

Infrastructure Spotlight

February 2009 / Volume 2 - Issue 2

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

Feature Article

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Golden Age for Infrastructure Investing Attracts New Investors

There are currently 86 unlisted infrastructure funds in the market seeking an aggregate \$92.3 billion, which is 98% up on the \$46.7 bn being raised by firms at this point last year.

Will there be enough institutional support available to support all these new funds?

Fundraising Spotlight

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This month's Fundraising Spotlight takes an in-depth look at the market for unlisted infrastructure fundraising:

- Which firms are on the road?
- How much capital is being raised?
- Which firms have held a close?

If you would like to receive Infrastructure Spotlight each month please email spotlight@preqin.com.

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- Investors agree to sell interests in I² Fund to Barclays Integrated Infrastructure Fund (BIIF).
- ASGA Pensionskasse targets infrastructure exposure as part of alternatives increase.
- Torfaen County Borough Council Greater Gwent Pension Fund considers infrastructure as part of alternatives increase.

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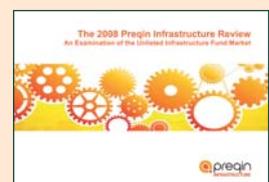
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Feature Article: Golden Age for Infrastructure Investing Attracts New Investors

This week saw Blackstone hit the road with a \$3bn new offering focusing on infrastructure investments. They join KKR, Aviva Investors and Turtle Bay Capital and others who are entering this market for the first time or significantly ramping up their activity in the area.

Continued Growth in Fundraising Activity

There are currently 86 unlisted infrastructure funds in the market seeking an aggregate \$92.3 billion, which is 98% up on the \$46.7 bn being raised by firms at this point last year. This significant increase in fundraising activity is built on two core beliefs. The first is that there will be adequate investment opportunities – a factor which we have discussed in previous editions of Spotlight. The second forms the basis of this month's feature article – will there be enough institutional

support available to support all these new funds?

Growth in Investor Appetite Continues

Only a decade ago, infrastructure was a relatively niche sector, supported by a small group of institutional investors that had the expertise and resources at their disposal to implement the effective execution of direct infrastructure deals. However, over the last five years, and especially in 2008, the infrastructure space has attracted increasing levels of institutional backing. As shown in Fig. 1, at the end of 2007, the Preqin Infrastructure Online database was tracking 303 institutional investors actively investing in infrastructure. Within the space of 12 months the number of infrastructure investors in the database had increased by 38% to just over 410 investors.

The steady growth in investor appetite is reflected in the growth in annual fundraising over the five year period between 2003 and 2008, which produced four record breaking fundraising years for unlisted funds, and increased the record aggregate capital raised in a year to \$36.3 billion. With a plethora of new investment opportunities available, it is clear that the industry believes that further growth is possible, and that there is adequate support from investors to enable new fund opportunities to achieve a final close.

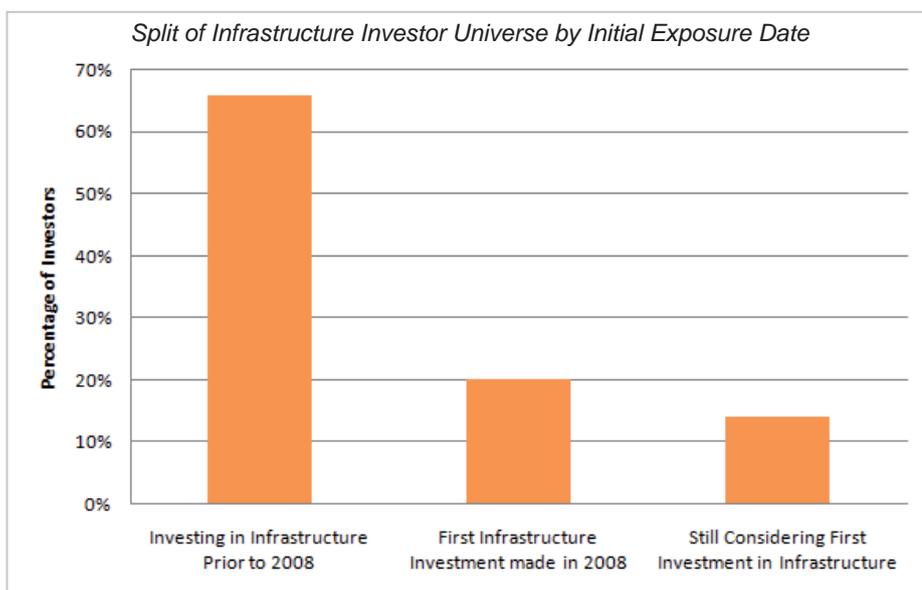
Why are Investors so Keen on Infrastructure?

There are a number of factors behind the continued growth of the unlisted infrastructure fund market at a time when most other forms of alternative investment are undergoing a period of stasis. The infrastructure asset's ability to provide steady cash flows, inherent inflation hedge and a low correlation with other investment types have made infrastructure a desirable asset class in the current economic climate. Another driver of the increase in investor appetite is the number of infrastructure deals on the horizon. Governments across the world have increasingly been turning to private investors for the financing of crucial infrastructure projects in order to kick-start their economies.

New Investment Types Attracting More Small Investors

Another factor attracting new investors to the asset class has been the growth in the selection of routes to market. Where high minimum investment costs have been a prohibitive factor for

Fig. 1:



Feature Article: Golden Age for Infrastructure Investing Attracts New Investors

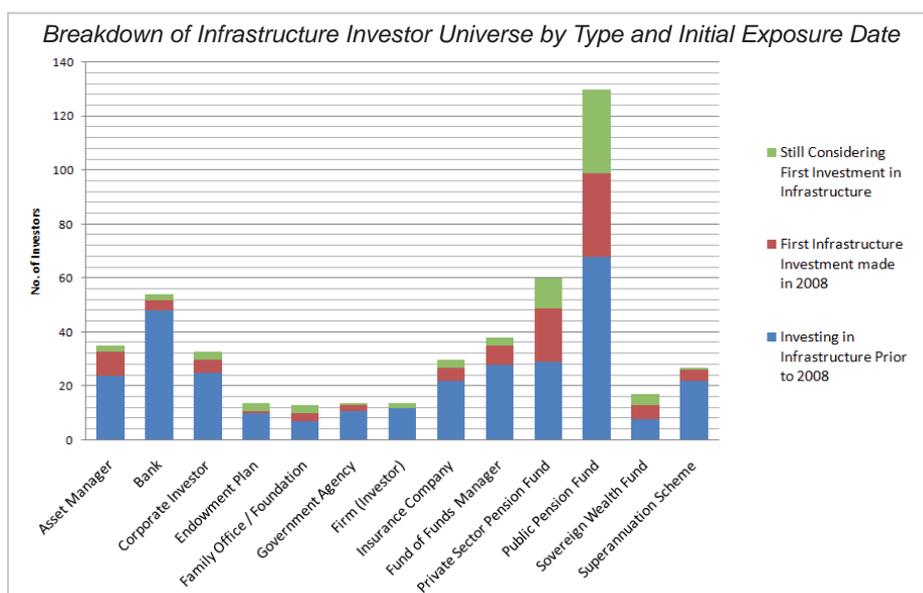
some investors, there are now smaller, specialist investment vehicles, and also more fund of funds. The Preqin database contains information for eight infrastructure-specific fund of funds that have been launched over recent years, enabling investors access to a diversified portfolio with a relatively small minimum commitment. Since the start of 2008, we have seen 23 investors with less than \$2 billion in total assets enter the market.

Who are the New Entrants to the Asset Class?

As Fig. 2 shows, new institutions from the traditional sectors backing the asset class make up a significant number of those investors that started investing in infrastructure in 2008. Large pension funds account for the majority of the 96 investors that began investing in infrastructure after 2007, with 31 new public pension funds, 20 new private sector pension funds and four new superannuation schemes entering the infrastructure arena for the first time.

We are also seeing growth across other areas of the investor universe. The number of asset managers entering the asset class increased by 38% since 2007, with sovereign wealth funds also making impressive inroads. Before 2008 there were only 8 sovereign wealth funds investing in infrastructure, but their number increased to 13 in the following 14 months, and an additional 4 are currently considering investing. Although the number of sovereign wealth funds currently investing in infrastructure is still relatively small, the amount of private capital they could potentially invest in the asset class is substantial with an average total asset figure of \$110 billion

Fig. 2:



for institutions of this type.

A cross section of the investors that have recently opted to incorporate infrastructure into their multi-asset portfolio is shown in Fig. 3.

Where are the New Entrants Based?

A breakdown of the geographical location of investors tracked on the Preqin database entering the infrastructure

Fig. 3:

Recent Entrants in the Infrastructure Market Place

Investor	Investor Type	Location	Infra. Target Allocation
Tucson Supplemental Retirement System	Public Pension Fund	US	Separate Infra allocation of 5%
National Wealth Fund	Sovereign Wealth Fund	China	Undisclosed
United Nations Joint Staff Pension Fund	Private Sector Pension Fund	Global	Part of Real Estate
Green Way Infrastructure	Infrastructure Fund of Funds	France	\$600 mn
Policemen's Annuity and Benefit Fund of Chicago	Public Pension Fund	US	Separate Infra allocation of 5%

market in the past 14 months (shown in Fig. 4) shows a degree of transition within the infrastructure investor universe. Prior to 2008, North American investors made up only 27% of the total, with European investors accounting for 43% and Rest of

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World investors making up 30%.

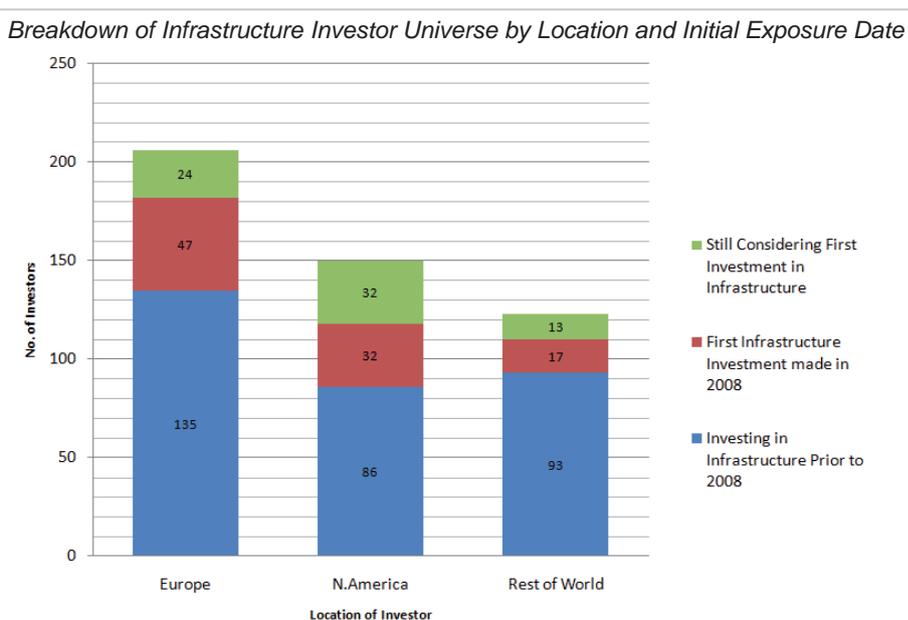
The relatively low level of backing from US institutions can be partly attributed to the US government's slow uptake of private investment in public infrastructure in comparison to its European and Rest of World counterparts, which has allowed the corresponding domestic investors easier access to the asset class. However, it appears the PPP motions recently passed by over half of the US states and the infrastructure legislature currently under consideration by US congress have both contributed to the 37% increase in North American investor numbers since the end of 2007. As a result, North America now provides 29% of investors, compared to 27% from the Rest of World.

Prospects For Future Growth

Through the analysis of those investors that have recently entered the market or are considering, and also the factors influencing their activity, it is apparent that the infrastructure asset class is likely to continue to attract a steady stream of capital from the various investor types. In terms of the geographical breakdown of future investors, we expect North American investors account for a greater share of the infrastructure universe, and the European and Rest of World regions consolidate their position within the asset class.

Furthermore, the analysis of the source of the investors' maiden infrastructure allocation allows us to draw inferences on their long-term intentions in to the asset class. Of the 96 investors that entered the market place in 2008, 60% established a separate allocation for infrastructure and investors which made investments as

Fig. 4:



part of their real asset and private equity allocation represented 30% and 10% respectively.

Over the coming years, we expect to see the aggregate capital raised per annum increase as general investor confidence returns and additional investors turn to infrastructure, improving the flow of investments. Whilst in the short to medium term investors will base their commitments on the asset class' resilient performance in economic downturns, we expect investors to continue investing over the longer-term, once more stable and prosperous economic conditions return, as the additional benefits infrastructure investments bring to a multi-asset portfolio become more apparent to the investor community.

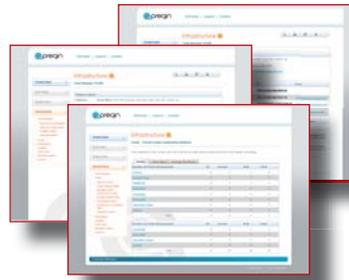
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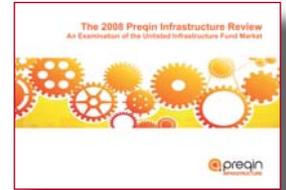
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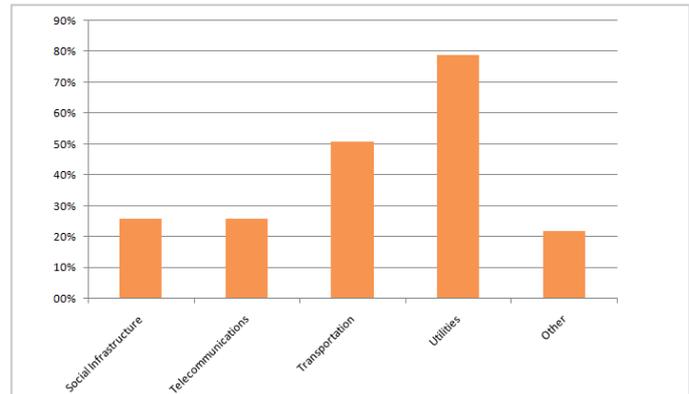
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Fundraising Spotlight:

Fundraising Overview:

Funds on the Road	US	Europe	ROW	Total
Number	12	30	44	86
Total Target Value (\$bn)	28	34	30.3	92.3
Average Target Size (\$bn)	2.3	1.2	0.7	1.1

Funds in Market by Industry Focus:



Largest Infrastructure Funds on the Road:

Fund	Manager	Target Size (Mn)	Manager Country
GS Infrastructure Partners II	GS Infrastructure Investment Group	7,500 USD	US
Macquarie European Infrastructure Fund III	Macquarie Funds Group	5,000 EUR	Australia
Macquarie Infrastructure Partners II	Macquarie Funds Group	6,000 USD	Australia
Citi Infrastructure Partners	Citigroup Infrastructure Investors	4,000 USD	US
Alinda Infrastructure Fund II	Alinda Capital Partners	3,000 USD	US
aAIM Infrastructure Fund	aAIM Infrastructure	2,000 GBP	UK
Fondi Italiani Per Le Infrastrutture	F2i SGR	2,000 EUR	Italy
CVC European Infrastructure Fund	CVC Infrastructure	2,000 EUR	UK
Santander Infrastructure Fund II	Santander Infrastructure Capital	1,500 EUR	UK
Gulf One Infrastructure Fund I	Gulf One	2,000 USD	Bahrain

Recently Closed Funds:

Central American Mezzanine Infrastructure Fund

Manager: EMP Global

Target Size (mn): 150USD

First Close (mn): 82 USD (Feb-2009)

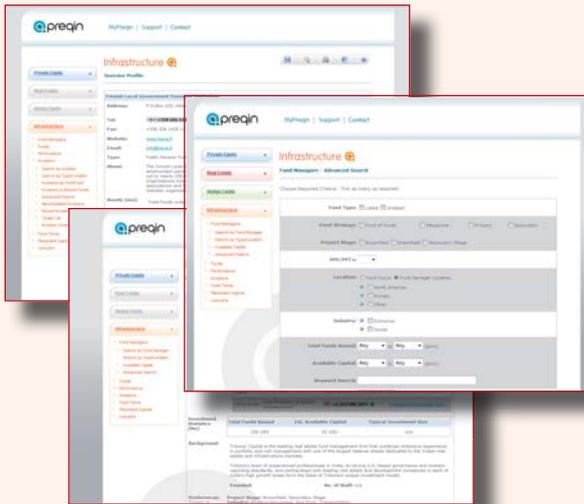
Geographic Focus: Central America - Colombia, Costa Rica, Mexico, Honduras, Panama, Belize, Dominican Republic, Guatemala, El Salvador.

Industry Focus: aviation, distribution/storage facilities, energy, roads, satellite networks, sea ports, telecom, transportation, waste management, water.

Sample Investors: Central American Bank for Economic Integration, Corporación Mexicana de Inversiones de Capital, Development Finance Institution, Inter-American Development Bank, International Finance Corporation (IFC)

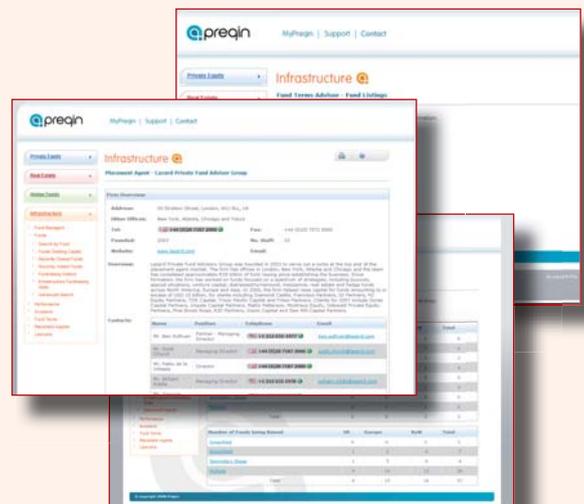
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Conferences Spotlight

Forthcoming Events:

Conferences:

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Infrastructure Project Finance	25 - 27 February 2009	Shanghai	IBC
Water Investment World Europe 2009	9 - 12 March 2009	London	Terrapinn
3rd Annual Latin American Energy and Infrastructure Finance Summit	17 - 18 March 2009	Miami	Euromoney Seminars
Investing in Renewable Energy Projects and Infrastructure	26 March 2009	London	C5
Russian Infrastructure Finance	27 - 28 April 2009	Moscow	C5
Infrastructure Investment World Americas 2009	27 - 30 April 2009	New York	Terrapinn
Infrastructure Investment World Middle East 2009	4 - 7 May 2009	Doha	Terrapinn
Infrastructure Summit	7 May 2009	New York	Dow Jones Events
Annual TransFin (Transport Finance)	June 2009 (date tbc)	Barcelona	ICBI

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Investor Spotlight: Investor News

Arizona Public Safety Personnel Retirement System adds Alterna Capital to infrastructure fund portfolio.

The USD 4.9 billion retirement system has added a USD 70 million commitment to Alterna Core Capital Asset Fund to its infrastructure portfolio which already features investments to funds managed by Macquarie Funds Management. Arizona's new investment consists of a USD 40 million direct investment in the fund, with the remaining USD 30 million as a co-investment allowing the system to put additional money into specific assets in which the fund invests. The move came at the recommendation of investment staff and real estate consultant ORG Portfolio Management.

Torfaen County Borough Council Greater Gwent Pension Fund considers infrastructure as part of alternatives increase.

The GBP 1.5 billion pension fund is planning to increase its alternatives allocation from 2% to 5% of total assets in an effort to further diversify its portfolio. The Pontypool-based pension scheme has not yet decided on the subclasses or timeframe of the increase but it may include the search for its first infrastructure fund manager.

Louisiana Sheriffs' Pension and Relief Fund considers maiden allocation to real assets.

The USD 1.5 billion public pension fund made the decision to further diversify its portfolio following the results of an asset liability study conducted in December 2008. The plans general consultant, Russell Investment Group, will handle the search for new managers which will include infrastructure investments. The pension plan has a 2.5 – 3% cash reserve to fund the new commitments.

ASGA Pensionskasse targets infrastructure exposure as part of alternatives increase.

The CHF 6.2 billion Swiss pension fund for small and medium sized companies is seeking greater diversification in its overall investment portfolio. In order to achieve this, the scheme is contemplating increasing its alternatives allocation by four percentage points to 6% to allow the addition of hedge funds, infrastructure and commodities investments, worth around EUR 248 million. At present, ASGA Pensionskasse's only alternatives exposure is via a 2% private equity investment. The plan to increase its alternatives allocation is likely to go through sometime in 2009, at the expense of its equity and bonds portfolio, and would involve the appointment of at least three external fund managers.

Holyoke Retirement Board considers first foray into alternative assets.

The Massachusetts-based public pension fund is contemplating a debut allocation to alternatives, which could potentially lead to the search for new infrastructure managers in 2009. Segal Advisors, the plans general consultant, will advise the board on possible investment options.

Investors agree to sell interests in I² Fund to Barclays Integrated Infrastructure Fund (BIIF).

3i Infrastructure has agreed to sell its 31% interest in I² (Infrastructure Investors) to BIIF for a total consideration of GBP 166.7 million (net of costs). Of the consideration, approximately GBP 138 million will be received as cash with the balance in unsecured loan notes. The other investors in I², including, Fleming Family & Partners and SGAM Alternative Investments have also agreed to sell their interests to BIIF.

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

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