

Welcome to Infrastructure Spotlight, the monthly newsletter from Preqin providing insights into performance, investors, deals and fundraising. Infrastructure Spotlight contains information from our online product, Infrastructure Online.

## 2009: The Year in Review

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#### 2009: The Year in Review

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- Fund Performance
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All the latest news on investors in infrastructure, including:

- OPTrust
- California Public Employees' Retirement System
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# 2009: The Year in Review

It has been a turbulent 12 months for the infrastructure sector. From 2004 to 2007, the infrastructure market enjoyed a sustained period of growth, but in 2009 the economic downturn led to a reversal of fortunes for the asset class and brought this successful period to an end.

The decline in the value of investment portfolios combined with an increase in investor caution resulted in a severe drop in 2009 fundraising figures. Fund managers have been unable to reach fundraising targets and this has resulted in a record number of funds on the road and increased competition for commitments. Deals involving unlisted infrastructure funds are also down on previous years, due largely to a lack of available leverage.

In essence the financial crisis has filtered down through every level of the infrastructure asset class, affecting not only investors and fund managers, but also the number of projects reaching financial close in 2009.

## Infrastructure Fundraising

As shown in Fig. 1, just 10 infrastructure funds have reached a final close in 2009 to date, raising an aggregate \$6.2 billion. This represents an 82% decline from the aggregate capital raised in 2008 and an 85% drop from the 2007 figure. However, a number of fund managers are planning to hold final closes before the end of 2009 and this could potentially reduce this large deficit.

Limited investor capital and the saturation of the fund market has meant that fund managers have struggled to achieve fundraising targets. Just two of the 10 funds that have closed

in 2009 to date reached their intended target amounts and only one exceeded it. In contrast, 68% of funds reached their fundraising targets in 2008 with two-thirds exceeding it. Furthermore, 17 unlisted infrastructure funds have been either abandoned or placed on-hold in the past 12 months as a result of market volatility.

Due to the market conditions, an increasing number of managers are prolonging the fundraising period by holding interim closes. As shown in Fig. 2, 44 funds seeking an aggregate \$47.7 billion have held one or more interim closes. There are, however, 72 funds on the road seeking an aggregate \$68.9 billion that have yet to hold an interim close, which shows the challenging nature of the current market. Going forward, it is likely that more managers will be holding interim closes in order to begin investing capital while still searching for additional commitments.

## Infrastructure Investors

The economic downturn has forced investors to take stock of their existing portfolios and re-evaluate asset allocations, which has led to decreased investor activity in 2009. In our October 2009 survey of institutional investor sentiment towards the infrastructure asset class, a significant majority of investors stated they had not made any new commitments in 2009. As shown in Fig. 3, 81% of surveyed investors had not invested in 2009 and did not plan to do so and only 5% had invested in more than one fund.

However, as shown in Fig. 4, 65% of investors reasoned that they had not invested in infrastructure funds in 2009 because

Fig. 1:

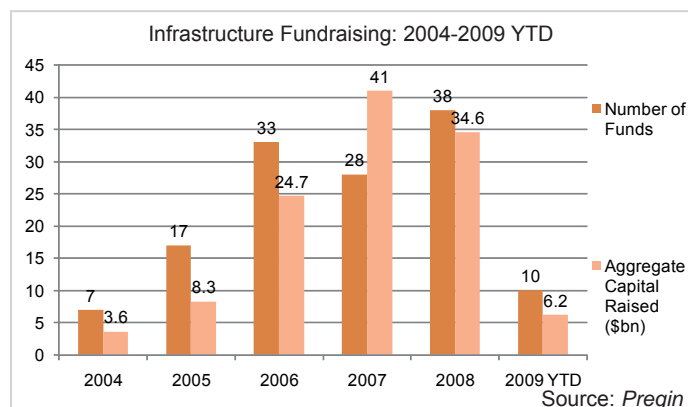


Fig. 2:

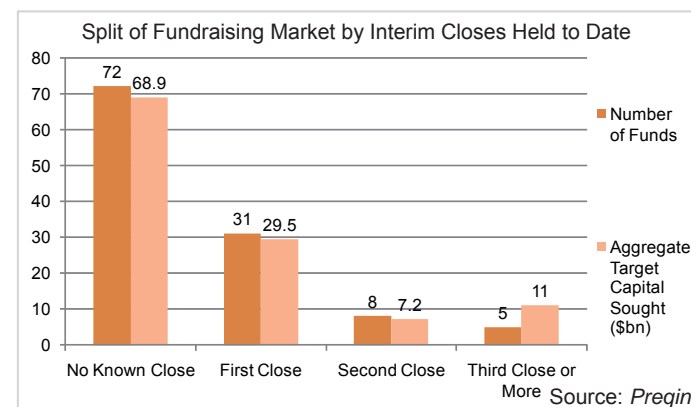
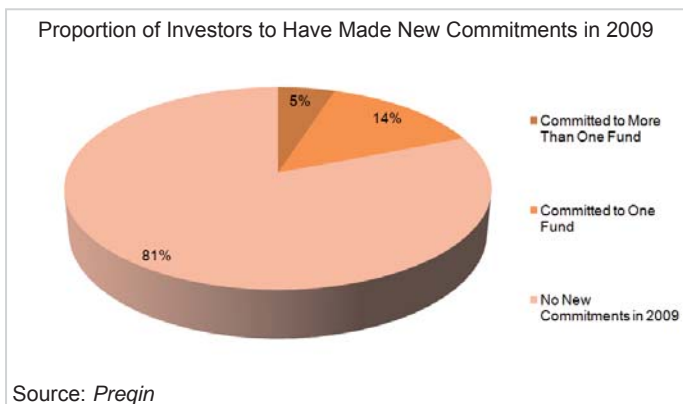


Fig. 3:



they had already fulfilled their target allocations. The impact of the denominator effect meant that many of these investors did not have to make new investments in 2009 to maintain their allocations. Subsequently, a number of investors plan to review their portfolios at the end of the year in order to develop new strategies for investing in 2010.

**“The financial crisis has filtered down through every level of the infrastructure asset class”**

2009 also seems to have signalled an end to the traditional 2/20 private equity management fee structure within the infrastructure asset class. As Fig. 5 shows, 62% of the respondents to our survey stated that they were no longer willing to consider investing in funds with a 2/20 structure. A further 24% believed a middle ground must be found between investors and fund managers. In response to this changing investor sentiment, several large private equity firms, such as Kohlberg Kravis Roberts (KKR) and Blackstone, have already

Fig. 5:

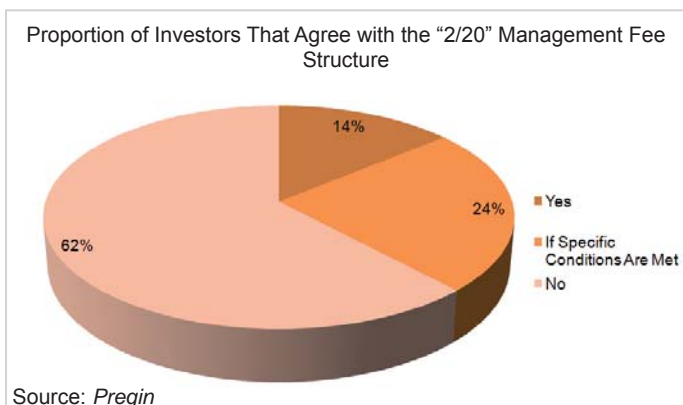
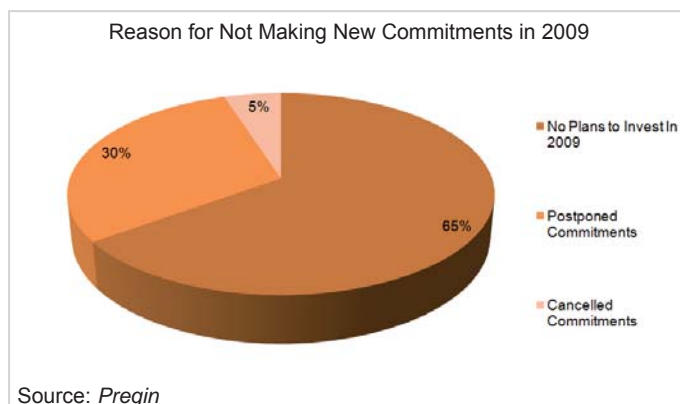


Fig. 4:



come up with new fee structures to try to attract commitments.

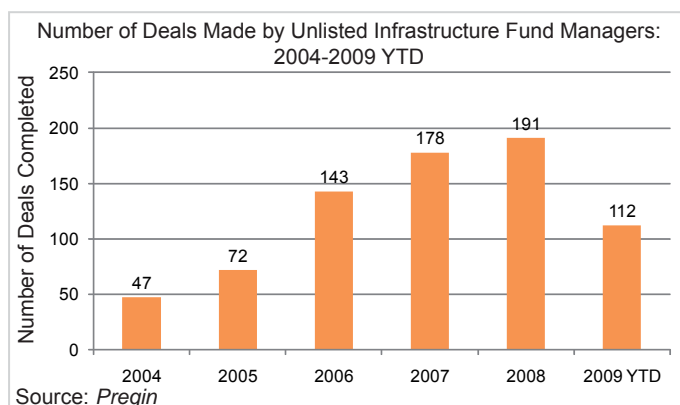
### Infrastructure Deals

Investors are also concerned with the lack of available leverage in the current economic climate. Infrastructure deals rely heavily on leverage and investors recognise that the credit crunch is affecting profitability.

As shown in Fig. 6, the number of deals completed by unlisted infrastructure fund managers grew year on year from 2004 to 2008, when it reached its peak at 191. Over the past year, however, there has been a decrease in the number of deals being made, with 112 transactions being finalised in 2009 to date. This represents a 41% drop from 2008's total, a figure which is unlikely to change significantly before the end of the year. This decrease will represent the first drop in annual deal volume since the emergence of the unlisted infrastructure asset class, and is indicative of the difficult conditions that fund managers have been enduring over the past 12 months.

However, compared to the drop in recent fundraising figures, the drop in deal volume between 2008 and 2009 is less severe.

Fig. 6:



This shows that fund managers have continued to invest capital throughout the year despite poor fundraising conditions and the lack of leverage. In fact, there have been several significant deals made in 2009, most notably the acquisition of London's Gatwick Airport by Global Infrastructure Partners (GIP) for £1.5 billion from BAA. This transaction was undoubtedly good news for the infrastructure sector, but even this deal bore the characteristics of the current market environment: it took over a year to complete and closed at 25% below BAA's original valuation.

### Outlook

2009 was a tough year for the unlisted infrastructure market. Infrastructure investors and fund managers alike were affected by the global financial crisis, the evidence of which is seen in recent fundraising figures and the reduction in investor appetite. Going forward, fund managers will have to work hard to attract

investor commitments as investors are sure to be more cautious before committing capital.

However, many investors plan to resume investing in 2010, and infrastructure's low correlation to other asset classes, combined with its inflation hedge characteristics, makes it an appealing investment. As such, we believe that the asset class will continue to play an important role within the investment portfolios of many institutional investors, both in the coming 12 months and over the long term.

How will the infrastructure market respond in 2010? January's Infrastructure Spotlight will look to the year ahead and analyse the key issues facing the asset class, when we expect investors to return to market and the effect this will have on fundraising and future deal volumes.

Elliot Bradbrook

The data contained within this article was taken from Preqin's Infrastructure Online Module.  
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- Infrastructure finance: Where agency finance cements the deal

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# Deals Spotlight

## Recently Closed Deal

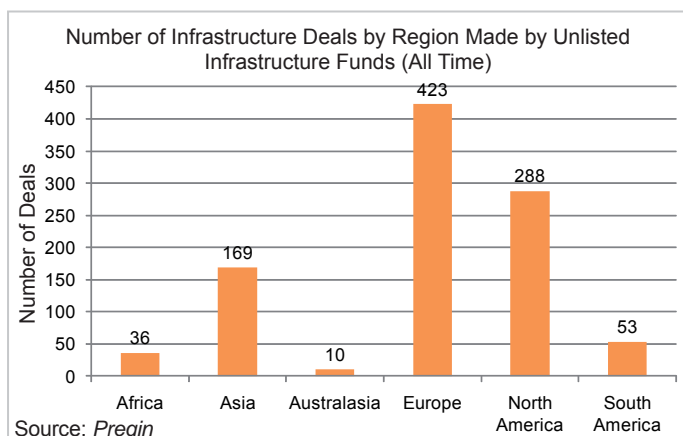
### Saxony Wind Farms

**Deal Date** - December 2009  
**Investor** - NIBC European Infrastructure I  
**Seller** - Viridis Clean Energy Group  
**Financial Advisor** - Macquarie Capital  
**Project Stage** - Secondary

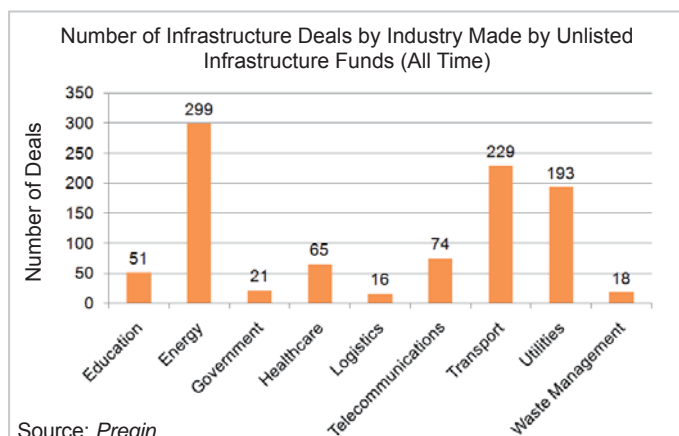
Total Deal Size (mn)	Total Equity Invested (mn)	Total Transactional Debt	Total Assumed Debt (mn)	Total Stake
72.20 EUR	20.20 EUR	-	52.00 EUR	100%

Source: Preqin

## Number of Infrastructure Deals by Region



## Number of Infrastructure Deals by Industry



## 10 Most Active Unlisted Infrastructure Fund Managers in the Last Three Years

Fund Manager	Number of Investments in Last Three Years	Total Raised through Unlisted Infrastructure Funds (bn)
Pareto Private Equity	57	EUR 0.3
Macquarie Capital Funds	43	AUD 21.9
DIF	35	EUR 0.5
IDFC Private Equity	17	USD 1.3
ArcLight Capital Partners	16	USD 6.8
Energy Investors Funds	13	USD 2.3
Barclays Private Equity - Infrastructure	13	GBP 0.9
US Renewables Group	11	USD 0.7
Energy Spectrum Capital	10	USD 1.2
Meridiam Infrastructure	10	EUR 0.6

Source: Preqin

The data contained within Deals Spotlight was taken from Preqin's Infrastructure Online Premium Module.  
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# Fundraising Spotlight

## Funds on the Road

Funds on the Road	US	Europe	ROW	Total
No. of Funds	23	38	55	116
Total Target Value (\$bn)	44.3	42.7	29.5	116.5
Average Target Size (\$bn)	1.9	1.1	0.5	1

Source: Preqin

## Recently Closed Fund

### Alterna Core Capital Asset Fund

**Manager** – Alterna Capital Partners

**Target Size (mn)** – 1,000 USD

**Final Close (mn)** – 428 USD (Nov-2009)

**Geographic Focus** – North America

**Industry Focus** – Aviation/Aerospace, Energy, Railway, Sea Ports, Transportation

**Project Stage** – Secondary Stage

**Placement Agents** – C.P. Eaton Partners, Pinnacle Trust Partners

**Lawyer** – Baker & Hostetler

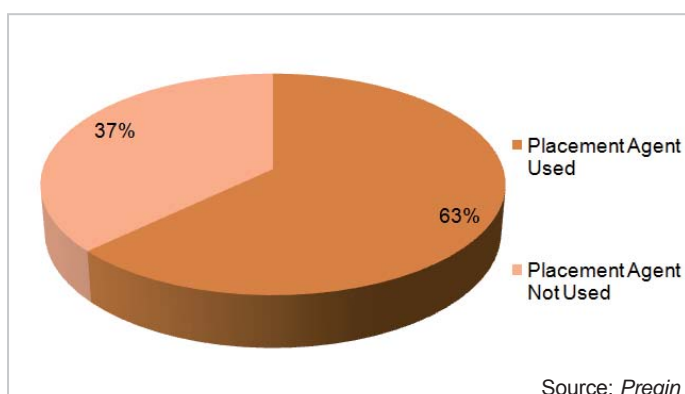
**Sample Investors** – Teacher Retirement System of Texas, Arizona Public Safety Personnel Retirement System

## 10 Largest Funds on the Road

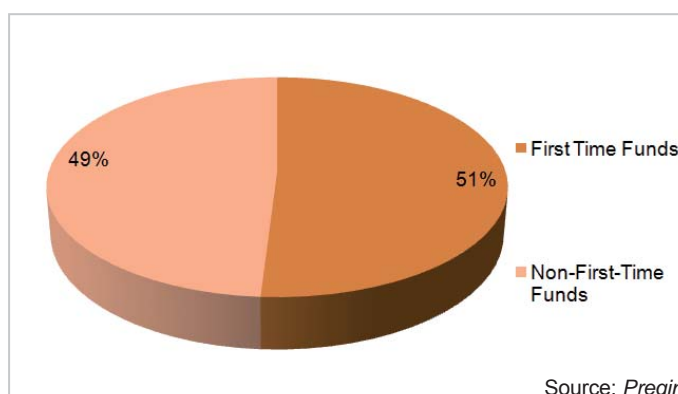
Fund	Manager	Size (mn)	GP Location
GS Infrastructure Partners II	GS Infrastructure Investment Group	7,500 USD	US
Alinda Infrastructure Fund II	Alinda Capital Partners	5,000 USD	US
Macquarie European Infrastructure Fund III	Macquarie Capital Funds	3,000 EUR	Australia
RREEF Pan-European Infrastructure Fund II	RREEF Infrastructure	3,000 EUR	US
Macquarie Infrastructure Partners II	Macquarie Capital Funds	4,000 USD	Australia
Energy Capital Partners II	Energy Capital Partners	3,500 USD	US
Highstar Capital IV	Highstar Capital	3,500 USD	US
aAIM Infrastructure Fund	aAIM Infrastructure	2,000 GBP	UK
CVC European Infrastructure Fund	CVC Infrastructure	2,000 EUR	UK
Fortis Investment Successor Infrastructure Fund	AAICM	2,000 EUR	UK

Source: Preqin

## Placement Agent Use by Funds on the Road



## Funds on the Road by Manager Experience



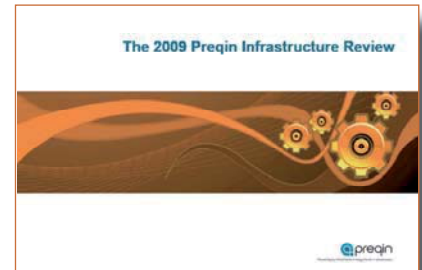
Elliot Bradbrook



# 2009 Preqin Infrastructure Review: Order Form

The 2009 Preqin Infrastructure Review is the most comprehensive examination of the unlisted infrastructure fund market ever produced. With exclusive information on over 250 firms, 400 funds and over 230 investors in the sector, plus detailed analysis reviewing every aspect of the industry, the Preqin Infrastructure Review is a vital purchase for fund managers, fundraising professionals, advisors, consultants, legal firms and investors in this rapidly growing market. Features of this year's publication include:

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- Fund terms and conditions listings for 27 vehicles, plus transparent performance data for 62 infrastructure funds (all performance data is net to investors).
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# Conferences Spotlight: Forthcoming Events

## Featured Conferences

### The Development and Agency Finance Asia Pacific Conference

**Date:** 2nd & 3rd February 2010

**Location:** Renaissance Harbour View Hotel, Hong Kong

**Organiser:** Euromoney Seminars

ECAs, multilaterals and development banks are playing an increasing role to facilitate global trade and investment in and out of Asia Pacific. International agencies have had to rapidly adapt to their increasingly vital role in facilitating trade, export and investment in infrastructure.

At this event, agencies, financiers, importers, exporters, lawyers and private insurers will network and discuss the ways to do business in the current market.

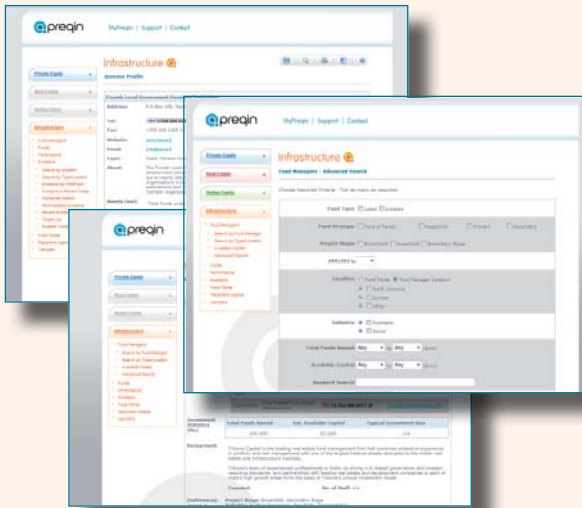
[www.euromoneyseminars.com/DAFAsia10?LS=preqin](http://www.euromoneyseminars.com/DAFAsia10?LS=preqin)

## Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Asian Financial Forum	20 - 21 January 2010	Hong Kong	HK Trade Development Council
Cleantech Investor Summit	20 - 21 January 2010	Palm Springs	IBF Media
Infrastructure Asset Management Exchange 2010	24 - 25 February 2010	London	IQPC
Infrastructure Investor: Europe 2010	24 - 25 February 2010	Berlin	PEI Media
Asset Allocation Summit Asia 2010	15 - 17 March 2010	Hong Kong	Terrapinn
Projects & Infrastructure Finance International	15 - 18 March 2010	Brussels	ICBI Events

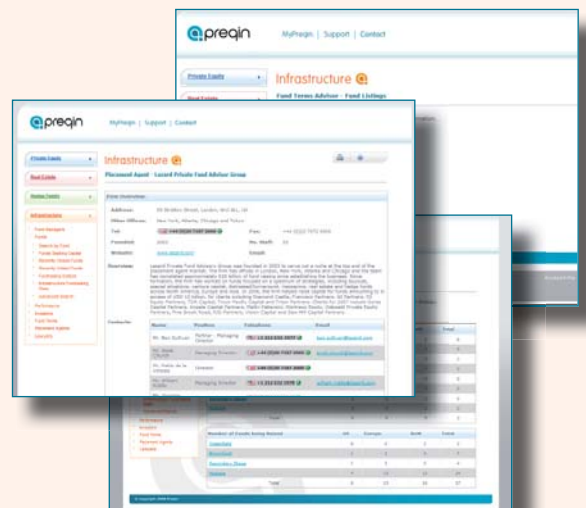
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Infrastructure Online is the most comprehensive resource available to infrastructure professionals today. Whether you're a GP, LP, fund of funds, placement agent, lawyer, consultant or advisor this is a vital information service for you.



- **Deals:** Details on which funds are bidding for, buying or selling infrastructure assets. Includes information on the type of infrastructure asset and location, data on the equity invested and the percentage stake acquired by the fund, information on the deal date, structure and duration plus names of funds' co-investors in transactions.
- **Fund Managers:** View detailed profiles on over 250 Fund Managers from around the world including background, key contacts and funds raised. Carry out advanced searches to find GPs who focus on particular fund strategies, infrastructure industry types, infrastructure project stages or locations.
- **Funds:** Detailed profiles of over 400 listed and unlisted infrastructure funds encompassing all strategies including primary, secondary, mezzanine and fund of funds; and details on the fund's investment preferences in terms of project stage, industry and geographic region.

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# Investor Spotlight: Investor News

## **Orange County Employees' Retirement System (OCERS) contemplates exposure to infrastructure**

The USD 7.4 billion pension fund is considering its maiden commitment to infrastructure, following the increase of its real return allocation from 10% to 13%. Through this change of strategy, OCERS is seeking to improve its investment portfolio's hedge against inflation and is hoping to benefit from the low correlation between infrastructure and other asset classes. The retirement system expects to make a decision on the size and strategy of this commitment by Q2 2010.

## **Marathon Service (G.B.) Pension Scheme may target infrastructure in next 12 months**

The USD 318 million pension scheme is considering a foray into alternative assets that may potentially include an allocation to infrastructure. An infrastructure allocation would provide Marathon Service with extra diversification in its portfolio. Any manager hires made in the next 12 months will be assisted by its consultant, Mercer. The size of the mandate has yet to be decided.

## **OPTrust to expand direct and unlisted infrastructure portfolio in 2010**

The CAD 11.2 billion Canadian pension scheme has increased its allocation to infrastructure, from 6% to 15% of its total assets. The pension plan is subsequently looking to make further direct and unlisted fund investments over the short to medium term in an effort to reach this new target. OPTrust invests globally, and targets opportunities in the energy, renewable energy, water, power/transmission and transportation sectors.

## **Northumberland County Council Pension Fund considers maiden infrastructure fund allocation**

The GBP 640 million pension scheme is contemplating making its debut infrastructure fund investment over the coming 12 months. Historically, the pension fund has committed solely to private equity fund of funds and real estate vehicles, but it is in the process of reviewing its alternative asset investment strategy. Northumberland County Council plans to conduct an asset liability study in Q2 2009 and will make future investment decisions based on the results.

## **California Public Employees' Retirement System (CalPERS) commits USD 300 million to Alinda Infrastructure Fund II**

The USD 199 billion retirement system has increased its allocation to infrastructure via a USD 300 million investment in Alinda Infrastructure Fund II. The commitment follows its investment in Alinda's first infrastructure fund in 2007, and will provide exposure to North American and European assets, primarily in the social and energy sectors. This commitment brings the retirement system closer to its target of reaching a 3% allocation to infrastructure by the end of 2010. Following a board meeting on December 14th, CalPERS selected Meketa Investment Group as its infrastructure consultant. The other finalists for the position included Pension Consulting Alliance, R.V. Kuhns & Associates and Wilshire Consulting.

## **Corporación Andina de Fomento (CAF) commits USD 40 million to Colombian fund**

The Colombian financial institution that aims to advance sustainable development in South America has made a USD 40 million investment in Infrastructure Fund of Colombia. The fund was launched earlier in 2009 by a consortium led by Ashmore Investment Management and the Colombian investment bank Inverlink. The fund gives CAF exposure to a range of infrastructure sectors including transportation, energy, water, waste management, telecoms and logistics, as well as to social PPP/PFI assets. CAF made a similar investment in Peru earlier this year via the Brookfield Peruvian Infrastructure Fund.

## **Leading European investors launch infrastructure fund**

A consortium of European financial institutions, consisting of European Investment Bank, Caisse des depots et consignations, Cassa Depositi e Prestiti Spa, KfW - Bankengruppe, Instituto de Credito Oficial, and PKO Bank Polski have launched Marguerite Fund, a new pan-European infrastructure fund. Each investor has committed EUR 100 million to the vehicle, which has a total target of EUR 1.5 billion. The fund will invest in companies that own or operate infrastructure assets in the transport, energy and renewable energy sectors.

Alastair Scott

Each month Spotlight provides a selection of the recent news on institutional investors in unlisted infrastructure.

More news and updates are available online for Infrastructure Online subscribers.

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