Current Investor Appetite for Infrastructure

In August 2012, Preqin surveyed 75 leading institutions in order to gauge their reasons for investing in infrastructure assets, see whether these investments have lived up to expectations, and discover more about their plans for the future. In this article, we take a look at the results of the study and find out what we can expect from the infrastructure asset class going forward.

Breakdown of Study Participants

The 75 investors interviewed included a range of different institutional types based all around the world. Thirty percent of investors surveyed were public pension funds and 9% were private sector pension funds. These two categories represent the most prominent group of active infrastructure investors in the market and therefore provide a good insight into general investor sentiment. Thirteen percent of respondents were asset managers, 13% were insurance companies and a further 12% were banks. The remaining 23% of respondents included superannuation schemes, family offices, foundations and sovereign wealth funds. In terms of geographic location, 43% of respondents were based in Europe, 29% in North America and 13% in Asia. The remaining 15% of investors interviewed were based outside these core regions, mainly in South America and the Middle East.

Infrastructure's Role in Investors' Portfolios

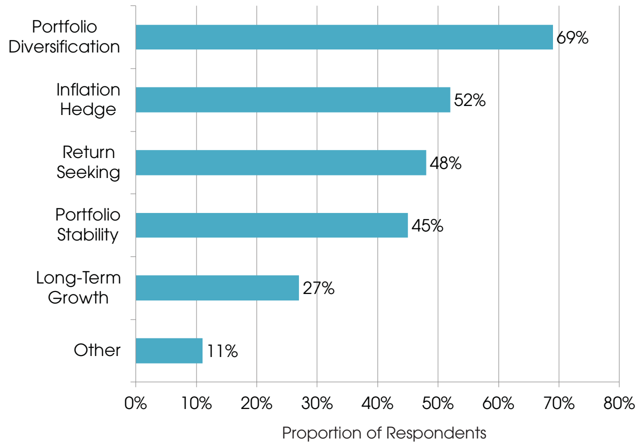
In our 2011 investor study, all surveyed investors stated that infrastructure assets would remain an important part of their investment portfolios in the future, and this continues to be the case. As shown in Fig. 1, institutional investors invest capital in infrastructure opportunities for a number of reasons; a significant 69% of respondents look to infrastructure to diversify their portfolio, while 52% use infrastructure as an inflation hedge and 45% invest in the asset class for portfolio stability. These reasons are cited by growing numbers of LPs, particularly since the global financial crisis, as they look to establish more diversified/un-correlated portfolios as they seek to reduce risk across their investments.

Twenty-seven percent of respondents invest in infrastructure to provide long-term growth, and certain investors feel the asset class allows them to combine portfolio stability with the desire for long-term returns. Additionally, a significant 48% of respondents regard infrastructure as a return-seeking investment strategy similar to private equity and hedge funds.

Preferred Routes to Market

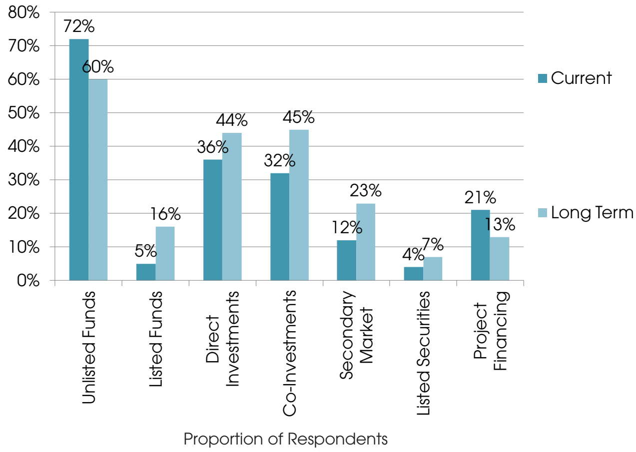
As illustrated in Fig. 2, unlisted infrastructure funds are the primary route to market for the majority of LPs, with 72%

Fig. 1: Investors' Reasons for Investing in Infrastructure Opportunities



Source: Preqin Infrastructure Online

Fig. 2: Investors' Current and Long-Term Preferred Routes to Market for Infrastructure Investment



Source: Preqin Infrastructure Online

of respondents utilizing this route currently. Despite the proportion of respondents planning to invest via unlisted funds in the long term falling to 60%, unlisted funds still look set to be the main route to market for most investors in future. The private infrastructure market was born out of the private equity mould, and it is unlikely that the financing model will change drastically in future, though fund/fee structures will continue to be adapted to suit the risk profile of specific assets.

However, as investors gain experience in the asset class and look for different ways of gaining exposure to infrastructure assets, several other routes to market have the potential to grow in the future. Thirty-six percent of investors interviewed currently invest directly in infrastructure assets, growing to 44% for long-term plans, while 32% of respondents make co-investments alongside fund managers currently, growing to 45% for long-term plans. Despite this, the majority of infrastructure investors do not have the resources to begin investing directly, as highlighted by one Canadian public pension fund: "We are simply too small to make direct investments, and will continue to focus on fund commitments and select co-investments."

The infrastructure secondary market also has the potential for growth, with 23% of respondents looking to buy or sell fund interests on the secondary market in future, an increase compared to the 12% which do so currently.

Portfolio Performance

The relative youth of the infrastructure asset class often makes it difficult to gauge the performance of infrastructure investments. In order to gain insight into the asset class's current performance, we asked investors to disclose whether the performance of their infrastructure investments has exceeded, met or fallen short of expectations. A significant 71% of investors interviewed stated that their infrastructure investments had performed as expected, and a further 10% felt that their infrastructure returns had exceeded expectations. One North American bank commented: "As an investor in the asset class since 1998, the sector exceeded our expectations prior to 2007. Since then, returns have been more subdued, and the sector now is meeting expectations."

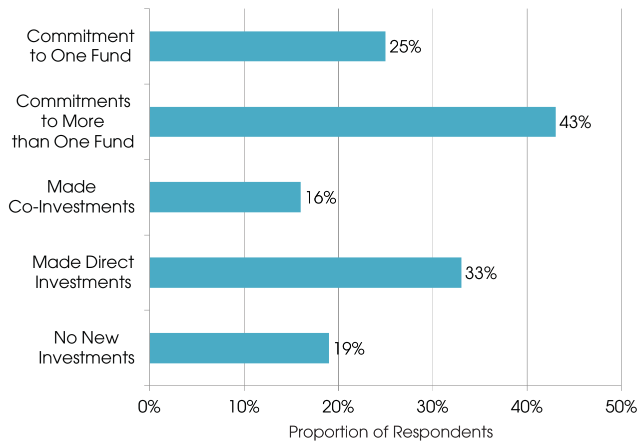
However, 19% of respondents felt dissatisfied with the returns from their infrastructure portfolios. One North America-based public pension fund highlighted the difference in performance between higher and lower risk infrastructure strategies: "The private equity model in infrastructure has been disappointing, but the core/long-term model has delivered according to expectations." Several other investors commented that despite dissatisfaction with infrastructure returns, it had outperformed equities which validated its inclusion in the portfolio.

Past Activity and Future Investment Plans

As shown in Fig. 3, 81% of investors surveyed made some form of infrastructure investment over the last 12 months. A significant 43% of respondents committed to multiple unlisted infrastructure funds during the period, while 25% committed to a single fund. Thirty-three percent of investors interviewed made direct investments in infrastructure assets and 16% made co-investments alongside portfolio fund managers.

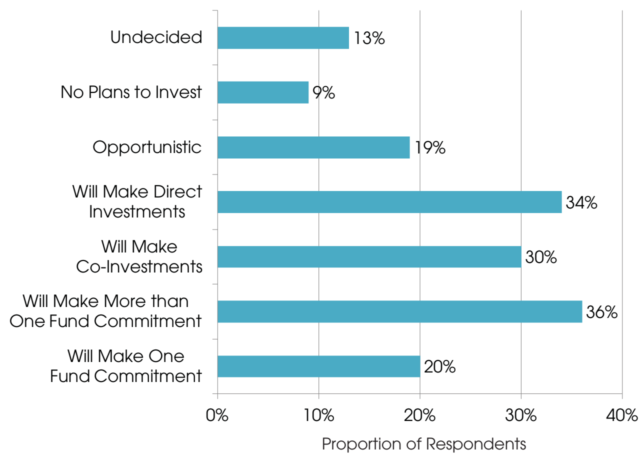
Encouragingly, 78% of investors interviewed stated plans to make further infrastructure investments in the coming 12 months, and just 9% do not expect to increase their exposure; 13% remain undecided. As illustrated in Fig. 4, 36% of respondents plan to make multiple fund commitments in 2012-2013 and a further 20% plan to make a single fund commitment. Thirty-four percent expect to pursue direct investment strategies in the coming 12 months, while 30% will look to make co-investments. Nineteen percent of interviewed investors will operate an opportunistic investment policy.

Fig. 3: Investor Activity in Infrastructure over the Last 12 Months



Source: Preqin Infrastructure Online

Fig. 4: Investor Plans for Infrastructure Investment in the Next 12 Months



Source: Preqin Infrastructure Online

Long-Term Allocation Plans

Institutional investor interest in infrastructure assets looks set to continue over both the short and long term. A significant 58% of respondents plan to increase their allocation to infrastructure over the coming 12-24 months, rising to 62% in the long term. Thirty-eight percent of respondents will aim to maintain their existing allocations in the coming 12-24 months, while 36% plan to keep the same level of exposure over the long term.

None of the surveyed investors plan to remove allocations to infrastructure from their portfolios going forward. Just 4% of investors expect to decrease their level of exposure over the coming 12-24 months, and only 2% plan to reduce their allocation to infrastructure over the long term.