

# Infrastructure Spotlight

March 2009 / Volume 2 - Issue 3

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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### Infrastructure Fund Performance: Low Risk, Low Returns?

In this month's feature article we examine the targeted IRRs (%) for recently launched infrastructure funds, and look at the performance achieved by existing funds in order to assess the 'low risk, low returns' profile that is often attached to the industry.

## 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](mailto:spotlight@preqin.com).

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### All the latest news on investors in infrastructure:

- Toronto Transit Commission Pension Society establishes infrastructure allocation.
- Finnish State Pension Fund looks to expand infrastructure fund portfolio in 2009.
- Derbyshire County Council Pension Plan targets first infrastructure fund commitment in 2009.

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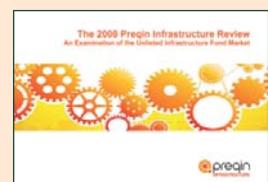
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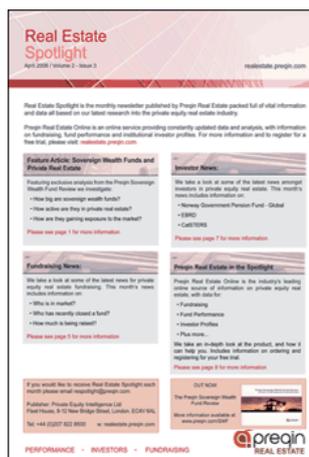
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# Feature Article: Infrastructure Fund Performance: Low Risk, Low Returns?

Last month, President Obama stated in his American Recovery and Reinvestment speech that private investment will be integral to the maintenance and development of US infrastructure. This news will no doubt encourage further involvement in the unlisted infrastructure sector from specialist infrastructure fund managers and other private equity firms moving into the area for the first time.

The ability of these managers to raise capital is dependent upon the appetite for unlisted infrastructure fund investments from US pension funds and other institutional investors that may have been considering entering the infrastructure marketplace, or ramping up their existing activity in recent months.

Investor appetite is driven by both the potential returns that can be achieved and the level of risk involved.

Infrastructure vehicles have traditionally been seen as providing acceptable returns - lower than those gained from private equity funds, but with far less risk involved. This month's infrastructure spotlight examines whether this impression of the performance of the asset class is accurate, and looks at what kind of returns are being targeted by the newest vehicles to be launched.

## What Returns are being Targeted by Infrastructure Funds?

Fig. 1 displays the split of IRRs (net to investor) being targeted by infrastructure funds on the Preqin database. A significant proportion of vehicles (24%) are targeting returns between 10% and 13.9%, which is relatively low in comparison with the targeted returns of other alternative assets funds. A further 24% are targeting between 14% and

17.9%. The biggest data point is for firms targeting between 18% and 21.9%, which although is still shy of the returns regularly sought by other alternative asset managers, is still a relatively high return that would satisfy a significant proportion of investors. A further 17% of funds in our sample were seeking returns at a much higher level, comparable with private equity buyout funds at 22% - 30%.

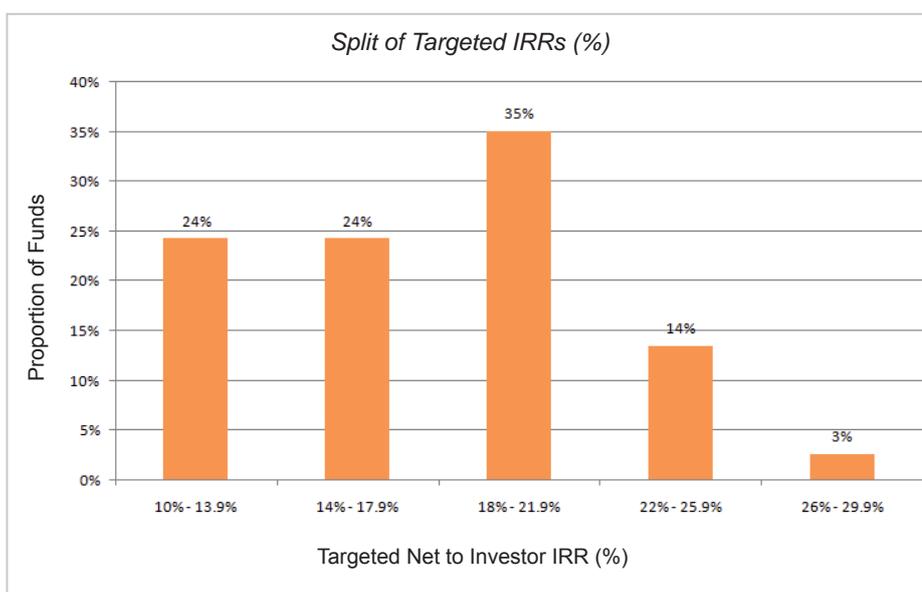
## Are these Returns being Achieved?

Meaningful IRR performance data on unlisted infrastructure funds is scarce. Although Preqin has information on over 175 unlisted funds that have invested in infrastructure assets, many of these funds are too early in their investment cycles to give a good indication of future long-term returns, with only 22% of the funds having commenced investing prior to 2004. Creating accurate benchmarks for the industry across all vintage years is therefore currently not possible.

The data for infrastructure fund IRRs is very limited, with only 10 funds having mature information available. The returns posted by these funds range between -6.4% and 32%. As many of these funds are still early on in their investment cycles, we would expect this performance to improve further over time.

Claims of low risk are backed up by the fact that only a single fund in our sample was producing negative IRR performance, with no other vehicle dropping below 6% IRR. 40% of the funds in our sample have exceeded 18% IRR, representing an excellent return for investors.

Fig. 1:



# Feature Article: Infrastructure Fund Performance: Low Risk, Low Returns?

## Target Performance by Geographic Focus of Fund

As Fig. 2 shows, the geographic focus of an infrastructure fund has a significant effect on the returns expected by fund managers.

As one would expect due to the risk-return profile for investments in the region, emerging markets funds have a median target net IRR that is 5% higher than their developed nation focused counterparts. The graph also portrays the smaller variation in emerging markets return expectations, with the dispersion for emerging market focused funds spanning 7.5 percentage points, which is less than the sample of funds focusing on developed economies. The global nature of the infrastructure industry has prompted many fund managers to offer infrastructure vehicles that invest on a global basis, and these funds are relatively conservative in terms of their median target IRR.

## Target Performance by Industry Focus

Social infrastructure projects typically have government-backed, inflation-linked cash flows that are paid on an availability basis regardless of actual use and therefore generally have a lower risk-return profile than economic infrastructure projects. This contributes in some part to the disparity in target net IRRs of funds investing solely in economic infrastructure against those that include exposure to social infrastructure assets, as shown in Fig. 3.

The disparity is highlighted by the 20% median target net IRR of economic infrastructure funds equalling the

Fig. 2:

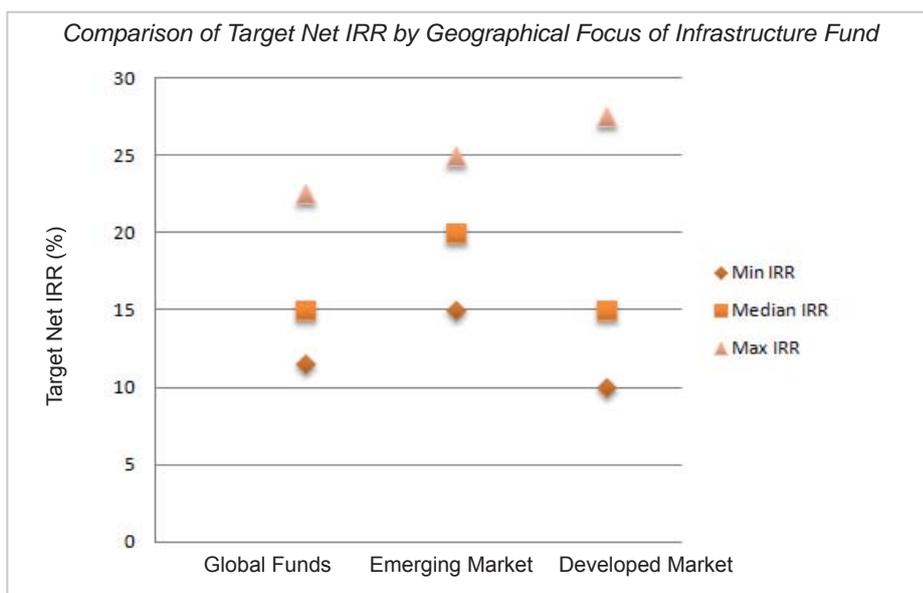
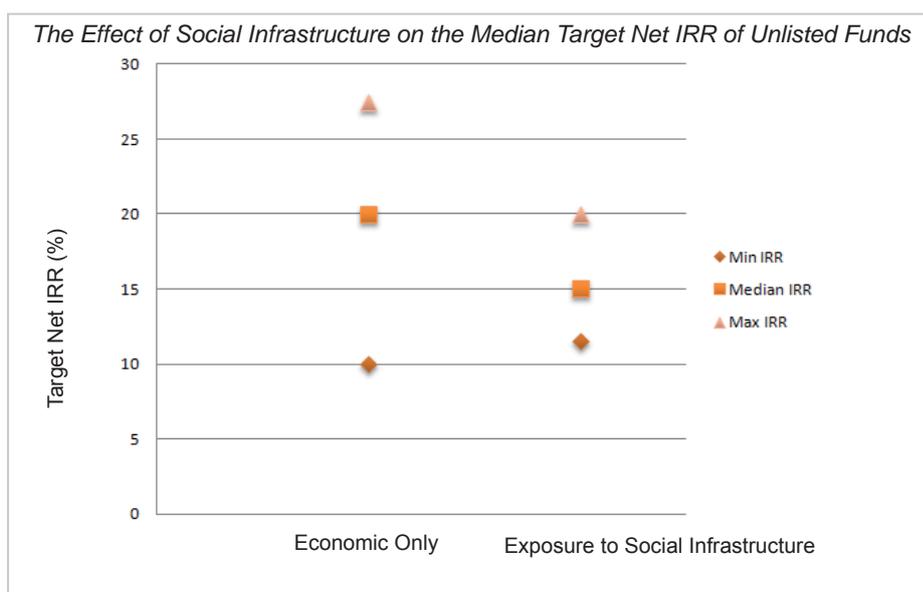


Fig. 3:



# Feature Article: Infrastructure Fund Performance: Low Risk, Low Returns?

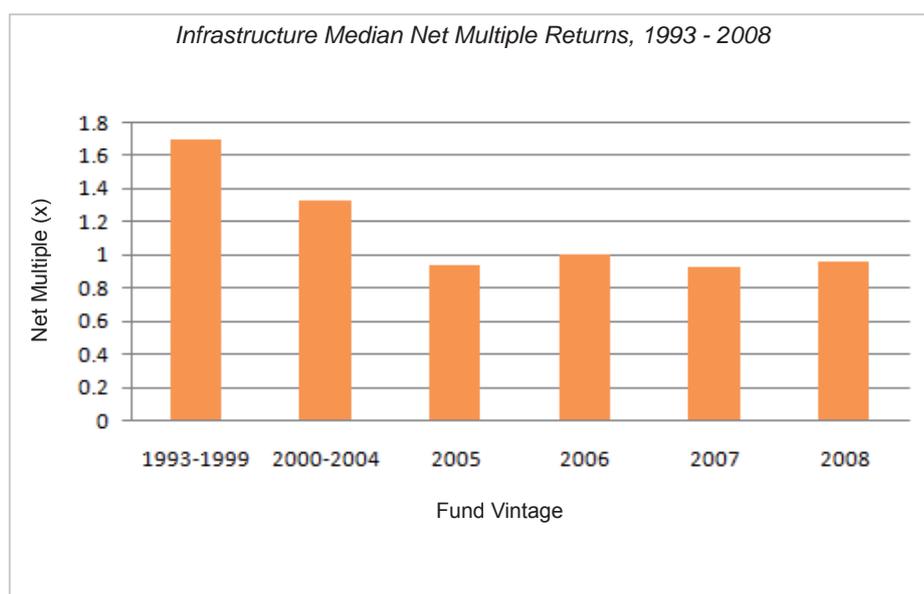
maximum target net IRR for funds featuring social infrastructure.

## Median Net Multiple Returns

The net multiple reveals how many times over investors have got, or are likely to get, their money back. Although the data available for net IRR returns is limited, there is rather more information available relating to the net multiple, facilitating the analysis of returns achieved for funds of various time periods, and for specific vintage years.

The returns from unlisted infrastructure funds have been impressive, with the median for funds with vintage years between 1993 and 1999 returning over 1.6 times the investors' capital. The period 2000-2004 shows markedly lower multiples but these are likely to increase as fund managers continue to add value to the investments and eventually exit them. It is still too early for the post-2004 vintages to contribute performance data that carries any weight, as the majority of them will be still some way from completing their investment period. However, in time we expect to see positive multiples from these vintages as the underlying investments mature and funnel distributions back to investors.

Fig. 4:



## Conclusions

Our analysis shows that a high proportion of funds are targeting returns between 10% and 20%. However, many of these funds are shooting for the upper end of this scale, with 35% of vehicles targeting IRRs in the high teens and low twenties. A significant minority are aiming even higher than this, seeking returns in the mid and high twenties. If infrastructure funds are capable of providing such high performance for investors while still retaining low risk characteristics, their desirability as an asset class is likely to increase further.

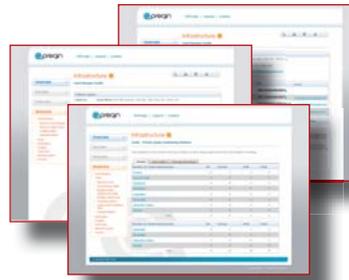
The evidence thus far shows that returns have historically been acceptable, and the fact that only one fund is currently posting a negative performance is also encouraging.

It remains to be seen whether the latest crop of funds will achieve the returns that they are setting out to attain, and as more fund data becomes available in future years, Preqin will be providing more information and benchmarks to see if these returns have been realised.

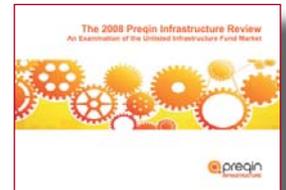
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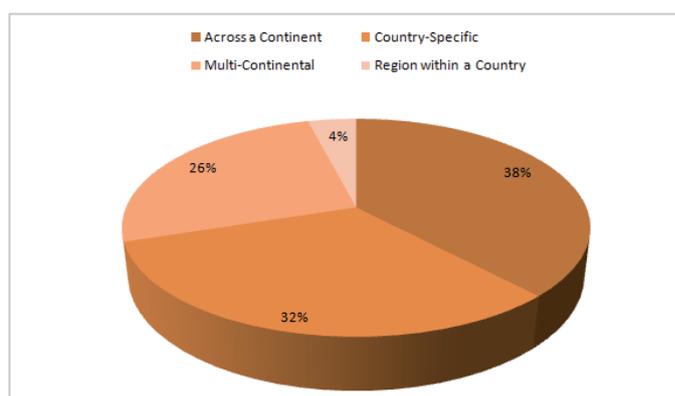
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# Fundraising Spotlight:

## Fundraising Overview:

Funds on the Road	US	Europe	ROW	Total
Number	13	29	43	85
Total Target Value (\$bn)	28	29.4	27.7	85.1
Average Target Size (\$bn)	2.1	1.01	0.6	1.2

## Investment Scope Breakdown of Funds on the Road



## 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:

### Alterna Core Capital Asset Fund

**Manager:** Alterna Capital Partners

**Target Size (mn):** 1000 USD

**First Close (mn):** 229 USD (March-2009)

**Geographic Focus:** North America

**Industry Focus:** Aviation, Energy, Railway, Sea Ports

**Placement Agent:** Pinnacle Trust Partners

**Lawyer:** Baker & Hostetler

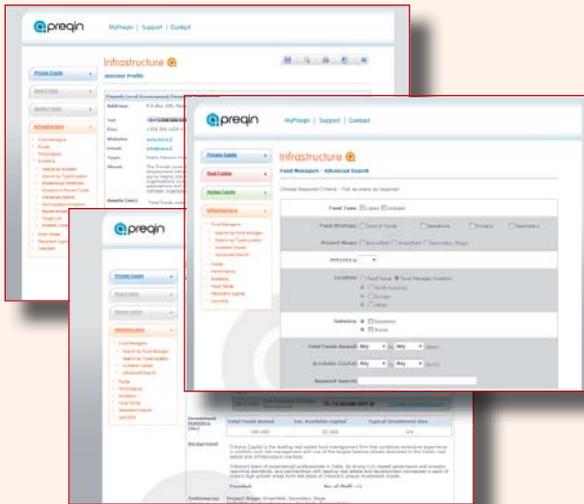
**Sample Investors:** Arizona Public Safety Personnel Retirement System

## Infrastructure Fundraising by Manager Location



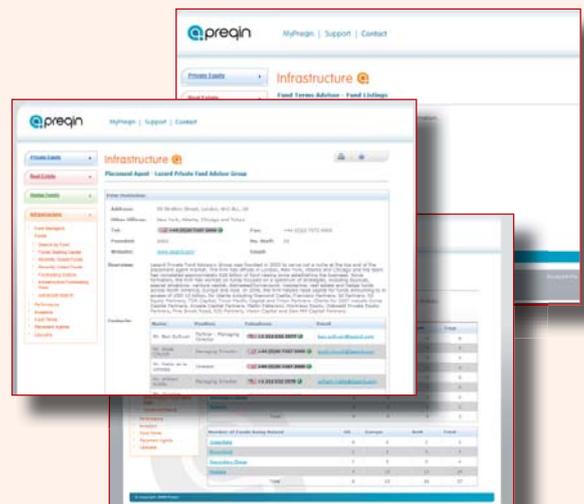
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## Conferences:

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
FT Asia Infrastructure Summit	23 March 2009	Singapore	FT Global Conferences
Investing in Renewable Energy Projects and Infrastructure	26 March 2009	London	C5
2nd Annual Pavement Management Middle East	29 March - 01 April 2009	Dubai	IQPC
Urban Transportation 2009	26 - 29 April 2009	Abu Dhabi	IQPC
Russian Infrastructure Finance	27 - 28 April 2009	Moscow	C5
Infrastructure Investment World Americas 2009	27 - 30 April 2009	New York	Terrapinn
WaterTech 2009	3 - 6 May 2009	Abu Dhabi	IQPC
Infrastructure Investment World Middle East 2009	4 - 7 May 2009	Doha, Qatar	Terrapinn
True North Australia 2009	5 - 7 May 2009	Darwin, Australia	Terrapinn

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# Investor Spotlight: Investor News

## **Toronto Transit Commission Pension Society adds infrastructure to investment portfolio.**

The CAD 3.5 billion pension plan has carved out a separate infrastructure allocation of between 2% and 5% of total assets. The pension scheme is also close to making its maiden commitment to an infrastructure vehicle, based on the recommendations of its infrastructure consultants bfinance and Brockhouse Cooper. Toronto Transit Commission hopes to commit a further CAD 50-100 million to another one or two infrastructure funds over the next 12 months in order to reach its target allocation by Q4 2010.

## **Valartis Group's infrastructure fund of funds vehicle offers geographical exposure options for investors.**

Valartis Global Infrastructure Select is the first infrastructure-specific fund of funds to be raised by Valartis Group. The open-ended vehicle offers two investment strategies - investors can choose to gain exposure to a pool of funds focused on OECD markets or selection of funds targeting emerging markets. The OECD component will primarily invest in brownfield funds, with a 10-15% exposure to greenfield vehicles whilst the emerging markets component will primarily invest in greenfield focused funds. Valartis hopes to raise at least EUR 100-150 million for the emerging markets component and EUR 200-250 million for the OECD component.

## **Finnish State Pension Fund looks to expand infrastructure fund portfolio in 2009.**

The EUR 10.5 billion pension fund plans to add two more infrastructure funds to its investment portfolio in 2009. Finnish State Pension Fund plans to commit to a European focused renewable energy infrastructure fund by the end of Q2 2009 and an infrastructure fund focusing on traditional infrastructure assets in either Europe or Asia by the end of the year. The pension fund expects to commit EUR 20-35 million to each fund, but a commitment of over EUR 40 million will be considered if an appropriate opportunity is presented.

## **Ventura County Employees' Retirement Association to consider infrastructure at Q3 board meeting.**

The USD 2.3 billion public pension plan will hold an infrastructure board meeting in July to determine which infrastructure investment strategies to incorporate into a new opportunistic bucket. The pension scheme plans to invest via top quartile infrastructure managers and is attracted to the asset class by the potential

for stable returns over the long-term that escape the short-term volatility of the traditional markets. The pension plan's general consultant, Ennis Knupp and Associates, will advise on possible infrastructure investment strategies and aid in future manager searches. Ventura's board has also been considering hedge funds and private equity investments in order to move away from a more conservative investment strategy.

## **Derbyshire County Council Pension Plan targets first infrastructure fund commitment in 2009.**

The GBP 2.5 billion public pension scheme has carved out a separate infrastructure allocation of between 1.5% and 2% of total assets, which will come into effect from April 2009. The pension plan seeks a diverse portfolio of infrastructure assets in terms of geographies and industries, and targets both economic and social sectors. Derbyshire County Council Pension Plan is attracted to the asset class by the potential for long-term "defensive" returns and hopes to commit to one or two infrastructure funds over the next 12 months. It currently has nearly 6% of total assets allocated to alternatives.

## **Sterling Chemicals hires alternatives consultant to advise on infrastructure investments.**

The Houston-based private sector pension fund has hired Milliman as a general consultant to advise on potential investment options within the alternatives asset classes. Sterling Chemicals first announced it was considering establishing an alternatives allocation in February 2009 in order to diversify its portfolio away from the traditional markets. The pension scheme is considering all alternative investments including infrastructure and hopes to begin investing later in 2009.

## **Lancashire County Council Pension Fund plans separate infrastructure allocation.**

The GBP 3.2 billion pension plan intends to invest 4% of total assets in the infrastructure asset class as a means of diversifying its overall alternatives portfolio and to capitalise on infrastructure's potential for stable returns over the long-term. The pension scheme hopes to begin investing in the asset class by the end of 2009. Mercer Investment Consulting, the pension plan's general consultant, will aid in the future selection of strategies and the search for infrastructure managers. Lancashire County Council Pension Fund currently invests in both private equity and hedge funds.

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

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