

Infrastructure Spotlight

January 2009 / Volume 2 - Issue 1

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.

Feature Article

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Infrastructure Market in 2009

At the turn of the year, many expected the strong growth of the infrastructure asset class over the previous three years to be emulated in 2008. However, during the year the effects of the global economic crisis have filtered down through every facet of the finance industry, and the outlook has become increasingly unclear. We examine the statistics for 2008, and look ahead to the coming future months for the asset class.

Fundraising Article

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This month's Fundraising Spotlight takes an in-depth look at the market for unlisted infrastructure funds over 2008 including details on recently closed funds and vehicles currently on the road.

If you would like to receive Infrastructure Spotlight each month please email spotlight@preqin.com.

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Investor News

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All the latest news on investors in infrastructure:

- Los Angeles Fire and Police Pension System considers allocation to infrastructure.
- Washington State Investment Board hires new tangible asset consultants.
- Dexia-Crédit Local commits EUR 30 million to Infranman's recently closed debut infrastructure fund.

Preqin Infrastructure

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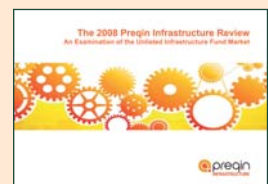
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Feature Article: Infrastructure Market in 2009

Fundraising

The fundraising performance of unlisted infrastructure funds in recent years and the proliferation of direct investments by private investors are indicative of the development and growth of infrastructure into a new asset class. However, during the past 18 months, we have witnessed the turmoil in the global financial markets gradually filter down through every facet of the finance industry, including infrastructure. The fundraising performance of unlisted infrastructure funds in 2008 took a notable hit, with a 28% decrease in aggregate capital raised in comparison with 2007. The downturn was also felt in direct investment activity and the listed infrastructure fund universe, as concerns arose about the level of gearing in many listed fund models, given the recent credit market conditions.

Deals

There is no doubt that the current lack of liquidity and confidence in the markets has had a detrimental effect on the number of infrastructure deals. According to data from Dealogic, global infrastructure transport deal flow shows a 40% drop in the number of deals completed in Q1 and Q2 2008 compared with the same period in 2007, and the infrastructure asset class is facing the most difficult period in its relatively short life. However the economic climate in 2009 and beyond will still provide new opportunities for investors.

The opportunities for private investors to finance infrastructure projects will arise because, even in times of recession, governments of both emerging and

developed economies require finance for new-builds and the modernisation of existing infrastructure assets. It is also important to note that, in the current economic climate, it is imperative for governments to be seen to be attempting to boost their economies in order to minimise the fallout from the banking crisis and the ensuing global recession. However, the very same banking crisis has forced many governments around the world to inject public funds to bail out the banking system, which has ultimately increased their infrastructure funding deficit. The increasing deficit means over the coming years, financial support from the private sector will be crucial if governments want to achieve their infrastructure objectives, and as a result we expect to see an increasing number of governments passing legislation that allows private investment in public infrastructure. Many Asian and European governments have long been at ease with selling off both economic and social infrastructure assets. In recent years we have seen more nations, as well as over half of the states in the US, realise the advantages of allowing private investment, development, ownership and management of infrastructure assets. In addition, professionals within the industry also believe that potentially lucrative deals may also come from the secondary market and the stressed and distressed private sellers of infrastructure assets.

Investors

Investor appetite for infrastructure has been growing at an impressive rate, with both new investors entering the marketplace and existing investors increasing their exposure. Investor appetite is reflected in the five

consecutive years of record breaking fundraising by unlisted infrastructure funds between 2003 and 2007. In 2008, infrastructure fundraising saw negative growth, but this was common to most alternative asset classes, and is by no means indicative of diminishing investor appetite for infrastructure. The downturn can be attributed to cautious investors delaying commitments while assessing the implications of the economic turmoil, especially when considering that the majority of investors now have less capital to invest because of a decline in their public equities portfolios. In 2009, the difficult fundraising conditions will continue, but we will experience infrastructure assets attracting new investors because their investment characteristics are beneficial to a portfolio in an economic downturn. These characteristics include relatively stable and predictable cash flows, inelastic demand and inflation hedge, which all contribute to financial performance that is resilient to economic cycles.

Historically, the infrastructure investor universe has been dominated by the larger institutional investors, including public pension funds such as Ontario Municipal Employees Retirement System (OMERS). Such institutions possess both the capital and resources to execute large deals directly. Even when the pioneering unlisted global infrastructure funds were launched, many investors were still excluded due to the minimum commitment sizes imposed upon them. However, in 2009 and over the medium-term we will see a greater variety of investors in terms of size and type entering the infrastructure asset class as they gain confidence in a sector that becomes more established and

Feature Article: Infrastructure Market in 2009

transparent. The smaller investors' route to market will be achieved through smaller specialist funds and the infrastructure-specific fund of funds market.

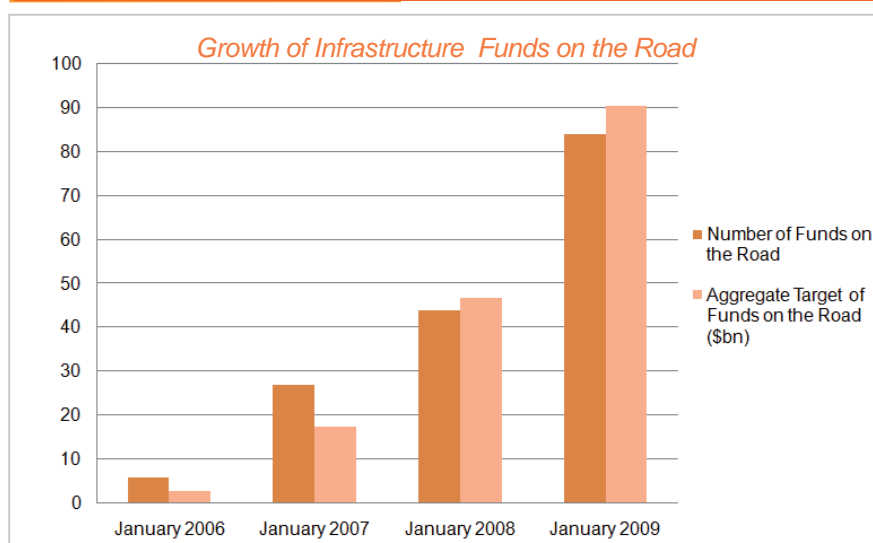
Outlook

Infrastructure is now increasingly accepted as a separate asset class that plays a distinctive role in the multi-asset portfolio of an institutional investor, and whilst the global economic downturn has had an initial detrimental effect on the growth of the infrastructure asset class, in the medium to long-term we should see the role of private finance within the infrastructure industry grow and become more prominent around the world. However, a key concern for unlisted infrastructure fund managers in the coming year will be the saturation of the fund market. We have seen a dramatic rise in the number of funds on the road since the six infrastructure funds that were on the road in 2006, which were targeting USD 2.7 billion. As shown in Fig. 1, in January 2009 there were 84 unlisted infrastructure funds seeking USD 90.1 billion in capital commitments.

The sheer volume of vehicles seeking capital implies fund managers will experience extremely tough fundraising conditions in 2009, especially when considering the heightened investor caution we are witnessing as a result of the volatile economic climate. To reach their original close target figures fund managers will need to remain focused and employ a dynamic fundraising approach that sets them apart from their counterparts.

The \$93.3 billion raised by unlisted infrastructure funds since 2005

Fig. 1:

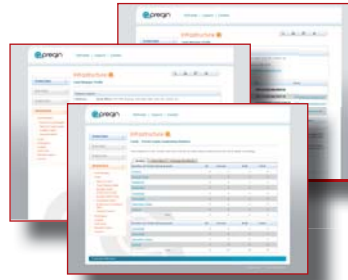


resembles a comparative drop in the ocean to the estimated deficits that nations will experience over the coming decades. The US has a \$1.6 trillion funding deficit for existing infrastructure maintenance and repairs until 2010 alone, and the global demand for infrastructure has been estimated to reach \$41 trillion by 2030.

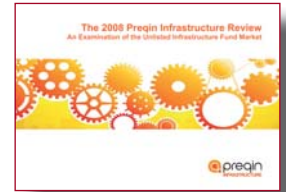
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Fundraising Spotlight:

Infrastructure Funds in Market

The unlisted infrastructure market has seen a rapid increase in demand from institutional investors and we have subsequently seen a dramatic rise in the number of direct unlisted funds hitting the road, in addition to the emergence of an infrastructure fund of funds market.

Geographic Focus

The composition of the geographic focus of unlisted infrastructure funds on the road, in terms of aggregate capital sought is relatively evenly split. As shown below, vehicles primarily targeting European

infrastructure projects are seeking USD 33.2 billion, with Asia and Rest of World and North America focused vehicles targeting USD 29.4 billion and USD 28.0 billion respectively.

However, there is a disparity in the average fund size of the funds currently seeking capital based on their regional focus. The average size of funds focused primarily on North America equates to USD 2.5 billion, more than double the average fund size of European and Asia and Rest of World focused funds, at USD 1.2 billion and USD 0.7 billion respectively.

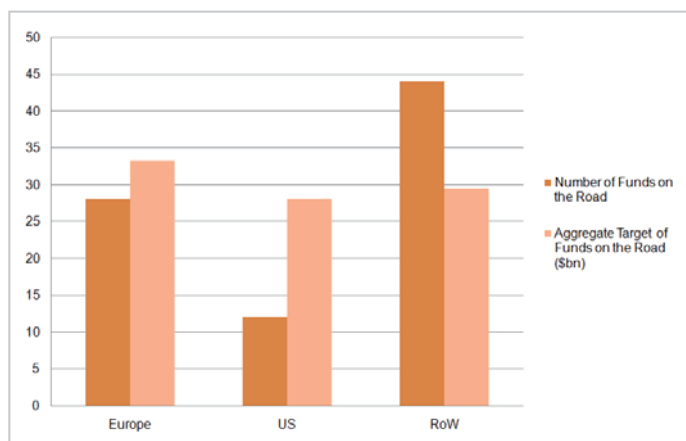
Project Stage Focus of Funds

Almost half of the unlisted infrastructure funds in market target a degree of diversification within the project stage exposure of their vehicle. Of the 84 vehicles currently raising capital, 47% focus on more than one project stage. It is also apparent that funds focusing on infrastructure projects in developed nations seek greater exposure to brownfield and fully-operational assets rather than greenfield projects, whilst funds focusing on emerging economies are orientated more towards greenfield investments.

Interim closes

Of the 84 funds currently raising capital, 38% have held an interim close. The close rate indicates a good level of momentum in the industry and demonstrates the buoyancy of the market as a whole, but the figure is a small decrease on January 2008, when 41% of funds on the road had held an interim close.

Infrastructure Funds on the Road by Geographic Focus



5 Largest Funds on the Road

Fund	Manager	Target Size (mn)	Status
Macquarie European Infrastructure Fund III	Macquarie Funds Group	5,000 EUR	Raising
GS Infrastructure Partners II	GS Infrastructure Investment Group	7,500 USD	Raising
Macquarie Infrastructure Partners II	Macquarie Funds Group	6,000 USD	First close
Citi Infrastructure Partners	Citigroup Infrastructure Investors	4,000 USD	First close
aAIM Infrastructure Fund	aAIM Infrastructure	2,000 GBP	Raising

Fundraising Spotlight:

Infrastructure – 2008 Fundraising

In 2008 we witnessed a total of 23 funds achieving a final close, raising aggregate commitments of USD 26.2 billion. If we compare these figures to 2007's fundraising performance, 2008 achieved one more final close, but the aggregate fundraising total was down by 28% on the USD 36.3 billion raised in 2007.

If we compare the average fund size for the last two years, we see a significant reduction between the two, with the 2007 average fund size of USD 1.6 billion and 2008's figure of USD 1.1

billion. The figures imply that 2008 has been a difficult year for infrastructure fund managers, and especially for those raising vehicles with large fundraising targets.

Geographic Breakdown

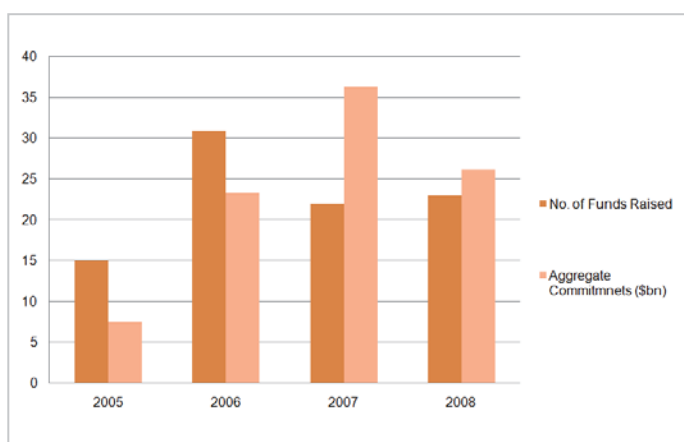
Of the USD 26.2 billion that was raised in 2008, vehicles primarily focused on North American infrastructure were dominant in terms of aggregate capital raised, achieving USD 15.9 billion through 6 fund closures. This figure represents 61% of the total capital raised in 2008. In comparison, 9 funds primarily focused

at USD 2.7 billion, and vehicles targeting Europe and Asia and Rest of World at USD 0.8 billion and USD 0.3 billion respectively.

In terms of industry focus, it is apparent that investor appetite is still firmly focused on economic infrastructure assets. Of the 23 funds that closed in 2008, 16 funds focused solely on economic infrastructure, raising an aggregate total of USD 17.7 billion, equating to 68% of the capital raised. In addition, there were 6 funds focusing on both social and economic infrastructure, raising USD 6.2 billion, but only 1 vehicle focused solely on social infrastructure, the GBP 1.3 billion Trillium PPP Investment Partners.

on Europe closed, raising USD 7.6 billion, and 8 vehicles primarily focused on Asia and Rest of World closed, raising USD 2.7 billion. It is interesting to note that, as we saw in 2007, there still appears to be a large discrepancy between the average fund size of North America focused vehicles,

Infrastructure Funds Raised 2005 - 2008

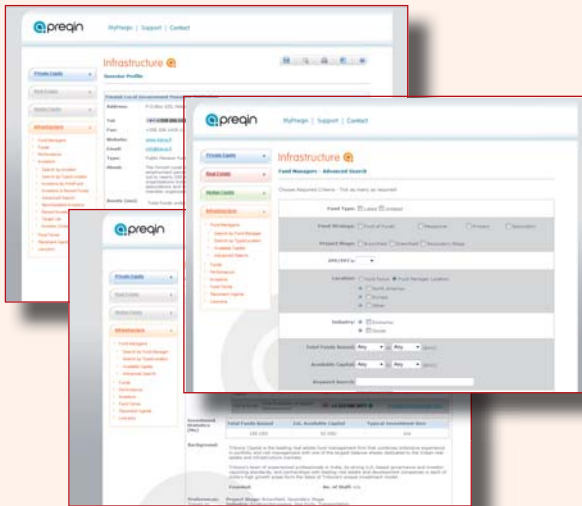


5 Largest Funds Closed in 2008

Fund	Manager	Size (mn)	Location Focus
Global Infrastructure Partners	Global Infrastructure Partners	5,640 USD	North America, South America, Europe, East Europe, Asia, Global
Morgan Stanley Infrastructure Partners	Morgan Stanley Infrastructure	4,000 USD	China, India, US, North America, Europe, Asia, Emerging Markets
Tenaska Power Fund II	Tenaska Capital Management	2,400 USD	US
Trillium PPP Investment Partners	Land Securities Group	1,136 GBP	UK
Babcock & Brown North American Infrastructure Fund	Babcock & Brown - Infrastructure	1,913 USD	US, North America

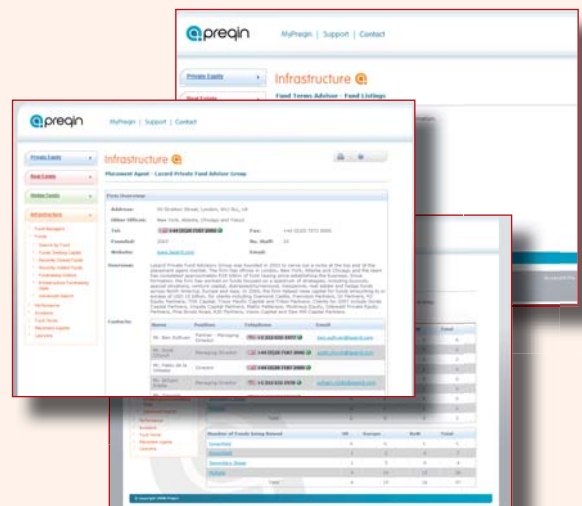
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Forthcoming Events:

Conferences:

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Infrastructure Investment Forum	2 February 2009	New York	Institutional Investor
Infrastructure Investor: Berlin	10 - 11 February 2009	Berlin	Private Equity International
Financing Options for PPP/PFI	18-19 February 2009	London	Smi
Water Investment World North America 2009	23 - 25 February 2009	New York	Terrapinn
Infrastructure Project Finance	25 - 27 February 2009	Shanghai	IBC
Water Investment World Europe 2009	9 - 12 March 2009	London	Terrapinn
3rd Annual Latin American Energy and Infrastructure Finance Summit	17 - 18 March 2009	Miami	Euromoney Seminars
Investing in Renewable Energy Projects and Infrastructure	26 March 2009	London	C5
Russian Infrastructure Finance	27 - 28 April 2009	Moscow	C5
Infrastructure Investment World Americas 2009	27 - 30 April 2009	New York	Terrapinn
Infrastructure Investment World Middle East 2009	4 - 7 May 2009	Doha	Terrapinn
Infrastructure Summit	7 May 2009	New York	Dow Jones Events
Annual TransFin (Transport Finance)	June 2009 (date tbc)	Barcelona	ICBI

Investor Spotlight: Investor News

Vodafone UK Pension Plan considers debut allocation to alternatives.

The GBP 1 billion pension fund is considering a foray into alternatives in an attempt to enhance returns and spread risk. The move may result in an allocation to infrastructure and a search for infrastructure managers. Watson Wyatt, who replaced Mercer as Vodafone's investment consultant in December 2008, is advising the pension plan on potential investment options.

Los Angeles Fire and Police Pension System (LAFPP) considers allocation to infrastructure.

The USD 11.2 billion public pension fund is considering expanding its allocation to alternatives by carving out a separate allocation to infrastructure. The pension plan hopes to capitalise on President Barack Obama's promise to devote more attention to the development of US infrastructure over the next five years. The US senate has already devoted USD 90 billion from the USD 825 billion economic recovery package to modernise US transport infrastructure and at a recent senate hearing, the future of PPP-structured finance was discussed. LAFPP currently has 24% of total assets allocated to alternatives split between private equity, real estate and hedge funds.

Washington State Investment Board hires new tangible asset consultants.

The USD 74.5 billion public pension fund has hired Courtland Partners, Cliffwater, Ennis Knupp and Associates, ORG Portfolio Management, Pension Consulting Alliance and RV Kuhns & Associates to assist with its 7% tangible assets allocation on a project by project basis. The allocation includes investments in infrastructure, agriculture and timber-related assets.

Coral Gables Retirement System considers maiden allocation to alternatives including infrastructure.

The USD 188 million retirement plan is considering a first foray into the alternatives asset class and subsequently could include a search for infrastructure managers. Its general consultant, Bogdahn Consulting, recommended the new allocation in order to diversify the plan's portfolio and make it less reliant on its fixed income and equities investments. If the allocation is passed, the implementation of an alternatives investment programme and any subsequent infrastructure investments will not be made until Q3 2009.

Dexia-Crédit Local commits EUR 30 million to Inframan's recently closed debut infrastructure fund.

The EUR 345 billion Paris-based asset manager has invested in DG Infra+, which held a final close on EUR 135 million at the end of 2008. The fund targets economic infrastructure assets in renewable energy, transportation and utilities as well as PPP opportunities throughout Belgium, Luxembourg and the Netherlands. Other investors in the vehicle include Acrofin, Dexia-Banque Internationale à Luxembourg, GIMV, Holding Communal and Société Régionale d'Investissement de Wallonie.

Louisiana Municipal Police Employees' Retirement System adds infrastructure to portfolio.

The USD 1.5 billion retirement plan has hired Energy Capital Partners to manage a USD 25 million energy-related infrastructure mandate. The move comes after the plan's consultant, Summit Strategies, recommended it broaden its portfolio to include real asset investments.

Each month Spotlight provides a selection of the recent news on institutional investors in unlisted infrastructure.

More news and updates are available online for Infrastructure Online subscribers.

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