Preqin Investor Outlook: Infrastructure
H1 2016

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Infrastructure

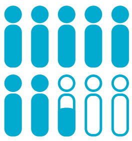
Will Infrastructure Deliver Returns in a Competitive Deal Environment?

Over three-quarters of respondents to Preqin's latest survey of institutional investors stated that the performance of their infrastructure fund investments over 2015 had met or exceeded their expectations. This, along with record distributions from infrastructure funds to investors in 2014, has seen appetite for the asset class rise among institutional investors: 74% of surveyed fund managers are seeing greater appetite from investors. With the majority of investors currently below their target allocation to infrastructure, capital should flow into the asset class in 2016 and beyond; almost half of respondents intend to commit more capital to infrastructure funds in 2016 than they did in 2015, while 52% intend to increase their allocation over the long term.

Despite the rising appetite, investors are often looking to commit capital to firms that have completed a full cycle of investments and exits. Notably, 2015 marked the first year in which the proportion of those investors not investing in first-time funds (44%) was greater than the proportion that consider such vehicles (42%), indicative of the challenges new firms will face in securing investor capital.

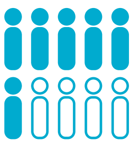
A more competitive deal environment is pushing up prices for infrastructure assets and affecting deal flow; as a result, the largest proportions of surveyed infrastructure investors feel these are the key challenges for the market in 2016. Only time will tell, however, whether today's asset prices will have an adverse effect on the strong, stable returns to which investors have become accustomed. Furthermore, investors face the challenge of identifying the managers that can truly deliver the returns they seek at an acceptable level of risk within an intensely competitive market. However, record distributions, rising appetite and the large proportion of investors underweighted to the asset class should see a continuation in the year to come of the strong fundraising figures seen in recent years.

Investor Appetite



77%
Proportion of investors that feel their infrastructure investments have met or exceeded their expectations.

38%
Proportion of surveyed investors that feel deal flow and valuations are the key issues for the infrastructure market in 2016.



60%
Proportion of surveyed investors that will target, or will consider targeting, co-investment opportunities.

Make-up of Investors

65%
Proportion of investors with under $10bn in assets under management.

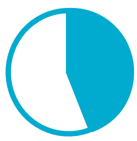
$99bn
Total amount allocated to the asset class by the top 10 infrastructure investors.

$15.5bn
Estimated current allocation to the asset class of Abu Dhabi Investment Authority, the largest infrastructure investor globally.

Evolution of Investors

4.3%
Investors' average current allocation to infrastructure, below the average target allocation of 5.7%.

63%
Proportion of investors below their target allocation to infrastructure, the largest in the period 2011-2015.



44%
Proportion of institutional investors that will not invest in first-time funds, the largest in the period 2011-2015.

Data Source:

See detailed profiles for over 2,600 institutional investors actively or considering investing in infrastructure funds on Preqin's **Infrastructure Online**, including their plans for investments in the coming months, allocation information, direct contact details, past investments and more.

For more information, please visit: www.preqin.com/infrastructure

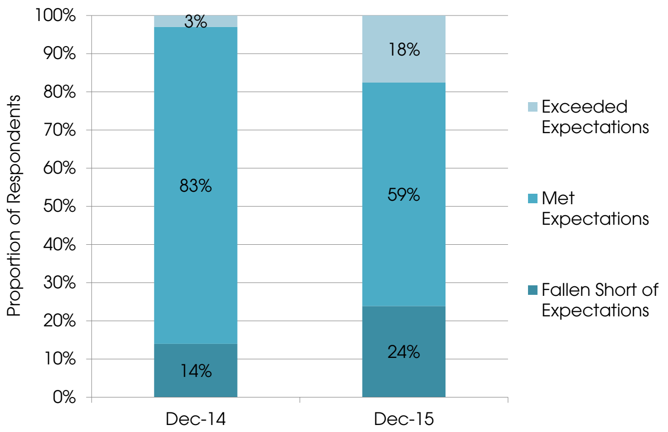
Satisfaction with Infrastructure

Fig. 5.1 shows that over three-quarters of surveyed institutional investors felt the performance of their infrastructure fund investments had met or exceeded expectations over 2015. This is encouraging and demonstrates that most investors appear satisfied with the performance delivered by the asset class. Notably, the proportion of investors that thought performance exceeded their expectations over the past 12 months increased from 3% in 2014 to 18% in 2015. However, almost a quarter of respondents felt their investments had fallen short of expectations, an increase from the 14% that stated the same in the previous year.

Furthermore, results from the survey show that 56% of institutional investors currently have a positive perception of the industry (Fig. 5.2). As investors become more experienced and familiar with the asset class, such positive sentiment could translate into larger allocations to infrastructure in future and is encouraging for the continued growth of the industry. Investors remain confident in the ability of infrastructure to fulfil portfolio objectives, with 64% stating there had been no change in their level of confidence and 23% stating confidence had increased (Fig. 5.3)

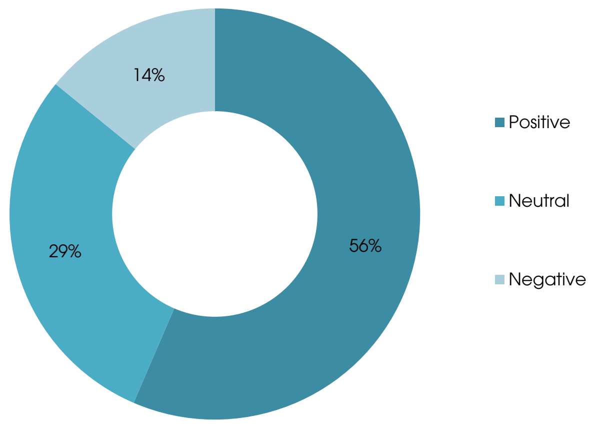
The outlook appears positive for the continued growth of the asset class, with the majority (52%) of investors stating that they intend to increase allocations over the longer term (Fig. 5.4). The average current allocation to infrastructure now stands at 4.3% of total assets under management, although as investors become more experienced and comfortable with the risks associated with investing in infrastructure, it is likely that allocations will increase. A further 39% of investors stated that they would maintain their current allocation to the asset class.

Fig. 5.1: Proportion of Investors that Feel Their Infrastructure Fund Investments Have Lived up to Expectations over the Past 12 Months, 2014 vs. 2015



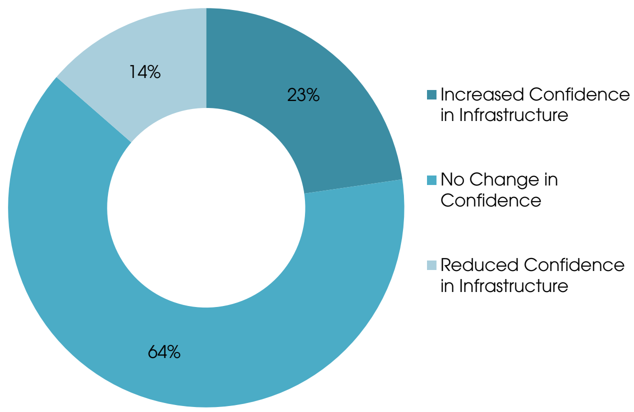
Source: Preqin Investor Interviews, December 2014-2015

Fig. 5.2: Investors' General Perception of the Infrastructure Industry at Present



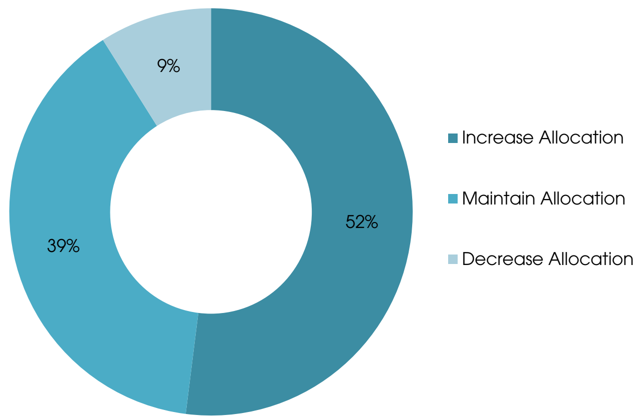
Source: Preqin Investor Interviews, December 2015

Fig. 5.3: Investors' Change in Confidence in Infrastructure to Achieve Portfolio Objectives in the Past 12 Months



Source: Preqin Investor Interviews, December 2015

Fig. 5.4: Investors' Intentions for Their Infrastructure Allocations in the Longer Term



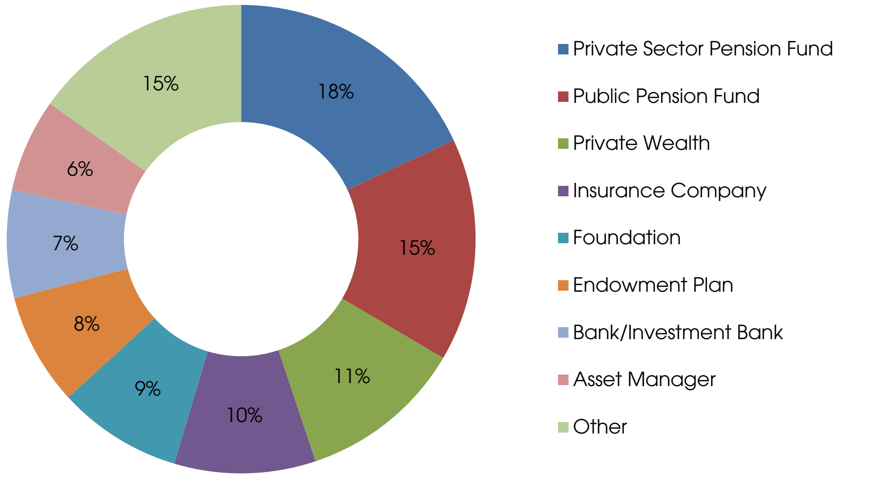
Source: Preqin Investor Interviews, December 2015

Evolution of the Investor Universe

The number of investors entering the infrastructure asset class has increased over recent years. Today, Preqin's **Infrastructure Online** service features extensive profiles for over 2,600 institutional investors worldwide that are investing, or are considering investing, in the asset class. Compared to other alternatives such as real estate and private equity, infrastructure is a relatively young asset class in investor portfolios, with many investors still evaluating the best ways to maximize their relatively conservative exposure to the space.

The long investment horizon and inflation-hedging characteristics of infrastructure assets are well suited to large institutional investors with long-term liabilities. For example, Fig. 5.5 illustrates that pension funds account for a third of infrastructure investors, with private wealth institutions and insurance companies representing notable proportions of the universe. Typically, it is the largest investors with bigger ticket sizes that invest in the asset class as Fig. 5.6 shows; nearly three-quarters (74%) of infrastructure investors have at least $1bn in assets under management (AUM) with a notable 15% of the universe holding $50bn or more in AUM.

Fig. 5.5: Breakdown of Institutional Investors in Infrastructure by Investor Type



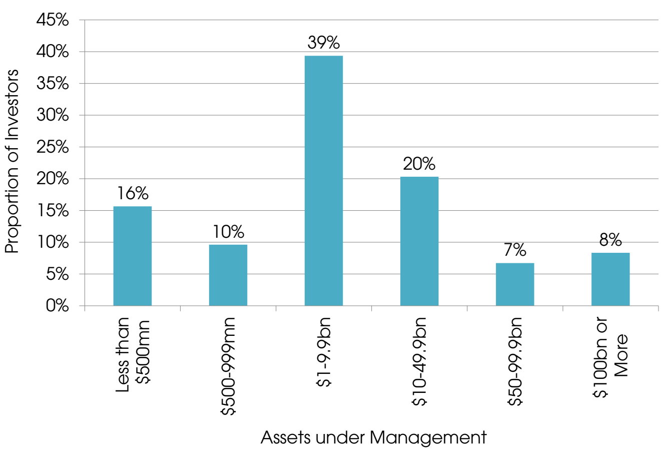
Source: Preqin Infrastructure Online

Allocations

Investors are becoming increasingly familiar with the infrastructure asset class, as Fig. 5.7 demonstrates, mirroring the rise in prominence of infrastructure within investment portfolios over recent years. Investors' average current and target allocations to infrastructure (as a percentage of AUM) have generally risen since 2011. The youth of the asset class has meant that investors have historically allocated a relatively small proportion of their portfolio to infrastructure compared with other alternatives, with the average current and target allocations at 4.3% and 5.7% respectively for both 2014 and 2015. While these are still the highest percentage allocations seen since 2011, allocations in 2015 remain the same as the year before.

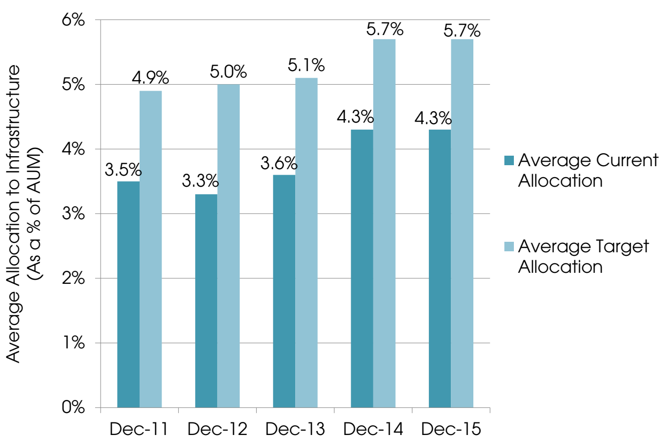
Further analysis reveals the most prominent investor types by their average current and target allocations to the asset class. The varying degrees of experience and individual portfolio objectives mean that investor types have different levels of exposure to infrastructure, as Fig. 5.8 shows. For example, superannuation schemes are typically based in Australia where there is a long history of infrastructure investment. As a result, their familiarity and expertise in the asset class mean

Fig. 5.6: Breakdown of Institutional Investors in Infrastructure by Assets under Management



Source: Preqin Infrastructure Online

Fig. 5.7: Average Current and Target Allocations to Infrastructure over Time, 2011 - 2015



Source: Preqin Infrastructure Online

that these investors maintain the highest average current and target allocations to infrastructure, at 6.6% and 8.7% respectively. The difference between public and private sector pension fund allocations has become more noticeable over 2015, with public pension funds generally more active in the asset class than their private sector peers.

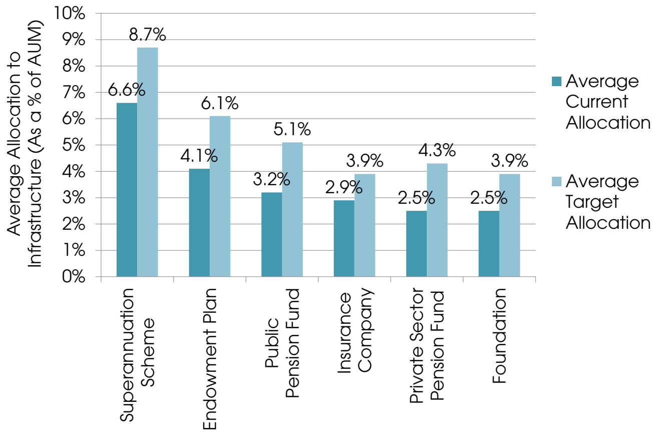
In December 2015, the majority (63%) of investors were still below their target allocation to the asset class, as shown in Fig. 5.9. This is encouraging for the long-term growth of the asset class, as investors will look to put more capital to work as they move towards meeting their strategic targets.

Dissatisfied with fixed income investment in a low interest rate environment, the inflation-hedging attributes, diversification and stable cash flows that infrastructure can offer has attracted growing numbers of private wealth entities (defined as wealth managers, multi-family offices and single-family offices) to enter the asset class; currently, private wealth investors make up 11% of the infrastructure investor universe. The majority of private wealth firms investing in infrastructure are wealth managers (52%), while multi-family and single-family offices constitute 25% and 23% respectively (Fig. 5.10). As global numbers of high-net-worth individuals increase year on year, the importance of wealth managers, multi-family offices and single-family offices to the infrastructure industry is set to grow.

With the greatest number of high-net-worth individuals based in North America, it is unsurprising that the region is home to the largest proportion (46%) of private wealth firms currently invested in infrastructure. Europe is home to 39% of private wealth firms, with the UK and Switzerland the most prominent locations for these firms.

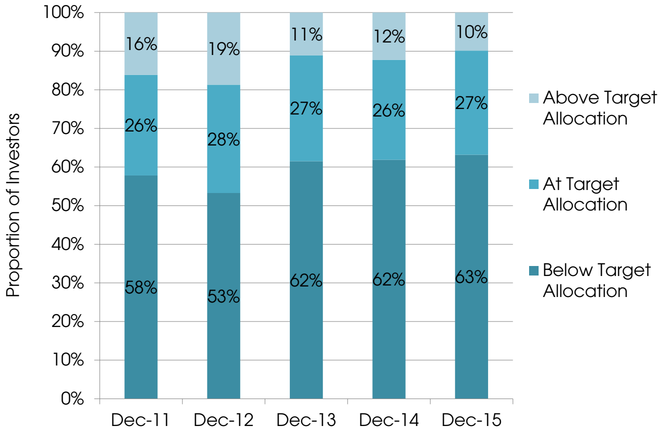
Approximately three-quarters of family offices and wealth managers invest through unlisted infrastructure funds. Family offices are more likely to access the asset class through direct investment: 46% invest in infrastructure directly compared with 22% of wealth managers.

Fig. 5.8: Average Current and Target Allocations to Infrastructure by Investor Type



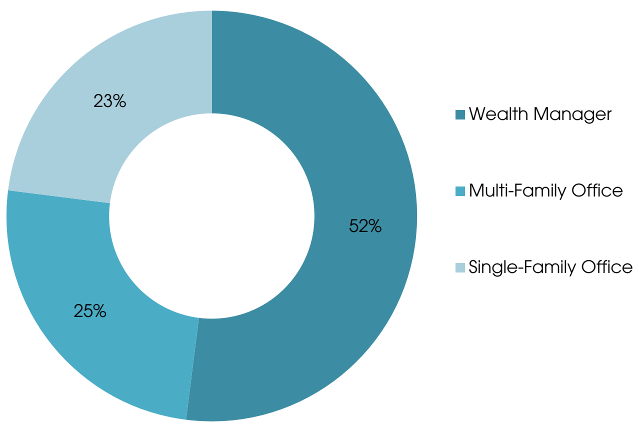
Source: Preqin Infrastructure Online

Fig. 5.9: Proportion of Investors At, Above or Below Their Target Allocations to Infrastructure, 2011 - 2015



Source: Preqin Infrastructure Online

Fig. 5.10: Breakdown of Private Wealth Infrastructure Investors by Type



Source: Preqin Infrastructure Online

Data Source:

The **Fund Searches and Mandates** feature on **Infrastructure Online** is the perfect tool to pinpoint those institutions that are actively seeking new infrastructure funds for investment now.

Search for potential investors by type and location as well as route to market, and regional and strategy preferences.

For more information, please visit:

www.preqin.com/infrastructure

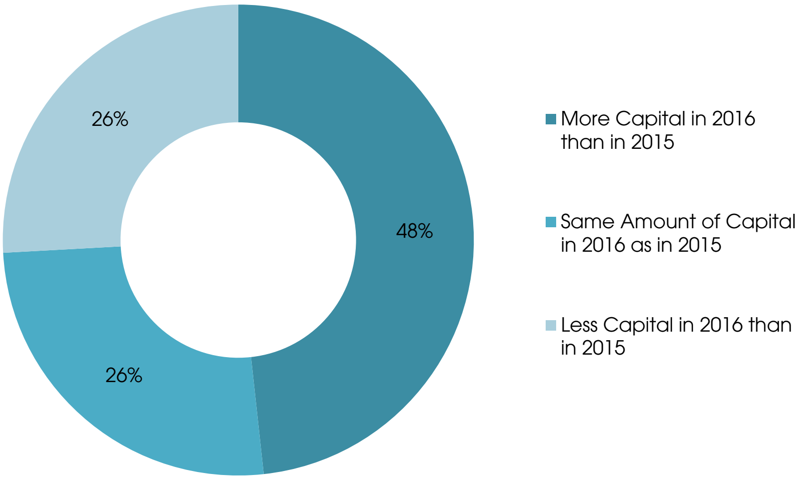
Investor Activity in 2016

Almost half (48%) of investors surveyed intend to commit more capital to infrastructure funds in 2016 than they did in 2015 (Fig. 5.11), reflective of how investors are increasingly recognizing infrastructure's potential to generate stable returns and its inflation-hedging characteristics. While the majority of investors intend to commit more capital or maintain the same level of commitments over 2016, 26% of investors will look to reduce the amount of capital they invest in infrastructure over 2016. This could be a reflection of the potential impact on returns of rising valuations of assets and the limited availability of attractive investment opportunities.

Preqin's **Infrastructure Online** tracks the activity and future investment plans of over 2,600 active investors in the infrastructure asset class. As shown in Fig. 5.12, 61% of investors that expect to be active in the next 12 months plan to invest less than $100mn in infrastructure over 2016. However, there are some investors that will make considerable commitments to the asset class in the coming year; 17% of investors that plan to be active intend to commit at least $350mn to unlisted funds in 2016. In terms of the number of investments, 41% of active investors plan to make three or more new fund commitments in the next 12 months, including 17% planning to invest in five or more vehicles (Fig. 5.13).

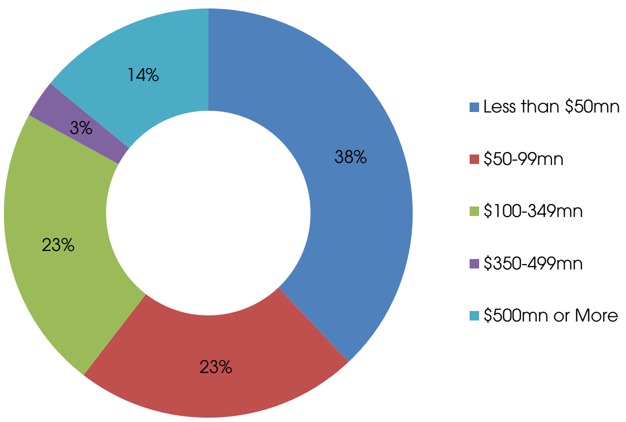
Fig. 5.14 shows the preferred route to market (direct investment, unlisted funds and listed funds) of infrastructure investors searching for new investments over the next 12 months in the period December 2012 to December 2015. The proportion of investors targeting unlisted funds fell from 91% in 2012 to 65% in 2014, while appetite for direct investment increased over the same period. Over 2016 however, 70% of investors will target unlisted infrastructure funds, while 48% will target direct investment, bucking the trends seen in the three years prior to this. Concerns over recent valuations for infrastructure assets and investors' ability to find assets at attractive

Fig. 5.11: Investors' Expected Capital Commitments to Infrastructure Funds in 2016 Compared to 2015



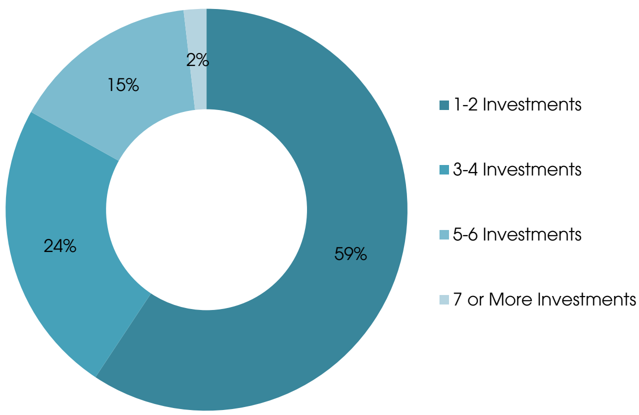
Source: Preqin Investor Interviews, December 2015

Fig. 5.12: Amount of Fresh Capital Investors Plan to Invest in Infrastructure over the Next 12 Months



Source: Preqin Infrastructure Online

Fig. 5.13: Number of Infrastructure Investments Investors Plan to Make over the Next 12 Months

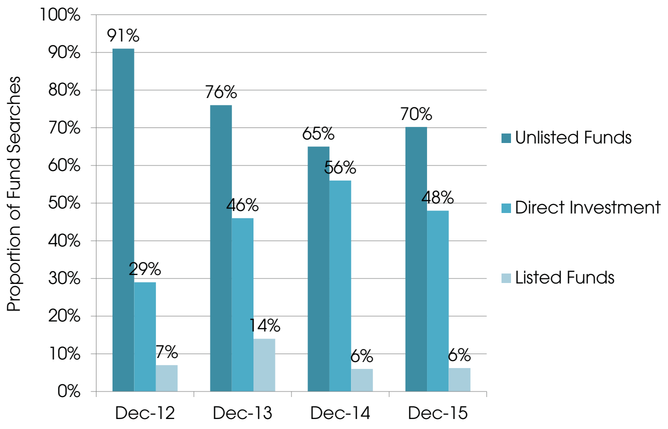


Source: Preqin Infrastructure Online

prices may have contributed to the slight decline in institutional appetite for direct investment, although the larger institutions with an established allocation to the asset class and the resources to build sizeable investment teams will most likely continue to be active.

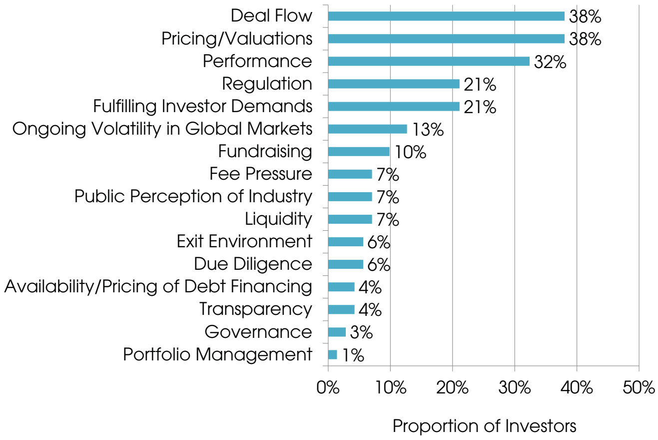
A number of issues will impact institutional investor appetite for infrastructure opportunities in 2016 and the general growth of the industry in the longer term (Fig. 5.15). A more competitive deal environment is pushing up prices for infrastructure assets and affecting deal flow; as a result, the largest proportions of surveyed infrastructure investors feel these are the key challenges for the market in 2016. Performance was cited as a key concern by nearly a third of investors, an issue that is associated with the difficulties pertaining to deal flow and high valuations.

Fig. 5.14: Preferred Route to Market of Infrastructure Investors Searching for New Investments in the Next 12 Months, 2012 - 2015



Source: Preqin Infrastructure Online

Fig. 5.15: Investors' Views on the Key Issues for the Infrastructure Market in 2016



Source: Preqin Investor Interviews, December 2015

Appetite for First-Time Funds and Alternative Structures

First-Time Funds

The proportion of infrastructure investors not investing in first-time funds has increased each year since December 2011 (Fig. 5.16). Notably, 2015 marked the first year in which the proportion of those not investing in first-time funds (44%) was greater than the proportion that will invest (42%). This may be indicative of a wider trend among investors seeking managers with a strong track record and previous experience when looking to place capital in unlisted infrastructure funds. Only 35% of funds in market are being raised by managers that have raised more than two infrastructure funds previously, reiterating how capital is likely to become further concentrated among a smaller selection of managers over the course of 2016.

Larger proportions of institutional investors target first-time funds than target other established asset classes such as private equity, where only 31% of LPs will target first-time funds. This reflects the relative youth of infrastructure; there is not the range of established managers seen in private equity. As the asset class matures, it would be expected that the proportion targeting first-time funds will fall.

Nevertheless, there is clear correlation between the appetite for first-time funds and an institutional investor's assets under management (AUM), as investors with larger assets are more likely to have the internal resource to conduct the necessary due diligence on new fund managers. Sixty-six percent of firms with less than $1bn in AUM will not invest in first-time infrastructure funds, while 63% of firms with over $50bn in AUM will invest with new fund managers.

Alternative Structures

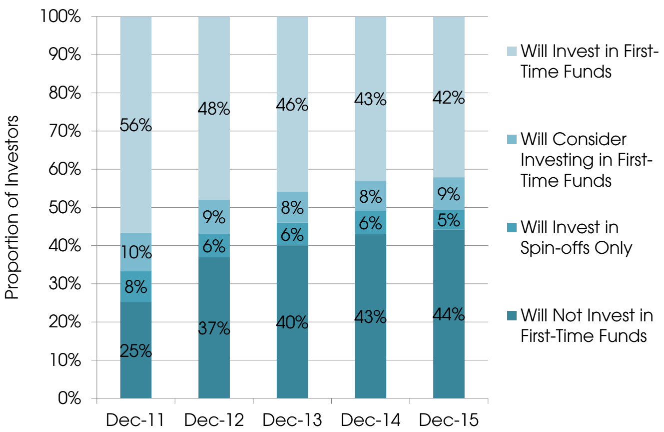
As institutional investors' expertise in the infrastructure market develops, some start to look for alternative structures and routes to market other than investing in pooled infrastructure funds. The benefits include greater control over the direction of their capital, more access to attractive assets and a greater ability to negotiate fees and other fund terms.

Appetite among infrastructure investors for separate accounts has declined over recent years (Fig. 5.17). At the beginning of 2016, the majority (52%) of investors will not invest through separate accounts, rising from 37% and 47% at the beginning of 2014 and 2015 respectively.

Co-investments enable investors to greatly increase their exposure to infrastructure by investing directly in an asset alongside a GP. Fig. 5.17 shows that appetite for co-investing has remained steady among investors over recent years, with the largest proportion of investors each year during the period 2014-2016 stating that they intend to target co-investment opportunities. With competition for investments limiting the number of infrastructure assets available to fund managers, investors may be keen to increase their exposure to what they deem a particularly attractive asset.

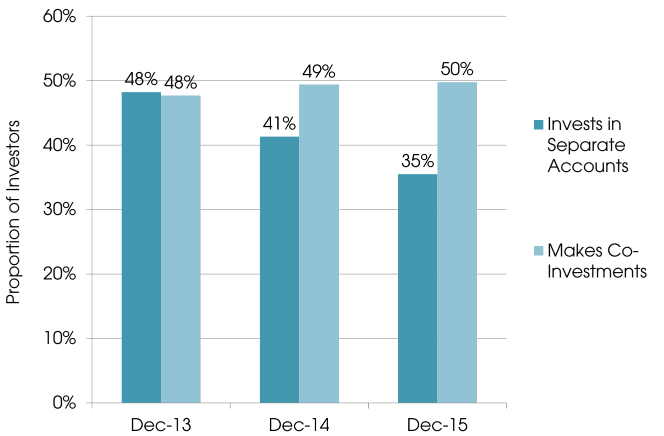
Due to the high barriers to entry, these alternative structures are typically only suitable for larger institutional investors. Often, these forms of investment require larger capital commitments and substantial human resource to carry out the due diligence and portfolio monitoring that accompany investment in separate accounts and co-investments. As AUM increase, investors become more likely to target both types of alternative structure; 47% of investors with AUM of $50bn or more will invest in separate accounts, while 70% of the same pool of investors will invest in co-investment opportunities. In comparison, only 6% and 29% of smaller institutions (less than $1bn in AUM) will target separate accounts and co-investment opportunities respectively.

Fig. 5.16: Infrastructure Investor Appetite for First-Time Funds, 2011 - 2015



Source: Preqin Infrastructure Online

Fig. 5.17: Investor Appetite for Separate Accounts and Co-Investments, 2013 - 2015



Source: Preqin Infrastructure Online

How Investors Source and Select Funds

How Investors Source Funds

57% through **internal investment team**

46% through **networking** and **peer recommendations**

39% through **direct approaches** from fund managers

34% after approach by **third-party marketer**

25% through **consultant recommendations**

23% through **fund databases**

The average investor receives **100** fund proposals each year.

The average investor sends **9%** of proposals through to a second round of screening.

84% of institutional investors have decided not to invest in a particular opportunity due to the proposed terms and conditions.

When conducting due diligence, **70%** of institutional investors will consider the fund manager's **environmental, social and governance policies**.

The average investor makes **two** investments each year.

Source: Preqin Investor Interviews, December 2015

How Can Preqin Help Raise Funds?

> Find out which strategies investors are interested in with our dedicated **Fund Searches and Mandates** portal.

> Find out which consultants work with which investors and the key contacts at each group.

> Gain detailed insights into over **2,600** institutional investors to build tailored pitches to those investors looking for your fund.

> Over **7,800** investors are looking at funds on **Preqin Investor Network**. Ensure your details are accurate and up-to-date so investors can find you!

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alternative assets. intelligent data.

Preqin: Alternatives Data and Intelligence

With global coverage and detailed information on all aspects of alternative assets, Preqin's industry-leading online services keep you up-to-date on all the latest developments in the private equity, hedge fund, real estate, infrastructure, private debt and natural resources industries.

Source new investors for funds and co-investments

Find the most relevant investors, with access to detailed profiles for over 9,600 institutional investors actively investing in alternatives, including current fund searches and mandates, direct contact information and sample investments.

Identify potential fund investment opportunities

View in-depth profiles for over 3,000 private capital funds currently in market and over 14,000 hedge funds open to new investment, including information on investment strategy, geographic focus, key fund data, service providers used and sample investors.

Find active fund managers in alternatives

Search for firms active in alternative investments. View information on key contacts, firm fundraising/AUM and performance history, key investment preferences, known investors and more.

See the latest on buyout, venture capital and infrastructure deals and exits

View details of more than 153,000 buyout, venture capital and infrastructure deals, including deal value, buyers, sellers, debt financing providers, financial and legal advisors, exit details and more. Identify forthcoming exits and expected IPOs.

Benchmark performance

Identify which fund managers have the best track records, with customizable fund performance benchmarks and performance details for over 21,500 individual named private equity, real estate, infrastructure, private debt, natural resources and hedge funds.

Examine fund terms

See the typical terms offered by funds of particular types, strategies and geographical foci, and assess the implications of making changes to different fees.

View detailed profiles of service providers

Search for active administrators, custodians, prime brokers, placement agents, auditors and law firms by type and location of funds and managers serviced. Customize league tables of service providers by type, location of headquarters and total known number of funds serviced.

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