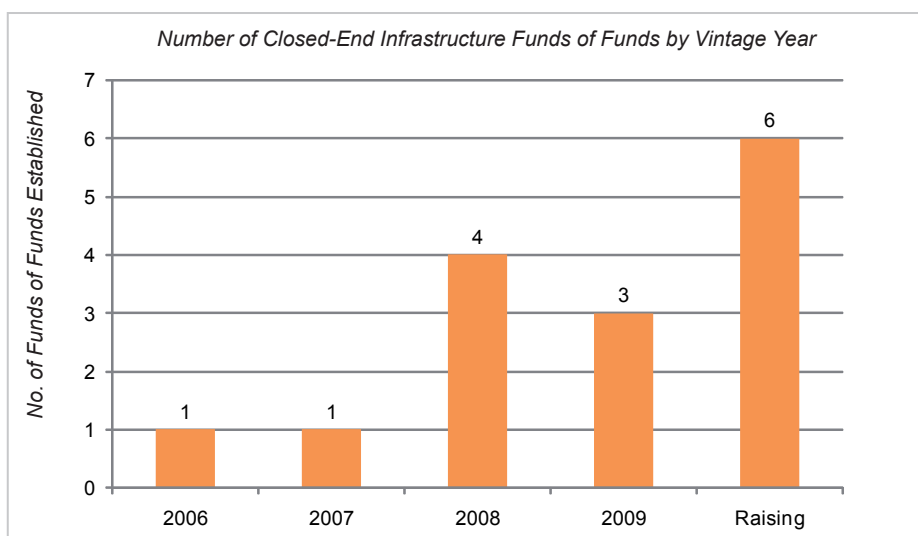
Feature Article: The Evolution of Funds of Funds in the Infrastructure Market

Funds of funds are a relatively new phenomenon in the infrastructure market. Subsequently, the number of infrastructure-specific fund of funds vehicles is small, which is not surprising given the relatively recent emergence of the unlisted infrastructure asset class as a whole.

Despite these small numbers however, infrastructure funds of funds are a growing niche. They give investors access to a diversified portfolio of assets in terms of geography, project stage and sector and it is therefore likely that the infrastructure fund of funds market will continue to grow as investors look to spread risk within their investment portfolios.

Aside from infrastructure-specific fund of funds vehicles, other fund of funds vehicles also allocate small proportions of capital to infrastructure funds, such as private equity fund of funds vehicles. In addition, real asset funds of funds are

Fig. 1:



emerging that invest in both infrastructure and real estate opportunities.

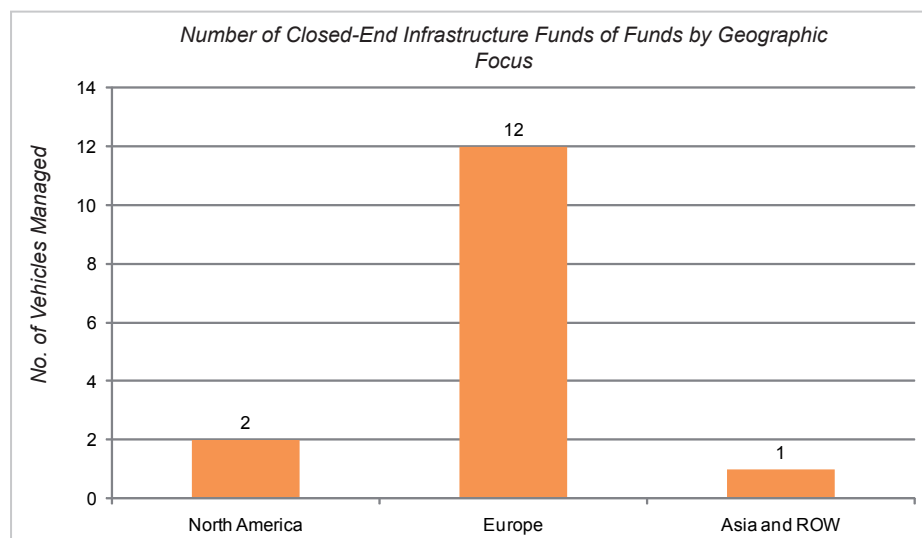
Preqin has identified 15 infrastructure-specific fund of funds vehicles, three of

which have held a final close. Of the 12 still on the road, six have already held interim closes in order to begin making investments.

Vintages

The earliest infrastructure-specific fund of funds vehicle is of a 2006 vintage, as shown in Fig. 1. One vehicle is of a 2007 vintage, while four are vintage 2008. There are three vehicles with a 2009 vintage so far, with an additional six funds currently raising capital. We would expect the total number of vintage 2009 funds to surpass the 2008 figure by the end of the year, as several of the funds in market are expected to hold a first close before the end of 2009. Going forwards, it is likely that we will see increasing numbers of infrastructure-specific fund of funds launching annually as the private infrastructure fund market continues to grow and mature.

Fig. 2:



Feature Article: The Evolution of Funds of Funds in the Infrastructure Market

Primary Geographical Focus of Infrastructure Fund of Funds Vehicles

Fig. 2 provides a breakdown of the regions that the fund of funds vehicles primarily look to invest in. Nine infrastructure fund of funds vehicles are focused on Europe, two on North America and four on Asia and Rest of World. It is important to note, however, that 87% (13) of these infrastructure-specific fund of funds vehicles follow a multi-continental strategy in order to achieve a globally diverse portfolio, and will allocate capital to projects in various locations around the world.

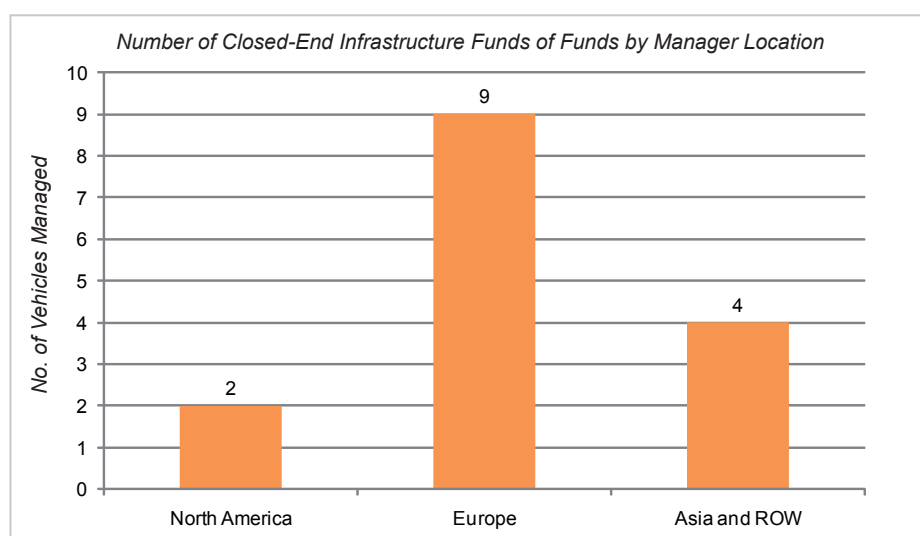
Manager Location

As shown in Fig. 3, Europe is the centre for activity in this sector, with 12 of the 15 unlisted fund of funds vehicles managed by firms based in this region. Two of the vehicles are managed by North America-based firms, leaving one that is managed outside of these two regions.

Sector Stage Preferences of Infrastructure Fund of Funds Vehicles

Most infrastructure-specific fund of funds vehicles will commit to funds that invest across the project stage spectrum,

Fig. 3:



in order to diversify the portfolio. The majority of vehicles focus on funds investing in the greenfield and brownfield stages, but will generally allocate more capital to the latter. Additionally, around a quarter of the vehicles will also commit to funds that invest in established secondary stage projects.

Largest Infrastructure Fund of Funds Vehicles

Fig. 4 shows the five largest

infrastructure fund of funds vehicles in terms of size or target size. KB Asset Management Infrastructure Fund closed on KRW 1,200,000 million (USD 1.2 billion) in 2006 and is the largest infrastructure fund of funds vehicle to close to date. Other significant fund of funds vehicles include Macquarie Infrastructure Fund of Funds I and Capital Innovations GGD Infrastructure FoF, which are seeking USD 1,000 million and USD 750 million respectively.

Fig. 4:

Fund	Manager	Size/Target Size (mn)	Fund Status	Manager Country
KB Asset Management Infrastructure Fund	KB Asset Management	1,200,000 KRW	Closed	South Korea
Macquarie Infrastructure Fund of Funds I	Macquarie Funds Group	1,000 USD	Raising	UK
Capital Innovations GGD Infrastructure FoF	Capital Innovations	750 USD	First Close	US
Green Way Infrastructure	Crédit Agricole Asset Management Capital Investors	500 EUR	Raising	France
SOPEP Infrastructure	Sal. Oppenheim Private Equity Partners	300 EUR	Raising	Germany

“ ... Funds of funds allow investors with limited resources to gain access to a variety of geographies, strategies, infrastructure sectors and fund managers ... ”

Who is Investing in Fund of Funds?

A variety of investors allocate to fund of funds vehicles. Smaller investors and those with limited resources, both in terms of overall capital and infrastructure investment capital, are likely to consider the structure. Small investors are not able to acquire a diverse infrastructure portfolio by means other than funds of funds, so choose to invest in this type of vehicle in order to spread risk. This is the case in other asset classes such as private equity and real estate, and

fund managers are beginning to apply a similar structure to infrastructure. Larger investors may also allocate to fund of funds in order to test a market they have not previously allocated to or to gain exposure to a region they have little knowledge of.

Why are They Investing?

Investors allocate to fund of funds for a number of reasons, but the main reason appears to be diversification. Funds of funds allow investors with limited

resources to gain access to a variety of geographies, strategies, infrastructure sectors and fund managers without being excluded due to high minimum commitment levels. As infrastructure is a relatively new asset class, investors may not have sufficient expertise to select appropriate infrastructure opportunities, a decision which can be made externally by a fund of funds manager. This saves resources as the burden of research and due diligence falls on the fund of funds manager instead of the investor. Therefore it is natural that investors

may demand such a structure when looking to invest in an entirely new asset class such as infrastructure, and with more and more investors carving out infrastructure allocations, the infrastructure fund of funds market is likely to continue to grow.

Other Types of Fund of Funds Vehicle

Aside from infrastructure-specific fund of funds vehicles, other fund of funds vehicles will also commit capital to infrastructure funds. Preqin is currently tracking seven real asset fund of funds vehicles; four have already reached a final close, one has reached an interim close and two are currently raising capital. Similar to the infrastructure fund of funds market, the first real assets fund of funds

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closed in 2006, but was of a 2005 vintage. These vehicles invest in both infrastructure and real estate opportunities and provide yet another route to market for infrastructure investors.

Prior to the emergence of infrastructure as a recognised asset class, many private equity fund of funds vehicles looked to gain exposure to infrastructure funds, particularly those with a focus on the energy and utilities sectors.

As the infrastructure asset class continues to grow it is likely that the number of infrastructure fund of funds coming to market will increase. Just as the number of traditional unlisted infrastructure funds in market has reached record levels, so too has the number of infrastructure-related fund of funds vehicles. There are currently 15 infrastructure and/or real asset fund of funds vehicles on the road with an additional four funds announced.

Investor appetite for infrastructure remains strong. Funds of funds offer exposure to a diversified portfolio of assets for a relatively low level of commitment, thus making them ideal for smaller investors, new investors to the asset class and those

without a specific allocation to infrastructure that are looking to diversify their portfolio. This broad base of appeal means that in the future we can expect the number of funds of funds in the market to grow.

Elliot Bradbrook

The information and data used within this article was taken from our online module **Infrastructure Online**.

Infrastructure Online is the most comprehensive resource available to infrastructure professionals today, with information on infrastructure funds, funds of funds, fund managers, and investors.

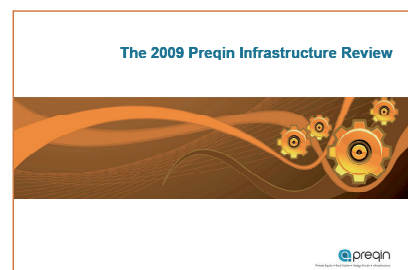
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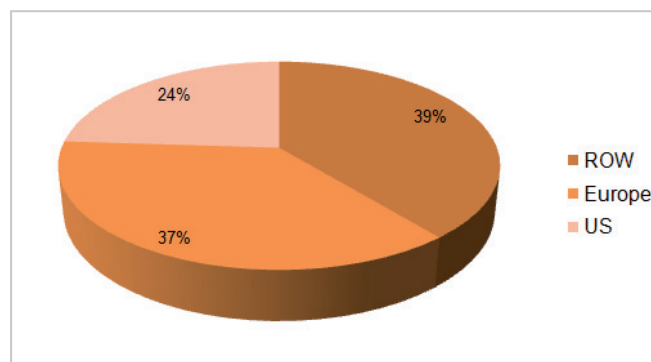
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Fundraising Spotlight:

Funds on the Road

Funds on the Road	US	Europe	ROW	Total
No. of Funds	19	32	53	104
Total Target Value (\$bn)	42.1	22.8	41.9	106.8
Average Target Size (\$bn)	2.2	0.7	0.8	1.0

Funds on the Road by Manager Location



10 Largest Funds on the Road

Fund	Manager	Size (mn)	GP Location
GS Infrastructure Partners II	GS Infrastructure Investment Group	7,500 USD	US
Macquarie European Infrastructure Fund III	Macquarie Capital Funds	5,000 EUR	Australia
Alinda Infrastructure Fund II	Alinda Capital Partners	5,000 USD	US
RREEF Pan-European Infrastructure Fund II	RREEF Infrastructure	3,000 EUR	US
KKR Infrastructure Fund	Kohlberg Kravis Roberts	4,000 USD	US
Macquarie Infrastructure Partners II	Macquarie Capital Funds	4,000 USD	Australia
Energy Capital Partners II	Energy Capital Partners	3,500 USD	US
aAIM Infrastructure Fund	aAIM Infrastructure	2,000 GBP	UK
Blackstone Infrastructure Fund	Blackstone Infrastructure Partners	3,000 USD	US
CVC European Infrastructure Fund	CVC Infrastructure	2,000 EUR	UK

Recent Interim Closed Fund

DIF Infrastructure II

Manager: DIF

Target Size (mn): 500 EUR

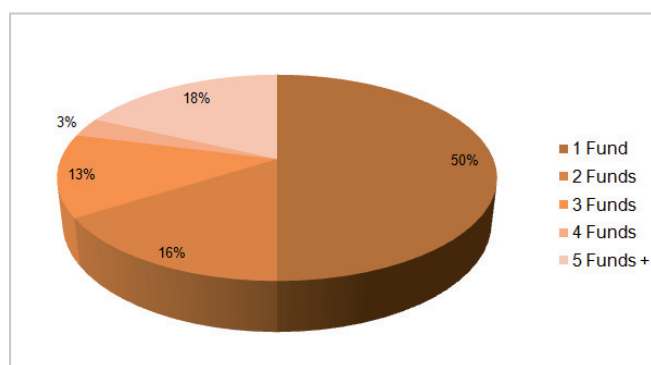
Second Close (mn): 290 EUR (Aug-2009)

Geographic Focus: Belgium, France, Germany, Ireland, Netherlands, Spain, UK

Industry Focus: Distribution/Storage Facilities, Education Facilities, Energy, Government Accommodation, Healthcare/Medical Facilities, Prisons, Railway, Renewable Energy, Roads, Social, Transportation, Utilities, Waste Management, Water, PPPs

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Split of Current Fundraising Market by Manager Experience (No. of Funds Raised Historically)



Elliot Bradbrook

Investor Spotlight: Investor News

Ohio Public Employees' Retirement System (OPERS) establishes infrastructure allocation.

The USD 57 billion pension scheme has carved out a new target allocation to the infrastructure asset class of 2% of total assets. OPERS made the move as part of a revised investment strategy based on the recommendation of its consultant, PCG Asset Management. As part of the revised strategy, the pension scheme has also increased its allocation to private equity from 5% to 10% and raised its allocation to hedge funds. OPERS will continue to monitor the infrastructure asset class over the coming 12 months with a view to making debut fund commitments.

California Public Employees' Retirement System (CalPERS) shortlists infrastructure consultants.

Meketa Investment Group, Pension Consulting Alliance, RV Kuhns & Associates and Wilshire Consulting are the four firms which have been shortlisted by the public pension scheme. The firms will present to the CalPERS board at its September investment meeting, after which the board will conduct individual interviews. The pension plan expects to make the hire by Q1 2010. CalPERS announced a formal infrastructure investment policy in August 2008, allocating 3% of total assets to infrastructure opportunities via its inflation-linked asset class (ILAC) portfolio.

London Borough of Hillingdon Pension Fund searches for infrastructure manager.

The GBP 419 million pension plan has established a new 5% allocation to the infrastructure asset class and has issued a tender for a manager to handle the mandate. The pension scheme has the capacity to dedicate up to 10% of total assets to infrastructure over the long term but will limit its immediate exposure to 5%. It is looking to gain initial exposure to both closed- and open-ended infrastructure funds but intends to hire a single manager capable of providing access to both types of vehicle. The pension plan's consultant, Hymans Robertson, will assist in the search. London Borough of Hillingdon Pension Fund also invests in private equity and real estate vehicles.

Employees' Retirement System of Rhode Island to decide on real return portfolio.

The investment board of the USD 4.4 billion public pension plan will meet on September 23rd to decide whether it will allocate up to 10% of its total assets to a new real return portfolio that would include infrastructure, commodities and timber investments. The pension scheme has no previous exposure to the infrastructure asset class but has been considering investing since March 2009, when it announced plans to launch a real assets allocation at the expense of its equities portfolio. Pension Consulting Alliance, the pension plan's consultant, recommended the real return portfolio as a hedge against inflation.

Shropshire County Council Pension Fund considers maiden infrastructure investment.

The UK-based pension scheme is monitoring the infrastructure asset class with a view to making its debut commitment in 2010. The pension plan will continue to analyse the asset class throughout Q3 and Q4 2009 before issuing a mandate to an external infrastructure manager. It is looking to the asset class in a bid to diversify its investment portfolio. Shropshire County Council Pension Fund currently allocates 18% of total assets to alternatives including 10% to hedge funds, 5% to real estate and 3% to private equity.

Amonis demands experienced managers for its debut infrastructure commitments.

The Brussels-based pension fund is in the process of analysing infrastructure investment opportunities in order to expand its exposure to alternatives. Amonis is hoping to benefit from infrastructure's inflation-linked characteristics and the diversification which the asset class would add to its existing investment portfolio. It has not yet finalised the specific size and strategy of the allocation but has decided that it will only invest with specialised top-quartile fund managers. Amonis's current alternatives exposure includes a 6% allocation to real estate and a 5% allocation to hedge funds.

Elliot Bradbrook

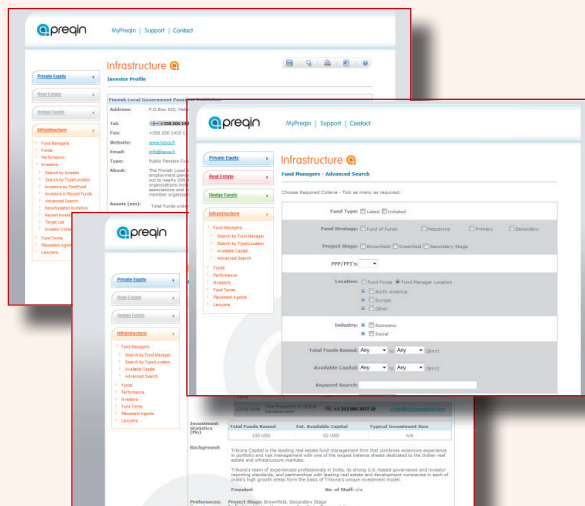
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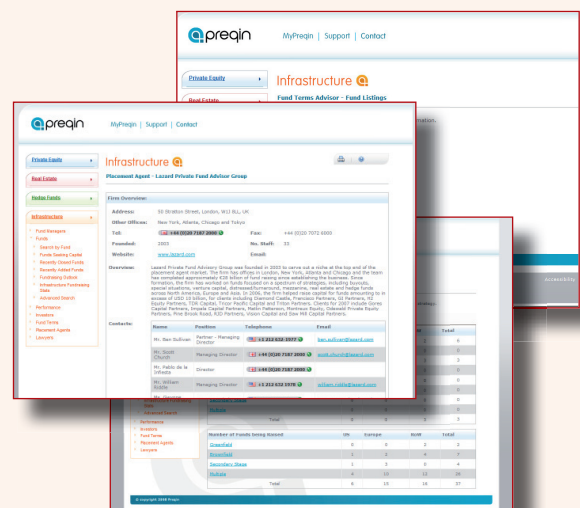
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4th Annual North America Infrastructure Finance Conference	23 - 24 September 2009	New York	Euromoney Seminars
Investment Forum for Endowments, Foundations and Pension Funds	24 September 2009	New York	Argyle Executive Forum
Indonesia Energy & Infrastructure 2009	29 - 30 September 2009	Jakarta	Euromoney Seminars
Infrastructure Investor: New York	29 - 30 September 2009	New York	PEI Media
Infrastructure Investments in Northern Ireland	12 - 13 October 2009	Belfast	SMi Group
Asia Energy & Infrastructure	3 - 4 November 2009	Singapore	Reuters PFI Conferences
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