



Investor Appetite for Infrastructure: Driving Growth

Drawing on research carried out for [Preqin Investor Outlook: Alternative Assets, H2 2013](#), Paul Bishop examines investor appetite for infrastructure, as well as investors' views on manager selection and the key issues affecting the industry.

From June to August 2013, Preqin carried out a series of detailed interviews with 450 active investors across infrastructure, real estate, private equity and hedge funds in order to gain an insight into institutional investor attitudes towards alternative assets. The full results of this study are available in [Preqin Investor Outlook: Alternative Assets, H2 2013](#). Based on this study, the potential for long-term growth within the infrastructure space appears significant. As shown in Fig. 1, a considerable 58% of infrastructure investors anticipate increasing their allocations to the asset class over the long term, a higher proportion than in any other alternative asset class. Forty percent of respondents intend to maintain their current level of exposure to infrastructure, while just 2% expect to reduce their allocations in the future.

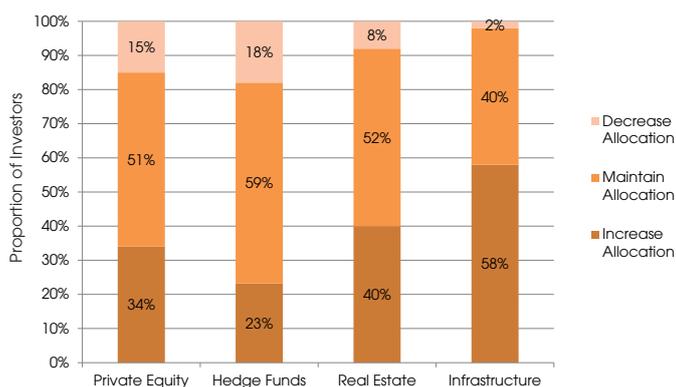
Investor appetite for exposure to infrastructure opportunities appears strong. This is demonstrated by recent trends in fundraising; an aggregate \$15.8bn has been raised by the 22 unlisted infrastructure funds that have reached a final close in 2013 to date, representing a significant 42% increase on the aggregate capital raised during the same period in 2012.

Infrastructure Activity in the Coming Year and Longer Term

The infrastructure investor universe is still relatively small when compared to other alternative asset classes. Many investors remain inexperienced in the infrastructure space and rely on unlisted infrastructure funds to gain exposure to the asset class. Competition among fund managers for investor commitments is higher than ever; with a large number of infrastructure funds on the road sourcing capital from a small investor base, infrastructure fund managers must continue to pay close attention to investor attitudes and key demands, in order to execute a successful fundraise in the current market.

As shown in Fig. 2, the majority (63%) of institutional investors surveyed expect to commit more capital to private infrastructure

Fig. 1: Investors' Intentions for Their Alternative Assets Allocations in the Longer Term



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

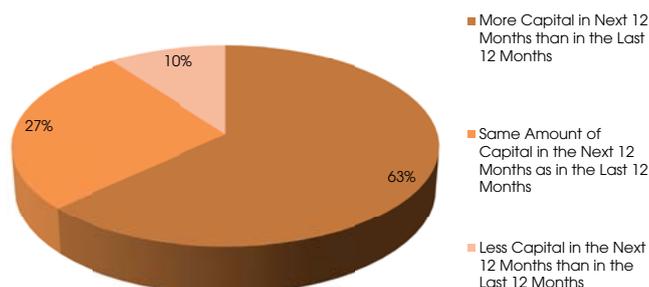
funds in the coming 12 months than in the previous year. This is slightly higher than the 58% of surveyed investors that expected to invest more capital in the 12 months from August 2012 and is extremely positive for fund managers looking to source new investor commitments in the year ahead. Just over a quarter (27%) of investors surveyed plan to invest the same level of capital in the coming 12 months than in the past year, while just 10% expect to invest less capital in 2013/14.

Future Searches and Capital Outlay

Based on Preqin's Infrastructure Online service, which features extensive profiles for over 2,000 active investors in infrastructure, we are able to build a clear picture of investors' investment strategies and plans for future investment. Fig. 3 provides a breakdown of the amount of capital investors plan to invest in infrastructure opportunities over the coming 12 months. Thirty-eight percent of investors planning to make new investments in the infrastructure asset class in 2013/14 have reserved up to \$50mn for such opportunities. Furthermore, 47% of institutional investors expect to invest at least \$100mn over the course of the next year, with 12% planning to invest in excess of \$500mn.

These figures show that a sizeable proportion of investors are looking to invest a significant level of capital in the infrastructure asset class, which is very encouraging for the industry as a whole. Interestingly, 71% of those investors looking to allocate over \$500mn in the coming year have a preference for direct investment strategies, showing how larger investors are becoming more interested in direct exposure to the asset class. However, 57% of those investors with a preference for direct investments will also consider investing in unlisted infrastructure vehicles, highlighting the continued importance of infrastructure fund managers to the industry.

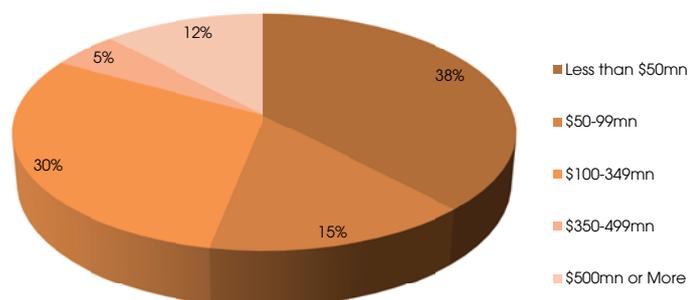
Fig. 2: Investors' Expected Capital Commitments to Infrastructure Funds in Next 12 Months Compared to Last 12 Months



Source: Preqin Investor Outlook: Alternative Assets, H2 2013



Fig. 3: Amount of Fresh Capital Institutional Investors Plan to Invest in Infrastructure over the Next 12 Months



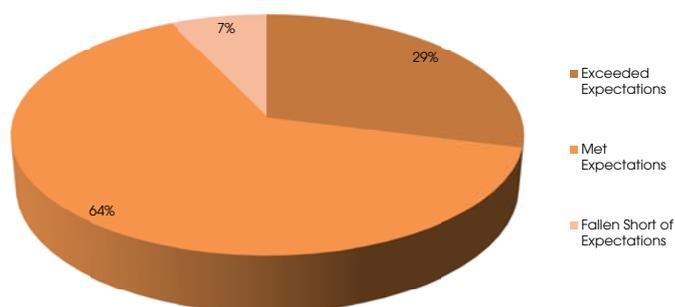
Source: Preqin Investor Outlook: Alternative Assets, H2 2013

More than half (52%) of institutional investors that expect to be active in the coming year plan to make one or two new infrastructure investments, and a further 38% of respondents plan to make between three and four new investments. Ten percent of investors aim to make at least five new infrastructure investments in 2013/14. A significant 91% of investors planning to make new infrastructure investments in the coming year expect to do so through commitments to unlisted funds.

Satisfaction with Returns

Encouragingly, 93% of investors surveyed feel their infrastructure portfolios have either met or exceeded their expectations over the past

Fig. 4: Proportion of Investors that Feel Their Infrastructure Fund Investments Have Lived up to Expectations over the Past 12 Months



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

12 months. This demonstrates that infrastructure investments have largely performed positively despite uncertain economic conditions and have contributed well to overall portfolio performance. Sixty-four percent of respondents stated that their infrastructure investments had met expectations and a further 29% felt their returns exceeded expectations. In total, this is a healthy improvement on the 81% of investors surveyed that felt their infrastructure portfolios had met or exceeded expectations in August 2012.

The risk/return profile of the infrastructure asset class is quite diverse depending on the type of fund and chosen strategy. Some investors commit to infrastructure funds as an extension of their return-seeking private equity portfolio, while others are looking for lower longer-term

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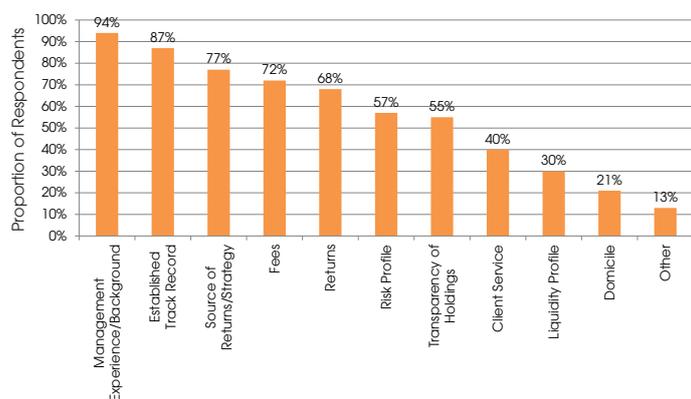
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Fig. 5: Key Factors that Investors Assess when Looking for an Infrastructure Fund Manager



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

yields. We asked investors whether their confidence in infrastructure to achieve portfolio objectives had changed over the past 12 months; 74% of investors surveyed reported no change. Thirteen percent of investors felt their confidence had increased, while a further 13% reported a decrease in confidence.

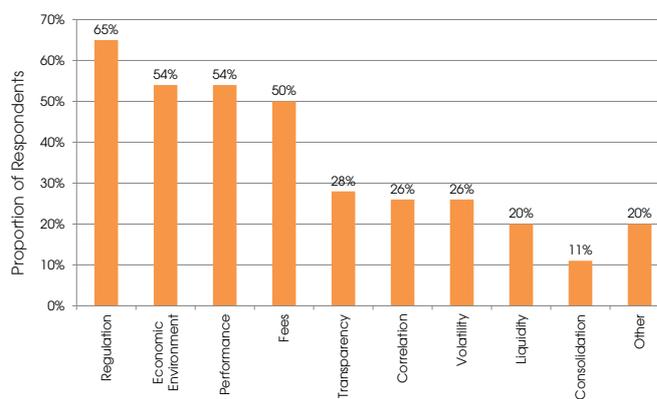
Manager Selection and Key Issues Facing the Industry

Investors are now more selective than ever when sourcing new fund manager relationships. As shown in Fig. 5, a significant 94% of investors surveyed highlighted manager experience and background as a key factor when selecting infrastructure fund managers. Similarly, 87% of surveyed investors look for fund managers with an established track record in the infrastructure space. However, because the infrastructure asset class is still relatively young, few fund managers are able to illustrate a strong history and track record in the sector. As a result, investors are fairly limited in terms of the infrastructure fund managers that meet their experience criteria, with 57 of the 147 infrastructure funds currently on the road managed by less experienced first-time teams.

Other key issues highlighted by investors surveyed that they consider when assessing a new fund manager include the source of returns/strategy (77%), fees (72%) and returns (68%). Fifty-seven percent of surveyed investors consider the risk profile of the fund manager a key factor when seeking to form new relationships, while 55% look for greater transparency of fund manager holdings. Thirteen percent of respondents cited other factors, with several highlighting the need for co-investment rights when forging new fund manager relationships.

In terms of the key issues facing the infrastructure industry in the next 12 months, 65% of surveyed investors named regulation, as shown in Fig. 6. Other key issues include fund performance (54%)

Fig. 6: Investors' Views on the Key Issues Facing the Infrastructure Industry in 2013/14



Source: Preqin Investor Outlook: Alternative Assets, H2 2013

and the economic environment (54%), while 50% of respondents are concerned about the fees charged by fund managers. Deal flow and the amount of capital entering the asset class were named by some of the investors responding to the survey. One UK-based pension fund stated that "there may be too much capital chasing too few opportunities that are materializing." Other investors are concerned that the increasing interest in infrastructure investment is driving up asset valuations and compressing potential returns.

Outlook

The infrastructure asset class has huge potential for growth, with 63% of investors seeking to commit further capital to infrastructure opportunities in the coming 12 months and 98% of investors planning to increase or maintain their allocations to the asset class over the long term. Ninety-three percent of investors feel that their infrastructure investments have met or exceeded expectations over the past 12 months, which suggests that investors will continue to make fresh capital available for such opportunities in future.

However, a number of key issues and recurring themes continue to cause investors concern, such as fees, manager experience and the economic environment. It is important for experienced infrastructure fund managers to demonstrate and promote their established track record alongside a strong and coherent investment strategy when marketing their products to more cautious investors. Less experienced managers must recognize the importance of a strong track record to investors and look to be flexible in other areas in order to compete with more established fund managers, particularly with regard to fund terms. The alignment of investor and fund manager interests has improved significantly in recent years, but there is still plenty more to be done in order to appease investor concerns, thus making more capital available for infrastructure investment going forward.

Data Source:

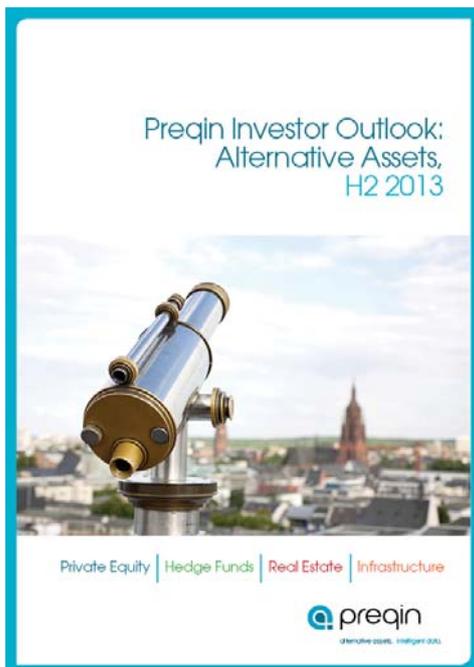
The data used in this feature article comes from the recently launched [Preqin Investor Outlook: Alternative Assets, H2 2013](#), which draws on the results of extensive interviews with 450 investors across infrastructure, real estate, private equity, and hedge funds conducted by Preqin from June to August 2013. [Preqin Investor Outlook: Alternative Assets, H2 2013](#) explores investor appetite in the coming year, strategies and geographies targeted, key issues and satisfactions with returns, and more.

Preqin tracks over 7,800 active alternative asset investors globally and is in constant contact with these investors in order to maintain accurate and up-to-date information on their investment activities.

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Preqin Investor Outlook: Alternative Assets, H2 2013

Based on the results of extensive interviews with 450 institutional investors in alternative assets, Preqin Investor Outlook: Alternative Assets, H2 2013 features in-depth analysis on:



- ▶ Investor appetite in the year ahead
- ▶ Strategies and geographies targeted
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