

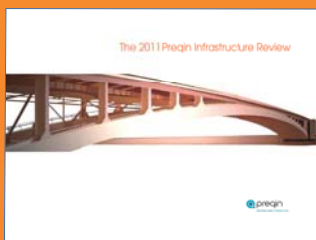
Welcome to the latest edition of Infrastructure Spotlight, the monthly newsletter from Preqin providing insights into infrastructure performance, investors and fundraising. Infrastructure Spotlight uses information from our online product Infrastructure Online.

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Infrastructure Spotlight

October 2011

Feature

Infrastructure: Separate or Equal?

Infrastructure assets have become more and more popular in the past few years and the sector has now emerged as an asset class in its own right. This month's feature article looks at the unique opportunities a portfolio of infrastructure funds can offer investors
[Page 2.](#)

Industry News

Infrastructure News

Each month Preqin's analysts speak to hundreds of investors and fund managers from around the world, uncovering exclusive intelligence on the unlisted infrastructure market. This month's Industry News features Tasplan, Purdue University Endowment and Northumberland County Council Pension Scheme
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The Facts

A look at the latest fundraising and deals statistics, along with an examination of Continental Europe-based fund managers and Canada-based investors investing in unlisted infrastructure funds:

- Fundraising Spotlight [Page 5.](#)
- Deals Spotlight [Page 6.](#)
- LP Spotlight: US-Based Public Pension Funds [Page 8.](#)
- GP Spotlight: The Debt Fund Market [Page 9.](#)
- Conferences: Details of upcoming infrastructure conferences around the world [Page 11.](#)

Data



You can download all the data in this month's Spotlight in Excel

Wherever you see this symbol, the data is available for free download on Excel. Just click on the symbol and your download will begin automatically. Feel free to use the data in any presentations, but please remember to cite Preqin as your source.



Infrastructure: Separate or Equal?

As unlisted infrastructure has become an asset class in its own right, Elliot Bradbrook looks at the unique opportunities it can offer the alternative assets investor.

Institutional investor appetite for unlisted infrastructure funds has grown extensively over the last decade. According to Preqin data, \$168bn has been raised by unlisted infrastructure fund managers since 2001 with investors committing record amounts of capital year-on-year prior to the onset of the financial crisis in 2008. As such, infrastructure is no longer considered a niche sector within the private equity space and is now widely recognized as a completely separate and independent asset class with a unique risk/return profile.

The majority of infrastructure investors look to such assets to provide a stable and predictable long-term return as well as a degree of portfolio diversification. However, as an asset class born out of the private equity mould, infrastructure (as a separate entity) remains at a crossroads. On the one hand investors recognize and appreciate the benefits of investing in infrastructure assets, but on the other there is a tension between the long-term nature of these assets and the shorter-term focus of the private equity fund model.

As a result, industry professionals continue to debate the best way to access infrastructure opportunities and question the suitability of the private equity fund structure when applied to an asset class with a lower risk/return profile and a longer investment horizon.

Infrastructure or Private Equity?

A conservatively managed infrastructure portfolio presents a unique opportunity for institutional investors, such as pension funds, to help satisfy their long-term liabilities. The various types of pension plan account for 41% of the total number of infrastructure investors worldwide. Public pension plans are the most prominent type of infrastructure investor, representing 19% of the global total, while private sector pension plans account for 16%. Superannuation schemes account for a further 6% of infrastructure investors, many of which are based in Australia. Other significant investor types include insurance companies (8%), banks (7%) and asset managers (7%).

Institutional investors rely on infrastructure assets to generate a steady and predictable yield over a number of years, usually

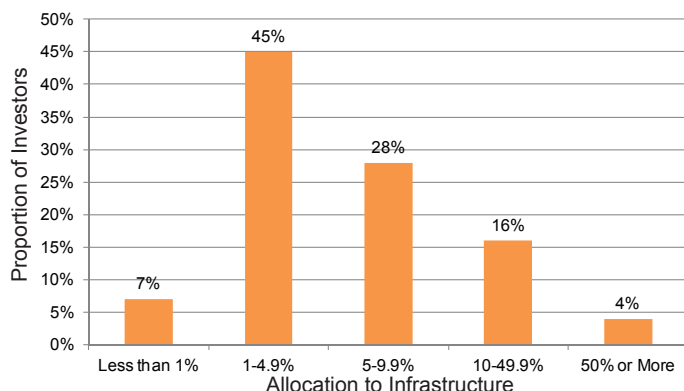
as part of a lower-risk strategy that is uncorrelated to market volatility. Private equity funds, however, usually pursue a more capital gain seeking higher risk/return strategy with a far shorter holding period. Despite these inherent differences, infrastructure fund managers continue to follow the private equity model when raising infrastructure funds, with 82% of investors currently gaining their exposure through commitments to such vehicles. 8% invest through listed funds and 31% consider direct investments in infrastructure assets.

Although interest in direct investment is growing, only a limited number of investors realistically have the resources and necessary expertise to complete and handle these investments in-house. These investors tend to have significant assets under management and higher percentage target allocations to infrastructure. In reality, 64% of the current infrastructure investor universe has under \$10bn in total assets under management and 52% has less than 5% of total assets allocated to infrastructure opportunities, as shown in Fig. 1. Most investors will therefore continue to rely on third-party infrastructure fund managers going forward.

These smaller players also tend to have less experience of the infrastructure asset class, and are still undecided as to where infrastructure fits within their investment portfolios, choosing to make opportunistic investments through previously established allocations rather than reserving capital specifically for infrastructure investment. 28% of the current infrastructure investor universe still invests via a private equity allocation, while 14% invests via an allocation to real assets and a further 8% invests through a general alternatives allocation. 43% of investors maintain a separate allocation dedicated to infrastructure, but these tend to be the larger and more experienced investors.

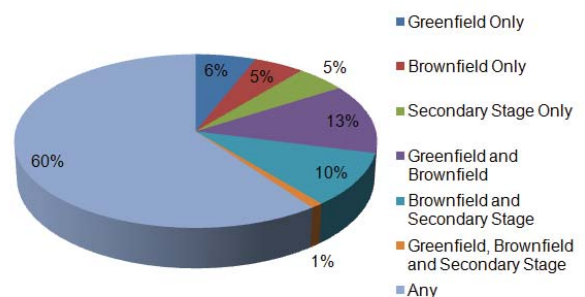
The low risk/return strategy pursued by most infrastructure investors is shown by the regions and project stages they look to invest in. As shown in Fig. 2, the majority of investors look to diversify their portfolio across the project stage spectrum, with 60% targeting a mix of greenfield, brownfield and secondary stage projects. 94% of investors aim to gain an element of exposure to lower-risk brownfield and secondary stage projects, as opposed to

Fig. 1: Breakdown of Infrastructure Investors by Target Allocation



Source: Preqin

Fig. 2: Infrastructure Investors by Project Stage Focus



Source: Preqin



the 80% that would consider an element of exposure to higher-risk developmental greenfield projects. Greenfield investments tend to be made in less volatile marketplaces.

In terms of region, the more developed European and North American markets are most popular among current infrastructure investors. These markets tend to offer a higher proportion of lower-risk brownfield and secondary stage opportunities and carry significantly less political risk compared to emerging markets. 47% of investors target European infrastructure assets and 36% invest in North America. Emerging market opportunities are growing, particularly in Asia and South America, but the higher-risk nature of investment in these regions means many infrastructure investors are unwilling to invest in such funds.

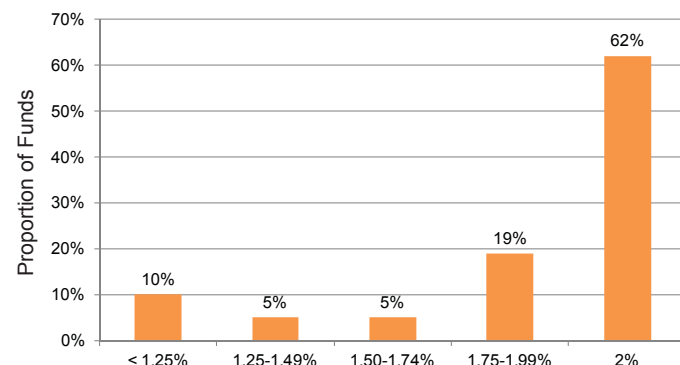
The fact that fund investments will continue to be the main route to market for investors in future suggests that a closer alignment of interest is needed between LPs and GPs when investing in infrastructure. This alignment not only applies to the structuring of the fund but also to manager terms and conditions. Investors are now largely unwilling to buy into the traditional 2/20 private equity fee structure when investing in lower-risk infrastructure assets that are forecasted to produce lower returns. However, the current market does not reflect this investor sentiment.

Fig. 3 shows the management fee charged during the investment period for infrastructure funds currently raising capital and vintage 2010/2011 funds closed. 62% of these funds still follow the 2/20 structure charging a management fee of 2%. Managers of 38% of these funds are beginning to adjust their fee structures by reducing the management fee charged according to investor demand, but more needs to be done in order to satisfy both parties.

The debate over fees can in part be attributed to the limited amount of data available to create meaningful performance benchmarks for the infrastructure industry due to the relative youth of the asset class. However, the performance of older infrastructure funds provides a good indication of what investors

can expect from younger funds. Fig. 4 shows that in comparison with other strategies, infrastructure funds have performed well, with the median net IRR for funds of vintages 1993-1999 at a similar level to buyout, venture and real estate. The standard deviation of net returns of infrastructure funds is also much less than these other strategies. This suggests that infrastructure funds are less risky than other strategies but are able to produce

Fig. 3: Management Fee Charged during Investment Period (Funds Raising & Vintage 2010/2011 Funds Closed)



Source: Preqin

attractive returns for investors even when compared to asset classes that shoot for higher returns.

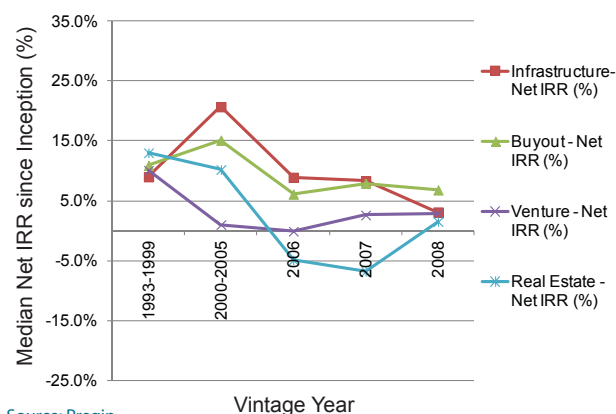
Outlook

Although infrastructure is now widely regarded as a separate asset class, the industry is still structured according to private equity principles. As such, the characteristics attracting institutional investors to the asset class are being overshadowed, with infrastructure assets being applied to fit the pre-existing private equity fund model rather than the reverse.

Most infrastructure investors are looking for long-term exposure to a portfolio of lower-risk assets providing a steady income stream, which is the opposite of what is traditionally available through a 10-12 year private equity-style fund with a 2/20 fee structure. There is consequently a mismatch between why investors look for exposure to infrastructure assets and the current financing models being marketed by infrastructure fund managers.

In order to overcome these issues, the fund model must be adapted according to the characteristics of infrastructure assets, meaning longer fund tenors (or structures in place to extend the lifespan) and a reduction in fees according to the level of risk exposure being targeted. Growth of the unlisted infrastructure industry is reliant on a resolution to these key issues and will require greater cooperation between investors and fund managers to improve alignment and increase the flow of capital to infrastructure assets in future.

Fig. 4: Infrastructure vs. Other Private Equity Strategies - Median Net IRR by Vintage Year



Source: Preqin

Data Source:

Preqin Infrastructure Online

Preqin's Infrastructure Online is the industry's leading source of intelligence on the unlisted infrastructure fund industry. This constantly updated resource includes details for all aspects of the asset class, including fund performance, fundraising data, institutional investor profiles, fund manager profiles and more.

For more information or to register for a demo, please visit:

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Industry News

A round-up of exclusive infrastructure industry news gathered directly by our team of dedicated analysts. Subscribers to Preqin's Infrastructure Online service can click on the links to reveal the full profile updates.

Ready, Steady GO!

A few investors have announced plans to invest in infrastructure for the first time.

[Stichting Shell Pensioenfond](#) is formulating an infrastructure investment strategy. The EUR 17 billion private sector pension fund anticipates finalizing the plans within the next six months. At this point it looks like it will consider a range of industries globally, but it has stated a preference for investments in developing countries.

[Northumberland County Council Pension Fund](#) looks set to make its first infrastructure investment in the form of a commitment to a fund of funds with a focus on European assets. Although it is yet to reach a final decision, it is likely that the public pension fund will allocate 5% of AUM to the asset class.

Meanwhile [PenSam](#), the DKK 5.4 billion private sector pension fund, has made its first commitments to the asset class, investing in two Europe-focused unlisted infrastructure funds. The pension fund plans to invest opportunistically over the next 12 months, building a diversified portfolio of assets.

Increasing Infrastructure Investment

[Purdue University Endowment](#) is looking to add to its existing portfolio of infrastructure assets in the coming year. The USD 2 billion endowment is focusing on the US energy sector, an area in which it has invested before through its private equity commitments. It is likely, although not certain, that the new investments will be made with existing managers.

[Alaska Permanent Fund Corporation](#) has increased its infrastructure allocation to 4% from 3% of total assets. The move will allow the USD 38.2 billion sovereign wealth fund to co-invest in infrastructure assets for the first time. It has set aside USD 400 million for infrastructure investments during 2012.

[Tasplan](#) is reshuffling its infrastructure portfolio as it feels the portfolio is too Australia-heavy. The AUD 1.45 billion superannuation scheme is set to withdraw AUD 25 million from AMP to invest in offshore funds. It is looking to invest in regulated assets within OECD countries at the brownfield and secondary project stages.

Deal Watch

[Alinda Infrastructure Funds I and II](#) have bought a 5.88% stake in [BAA](#) in a deal worth EUR 325 million. The stake was acquired through FGP Topco Ltd., parent company of BAA. BAA is an international airport operator headquartered in London.

[NEC Cleantech Infrastructure Fund](#) has invested USD 12 million in [FLS Energy](#). The firm provides planning, design, technology, installation and financing solutions to its clients as a hedge against rising energy costs and a clean source of energy.

[Arise Windpower and European Renewable Energy Fund](#) has completed EUR 335 million in financing for Jädraås wind farm. Based in Sweden, the wind farm could have over 200MW of installed capacity once completed, making it one of the largest in Europe.

[First Reserve Energy Infrastructure Fund](#) has acquired a 50% stake in a joint venture with [ECA](#). The stake cost USD 100 million and resulted in the formation of [First Reserve/ECA Joint Venture](#).

What's New?

Do you have any news you would like to share with the readers of Spotlight? Perhaps you're about to launch a new fund, have implemented a new investment strategy, or are considering investments beyond your usual geographic focus?

Send your updates to cwilson@preqin.com and we will endeavour to publish them in the next issue.

All of Preqin's exclusive intelligence is available on Infrastructure Online.

Subscribers can click on the firm and fund names to view the full profile.

For more information please visit www.preqin.com/infrastructure



Fundraising Spotlight

The latest statistics from the infrastructure fundraising market

Fig. 1: Key Facts: Unlisted Infrastructure Funds on the Road

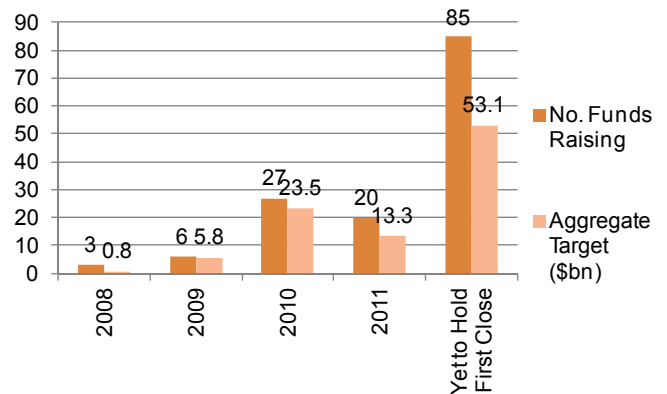
Funds on the Road	US	Europe	Asia and Rest of World	Total
Number	35	65	41	141
Aggregate Target Value (\$bn)	32.3	38.8	25.4	96.5
Average Target Size (\$bn)	0.92	0.60	0.62	0.68

Source: Preqin

Data Source

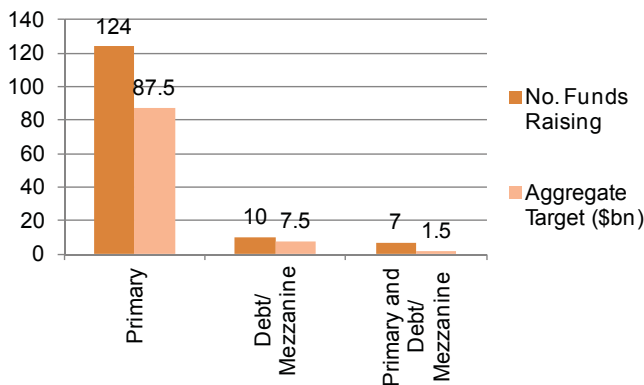
Details on all of the 141 unlisted closed-end infrastructure funds currently seeking capital can be found on Preqin's Infrastructure Online. For each fund you can view: initial target size; project stages targeted; industries and geographies targeted; and much more. For more information or to register for a demo, please visit: www.preqin.com/infrastructure

Fig. 2: Infrastructure Funds in Market by Year of First Close



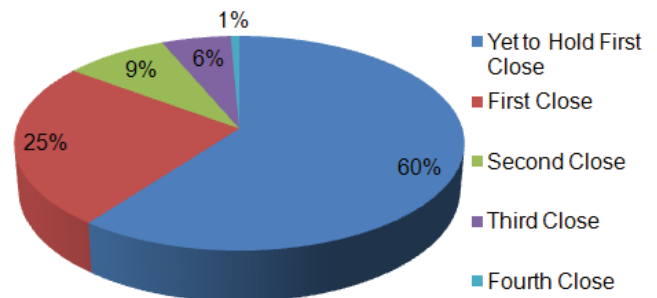
Source: Preqin

Fig. 3: Infrastructure Funds in Market by Type



Source: Preqin

Fig. 4: Infrastructure Funds in Market by Fund Status



Source: Preqin

Fig. 5: Top 10 Infrastructure Funds in Market by Target Size

Fund	Manager	Target Size (Mn)	Fund Status	Fund Focus
Highstar Capital Fund IV	Highstar Capital	USD 3,500	First Close	US
RREEF Pan-European Infrastructure Fund II	RREEF Infrastructure	EUR 2,000	First Close	Europe
KKR Infrastructure Fund	Kohlberg Kravis Roberts	USD 2,500	Second Close	US
First State European Diversified Infrastructure Fund	Colonial First State Global Asset Management/ First State Investments	EUR 1,500	Third Close	Europe
AXA Infrastructure Fund III	AXA Private Equity	EUR 1,500	Fourth Close	Europe
Marguerite Fund	Marguerite Adviser	EUR 1,500	First Close	Europe
ArcLight Energy Partners Fund V	ArcLight Capital Partners	USD 2,000	Third Close	US
United States Power Fund IV	Energy Investors Funds	USD 1,750	Third Close	US
EISER Infrastructure Fund II	EISER Infrastructure Partners	EUR 1,000	First Close	Europe
Innisfree PFI Secondary Fund II	Innisfree	EUR 800	First Close	Europe

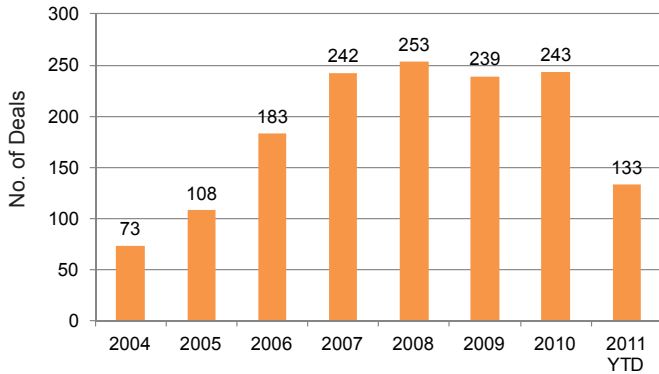
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Deals Spotlight

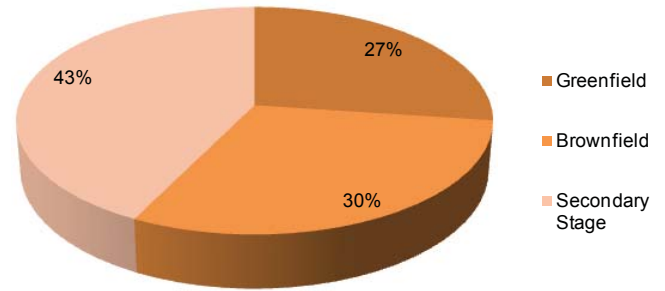
A round-up of infrastructure deals by year, industry and project stage

Fig. 1: Annual Number of Deals Made by Unlisted Infrastructure Fund Managers, 2004 - 2011 YTD



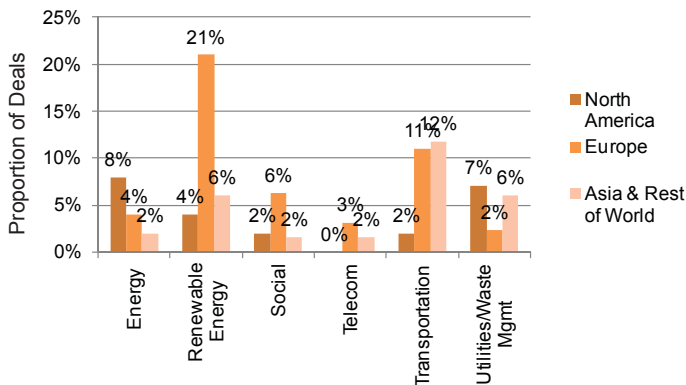
Source: Preqin

Fig. 2: Number of Infrastructure Deals by Project Stage, January - October 2011



Source: Preqin

Fig. 3: Breakdown of Infrastructure Deals by Industry and Region, January - October 2011



Source: Preqin

Fig. 4: Five Notable Deals, Q3 2011

Asset	Location	Industry	Investors	Deal Size (mn)	Date
Humber River Regional Hospital	Canada	Hospitals	Innisfree PFI Secondary Fund, Plenary Group	CAD 1,705	Sep-11
Midtown Tunnel	US	Tunnels	Macquarie Infrastructure and Real Assets (MIRA), Skanska	USD 1,630	Jul-11
NextEra Energy Generation Plants	US	Power Plants	LS Power Equity Partners II	USD 1,050	Sep-11
Andalucia & Extremadura CSP	Spain	Solar Power	InfraRed Environmental Infrastructure Fund	EUR 500	Sep-11
Arenales	Spain	Solar Power	RREEF Pan-European Infrastructure Fund	EUR 350	Jul-11

Source: Preqin

Data Source:

Preqin Infrastructure Online

There are 1,784 deals logged on Infrastructure Online. The product contains financial information for 679 deals worth a combined \$406,846 million.

For more information or to arrange a demo please visit

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US-Based Public Pension Funds

A look at public pension funds based in the US that invest in infrastructure

Fig. 1: Key Facts: US-Based Public Pension Funds Investing in Infrastructure

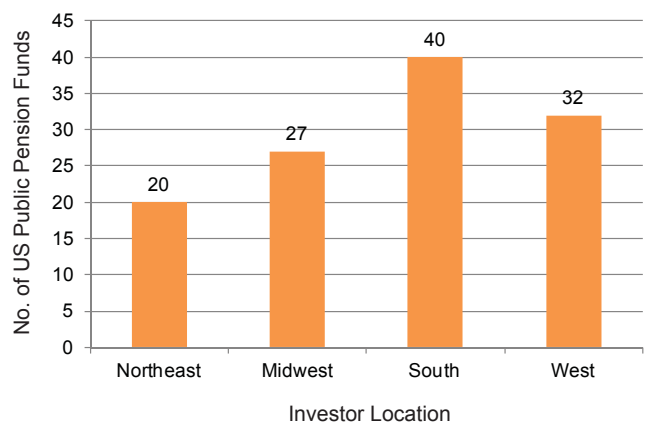
Number of Investors	119
Median AUM (USD mn)	5,366
Mean Current Allocation to Infrastructure	1.95%
Mean Target Allocation to Infrastructure	3.53%

Source: Preqin

Data Source: **Preqin Infrastructure Online**

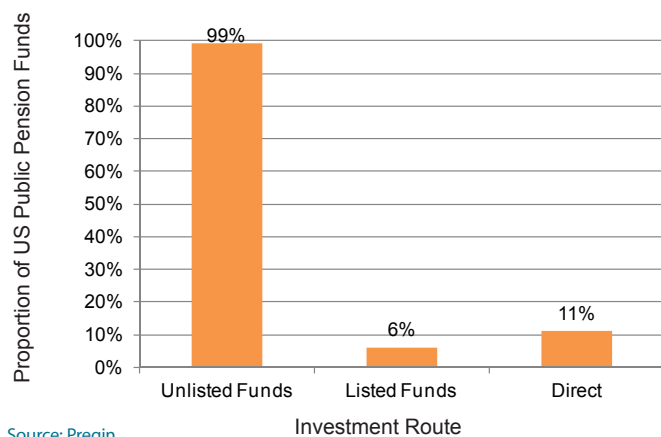
Infrastructure Online has detailed profiles of 119 US-Based public pension funds investing in infrastructure. Subscribers can click on the investor names to view the full profile. For more information please visit www.preqin.com/infrastructure

Fig. 2: US-Based Public Pension Funds Investing in Infrastructure by Regional Location



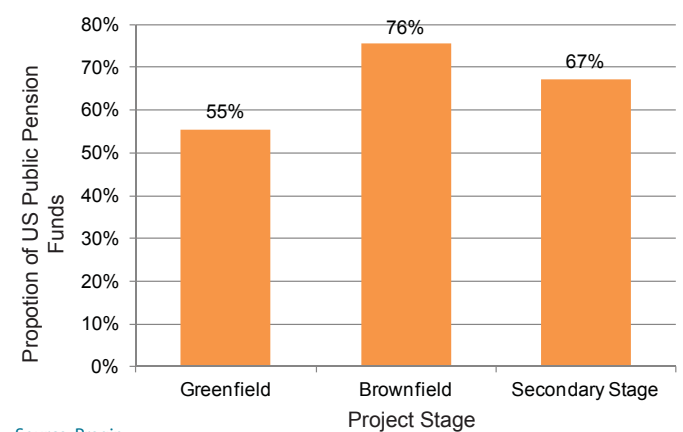
Source: Preqin

Fig. 3: US-Based Public Pension Funds Investing in Infrastructure by Preferred Routes to Market



Source: Preqin

Fig. 4: US-Based Public Pension Funds Investing in Infrastructure by Preferred Project Stages



Source: Preqin

Fig. 5: Key US-based Public Pension Funds Investing in Infrastructure

Investor	State	AUM (USD mn)	Current Allocation to Infrastructure (% of AUM)
Teacher Retirement System of Texas	Texas	108,000	1.3%
Illinois State Board of Investment	Illinois	10,778	5.2%
Oregon State Treasury	Oregon	60,000	0.8%
Maine Public Employees Retirement System	Maine	10,600	4.1%
San Diego County Employees Retirement Association	California	8,000	3.8%

Source: Preqin



Infrastructure Debt Fund Market

Everything you need to know about infrastructure debt fund managers

Fig. 1: Key Facts: Infrastructure Debt Fund Market

Number of Infrastructure Debt Fund Managers	26
Total Number of Infrastructure Debt Funds	38
Aggregate Capital Raised (\$bn)	8.2
Number of Funds on the Road	18
Aggregate Capital Sought (\$bn)	9.1

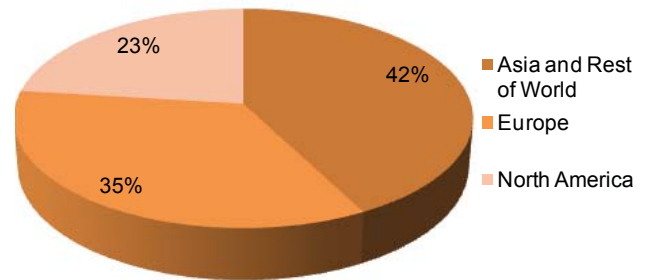
Source: Preqin

Data Source: **Preqin Infrastructure Online**

Infrastructure Online has detailed profiles of 26 infrastructure debt fund managers. Subscribers can click on the firm names to view the full profile.

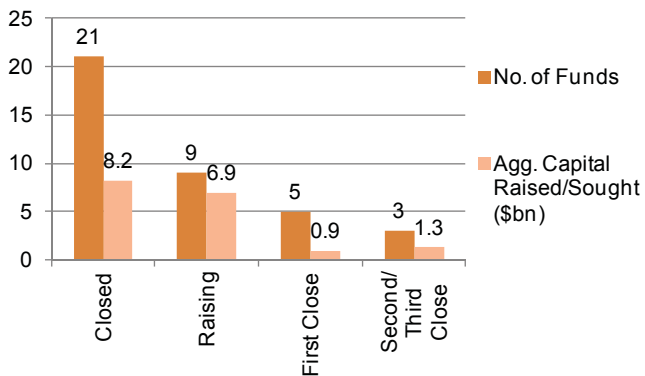
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Fig. 2: Infrastructure Debt Fund Managers by Location of Headquarters



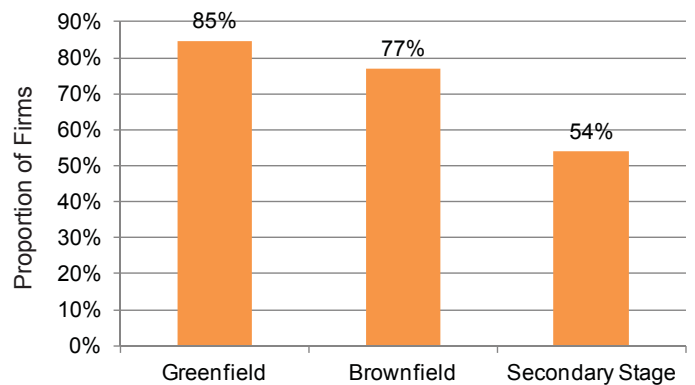
Source: Preqin

Fig. 3: Infrastructure Debt Funds by Fund Status and Aggregate Capital Raised/Raising



Source: Preqin

Fig. 4: Infrastructure Debt Fund Managers by Project Stage Focus



Source: Preqin

Fig. 5: Key Infrastructure Debt Fund Managers Currently Raising Capital

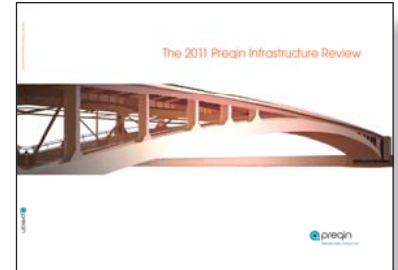
Fund Manager	No. of Funds Raising	Total Capital Sought (mn)
Aviva Investors	1	GBP 1,000
Hastings Funds Management	1	EUR 1,000
Sequoia Investment Management Company	1	EUR 1,000
Cordiant Capital	1	USD 1,000
Barclays Infrastructure Funds	1	USD 500

Source: Preqin

Now in its fourth year, the [2011 Preqin Infrastructure Review](#) represents the most comprehensive examination of the unlisted infrastructure asset class ever produced.

Key features of this year's publication include:

- Detailed analysis sections showing the latest trends in all areas of the industry: deals, fundraising, investors, terms and conditions, history and development and more...
- Profiles of over 300 infrastructure firms and 500 funds, including 104 with performance data. Profiles include strategy and deals data, direct contact information for key professionals and more...
- Profiles for over 170 institutional investors in the sector including investment plans, strategic preferences and key contact details, plus the results of our investor survey.
- Detailed listings of all funds ever closed, plus funds currently raising capital.
- Information gathered by our dedicated team of analysts from numerous data sources, including via direct interaction with fund managers and investors to ensure the information in the Review is as accurate, comprehensive and exclusive as possible.



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Conferences Spotlight Forthcoming Events

Conference	Dates	Location	Organizer
Infrastructure Investment World Europe 2011	November 2011 (TBC)	London	Terrapinn
Institutional Investing in Infrastructure (I3)	8 - 9 November 2011	Chicago	Institutional Real Estate
Brazilian Energy and Infrastructure Finance Forum	10 - 11 November 2011	Sao Paulo	Euromoney Seminars
IJ Transport Finance & Investment Forum	14 - 15 November 2011	Scotland	Infrastructure Journal
World Infrastructure Summit	15 - 17 November 2011	Barcelona	Emap
Infrastructure Investment World Deutschland 2011	6 - 8 December 2011	Germany	Terrapinn

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Infrastructure Investment World Asia 2011

Date: 18- 21 October 2011
Location: Kowloon Shangri-la, Hong Kong
Organiser: Terrapinn

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