

Real Assets Investors' Outlook Split by Varied Performance

23% of institutional investors in infrastructure have increased confidence in the industry over the past year, while 26% of natural resources investors have lost confidence

Preqin's survey of over 175 institutional investors participating in real assets – comprising infrastructure and natural resources funds – finds that divergent performance trends have produced different outlooks between the two asset classes. While 89% of infrastructure investors said performance either met or exceeded their expectations, just 35% of investors in natural resources said likewise, including just 2% that stated their investments had performed better than expected. Performance concerns mean under a third (29%) of natural resources investors hold a positive perception of the industry, compared with 51% of investors in infrastructure.

As a result, investors in the two asset classes are taking differing approaches to their investments over the next 12 months. While a majority (51%) of infrastructure investors plan to commit more capital to the asset class in the next year compared to the previous 12 months, less than half that proportion (25%) of natural resources investors intend the same, with a fifth of investors planning to decrease their allocation over the same period. Overall, almost as many natural resources investors hold a negative perception of the asset class (25%) as hold a positive one (29%), while the majority of infrastructure investors (51%) that are positive about their asset class greatly outweigh the proportion that are negative (13%).

Other Key Real Assets Investor Facts:

- **Investor Activity:** By the end of 2017, 64% of infrastructure investors plan to have made their next commitment, compared to 33% of natural resources investors. **Over the next year, 17% of infrastructure investors will commit \$350mn or more of fresh capital**, compared to 4% of natural resources investors.
- **Key Challenges:** **Performance is the biggest challenge facing the industry according to 56% of surveyed natural resources investors.** The majority (53%) of infrastructure investors, meanwhile, cited deal pricings in an increasingly competitive marketplace as the biggest challenge over the next 12 months.
- **Investor Concerns:** Fees remain a key investor concern; **63% of infrastructure respondents identified management fees as an area for improvement**, although 45% believe it did improve in the last year. Over half (53%) of natural resources investors see the method of calculating performance fees as a problem.
- **Co-Investments:** **Forty-three percent of infrastructure investors currently engage in co-investments**, with nearly two-thirds (63%) planning to increase activity in the space. By contrast, just 32% of natural resources investors currently co-invest, although half intend to ramp up their participation.
- **Targeted Regions:** **North America is viewed as the region with the most natural resources potential by 63% of investors**, significantly more than any other region. Fifty-nine percent of infrastructure investors think both North America and Europe present the best investment opportunities in the current climate.

To access further information and analysis, please see the Infrastructure and Natural Resources sections (p.34-40, 47-55) of the full *Preqin Investor Outlook: Alternative Assets, H2 2016*:

<https://www.preqin.com/docs/reports/Preqin-Investor-Outlook-Alternative-Assets-H2-2016.pdf>

Comment:

“The real assets industry is heavily divided, at present, between infrastructure and natural resources. Infrastructure has seen consistent performance over the past 12 months and, consequently, investors' confidence levels in the asset class are building which should lead to re-investment within infrastructure. However, macroeconomic factors have caused performance struggles in the natural resources sector, and so investors are taking a wait-and-see approach.

Natural resources fund managers will, therefore, have to work even harder to attract investor capital, and with fees identified as a particular sticking point, it would seem a crucial issue to address. These firms will also be hoping for a prolonged period of stability in commodity prices to ensure that another investor concern is quelled. While investors in the infrastructure market remain very content, the growing proportion chasing direct investment may see concerns over deal pricing intensify as an increasing number of suitors chases a decreasing selection of viable opportunities.”

Tom Carr – Head of Real Assets Products, Preqin

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

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