

## Infrastructure Firms Compete for Lower-Risk Assets

### Core assets are in high demand, but competition lessens further up the risk/return curve

Unlisted infrastructure fund managers are seeing greater competition for core and core-plus assets compared to projects further up the risk/return curve. A Preqin survey of over 60 infrastructure firms in December 2016 found that a majority think asset valuations are the key challenge facing them in 2017. This is largely driven by increased competition for attractive deal opportunities, but the level of competition for lower-risk core projects is significantly higher than for higher-risk or distressed assets.

**The survey was conducted as part of the 2017 Preqin Global Infrastructure Report. Members of the press are eligible to receive a complimentary copy of the report: please email [press@preqin.com](mailto:press@preqin.com) to request a copy.**

#### Key Facts from the H1 2017 Infrastructure Fund Manager Outlook:

- The infrastructure deals market is becoming more competitive; **54% of managers are finding it more difficult to find attractive opportunities** than 12 months ago, while just 2% are finding it easier.
- Increased competition is pushing up asset pricing: 61% of managers have seen prices rise over the past 12 months, and **53% cite valuations as the key challenge facing them in 2017.**
- **Thirty-five percent of managers believe that they are competing more frequently with institutional investors such as pension funds**, which are looking to increase their direct investments.
- However, competition is not rising equally across the market. **Seventy-four percent of managers see more competition for core assets.**
- At the other end of the risk/return curve, **only 20% of managers see more competition for distressed assets**, and an equal proportion feel competition has lessened over the past year.
- Managers are consequently working harder to secure good opportunities: 52% of firms are now reviewing more potential deals, and **74% intend to deploy more capital in 2017** than the year before.
- However, **54% of managers with funds in market have reduced their target IRRs**, reflecting the difficulty of maintaining previous performance levels given the upwards pressure on asset pricing.

#### **Tom Carr, Head of Real Assets Products:**

“It is clear that the majority of infrastructure fund managers are becoming increasingly concerned with the level of competition they face when vying for deal opportunities, and the rising valuations that are resulting from it. This is a common theme across the private capital industry at present, and the approaches we see infrastructure fund managers adopting are similar to those emerging in other asset classes: increased diversification of offerings, more opportunities being reviewed, more capital being deployed, and adjustment of performance expectations.”

However, it is clear that competition has not manifested equally across the asset class: the highest increase in competition is for core and core-plus opportunities. Here, fund managers are competing not just with their peers, but also with institutions increasingly looking to make long-term direct investments. At the other end of the scale, managers looking to invest in distressed assets report that the level of competition they face is largely unchanged. This is perhaps because the follow-on capital and expertise needed to succeed in these projects means that fewer managers will compete for them, while many investors find that distressed assets do not fit with their long-term portfolio plans.”

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