

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.

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- East Riding Pension Fund
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# Feature Article: Sovereign Wealth Funds Investing in Infrastructure

Sovereign wealth funds are an important source of investment capital, particularly for the infrastructure sector. SWFs tend to have long-term investment horizons, enabling them to invest in less liquid, alternative assets and making them a suitable match for the infrastructure asset class in particular.

The aggregate assets under management of all sovereign wealth funds worldwide currently stands at \$3.51 trillion, which represents a 9% increase from a year ago, confirming their collective significance in the world of institutional investors remains undiminished. The overall breakdown of SWFs by total assets under management is shown in Fig. 1.

## Sovereign Wealth Funds by Region

As shown in Fig. 2, Asia and the MENA region are home to the largest number of sovereign wealth funds, accounting for 57% of all such investors worldwide. Funds based in these regions account for 75% of the aggregate value of all SWFs globally, demonstrating that some of the largest SWFs are based in these two regions. One such fund, Abu Dhabi Investment Authority (ADIA), manages well into the hundreds of billions of dollars, and although it does not publicize its financial information, is likely the largest SWF in the world by some distance.

The next most significant region is Europe, with SWFs based there accounting for 19% of the global aggregate assets under management. Those based in Australasia, Latin America & Caribbean and North America each account for approximately 2% of the aggregate assets under management. African SWFs (excluding those in the MENA region) make up just 0.2% of the global total.

## Proportion of Sovereign Wealth Funds Investing in Infrastructure

As shown in Fig. 3, nearly half of all sovereign wealth funds are known to invest in the infrastructure asset class. The long-term nature of the asset class is suited to the long-term investment outlook held by many SWFs. A further 2% of SWFs are known to be considering making an infrastructure investment, while 39% do not invest in the asset class. It remains unclear whether the remaining 12% of SWFs are involved in the infrastructure sector.

Many sovereign wealth funds are large enough in terms of total assets to invest directly in infrastructure, as well as making significant commitments to unlisted infrastructure funds. The generally large nature of infrastructure projects and infrastructure funds suits sovereign wealth funds, many of which have large amounts of capital to commit to the asset class. This, accompanied by the low-risk profile and long-term nature of the asset class makes infrastructure an attractive investment option for many SWFs.

## Proportion of SWFs Investing in Infrastructure That Invest in Each Region

The most targeted region for infrastructure investment by sovereign wealth funds is Asia. As shown in Fig. 4, 62% of SWFs that invest in the asset class invest in Asian infrastructure projects. Half of sovereign wealth funds will make infrastructure investments in North America, while 35% are known to consider investments in Europe and the same percentage will invest in infrastructure assets located in the MENA region.

## Method and Type of Exposure

Fig. 5 shows the proportion of sovereign wealth funds investing both directly and indirectly in the infrastructure asset class.

Fig. 1:

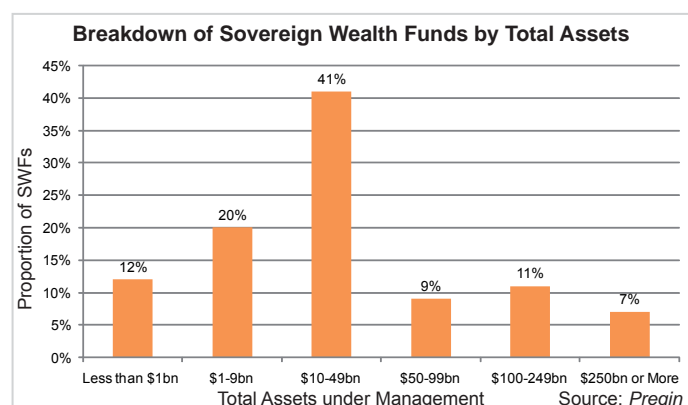


Fig. 2:

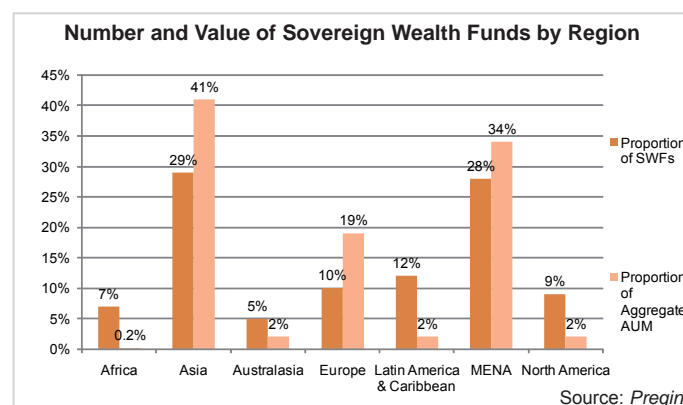
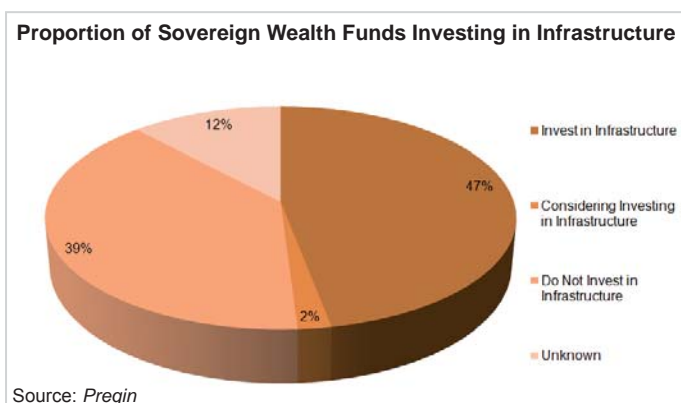


Fig. 3:



Half of the sovereign wealth funds that invest in infrastructure have exposure through both direct investments and fund commitments. 38% only make direct investments, while 12% will only invest in infrastructure funds. Both routes to market provide investments that can generate steady income streams and act as a hedge against inflation, but fund commitments also provide exposure to infrastructure opportunities without the SWF needing extensive knowledge of the asset class.

In terms of sector focus, nearly all (96%) of the sovereign wealth funds that invest in infrastructure look to gain exposure to economic infrastructure assets. Most of these SWFs are interested in core economic sectors such as energy and utilities. 46% of sovereign wealth funds active in the infrastructure sector are interested in social assets such as hospitals and educational facilities.

As shown in Fig. 6, 56% of the sovereign wealth funds that invest in infrastructure are known to be interested in greenfield-focused investments, 64% will consider brownfield projects and 76% are interested in established secondary stage assets. Many SWFs seek a diversified infrastructure portfolio and will make investments across all three project stages. For example,

Fig. 5:

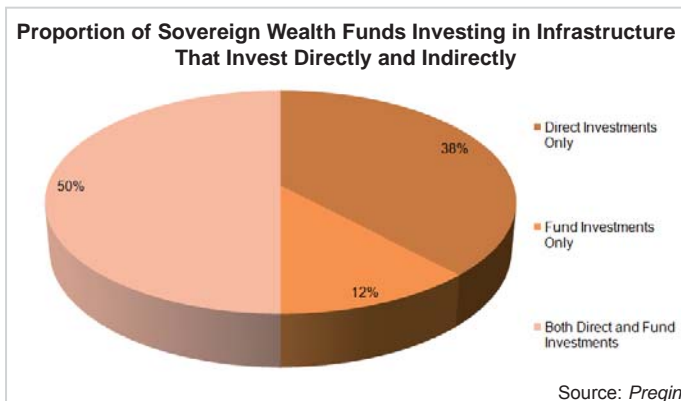
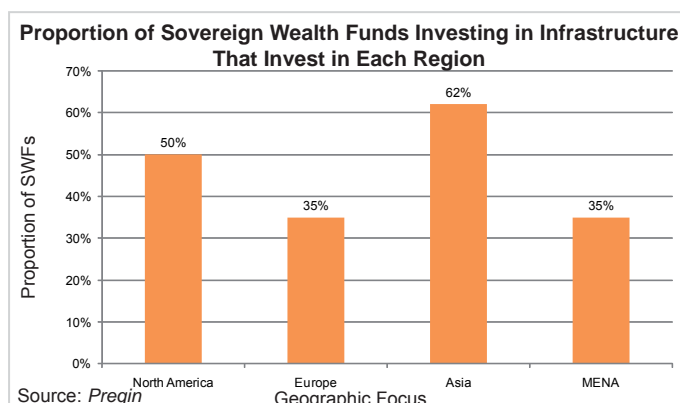


Fig. 4:



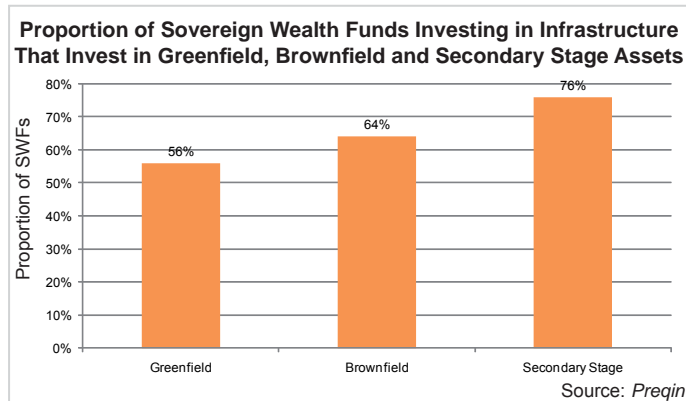
Qatar Investment Authority not only invests in greenfield, brownfield and secondary stage projects but also looks to invest in both developed and emerging markets and in economic and social sectors in order to maximize diversity. It will also consider PPP/PFI investments.

#### Recent Deals Involving SWFs

Infrastructure deals involving sovereign wealth funds are not often publicized. However, several deals have been made by SWFs in recent months, including China Investment Corporation's purchase of a 15% stake in AES Corporation, a global power company located in Arlington, Virginia. The SWF invested \$1.58 billion for the stake in the company in Q4 2009.

More recently, in February 2010, Abu Dhabi Investment Authority (ADIA) invested £125 million to purchase a 15% stake in London's Gatwick Airport from new owners Global Infrastructure Partners (GIP). GIP originally purchased the airport from BAA for £1.4 billion in October 2009, and has subsequently sold a 27% stake, including 12% to National Pension Service, a South Korean pension fund. These deals provide evidence of the significant spending capability of SWFs in the infrastructure sector, particularly through direct

Fig. 6:



investment strategies.

**Conclusion**

There is an ever-growing demand for infrastructure development, both in developed and emerging economies. The lack of public capital available for these infrastructure projects is increasing the need for private sector involvement, and sovereign wealth funds have both the capital and resources to play a greater role in the finance of infrastructure projects. Nearly half of all SWFs are actively investing in the infrastructure sector and this is likely to increase as demand continues to grow.

In 2010, some SWFs that had postponed plans to diversify their portfolios during the market downturn are likely to resume these investment programs. This could result in a growing number of SWFs entering the infrastructure market and increasing the already sizeable amount of capital available for infrastructure development worldwide, both through direct investment and unlisted fund commitments.

This article features information taken from The 2010 Preqin Sovereign Wealth Fund Review.

The 2010 Preqin Sovereign Wealth Fund Review includes profiles for 60 sovereign wealth funds, with combined assets of \$3.51 trillion. 47% of these invest in infrastructure

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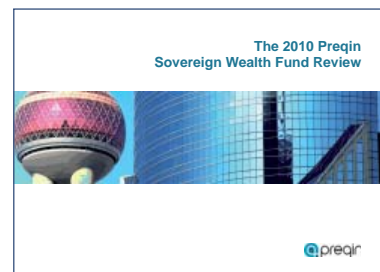
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# Fundraising Spotlight

## Funds on the Road

Funds on the Road	US	Europe	RoW	Total
No. of Funds	23	34	50	107
Total Target Value (\$bn)	34.2	33.4	25	92.6
Average Target Size (\$bn)	1.5	1	0.5	0.9

Source: Preqin

## Recently Closed Fund

### JPMorgan Asian Infrastructure & Related Resources Opportunity Fund

**Manager:** JPMorgan – Infrastructure Investment Group

**Target Size (mn):** 1,000 USD

**Final Close (mn):** 859 USD (Feb 2010)

**Geographic Focus:** China, India, Asia

**Industry Focus:** Distribution/Storage Facilities, Energy, Roads, Transportation, Utilities, PPP/PFIs

**Project Stage:** Greenfield, Brownfield

**Sample Investors:** Arizona Public Safety Personnel Retirement System, Merseyside Pension Fund, Dallas Police & Fire Pension System

## 10 Largest Funds on the Road

Fund	Manager	Target Size (mn)	Manager Country
RREEF Pan-European Infrastructure Fund II	RREEF Infrastructure	3,000 EUR	US
Energy Capital Partners II	Energy Capital Partners	3,500 USD	US
GS Infrastructure Partners II	GS Infrastructure Investment Group	3,500 USD	US
Highstar Capital IV	Highstar Capital	3,500 USD	US
Macquarie European Infrastructure Fund III	Macquarie Capital Funds	2,500 EUR	Australia
Macquarie Infrastructure Partners II	Macquarie Capital Funds	3,000 USD	Australia
CVC European Infrastructure Fund	CVC Infrastructure	2,000 EUR	UK
KKR Infrastructure Fund	Kohlberg Kravis Roberts	2,500 USD	US
Marguerite Fund	Marguerite Adviser	1,500 EUR	Luxembourg
Valiance Infrastructure Fund	Valiance Infrastructure Management Company	1,500 EUR	Luxembourg

Source: Preqin

Fig. 1:

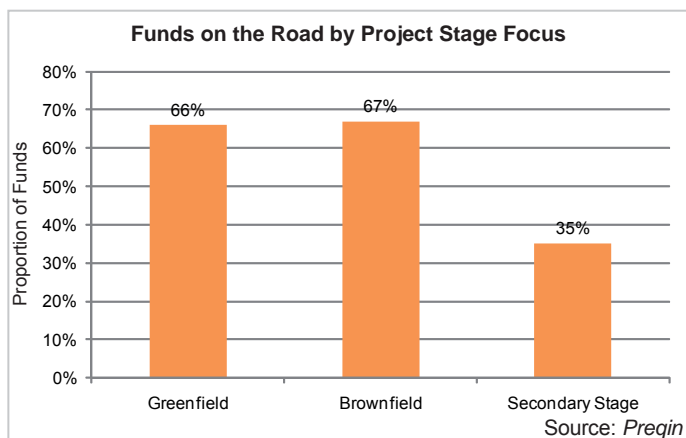
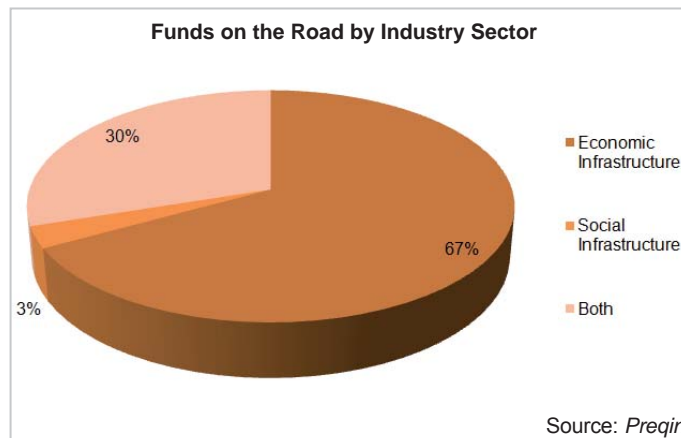


Fig. 2:





# Deals Spotlight

## Recently Closed Deal

### Karaikal Port

In March 2010, IDFC India Infrastructure Fund invested INR 1.5 billion in Karaikal Port. The port, located in Chennai, India, is a lagoon-type harbour connected to the sea via an entrance/ access channel protected by short breakwaters. It is in the developmental stage and will consist of a number of berths for both coal and general cargo.

**Investor** – IDFC India Infrastructure Fund

**Project Stage** – Brownfield

**Total Deal Size (mn)** – 1,500 INR

**Total Equity Invested (mn)** – 1,500 INR

Fig. 1:

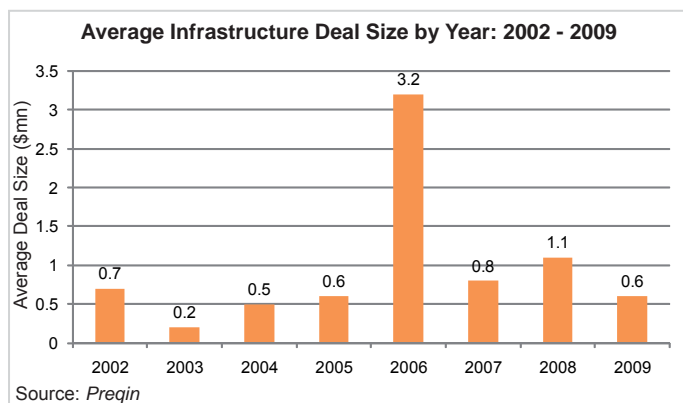


Fig. 2:

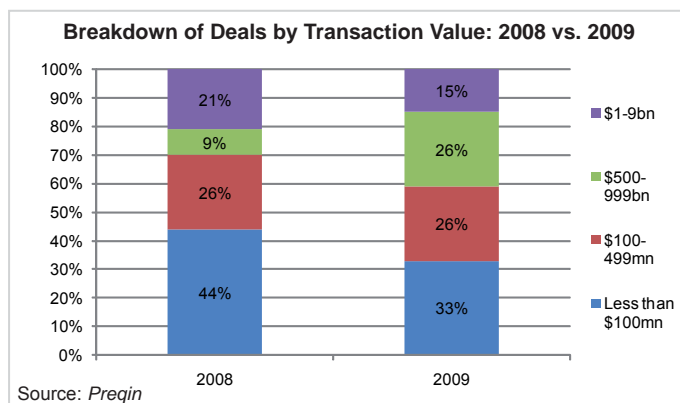


Fig. 3:

10 Most Active Unlisted Infrastructure Fund Managers in Last 12 Months		
Fund Manager	Number of Investments in the Last 12 Months	Total Raised Through Unlisted Infrastructure Funds (bn)
DIF	14	EUR 0.6
Equitix	10	-
Innisfree	7	GBP 2.0
Meridiam Infrastructure	6	EUR 0.6
Platina Partners	5	EUR 0.3
Bouwfonds Real Estate Investment Management	5	EUR 0.4
IDFC Private Equity	4	USD 1.3
HgCapital	4	GBP 0.3
Global Infrastructure Partners	4	USD 5.6
Brookfield Asset Management	4	USD 4.1

Source: Preqin

# Conferences Spotlight: Forthcoming Events

## Infrastructure Investment World Americas 2010

**Date:** 26th - 29th April 2010  
**Location:** Bridgewater, New York, US  
**Organiser:** Terrapinn

Now in its 4th consecutive year, the event once again boasts the most comprehensive line-up of industry leading figures including, government, funds, institutional investors, labor unions, financiers, operators and developers. Over 70 speakers, 24 leading investors and 150+ attendees will discuss the opportunities and challenges for American infrastructure in 2010 and beyond..

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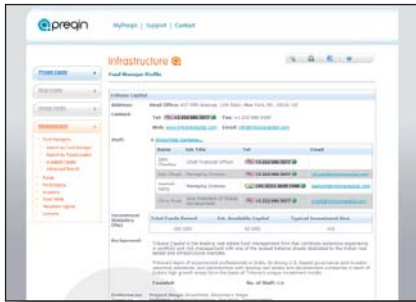
## Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Infrastructure Investor: Europe 2010	30 - 31 March 2010	Berlin	PEI Media
Infrastructure Asia 2010	14 - 17 April 2010	Jakarta	International Events Asia
African Infrastructure and Energy Finance Conference	20 April 2010	Johannesburg	Euromoney Seminars
Infrastructure Investment World Americas 2010	26 - 29 April 2010	New York	Terrapinn
Investment Opportunities in Abu Dhabi	26 - 27 April 2010	Abu Dhabi	Fleming Gulf
MENA Transport Infrastructure Conference	10 - 11 May 2010	Abu Dhabi	Fleming Gulf
New York Infrastructure Summit	12 May 2010	New York	Dow Jones Events
Energy, Renewable & Infrastructure Finance Conference	13 - 14 May 2010	Istanbul	Euromoney Seminars
Global Infrastructure Forum	19 May 2010	London	UBM Information
LNG Outlook Asia 2010	31 May - 3 June 2010	Singapore	Terrapinn



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# Investor Spotlight: Investor News

## **Asian Development Bank (ADB) to invest over USD 1 billion in infrastructure opportunities in 2010**

The USD 69.5 billion bank intends to commit USD 150 million to unlisted infrastructure funds over the next 12 months, and up to USD 1 billion in direct investments mainly in the form of loans. The bank will focus specifically on underdeveloped Asian economies including South and Southeast Asia. ADB typically commits between USD 15 million and USD 30 million to a single fund, and will look to invest in a minimum of five vehicles in 2010 in order to reach its USD 150 million annual investment target to infrastructure funds. It has a preference for first-time fund managers and will consider a range of economic infrastructure sectors.

## **IFC and Bancoldex back Colombian infrastructure fund**

The private sector arm of the World Bank Group has announced it is willing to invest up to USD 20 million, but no more than 20% of total commitments, in Ashmore Investment Management's first infrastructure fund, Infrastructure Fund of Colombia. Ashmore Investment Management and Inverlink were selected to be the managers of the fund and Macquarie Capital is the technical advisor. Bancoldex (Banco de Comercio Exterior de Colombia) will provide 50% of the funds' target capital.

## **East Riding Pension Fund to make new infrastructure fund investments in 2010**

The GBP 1.8 billion public pension fund will invest in one or two new unlisted infrastructure funds in the next 10 months. Specifically, the pension plan is looking at waste-to-energy vehicles, as well as follow-on funds with its existing managers. The pension fund expects to commit GBP 5-10 million to a single fund, and will only consider investments in developed markets. East Riding's current portfolio primarily offers exposure to European assets in a range of social and economic sectors, although it has a particular preference for PPP/PFI funds. Experienced fund managers are preferred, but it will consider funds managed by spin-off teams.

## **Pension Protection Fund (PPF) includes infrastructure in new investment strategy**

The GBP 4 billion pension plan has unveiled plans to carve out a 20% allocation to alternative assets, which will include infrastructure. PPF will invest in infrastructure as part of a defensive strategy to diversify its portfolio. The fund is seeking flexibility and so does not have a specific target allocation for the asset class. PPF will consider funds across a broad range of industries and locations. In addition, responsible investment principles will influence the pension fund's infrastructure investments, and appropriate weight will be given to environmental, social and governance factors in its fund manager selection process.

## **Ontario Municipal Employees' Retirement System (OMERS) creating co-investment relationships for infrastructure opportunities**

The CAD 47.8 billion pension plan is seeking to pool USD 20 billion from institutional investors in North America, Europe and Asia in its Global Strategic Investment Alliance vehicle. OMERS hopes to have preliminary commitments in place by September 2010, and will use this capital to acquire infrastructure assets worth more than USD 500 million. Infrastructure investments will account for 75-80% of the vehicle, with the remainder being directed towards real estate. OMERS expects an annual return on equity of 7-9%. This move comes as part of the mandate of OMERS Strategic Investments, launched in Q4 2008, to develop strategic co-investment relationships and alliances. Previously, OMERS invested in infrastructure assets solely through its infrastructure investment division, Borealis Infrastructure Investments.

## **Etera Mutual Pension Insurance Company to make new infrastructure fund commitments in 2010**

The EUR 5.5 billion Finnish asset manager, which has a current allocation to infrastructure of around 1% of its total assets, will invest in one or two unlisted infrastructure funds in the next nine months, one of which is expected to be an Asian-focused vehicle. Etera typically commits between EUR 30-50 million to each fund. The asset manager currently has investments in two infrastructure funds that provide exposure to low-risk economic industries, and it plans to invest on a global scale. Etera will consider PPP/PFI opportunities.

Alastair Scott

Each month Spotlight provides a selection of the recent news on institutional investors in infrastructure. More news and updates are available online for Infrastructure Online subscribers.

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