

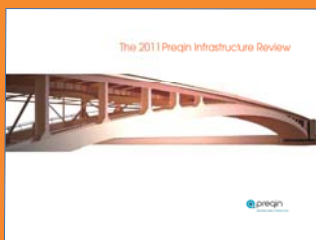
Welcome to the latest edition of Infrastructure Spotlight, the monthly newsletter from Preqin providing insights into infrastructure performance, investors and fundraising. Infrastructure Spotlight uses information from our online product Infrastructure Online.

August 2011
Volume 3 - Issue 8

FEATURED PUBLICATION:

The 2011 Preqin Infrastructure Review

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Infrastructure Spotlight

August 2011

Feature

Finding Some Common Ground: The Alignment of Interests

Infrastructure funds are attracting increasing attention from investors, although issues remain when it comes to the alignment of interests between LPs and GPs. Which of these issues is of greatest concern to investors at present? This month's feature article discusses the results of our latest investor study.

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News Exclusives

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 News Exclusives features YMCA Retirement Fund, Oregon State Treasury and Smithfields Food Pension Fund.

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The Facts

A look at the latest fundraising and deals statistics, along with an examination of MENA and SSA-based fund managers and public funds investing in unlisted infrastructure funds:

- Fundraising Spotlight [Page 5.](#)
- Deals Spotlight [Page 6.](#)
- LP Spotlight: Public Pension Plans [Page 8.](#)
- GP Spotlight: MENA and SSA Fund Managers [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.



Finding Some Common Ground

Investors remain keen to invest in infrastructure, although the results of our latest study show that there are still areas in which investors feel that the interests of GPs and LPs can be better aligned.

Last year, Preqin released the results of its June 2010 infrastructure investor study. Despite increased investor optimism following its fall in the wake of the global financial crisis, a number of key issues were identified by LPs that they felt needed to be addressed in order to ensure continued growth within the industry. Management fees, carry structures, liquidity, LP/GP interaction and hurdle rates were all placed under the microscope and the difficult fundraising environment meant investors gained significantly more power when negotiating fund terms and conditions.

A year on, the results of our June 2011 Preqin Investor Outlook: Infrastructure indicate that institutional investor appetite for infrastructure is again on the rise, with 70% of surveyed investors expecting to make further investments in the asset class in the coming 12 months. However, the current infrastructure fundraising market remains highly competitive and the same contentious issues continue to impact investor appetite and the ability of fund managers to raise capital.

This month's edition of Infrastructure Spotlight examines how the alignment of LP and GP interests has developed over the past 12 months and what else needs to be done to ensure continued growth within the sector.

Alignment of Interests

51% of investors surveyed in June 2011 disagreed or strongly disagreed that the interests of investors and fund managers are properly aligned, while 49% believed interests are aligned. In contrast, 72% of those investors surveyed in June 2010 disagreed or strongly disagreed that LP and GP interests were suitably aligned, while just 28% agreed or strongly agreed. It therefore appears that fund managers have begun adapting to changing investor demands over the past year.

One investor stated: "While there have been many cases of misalignment, mostly leading to poor performance, most successful

raising now consider the ILPA Principles and can create an acceptable level of alignment; however, more needs to be done in this area." This illustrates that alignment has generally improved over the past year, although nearly half of the investors surveyed still believe that issues remain.

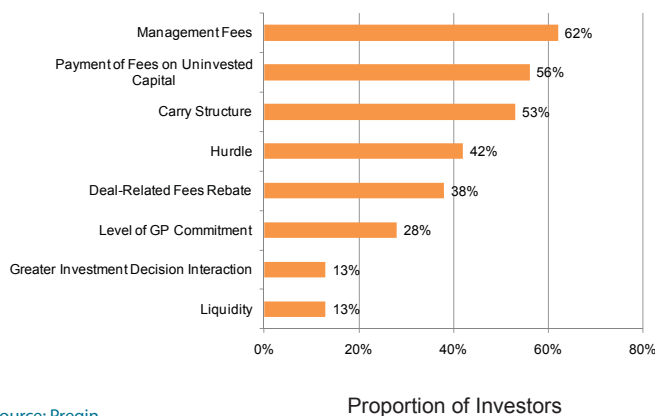
Specific areas in which investors believe interests need improving are shown in Fig. 1; respondents were able to select more than one area. The management fee charged and how carried interest is structured remain two of the most prevalent areas in need of improvement, with 62% and 53% of investors citing each issue as a problem respectively. One investor commented: "Manager fees are far too high in most cases, and there are a number of conflicts of interest that can arise. Performance fees are often structured poorly, based on capital appreciation rather than performance above a hurdle."

While management fees remain problematic, the proportion of respondents stating that they are in need of improvement has declined from 72% in June 2010. Similarly, the proportion of surveyed investors selecting carry structures as a contentious issue also fell from 72% last year. This again suggests that infrastructure fund managers are taking note of institutional investor demands and reforming their fee structures to create a more aligned LP-GP relationship.

Investors felt that the alignment of interests needed improvement in several other areas; 56% of investors take issue with having to pay fees on capital that has not yet been invested for example, slightly more than the 53% that stated the same in 2010. Similarly, 42% of surveyed investors stated that issues surrounding hurdle rates remain, a slight increase from last year when 39% of investors felt that there was a misalignment of interests in this area. Commenting on the subject, one investor stated: "Hurdles should be appropriate to the risk targeted by the fund."

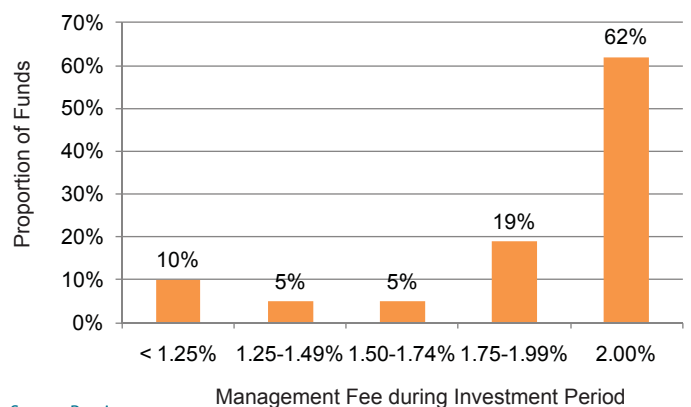
One-quarter of investors felt that there needed to be greater

Fig. 1: Areas in Which Investors Believe Alignment of Interests Can Be Improved



Source: Preqin

Fig. 2: Management Fee during Investment Period (Funds Raising & Vintage 2010/2011 Funds Closed)



Source: Preqin



interaction between themselves and fund managers in 2010, but just 13% were of this opinion this year, suggesting that the channels of communication have opened up between investors and fund managers in the past year. The results of the survey also imply that investors are a lot more satisfied with the commitments GPs are making to their own vehicles; the proportion of investors that stated this was an area of concern fell from 45% in 2010 to 28% this year.

Fees

Many investors continue to struggle with the discrepancy between the risk/return profile of infrastructure assets and the level of management fees charged by fund managers utilizing the private equity fund model. Other investors also suggest there is a fundamental difference between the reasons investors look to gain exposure to infrastructure assets (such as for long-term, stable yield) and the profit-orientated aims of fund managers when raising an infrastructure fund.

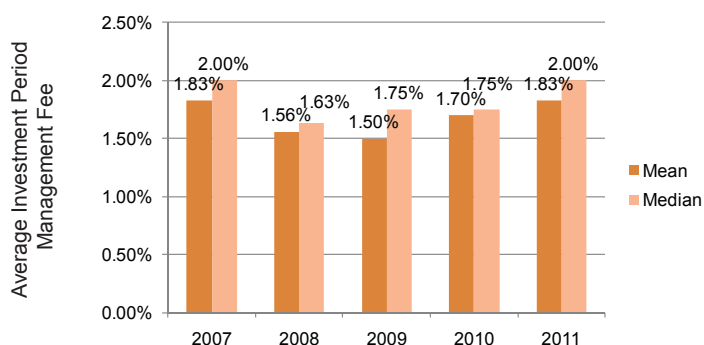
According to Preqin data, the majority of unlisted infrastructure funds (83%) target a net IRR of between 10% and 20%. This is lower than the level of returns traditionally sought by fund managers operating private equity or real estate funds, and the potential for very high returns is also much lower in infrastructure; only 1% of infrastructure funds are targeting an IRR of over 25%. The majority of infrastructure investors therefore believe management fees should reflect this lower risk/return profile.

Fig. 2 shows the management fee charged during the investment period for funds currently raising capital and vintage 2010/2011 funds closed. 62% of funds in this category have a management fee of 2%, just under a fifth have a fee of 1.75-1.99%, and 15% have a fee of less than 1.5%. This shows that, despite investor pressure, the majority of fund managers that are currently raising or have recently closed an infrastructure fund continue to use the 2/20 private equity fee structure.

Fig. 3 further highlights the issue by showing the average management fee charged by infrastructure fund managers by vintage year. The median fee during and immediately following the financial crisis in 2009 and 2010 was below 2%, but has risen back up to 2% for funds of a 2011 vintage and those funds still raising capital that have yet to begin investing.

However, it should be noted that 38% of managers of the most recent funds are charging a management fee of less than 2%. This

Fig. 3: Average Management Fee by Vintage Year



Source: Preqin

shows that the industry is reacting to LP pressure, with prominent private equity firms like KKR and Blackstone (now StonePeak Infrastructure Partners) publicly lowering their management fees to attract investor capital. Many fund managers also have structures in place to reduce the management fee charged in different circumstances, such as in return for a higher level of commitment from the LP.

Outlook

The 2011 study suggests that the outlook for the infrastructure asset class is positive, with all those taking part believing infrastructure investments have a valuable place in institutional portfolios. LP and GP interests also seem to have become better aligned in the past year, with the proportion of surveyed investors suggesting that there are still issues falling from 72% to 51%. Fig. 4 shows a positive outlook over the short term, with 70% of institutional investors stating plans to make further investments in the infrastructure asset class in some form over the coming 12 months.

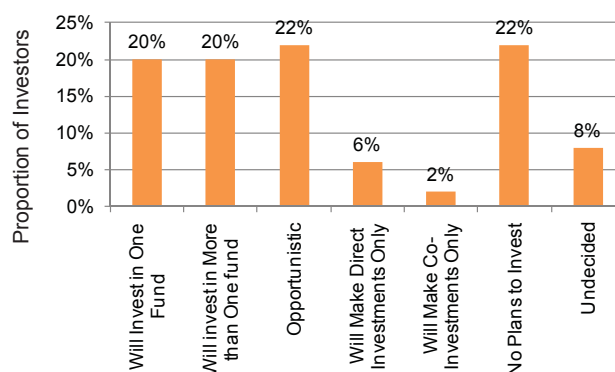
However, while there is much to be positive about in these findings, further development of the unlisted infrastructure fundraising market is reliant on the continued resolution of the issues identified in this article, and this can only be achieved through greater cooperation between fund managers and investors. It is clear that more needs to be done to improve alignment, and fund managers need to ensure that fund terms and conditions are structured appropriately in order to be successful in an increasingly competitive and challenging fundraising market.

Data Source: The 2011 Preqin Infrastructure Review

This month's feature article uses data collected for The 2011 Preqin Infrastructure Review, the most comprehensive review of the unlisted infrastructure asset class ever produced.

For more information, or to order your copy, please visit www.preqin.com/infrareview

Fig. 4: Investors' Plans for the Next 12 Months



Source: Preqin

News Exclusives

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.

Influx of Infrastructure Investors

There is proof that infrastructure is extending its appeal this month as two investors that have no previous exposure announced plans to make their asset class debut.

YMCA Retirement Fund is looking to invest in energy-focused, infrastructure-related funds. Capital will come from its private equity allocation, and the pension plan is looking to make commitments within the next 12 months. It will consider opportunities on a global scale, but will focus mainly on the European and North American markets.

Smithfield Foods Pension Fund meanwhile is planning to make its first infrastructure investment during the coming year. It is seeking opportunities in any sector, and will consider investing in both funds of funds and primary funds with a focus on North America.

A number of seasoned investors are joining the newcomers to the asset class in their search for infrastructure commitments.

USD 75 billion **Oregon State Treasury** has invested in a US-focused unlisted fund, increasing its exposure to the energy, transportation, waste management and water sectors. The commitment is the first to be made from the recently established Alternatives Portfolio, which has a target allocation of 5% of total assets. Part of this allocation, equivalent to 1.75% of total assets, is earmarked for infrastructure investment. The recent investment is likely to be the first of a number made in the coming 12 months.

Over in Louisiana, the **Teachers' Retirement System** has created a 2% independent target allocation to infrastructure. The pension plan previously made infrastructure investments through its real assets portfolio, the first of which was made during Q3 2010. The pension plan

intends to invest USD 75 million in the asset class during the 2012 fiscal year.

As part of a strategic overhaul, **Laborers National Pension Fund** is planning to invest in an unlisted open-ended fund within 12 months. The pension plan is hoping the move will make its portfolio, which consists of closed-ended funds primarily focused on North America, more transparent and that it will increase liquidity. In addition to this new investment, which will form the cornerstone of its portfolio, it will make smaller investments in some closed-ended infrastructure funds. The pension plan has USD 1.4 billion under management and a 5.1% target allocation to infrastructure.

Movers and Shakers

New Mexico Educational Retirement Board has renewed its general consultant's contract. New England Pension Consultants will continue to advise the pension plan for the next two years.

The pension plan has also appointed infrastructure-specific **Caledon Capital Management** to assist in its investments in the asset class. It expects to make further infrastructure commitments over the coming 12 months as it moves towards a 3% target allocation. As of Q2 2011, the pension plan had 1.68% of AUM, USD 155 million, invested in infrastructure.

Deal Watch

Deals have been taking place in various parts of the world this month, including activity in the US, the UK and India.

IDFC Private Equity Fund III invested a further INR 800 million in Green Infra, an India-based independent energy producer. Green Infra is a joint venture between IDFC Private Equity and Emergent Ventures India. Green Infra invests in a range of renewable energy projects including wind power, solar, hydro and biomass.

EQT Infrastructure acquired a 70% stake in **Peregrine Midstream Partners**, a Texas-based supplier of HDMC natural gas storage assets in the north of the state. The capital is to be used to complete the development of the Ryckman Creek gas storage facility located in Wyoming, US.

Across the Atlantic **Ampère Equity Fund** announced it had acquired a 50% stake in **GreenPower's** windfarm project, **Carraig Gheal**. GreenPower retains an equity stake in the project, which is for 20 turbines with a generating capacity of 46MW.

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.

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Fundraising Spotlight

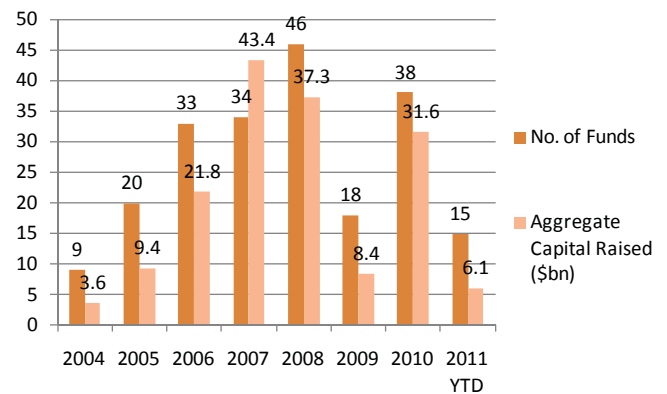
The latest statistics from the infrastructure fundraising market

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

Funds on the Road	US	Europe	ROW	Total
Number	29	51	50	130
Total Target Value (\$bn)	30.5	38.4	26.8	95.7
Average Target Size (\$bn)	1	0.8	0.5	0.7

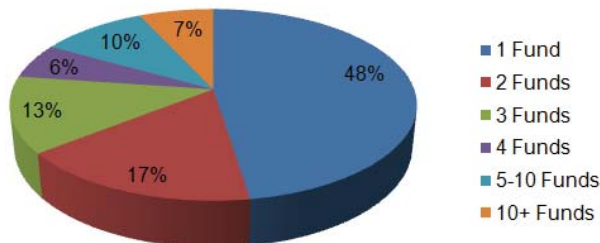
Source: Preqin

Fig. 2: Unlisted Infrastructure Fundraising, 2004 - Aug 2011



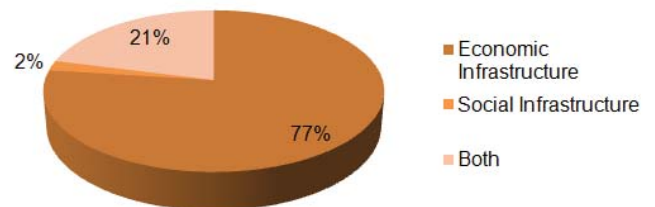
Source: Preqin

Fig. 3: Breakdown of Current Fundraising Market by Number of Funds Managed by Firm



Source: Preqin

Fig. 4: Infrastructure Funds on the Road by Industry Sector Focus



Source: Preqin

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

Fund	Manager	Target Size (mn)	Fund Focus
Global Infrastructure Partners II	Global Infrastructure Partners	5,000 USD	US
Highstar Capital Fund IV	Highstar Capital	3,500 USD	US
Alinda US Core Infrastructure Fund	Alinda Capital Partners	3,000 USD	US
CVC European Infrastructure Fund	CVC Infrastructure	2,000 EUR	Europe
Macquarie European Infrastructure Fund IV	Macquarie Infrastructure and Real Assets (MIRA)	2,000 EUR	Europe
RREEF Pan-European Infrastructure Fund II	RREEF Infrastructure	2,000 EUR	Europe
KKR Infrastructure Fund	Kohlberg Kravis Roberts	2,500 USD	US
First State European Diversified Infrastructure Fund	Colonial First State Global Asset Management/First State Investments	1,500 EUR	Europe
ArcLight Energy Partners Fund V	ArcLight Capital Partners	2,000 USD	US
BTG Pactual Brazil Infrastructure Fund II	BTG Pactual	2,000 USD	ROW

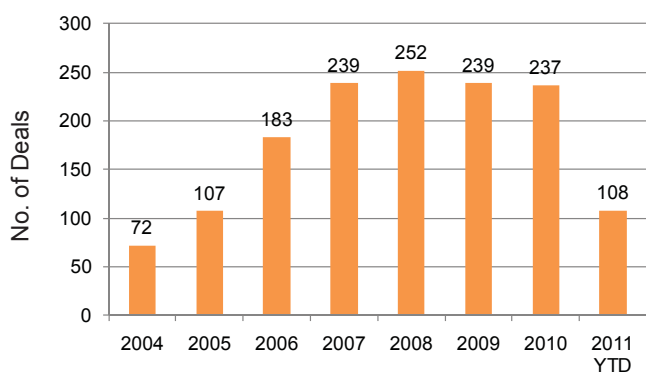
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Deals Spotlight

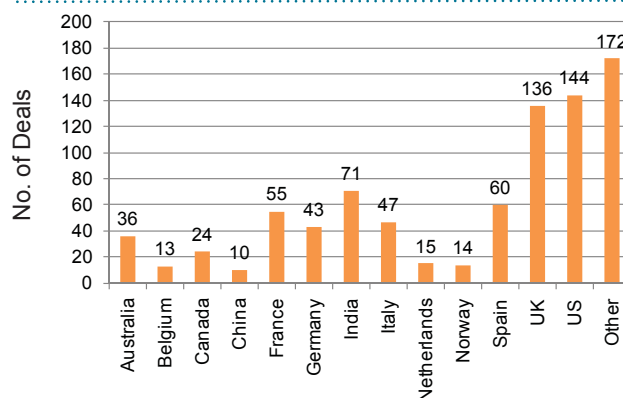
A round-up of infrastructure deals by year, size and region

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



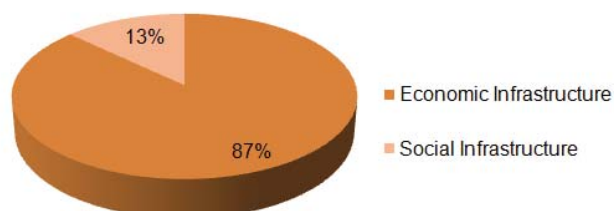
Source: Preqin

Fig. 2: Breakdown of Infrastructure Deals by Country, 2008 - 2011 YTD



Source: Preqin

Fig. 3: Breakdown of Infrastructure Deals by Industry Sector, 2008 - 2011 YTD



Source: Preqin

Fig. 4: 10 Most Active Unlisted Infrastructure Fund Managers Based on Investment Activity in Last 12 Months

Fund Manager	Number of Investments in Last 12 Months	Total Raised through Unlisted Infrastructure Funds (bn)
Macquarie Infrastructure and Real Assets (MIRA)	14	USD 21.3
DIF	13	EUR 0.8
AXA Private Equity	7	EUR 1.9
Innisfree	6	GBP 1.5
Barclays Infrastructure Funds	6	GBP 1.3
JPMorgan - Infrastructure Investments Group	6	USD 1.6
EQT Funds Management	6	EUR 1.2
3i Infrastructure	5	USD 1.2
Morgan Stanley Infrastructure	5	USD 4.0
Equitix	5	GBP 0.2

Source: Preqin

Data Source:

Preqin Infrastructure Online

All information in Fundraising and Deals Spotlight is taken from Preqin Infrastructure Online.

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

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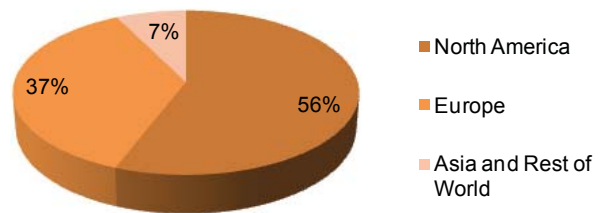
A look at the public pension plans that invest in infrastructure

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

Number of Investors	229
Median AUM (\$mn)	5,739
Mean Current Allocation to Infrastructure	2.6%
Mean Target Allocation to Infrastructure	4.2%

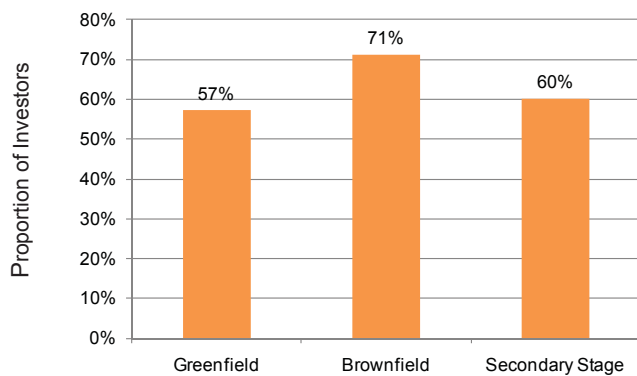
Source: Preqin

Fig. 2: Breakdown of Public Pension Funds Investing in Infrastructure by Location



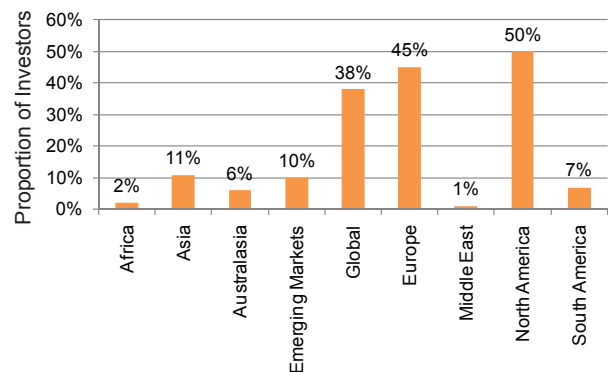
Source: Preqin

Fig. 3: Proportion of Public Pension Funds Investing in Infrastructure by Project Stage Strategy



Source: Preqin

Fig. 4: Proportion of Public Pension Funds Investing in Infrastructure by Geographic Investment Preference



Source: Preqin

Fig. 5: Key Public Pension Funds Investing in Infrastructure

Investor	Investor Country	AUM (\$mn)	Current Allocation to Infrastructure
OMERS	Canada	53,839	29%
ATP Lifelong Pension	Denmark	140,000	3%
FUNCEF	Brazil	26,883	10%
Stichting Pensioenfondsen Zorg en Welzijn	Netherlands	141,335	1%
Korean Teachers' Credit Union	South Korea	16,000	9%

Source: Preqin

Data Source: **Preqin Infrastructure Online**

Infrastructure Online has detailed profiles of 229 public pension plans that invest in infrastructure.

Subscribers can click on the firm to view the full profile.

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



Fund Managers in MENA and SSA

Everything you need to know about fund managers based in MENA and Sub-Saharan Africa

Fig. 1: Key Facts: MENA & Sub-Saharan Africa-based Infrastructure Fund Managers

Number of MENA & Sub-Saharan Africa-Based Infrastructure GPs	16
Number of Funds Raised	20
Aggregate Capital Raised (\$bn)	5.3
Number of Funds on the Road	7
Aggregate Capital Sought (\$bn)	3.6

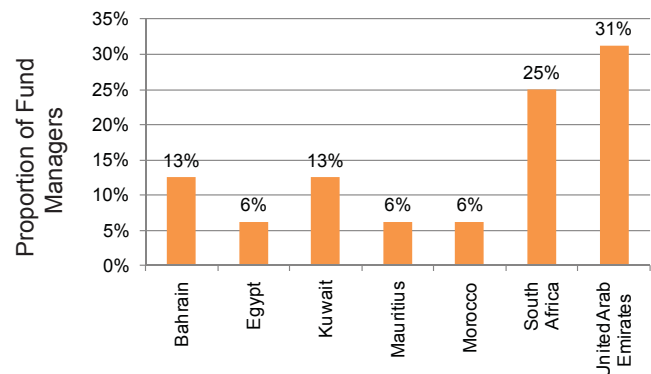
Source: Preqin

Data Source: Preqin Infrastructure Online

Infrastructure Online has detailed profiles of 16 MENA and SSA infrastructure fund managers. Subscribers can click on the firm and fund names to view the full profile.

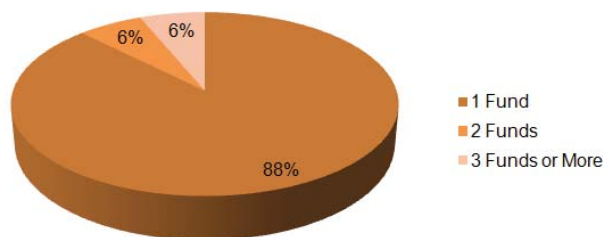
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Fig. 2: Breakdown of MENA & Sub-Saharan Africa-based Infrastructure Fund Managers by Country



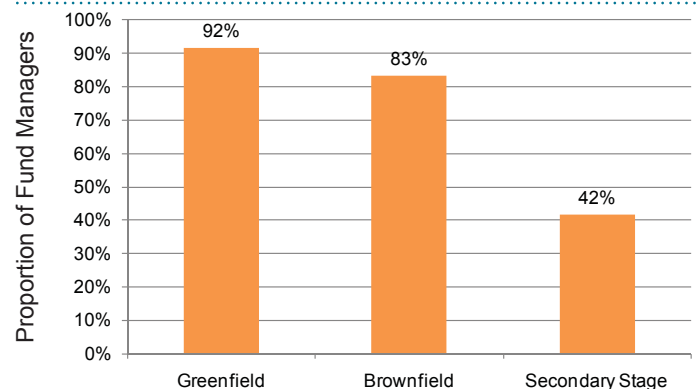
Source: Preqin

Fig. 3: Breakdown of MENA & Sub-Saharan Africa-Based Infrastructure Fund Managers by Number of Funds Launched



Source: Preqin

Fig. 4: Proportion of MENA & Sub-Saharan Africa-Based Infrastructure Fund Managers That Invest in Each Project Stage



Source: Preqin

Fig. 5: Key MENA & Sub-Saharan Africa-Based Infrastructure Fund Managers Currently Raising Capital

Fund Manager	No. of Funds Raising	Total Capital Sought (\$mn)
African Infrastructure Investment Managers	1	1,000
Harith	1	1,000
EFG Hermes Private Equity	1	500
EVI Capital	1	400
Instrata Capital	1	300

Source: Preqin

2011 Preqin Infrastructure Review



Now in its fourth year, the **2011 Preqin Infrastructure Review** represents the most comprehensive examination of the unlisted infrastructure asset class ever produced.

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- 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 Brazil 2011	23 - 25 August 2011	Rio De Janeiro	Terrapinn
Infrastructure Investment World Asia 2011	12 - 14 September 2011	Hong Kong	Terrapinn
Infrastructure Investment World Europe 2011	November 2011 (TBC)	London	Terrapinn
Institutional Investing in Infrastructure (I3)	8 - 9 November 2011	Chicago	Institutional Real Estate
World Infrastructure Summit	15 - 17 November 2011	Barcelona	Emap
Infrastructure Investment World Deutschland 2011	6 - 8 December 2011	Germany	Terrapinn