2013 Preqin Global Infrastructure Report

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2013 Global Infrastructure Report Contents

Outlook for Infrastructure in 2013 – Continued Growth?

Elliot Bradbrook, Preqin

2012 witnessed the significant raising of Global Infrastructure Partners II, which reached a final close in October 2012 having raised $8.25bn, becoming the largest unlisted infrastructure fund ever raised. This, in part, contributed to the slight improvement seen in infrastructure fundraising levels in 2012, indicating an increasing sense of optimism from investors.

Will the unlisted infrastructure fund market continue to grow in 2013? Despite recent positivity, fundraising conditions remain challenging for fund managers. A saturated fund market and sustained economic uncertainty are likely to restrict fundraising levels in the coming 12 months, although demand for private sector investment in infrastructure is set to continue to rise over the longer term. This is a positive sign for the unlisted fund market despite short-term restrictions.

2012 Infrastructure Fundraising

In 2012, 34 unlisted infrastructure funds reached a final close, raising an aggregate $23.2bn in investor capital. This represented a slight 3% increase on the $22.5bn raised by the 41 vehicles that closed in 2011. However, 36% of the total capital raised in 2012 was secured by Global Infrastructure Partners II. An additional $16bn in capital commitments was secured by funds holding an interim close in 2012, showing that GPs continued to attract investor commitments despite challenging fundraising conditions.

Current Fundraising Market

As of January 2013, 137 unlisted infrastructure funds were on the road targeting $85bn in institutional investor capital. This is slightly less than both the number of funds (144) and targeted capital ($93bn) in January 2012, mainly due to the closure of Global Infrastructure Partners II and several other sizeable funds during the year. In addition, eight infrastructure fund of funds vehicles and a single fund dedicated to purchasing infrastructure fund interests on the secondary market were on the road in January 2013.

Fund Terms and Conditions

The use of the traditional private equity fee model remains a contentious issue within the infrastructure industry; investors continue to question how appropriate the 2/20 model is when applied to an asset class forecasted to produce lower returns. Despite this, a significant 57% of funds currently raising capital and vintage 2011/2012 funds closed still maintain a 2% management fee. Forty-three percent of fund managers now charge a management fee of below 2%, which is perhaps more in line with what investors expect, and this proportion may increase in future as a result of investor pressure.

Infrastructure Investors

Though institutional investors remain cautious when forming new relationships with infrastructure GPs, their appetite for new investments in the asset class remains strong. A significant 78% of respondents to Preqin's August 2012 survey of institutional investor appetite planned to make new infrastructure investments in the following 12 months. Thirty-six percent of respondents planned to make multiple fund commitments in 2013, and a further 20% planned to make a single fund commitment. Thirty-four percent expected to pursue direct investment strategies, while 30% will look to make co-investments. Nineteen percent of interviewed investors expected to operate an opportunistic investment policy.

Infrastructure Deals

The impact of the global financial crisis, as well as continued economic uncertainty, has hindered the growth of infrastructure deal flow post-2008. Two hundred and eight deals were completed by unlisted infrastructure fund managers in 2012, a figure which is expected to rise as further information becomes available. Although infrastructure fund managers are now a prominent source of investment capital for the infrastructure industry, deal flow is likely to remain restricted in the coming 12 months due to a lack of cost-effective long-term debt financing available from traditional sources and high asset valuations. Banks are also being further pressurized by impending liquidity regulations.

Outlook

The future of the private infrastructure fund market appears positive due to the ever growing demand for infrastructure development around the world. Infrastructure fundraising levels improved in 2012 compared to 2011 and a considerable $16bn in aggregate capital was secured by funds holding an interim close during the year. Of the 137 infrastructure vehicles currently on the road, 49% have already held at least one interim close, and have raised a combined $24bn in aggregate capital commitments.

Despite increasing investor appetite for the infrastructure asset class, the saturated market means that fund managers are still likely to experience a difficult fundraising environment over the course of 2013. However, the highly successful closure of Global Infrastructure Partners II in 2012 demonstrates that fund managers which offer a compelling and unique fund proposition can attract significant levels of investor capital.

Overview of the Fundraising Market in 2012

Infrastructure fund managers continued to find it challenging to attract new investor commitments in 2012, although the aggregate capital raised throughout the year was slightly more than in 2011. As shown in Fig. 4.1, 34 unlisted infrastructure funds reached a final close in 2012, raising an aggregate $23bn in investor capital. This represented a 17% decrease compared to the number of funds closed in 2011, but a 3% increase in aggregate capital raised. A further $16bn in capital was raised by vehicles holding an interim close in 2012, suggesting positive momentum in the market.

However, it should be noted that 36% of the $23bn raised in 2012 was secured by a single fund, the $8.25bn Global Infrastructure Partners II. The vehicle closed in October, and became the largest unlisted infrastructure fund ever raised.

Fig. 4.1: Annual Infrastructure Fundraising, 2005 - 2012

Source: Preqin Infrastructure Online

Average Fund Size

The average size of an unlisted infrastructure fund that reached a final close in 2012 was $682mn, 24% higher than the $549mn average in 2011. However, this figure is slightly distorted by the sizeable closure of GIP II. Excluding Global Infrastructure Partners II, the average fund size in 2012 was $453mn, the lowest annual average since 2009. This reflects not only the tough fundraising conditions still faced by fund managers in the current market, but also the fact than many fund managers are now targeting lower levels of capital than in previous years. Forty-five percent of infrastructure funds closed in 2012 either reached or exceeded their fundraising targets, compared to the 50% of funds that achieved this in 2011.

As mentioned, Global Infrastructure Partners II was the largest fund to close in 2012, surpassing the $6.5bn raised for GS Infrastructure Partners I, which was the largest vehicle ever raised prior to the closure of Global Infrastructure Partners II. As shown in Fig. 4.2, other sizeable infrastructure funds that closed in 2012 included the $2bn Highstar Capital Fund IV, the $1.8bn EnCap Flatrock Midstream Fund II, the $1.4bn Carlyle Energy Mezzanine Opportunities Fund and the €950mn Meridiam Infrastructure Europe II.

Geographic Focus

Of the $23bn raised by funds closed in 2012, vehicles primarily focused on North American infrastructure were dominant, with $17bn raised by 12 funds targeting the region. This represented 74% of the total capital raised globally. Thirteen funds primarily focused on European opportunities reached a final close, raising an aggregate $3.8bn, while seven Asia-focused vehicles closed securing $2.3bn. Two funds closed

Data Source:

Preqin's **Infrastructure Online** provides detailed information on over 640 infrastructure funds.

For more information, or register for a demonstration, please visit:

www.preqin.com/infra

Fig. 4.2: Five Largest Infrastructure Funds Closed in 2012

Fund	Manager	Target Size (mn)	Final Size (mn)	Manager Location
Global Infrastructure Partners II	Global Infrastructure Partners	5,000 USD	8,250 USD	US
Highstar Capital Fund IV	Highstar Capital	3,500 USD	2,000 USD	US
EnCap Flatrock Midstream Fund II	EnCap Flatrock Midstream	1,250 USD	1,786 USD	US
Carlyle Energy Mezzanine Opportunities Fund	Carlyle Group	750 USD	1,380 USD	US
Meridiam Infrastructure Europe II	Meridiam Infrastructure	1,000 EUR	950 EUR	France

Source: Preqin Infrastructure Online

League Tables
Largest Fund Managers

Fig. 5.1: Infrastructure Fund Managers by Total Capital Raised in Last 10 Years

Rank	Firm	Total Capital Raised ($bn)
1	Macquarie Infrastructure and Real Assets (MIRA)	24.1
2	Global Infrastructure Partners	13.9
3	GS Infrastructure Investment Group	9.6
4	ArcLight Capital Partners	9.2
5	EIG Global Energy Partners	7.9
6	Alinda Capital Partners	7.4
7	Energy Capital Partners	7.3
8	Highstar Capital	6.3
9	Brookfield Asset Management	4.9
10	LS Power Group	4.3
11	Energy Investors Funds	4.1
12	Morgan Stanley Infrastructure	4.0
13	Caixa Econômica Federal	3.8
14	Innisfree	3.4
15	Citi Infrastructure Investors	3.4

Source: Preqin Infrastructure Online

Fig. 5.2: Infrastructure Fund of Funds Managers by Total Capital Raised in Last 10 Years

Rank	Firm	Total Capital Raised ($mn)
1	Capital Innovations Infrastructure Partners	1,125
2	BlackRock	750
3	Partners Group	698
4	Pantheon	357
5	DB Private Equity	200
6	OFI Private Equity Multi Managers	156
7	European Investment Bank - Renewables	153
8	Groupama Private Equity	75
9	Altius Associates	67
10	König & Cie.	47

Source: Preqin Infrastructure Online

Data Source:

Preqin's **Infrastructure Online** provides detailed profiles on over 360 infrastructure fund managers from around the world including background, key contacts and funds raised. Carry out advanced searches to find fund managers that focus on particular fund strategies, infrastructure industry types, infrastructure project stages or locations.

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of funds. Therefore, 76% of funds are targeting a net IRR of between 10% and 20%, which correlates closely with the actual IRRs achieved by funds of vintages 1993-2005.

Median Net Multiples

Net multiple returns are used by investors to determine how much they have gained or are likely to gain on an investment. Although it does not take into account the timings of capital call-ups and distributions, this measurement provides a good indication of fund performance.

The median net multiple returns for infrastructure funds of vintages 1993-2009 are shown in Fig. 6.3. To date, the more mature sample of 1993-1999 vintage funds has a median multiple of 1.51x, while infrastructure funds of vintages 2000-2005 have a median multiple of 1.76x. More recent vintages have multiples of closer to 1.0x, which is expected to improve as these vehicles mature.

The median net multiple returns along with the top and bottom quartile net multiple boundaries for infrastructure funds of vintages 2006-2011 are illustrated in Fig. 6.4. Vehicles of a 2006 vintage are the most mature in the sample and have a top quartile net multiple boundary of 1.49x, and a bottom quartile boundary of 1.06x. As expected, the top and bottom quartile net multiple boundaries for infrastructure funds of more recent vintage years are considerably lower, but again many of these funds still have dry powder available to invest and contain relatively immature assets.

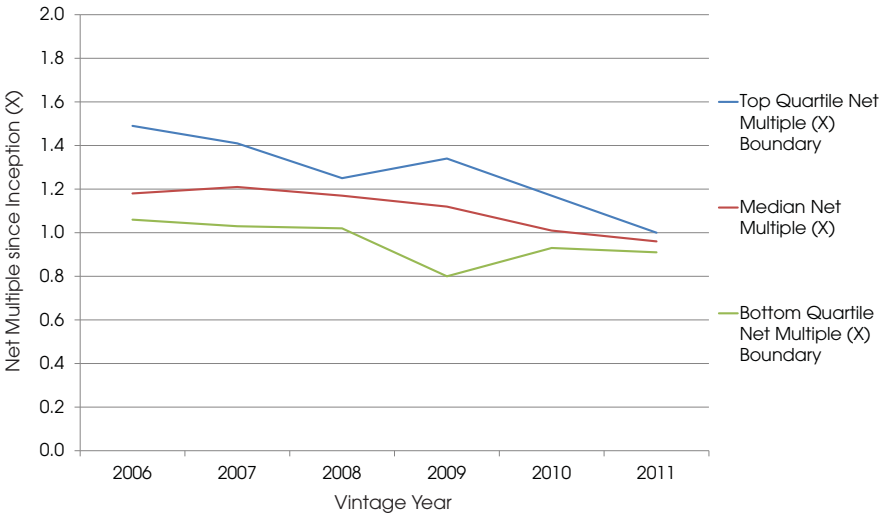
Infrastructure vs. Other Private Equity Strategies

Infrastructure funds are often marketed to institutional investors as being able to provide additional portfolio diversification, a hedge against inflation and the potential for stable long-term returns. Many investors are active in other alternative asset classes alongside infrastructure, so it is interesting to compare the performance of infrastructure funds with other private equity strategies.

Fig. 6.5 shows the median net IRRs achieved by infrastructure, buyout, venture (excluding early stage) and private equity real estate funds of vintages 1993-2009. When compared to these other strategies, infrastructure funds of older vintages have performed well, with the median net IRR for funds of vintages 1993-1999 only slightly lower than to private equity and private equity real estate. This suggests that even when compared to asset classes traditionally aiming for higher returns, unlisted infrastructure funds have the potential to provide investors with similar returns.

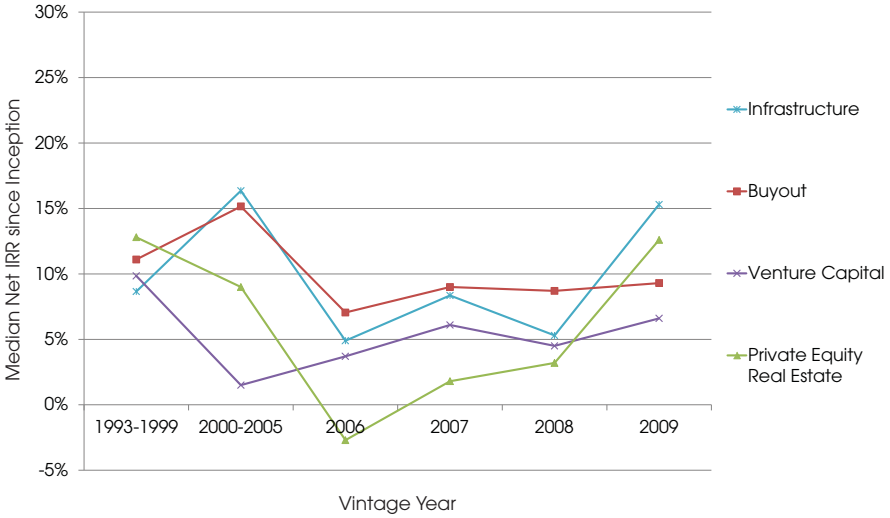
The standard deviation of unlisted infrastructure fund returns also demonstrates the lower-risk nature of the asset class when compared to other strategies. The standard deviation of net returns for infrastructure funds of vintages 1993-2009 is 13.9%, less than the 17.2% for buyout, 50.6% for venture capital (excluding early stage) and 17.6% for real estate (all based on 1993-2009).

Fig. 6.4: Median Net Multiple and Quartile Boundaries for Infrastructure Funds by Vintage Year



Source: Preqin Infrastructure Online

Fig. 6.5: Infrastructure vs. Other Private Equity Strategies - Median Net IRR by Vintage Year



Source: Preqin Infrastructure Online and Performance Analyst

Data Source:

Preqin's **Infrastructure Online** database lets you compare average benchmark performance by vintage year for different types and locations of fund. Infrastructure performance data is available for 126 separate funds, representing over $135bn of investor capital.

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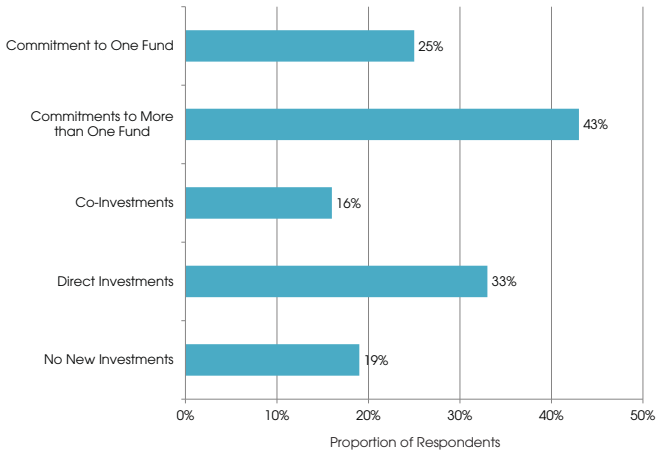
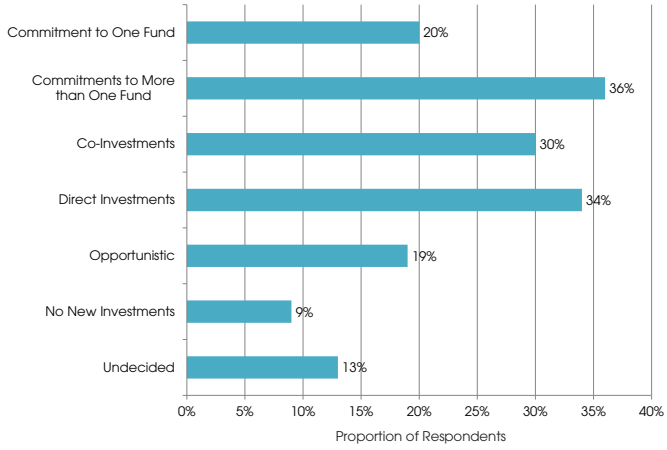
Fig. 7.9: Investor Activity in Infrastructure over the Last 12 Months



Source: 2012 Preqin Infrastructure Review

Fig. 7.10: Investors' Plans for Infrastructure Investment in the Next 12 Months



Source: 2012 Preqin Infrastructure Review

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 institutions commented that despite dissatisfaction with infrastructure returns, the asset class had outperformed equities which validated its inclusion in the portfolio.

Past Activity and Future Investment Plans

As shown in Fig. 7.9, 43% of respondents committed to multiple unlisted infrastructure funds during the last 12 months, 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, a significant number of investors planned to make new infrastructure investments in the following 12 months. Thirty-six percent of respondents planned to make multiple fund commitments in 2013 and a further 20% plan to make a single fund commitment, as show in Fig. 7.10. Thirty-four percent expected to pursue direct investments in the coming 12 months, while 30% were looking to make co-investments. Nineteen percent of interviewed investors operate an opportunistic investment policy. Just 9% did not expect to increase their exposure and 13% remained undecided.

Long-Term Infrastructure Allocation Plans

Institutional investor interest in infrastructure assets looks set to continue both over the short and long term, with none of the surveyed investors planning to remove allocations to infrastructure from their portfolios going forward. A significant 58% of respondents expect to increase their allocations to infrastructure over the coming 12-24 months, with 38% planning to maintain their level of exposure to the asset class, as shown in Fig. 7.11. The picture for the longer term is even more promising, with almost two-thirds (62%) of investors anticipating increasing their allocation to infrastructure and a further 36% expecting to maintain their exposure to the asset class.

Data Source:

Subscribers to Preqin's **Infrastructure Online** database can view details of investors' future investment plans via the new Future Fund Searches and Mandates feature, including preferred route to market, strategic and regional preferences and timeframe for investment.

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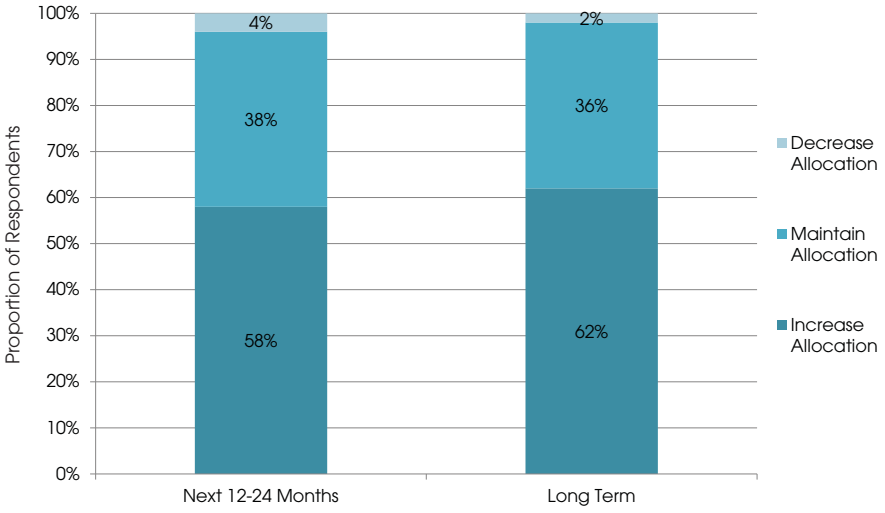
Fig. 7.11: Investors' Plans for Their Infrastructure Allocations



Source: 2012 Preqin Infrastructure Review

As shown in Fig. 11.3, a significant 59% of infrastructure debt funds pursue a diversified investment strategy and make both debt and equity investments. The remaining 41% are solely focused on making debt investments in infrastructure projects.

The largest infrastructure fund in market focused on both debt and equity is CapAsia ASEAN Infrastructure Fund III. The vehicle targets a range of social and economic infrastructure assets in Southeast Asia, mainly in Indonesia, Malaysia, Thailand, the Philippines and Vietnam. It is looking to raise $350mn in total investor commitments.

Primary Geographic Focus of Infrastructure Debt Funds

Fig 11.4 provides a breakdown of the unlisted infrastructure debt fund market by primary geographical focus. Those funds focused on investment outside of North America, Europe and Asia are the most numerous, with 18 vehicles having raised or seeking to raise a combined $6.3bn. However, in terms of aggregate capital raised or sought, North America is the most prominent region, with nine North America-focused vehicles having previously raised or seeking to raise $9.8bn. Europe is also a significant region for infrastructure debt funds, with 13 European debt funds having raised or targeting $9.0bn. The same number of debt funds are focused on Asia, having raised or seeking to raise an additional $3.3bn.

Manager Location

In contrast to the split of capital raised primarily for debt investments in different regions, relatively few vehicles are managed by firms based outside of North America, Europe and Asia. As shown in Fig. 11.5, North America is the most significant base for unlisted infrastructure debt fund managers, with 22 vehicles managed by such firms, having raised or looking to raise $14.4bn. Europe is also an important base for infrastructure debt fund managers, with 12 funds managed by firms in this region, having raised or targeting a combined $7.7bn. Eleven

Data Source:

Preqin's **Infrastructure Online** tracks over 60 infrastructure debt and mezzanine funds.

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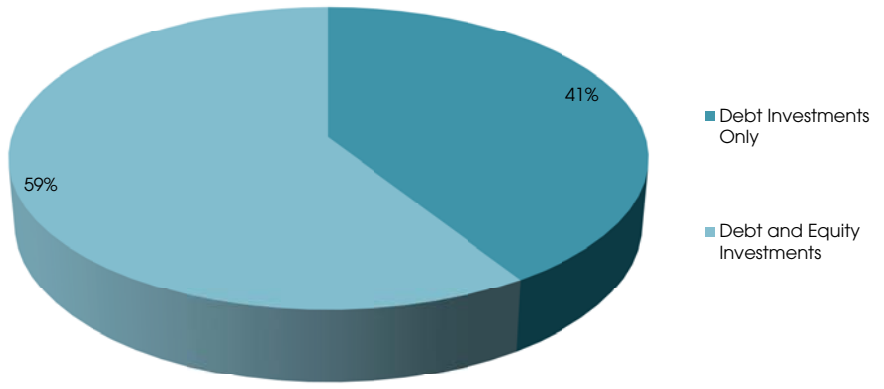
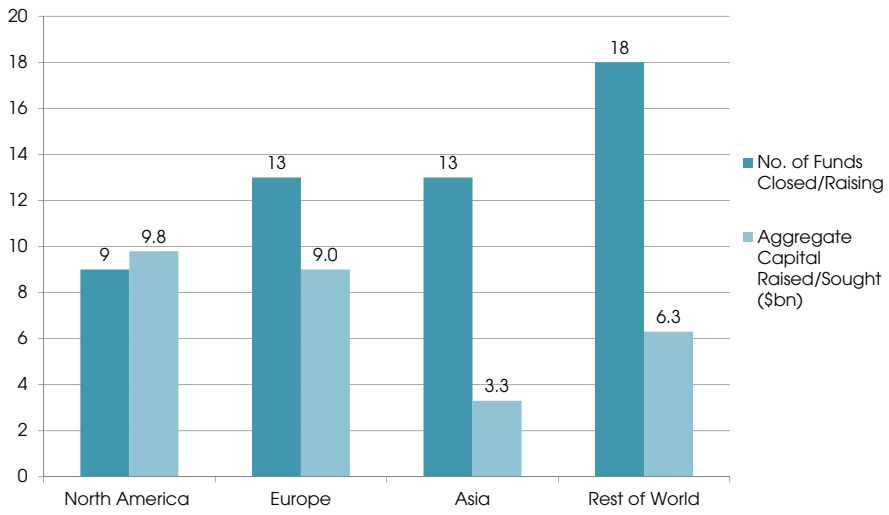
Fig. 11.3: Proportion of Infrastructure Debt Funds Making Only Debt Investments



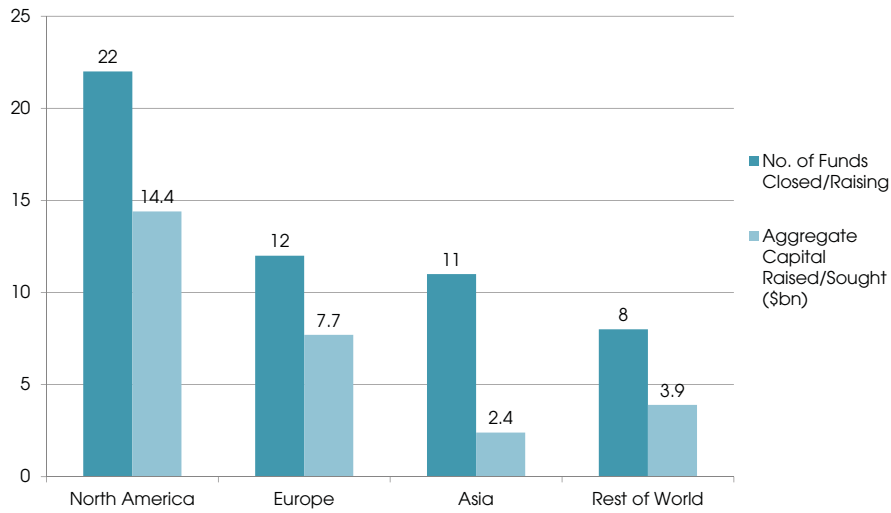
Source: Preqin Infrastructure Online

Fig. 11.4: Breakdown of Unlisted Infrastructure Debt Fundraising by Primary Geographic Focus



Source: Preqin Infrastructure Online

Fig. 11.5: Breakdown of Unlisted Infrastructure Debt Fundraising by Manager Location



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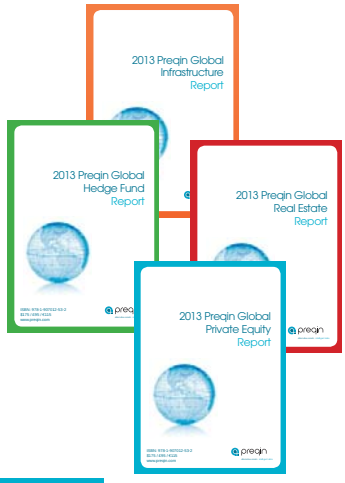

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