

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

Infrastructure Fund Performance: A Review

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Is Infrastructure Living Up To Expectations?

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- Fundraising
- Fund Performance
- Investor Profiles
- Deals

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All the latest news on investors in infrastructure, including:

- Employees Retirement System of Texas
- Valtion Elakerahaston
- Nationwide Building Society Pension Fund

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Fund Performance: Is Infrastructure Living Up To Expectations?

Since the emergence of unlisted infrastructure funds in the 1990s, private investment in infrastructure has grown rapidly with a variety of institutional investors and fund managers entering the marketplace. Infrastructure is now by a majority of investors viewed as a separate independent asset class, but the evolution of the sector is far from complete.

Investors and fund managers continue to debate over the most appropriate fund structure, with the 10-12 year investment period employed by the private equity fund model possibly conflicting with the long-term nature of infrastructure assets. The question also remains as to the role the private sector should take in the funding of public infrastructure projects through PPP/PFI initiatives. Also, as few infrastructure funds were raised before 2004, there is only limited data available to create meaningful performance benchmarks for the industry.

Preqin currently holds performance data for 72 unlisted infrastructure funds, the majority of which have been raised in recent years. However, using the new **Preqin Infrastructure Benchmark**, we can begin to analyse the performance of older infrastructure funds for an indication as to what investors can expect from younger funds, and to make comparisons with other private equity style strategies.

Median Net IRR by Vintage Year

As expected, median net IRRs for the most recent vintage years remain around the 0% mark. Many of these funds still have dry powder available to invest and/or contain relatively immature assets. It is still too early to predict future long-term returns for these vehicles, but there is evidence that older infrastructure funds have delivered reasonable returns.

Fig. 1 shows the median net IRRs since inception for infrastructure funds of vintages 1993-2007, as well as the maximum and minimum net IRRs for each vintage year. Infrastructure funds with a vintage 1993-1999 have yielded 11% median net IRR, which increases to 15.8% for funds of vintages 2000-2004. This shows that older infrastructure funds have performed positively. The graph also shows that infrastructure funds have the potential to achieve a net IRR well above 20%, similar to many private equity vehicles.

The performance achieved is in line with the IRRs that infrastructure funds are targeting. As Fig. 2 shows, the most populated range for net IRRs targeted by fund managers is the 10.1-15% group, with 43% of funds falling into this section. The next largest group is the 15.1-20% target range, comprising 32% of funds. 75% of funds are therefore targeting a net IRR of 10-20%, which is realistic as it correlates with the actual IRRs achieved by funds with a vintage of 1993-2004, as shown in Fig. 1.

Median Net Multiple Returns by Vintage Year

Net multiple returns are used by investors to determine how much they have gained or are likely to gain on an investment. It does not take into account the timings of capital call-ups and distributions, although it does provide a good indication of fund performance.

Fig. 3 shows the median net multiple returns for infrastructure funds by vintage year. Again, funds of a vintage 1993-1999 provide a representative indication of infrastructure fund performance due to their relative maturity and because many have already been liquidated. To date, funds with these vintages have provided strong returns, with a median multiple of 1.69x. Funds of vintages 2000-

Fig. 1:

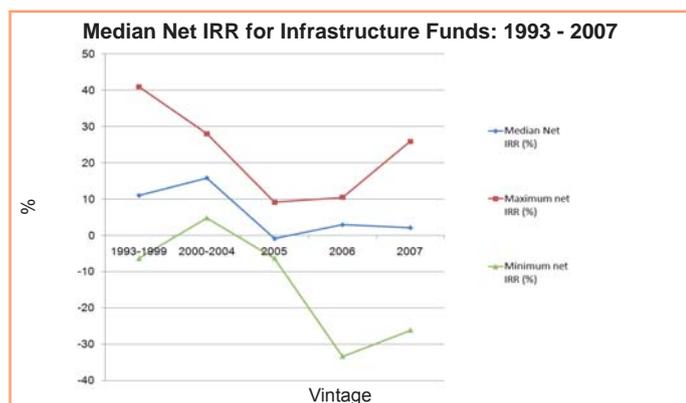


Fig. 2:

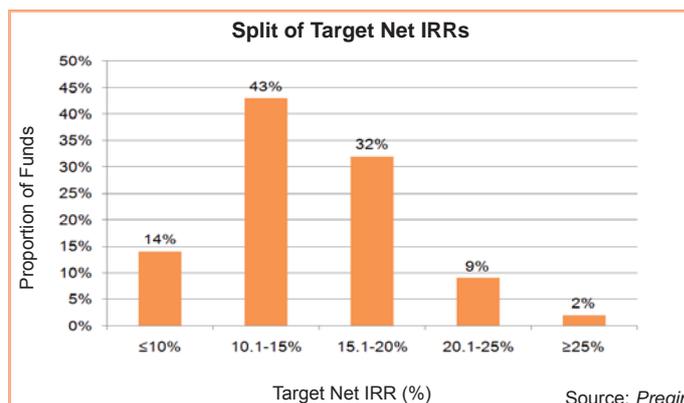
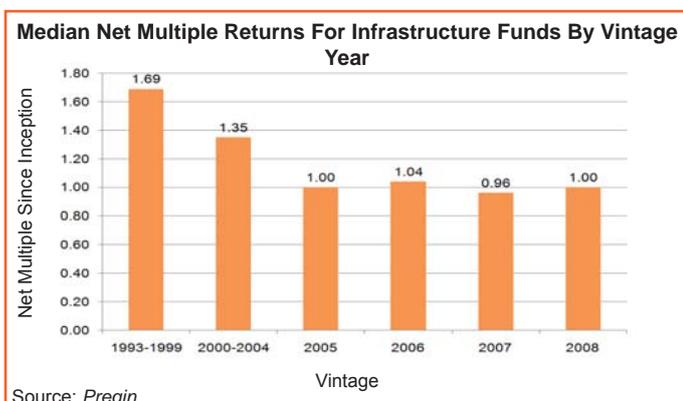


Fig. 3:



2004 are also showing good returns, with a median multiple of 1.35x. More recent vintages have multiples of around 1.0x, which is again expected to improve as these funds mature, and is at least in part a reflection of the J-curve.

Infrastructure vs. Other Private Equity Strategies

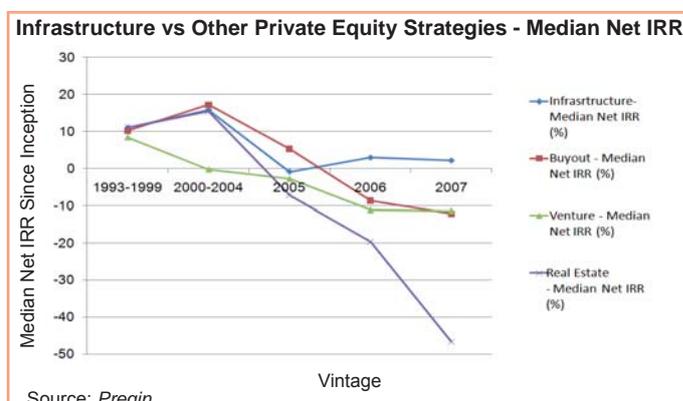
Investors make infrastructure investments for a number of reasons, such as for diversification, to act as a hedge against inflation and because of the potential for stable long-term returns. It is therefore interesting to compare performance data for infrastructure funds with other private equity strategies in order to see whether the asset class is living up to expectations.

Fig. 4 shows the median net IRRs achieved by infrastructure, buyout, venture and real estate funds of vintages 1993-2007. In comparison with these other strategies, infrastructure funds have performed well, with the median net IRR for funds of a vintage 1993-2004 at a similar level to both private equity and real estate. This suggests that infrastructure funds are able to produce attractive returns for investors even when compared to asset classes that shoot for higher returns.

Fig. 4 also proves the stability of infrastructure funds when compared to other private equity strategies. Recent infrastructure funds have maintained a median net IRR of close to 0%, as expected for younger funds, while both private equity and real estate funds have fallen well into the red, with real estate funds in particular suffering as a result of the sub-prime crisis. Infrastructure seems to be performing as expected by generating attractive returns, while also maintaining a level of stability and providing a degree of resilience during recent economic volatility.

This is also proven by the standard deviation of infrastructure funds when compared to other strategies. Standard deviation of infrastructure funds of a vintage 1993-2007 amounts to 15.2%, much less than the 23.2% for buyout, 53.9% for venture and 25.6% for real estate funds. This shows that infrastructure funds are less risky than other strategies, although the potential for significant levels of return is greatly reduced.

Fig. 4:



Overview

Although the majority of unlisted infrastructure funds have been launched in recent years, the performance of older vintage funds provides an insight into what can be expected in the future. The majority of infrastructure fund managers are targeting a net IRR of between 10% and 20%, which matches the median net IRR achieved by funds of a vintage 1993-2004 ranging from 11% to 15.8%. These funds have also yielded attractive median net multiple returns over the same period.

The risk/return profile of the infrastructure asset class is such that investors can expect moderate returns in exchange for a lower level of risk. This is demonstrated by the level of stability shown by recent infrastructure funds in relation to private equity and real estate strategies. It is also interesting to note that median net IRR figures for older infrastructure funds are similar to those of private equity and real estate, although the potential for very high returns is reduced.

Elliot Bradbrook

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www.preqin.com/infrastructure.

Fundraising Spotlight

Funds on the Road

Funds on the Road	US	Europe	RoW	Total
No. of Funds	21	35	45	101
Total Target Value (\$bn)	26.9	33.7	22.4	83
Average Target Size (\$bn)	1.3	0.96	0.5	0.8

Source: Preqin

Recently Closed Fund

GS Infrastructure Partners II

Manager: GS Infrastructure Investment Group
Final Close (mn): 3,100 USD (April 2010)
Geographic Focus: North America, Europe
Industry Focus: Transportation, Utilities
Project Stage: Greenfield, Brownfield, Secondary Stage
Sample Investors: Alaska Permanent Fund Corporation, ATP Pension Infrastructure, Co-operative Insurance Society, Texas Permanent School Fund.

10 Largest Funds on the Road

10 Largest Unlisted Infrastructure Funds on the Road			
Fund	Manager	Target Size (mn)	Manager Location
RREEF Pan-European Infrastructure Fund II	RREEF Infrastructure	3,000 EUR	US
Energy Capital Partners II	Energy Capital Partners	3,500 USD	US
Highstar Capital IV	Highstar Capital	3,500 USD	US
Macquarie European Infrastructure Fund III	Macquarie Capital Funds	2,500 EUR	Australia
CVC European Infrastructure Fund	CVC Infrastructure	2,000 EUR	UK
KKR Infrastructure Fund	Kohlberg Kravis Roberts	2,500 USD	US
Blackstone Infrastructure Fund	Blackstone Infrastructure Partners	2,000 EUR	US
Macquarie State Bank of India Infrastructure Fund	Macquarie Capital Funds	2,000 USD	Australia
Table Rock Partners	Table Rock Capital	2,000 USD	US
Marguerite Fund	Marguerite Adviser	1,500b EUR	Luxembourg

Fig. 1:

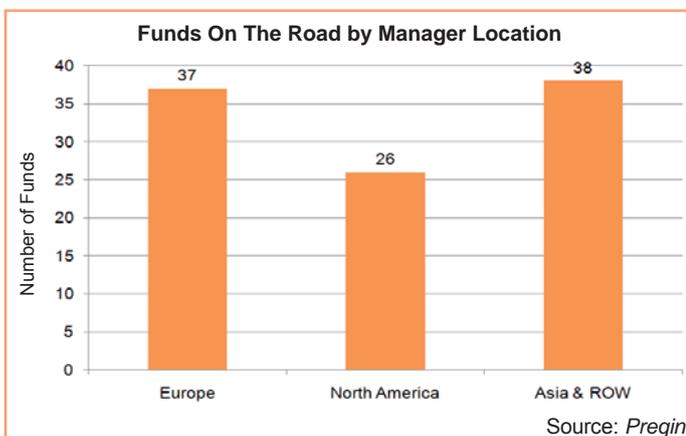
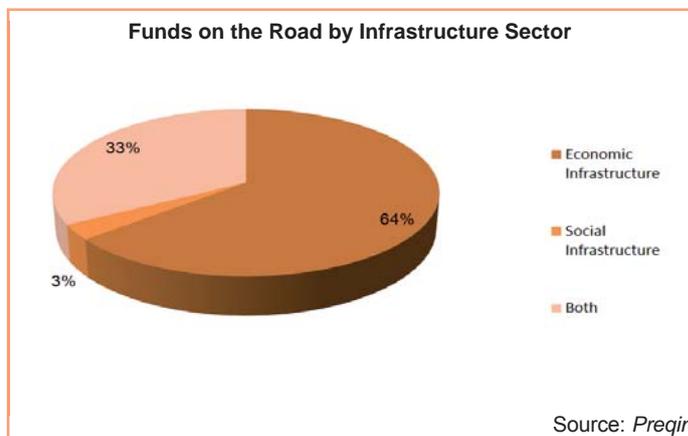


Fig. 2:



Deals Spotlight

Recently Closed Deal

Freeport LNG Terminal

In May 2010, Zachry Hastings Infrastructure Fund, Utilities Trust of Australia and The Infrastructure Fund purchased a combined 55% stake in the Freeport LNG Terminal, a liquified natural gas (LNG) receiving and regasification terminal located in Texas. 30% was bought from Cheniere Energy and the remaining 25% from an unidentified seller. Venable acted as the legal advisor to the purchasing consortium.

Total Stake: 55%

Investors: Zachry Hastings Infrastructure Fund, Utilities Trust of Australia, The Infrastructure Fund.

Sellers: Cheniere Energy (30%)
Unidentified Seller (25%)

Legal Advisor: Venable

Project Stage: Greenfield

Fig. 1:

Number of Deals Made By Unlisted Fund Managers by Year 1994 - 2010 YTD

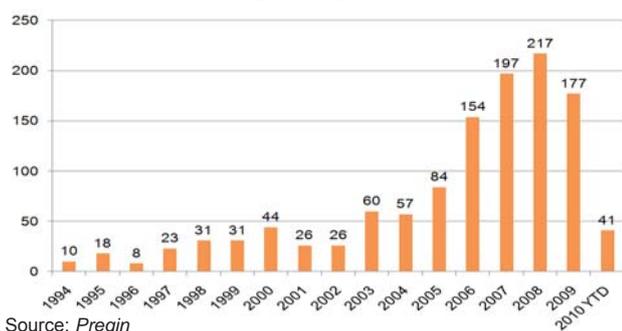


Fig. 2:

Breakdown of Deals Made by Unlisted Fund Managers by Region: 1994 - 2010 YTD

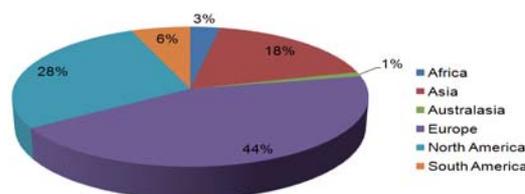


Fig. 3:

10 Most Active Unlisted Infrastructure Fund Managers in Last 12 Months

Fund Manager	Number of Investments in the Last 12 Months	Total Raised Through Unlisted Infrastructure Funds (mn)
Equitix	12	GBP 100
DIF	11	EUR 600
Innisfree	6	GBP 2,200
Energy Capital Partners	6	USD 5,300
Platina Partners	6	EUR 400
Meridiam Infrastructure	5	EUR 700
Actis	5	USD 1,600
Bouwfonds Real Estate Management	5	EUR 400
Arvis	4	EUR 60
EnerCap Capital Partners	4	EUR 100

Source: Preqin

Conferences Spotlight: Forthcoming Events

Terrapinn Vietnam Investment Summit

Date: 8 - 9 June 2010

Location: Park Hyatt Hotel, Ho Chi Minh City, Vietnam

Vibrant Vietnam - Asia's most promising frontier market. This event brings foreign direct investors to meet local government, developers, owners and financiers to discuss investment opportunities presented by Asia's new tiger. Rebranded from Funds World Vietnam: we have a whole new agenda, focus, topics, sessions and speakers.

<http://www.terrappinn.com/2010/vis/>

Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
LNG Outlook Asia	31 May - 3 June 2010	Singapore	Terrapinn
Port Finance & Investments 2010	1 - 2 June 2010	Amsterdam	Millenium Conferences
Transport Infrastructure in Russia	1 - 3 June 2010	Moscow	Adam Smith Conferences
Vietnam Investment Summit 2010	7 - 9 June 2010	Vietnam	Terrapinn
Europe-Africa Business Summit (EABS)	16-18 June 2010	Durban	Ikapa Media
Finance & Development Asia India Summit 2010	26 - 27 Aug	Delhi	Incisive Media
Infrastructure Investment World Asia 2010	31 Aug - 3 Sept 2010	Hong Kong	Terrapinn
Infrastructure Investment World India 2010	22-24 Nov 2010	Mumbai	Terrapinn
Infrastructure Investment World Europe 2010	30 Nov - 3 Dec	London	Terrapinn

Vietnam Investment Summit 2010

Direct investment opportunities for capital owners, developers and operators



8 – 9 June 2010, Park Hyatt Hotel, Ho Chi Minh City

Rebranded from Funds World Vietnam with a whole new agenda, focus, topics, sessions, speakers!

Meet, network and develop business partnerships with the investors, developers, asset managers and Vietnamese corporates

						
Dang Huy Dong Vice Minister Ministry of Planning and Investment, Vietnam	David Fernandez Managing Director and Head of Emerging Asia Research JP Morgan, Singapore	Nguyen Viet Cuong Senior Expert - Power Network Department, Electricity of Vietnam, Vietnam	Vu Duc Thuan General Director Petrovietnam Construction, Vietnam	Mark Ebbinghaus Global Head of Real Estate Standard Chartered Bank, Singapore	Simon Andrews Regional Manager for Cambodia, Lao PDR, Thailand & Vietnam International Finance Corporation, Vietnam	Linson Lim Soon Kooi Chief Executive Officer - Southeast Asia Keppel Land International, Vietnam
						
Mark Farquhar National Director – Retail Savills, Vietnam	Hans-Martin Aerts Head of Infrastructure Asia APG Asset Management Asia, Hong Kong	Scott Girard Head of Fund Management & Strategy, Asia Pacific Prudential Property Investment Management, Singapore	Tjeert Kwant Chief Executive Officer and President ECC Invest, The Netherlands	Lai Voon Hong President and Chief Executive Officer Ireka Development Management Sdn Bhd, Malaysia	Tran Quyêt Thang Executive Chairman Real Estate Finance Corporation, Vietnam	Francis Ng Chief Executive Officer Berjaya Land Berhad, Malaysia

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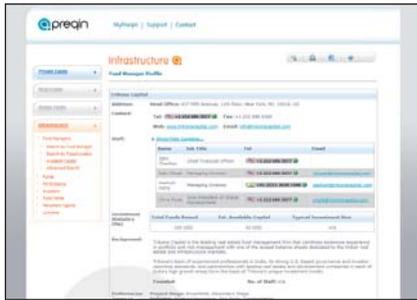
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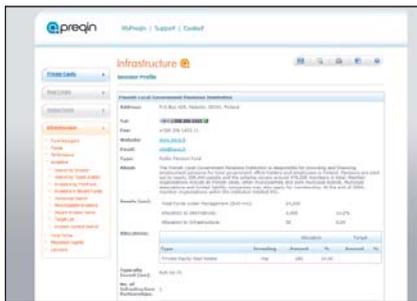
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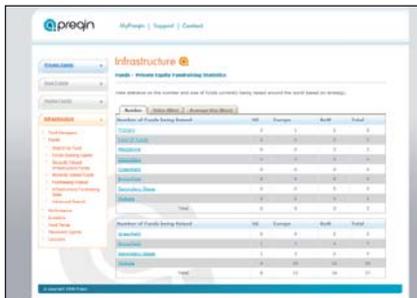
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DEALS: Details on which funds are bidding for, buying or selling infrastructure assets. Includes information on the type of infrastructure asset and location, data on the equity invested and the percentage stake acquired by the fund, information on the deal date, structure and duration plus names of funds' co-investors in transactions.

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Investor Spotlight: Investor News

Pensionskasse des Kantons Nidwalden considers maiden allocation to infrastructure

The CHF 503 million pension fund is considering establishing a maiden allocation to the infrastructure asset class. This would complement its existing alternatives portfolio which already features hedge funds, real estate, private equity and commodities. The pension fund uses three fund managers – Credit Suisse Asset Management, Vontobel Asset Management and Swisscanto for its current investment portfolio and it will decide in November whether to use these three managers or issue a RFP for new infrastructure managers. Any infrastructure investments will be funded from its cash and ‘other assets’ portfolio which stands at 7.5% of total assets.

Employees’ Retirement System of Texas to include infrastructure investments in real estate portfolio

The USD 19.8 billion pension fund will invest in unlisted infrastructure funds through its 8% allocation to real estate. The Retirement System is setting a target of committing 5% of the real estate allocation to infrastructure while permitting a range of 0-10%. Investments could include equity and debt strategies, in vehicles targeting both greenfield and brownfield project stages. The pension plan is open to investment in a diverse range of industries including transportation, utilities, telecom, natural resources and social sectors. Any infrastructure investments made through this allocation would be in addition to, and in conjunction with, those made through its private equity portfolio.

Nationwide Building Society Pension Fund to invest in one additional infrastructure fund

The GBP 2 billion pension fund recently held a sub-committee meeting in which it reviewed its infrastructure investment strategy. As a result, Nationwide Building Society Pension Fund has established the capacity to add a further unlisted fund investment to the three commitments it has already made, which account for 10.5% of the pension funds total assets. The Nationwide’s infrastructure fund portfolio consists of Innisfree PFI Secondary Fund, Macquarie European Infrastructure Fund

II and SteelRiver Infrastructure Fund North America. The new commitment will seek to diversify this portfolio and so will most likely look towards the emerging markets. No precise time-scale has been set in place, but the investment may be made within the next 12 months.

Valtion Eläkerahaston increases exposure to European renewable energy

The EUR 12 billion pension fund is looking to further increase its investment in the renewable energy sector, having already committed to Platina Partners’ European Renewable Energy Fund before it closed in March 2010. Although Valtion Eläkerahaston is shifting its focus to direct investments in Finland, the pension fund stated it would likely commit to one more European unlisted fund focused on renewable energy over the next 12 months. Its current exposure to infrastructure stands at around EUR 120 million, or 1% of total assets, committed across six unlisted funds.

Sumitomo Trust and Banking Company to increase infrastructure exposure

The Japanese bank, which acts as an asset manager for five domestic pension funds, is set to invest in unlisted infrastructure funds over the next 12 months. The number and size of commitments will depend on the requirements of its clients. Since its first foray into the asset class in 2005, Sumitomo Trust and Banking Company has committed USD 100 million across four infrastructure funds. Sumitomo seeks exposure to large-scale mature assets as well as to smaller assets in the early stages. Funds investing in PPP/PFI projects will also be considered. The bank’s investments are focused on Europe and, to a lesser extent, North America, and it seeks diversification in terms of industries. The typical size of its investments ranges from USD 20-50 million.

Alastair Scott

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