



Review of Infrastructure in 2012: Fundraising

Elliot Bradbrook and Paul Bishop look back over the key infrastructure data from the 2013 Preqin Global Infrastructure Report.

2012 witnessed the significant closure of Global Infrastructure Partners II, which reached a final close in October 2012 having raised \$8.25bn, becoming the largest unlisted infrastructure fund ever raised. This, in part, contributed to the slight improvement seen in infrastructure fundraising levels in 2012, indicating an increasing sense of optimism from investors.

As shown in Fig. 1, 36 unlisted infrastructure funds reached a final close in 2012, raising an aggregate \$24bn in investor capital. This represented a 12% decrease on the number of funds closed in 2011, but a 4% increase in aggregate capital raised. A further \$16bn in fresh capital was raised by 44 vehicles holding an interim close in 2012, suggesting positive momentum in the market. However, it should be noted that 34% of the \$24bn raised in 2012 was secured by the \$8.25bn Global Infrastructure Partners II.

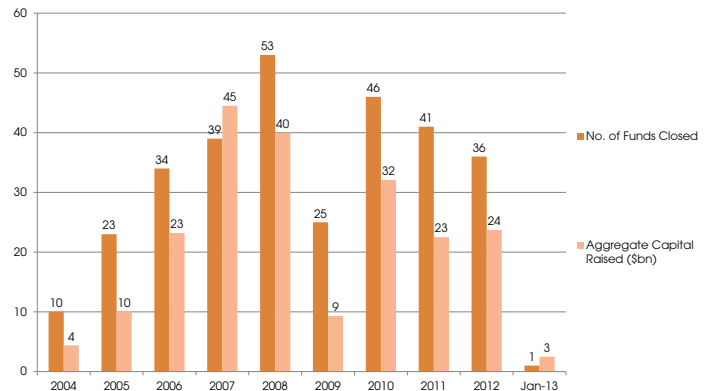
Funds in Market

In line with the rising demand for infrastructure investment, fund managers are continuing to bring new unlisted infrastructure funds to market. As shown in Fig. 2, there are currently 137 unlisted infrastructure funds on the road seeking an aggregate \$80bn in investor capital. In terms of geographic focus, the highest proportion of the number of funds in market and the aggregate target capital continues to be from Europe-focused funds, with 51 infrastructure funds in market targeting \$32bn from investors. Alinda Global Core Infrastructure Fund is the largest vehicle currently on the road, looking to raise \$3bn. The fund targets mature/operating infrastructure assets throughout the US in core infrastructure sectors including energy and utilities.

Average Fund Size

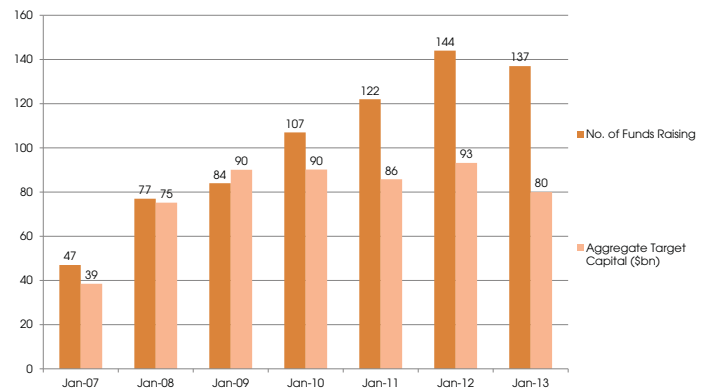
The average size of an unlisted infrastructure fund that reached a final close in 2012 was \$658mn, 20% higher than the \$549mn average in 2011. However, when excluding the \$8.25bn raised by Global Infrastructure Partners II, the average fund size in 2012 amounted to just \$441mn, the lowest annual average since 2009. This reflects not only the tough fundraising conditions still facing most fund managers in 2013, but also the fact that most GPs now generally target lower levels of capital than in previous years. Just 45% of infrastructure funds closed in 2012 either reached or exceeded their fundraising targets, compared to 50% in 2011. Nonetheless, the significant raising of Global Infrastructure Partners II indicates that investor appetite for infrastructure investments is increasing, but that these investors are likely to target funds raised by more experienced fund managers and will consider their investments more carefully than they might have done in previous years.

Fig. 1: Annual Infrastructure Fundraising, 2004 - January 2013



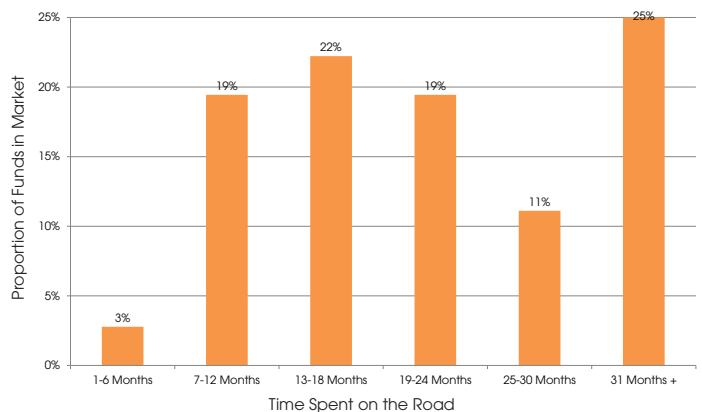
Source: 2013 Preqin Global Infrastructure Report

Fig. 2: Infrastructure Funds in Market over Time, 2007-2013



Source: 2013 Preqin Global Infrastructure Report

Fig. 3: Breakdown of Time Spent on the Road by Unlisted Infrastructure Funds Closed in 2012



Source: 2013 Preqin Global Infrastructure Report



The extended length of time it is taking fund managers to close funds is indicative of the post-crisis fundraising environment. As shown in Fig. 3, just 22% of the unlisted infrastructure funds that reached a final close in 2012 took less than 12 months to complete the fundraising process. In contrast, a significant 56% of funds that closed in 2012 spent over 18 months on the fundraising trail, with 36% taking over two years to reach a final close. In terms of those funds that reached a final close in Q4 2012 alone, just 10% closed after spending less than 12 months on the road, while 40% took over 24 months to complete the fundraising process.

Project Stage Focus

Most infrastructure funds target a diversified investment portfolio and will therefore invest across multiple industries and project stages. Seventy-four percent of unlisted infrastructure funds on the road will consider investing in assets at varying stages of development, although the proportion of funds targeting higher risk greenfield projects has fallen in recent years. Forty-seven percent of infrastructure funds in market invest in greenfield assets, 84% in brownfield projects and 58% will consider more mature secondary stage opportunities.

2013 Preqin Global Infrastructure Report:

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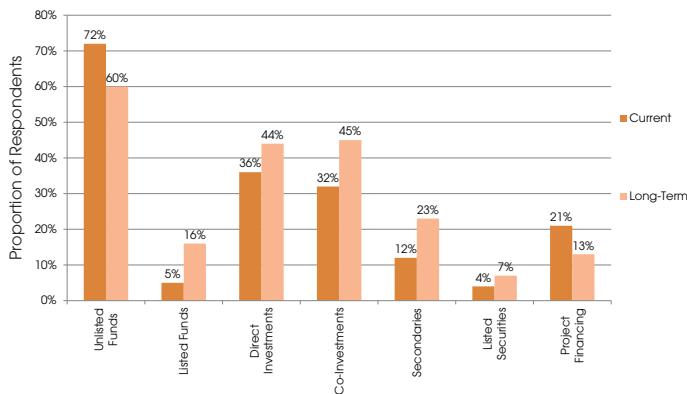
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Review of Infrastructure in 2012: Investor Appetite

Fig. 4: Investors' Current and Long-Term Preferred Routes to Market for Infrastructure Investment



Source: 2013 Preqin Global Infrastructure Report

Institutional investors have become more cautious when making new infrastructure investments since the onset of the global financial crisis. As demonstrated in Fig. 4, investors are increasingly looking for direct or co-investments as a route to market, which is likely due to investors' concerns over the use of the private equity fee structure in infrastructure. However, investor confidence in the asset class was strong in 2012, with many investors looking to increase their exposure to infrastructure.

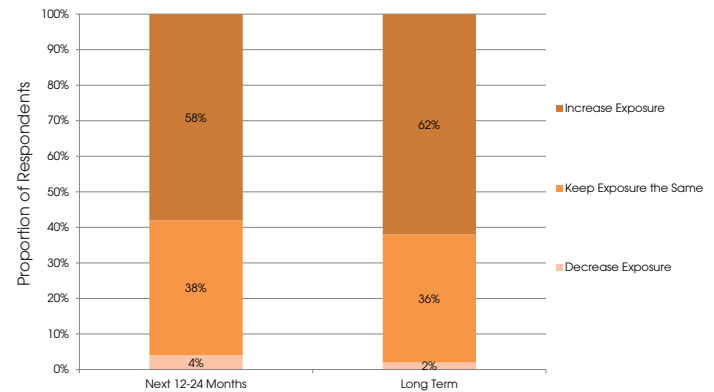
Investor Appetite for Infrastructure in 2013

Data compiled from an investor survey undertaken in 2012 shows that institutional investor interest in infrastructure assets looks set to continue over both the short and long term, with none of the surveyed investors planning to remove allocations to infrastructure from their portfolios going forward. A significant 58% of respondents expect to increase their allocation to infrastructure over the coming 12-24 months, with 38% planning to maintain their level of exposure to the asset class, as shown in Fig. 5. In the long term, the outlook is particularly positive, with 62% of investors expecting to increase their exposure to the infrastructure asset class, and a further 36% aiming to maintain their current allocation.

Route to Market

As shown in Fig. 4, infrastructure funds are the primary route to market for the majority of LPs, with 72% of respondents utilizing this route currently. Despite the proportion of respondents planning to invest via unlisted funds in the long term falling to 60%, unlisted funds still look set to be the main method of investing in infrastructure for most investors in future. It is unlikely that the private equity fund model used by unlisted infrastructure funds will change drastically in future, though infrastructure fund/fee structures will continue to be adapted to suit the risk profile of specific assets.

Fig. 5: Investor Plans for Future Infrastructure Exposure



Source: 2013 Preqin Global Infrastructure Report

However, as investors gain experience in the asset class and look at different ways of gaining exposure to infrastructure assets, several other routes to market have the potential to grow in the future. Thirty-six percent of investors interviewed currently invest directly in infrastructure assets, growing to 44% for long-term plans, while 32% of respondents make co-investments alongside fund managers currently, increasing to 45% over the long term. Despite this, the majority of infrastructure investors do not have the resources to begin investing directly.

Outlook

These findings suggest that institutional investors are increasingly seeing infrastructure as a distinct asset class and as an important part of their investment portfolio, with the majority of investors interviewed by Preqin looking to increase their allocation to the asset class over the coming 12-24 months.

2013 Preqin Global Infrastructure Report:

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- Target and current allocations
- Investment plans for 2013
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Review of Infrastructure in 2012: Deals

The general plateau in annual deal volume since 2008 is indicative of the tough conditions faced by fund managers in the current uncertain economic environment. Fund managers continue to struggle with a lack of long-term debt financing available from traditional sources with banks reducing their lending capacity in light of impending liquidity regulations.

Annual Number of Deals and Average Deal Value

As illustrated in Fig. 6, the annual number of completed deals by fund managers rose considerably in the years prior to 2008, and has remained relatively constant since. The impact and ongoing effects of the global financial crisis, as well as continued economic uncertainty, has hindered the growth of the number of deals post-2008. Two hundred and nineteen deals were completed by unlisted infrastructure fund managers in 2012, a figure which is expected to rise as further information becomes available.

Interestingly however, the average value of an infrastructure deal completed in 2012 rose for the third consecutive year since 2009, despite restricted deal numbers (Fig. 7). The average deal completed by infrastructure GPs in 2012 amounted to \$475mn, 2% higher than the \$464mn average in 2011, but a considerable 56% increase on the \$305mn average in 2009. The year-on-year increase in annual infrastructure deal size since 2009 is encouraging, and indicates that despite ongoing economic uncertainty and market difficulties, infrastructure fund managers are still managing to source and complete sizeable transactions.

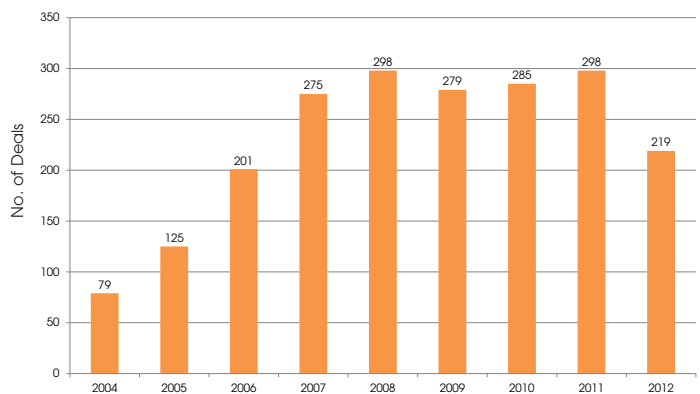
Regional Focus

Europe continues to be the most prominent region for infrastructure deals, accounting for 45% of deals finalized in 2011, 51% of deals made in 2012 and 48% over the entire two year period. North American assets are also significant, accounting for 23% of total deals made in 2012, while 8% of deals completed in 2012 were made in Asia-based assets. Eighteen percent of transactions made in 2012 were in assets located outside of these core regions. In terms of industry, renewable energy assets represented the highest number of deals in 2012, representing 32% of total deals made. A significant 77% of 2012 deals were made in core infrastructure sectors.

Outlook

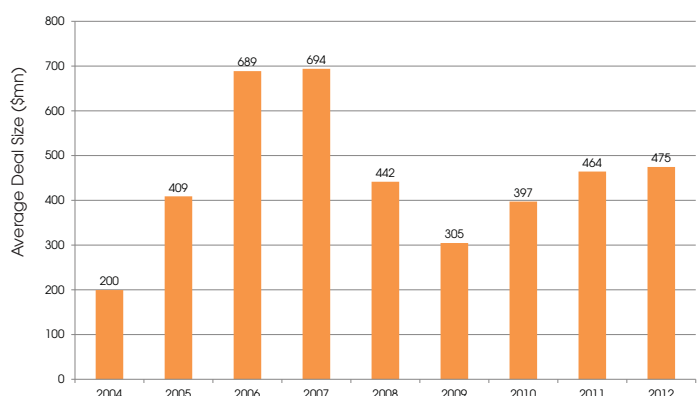
Due to the current nature of both the economic climate and international debt markets, it is difficult to predict when we will see a significant uptick in the number of deals being completed by unlisted infrastructure firms. However, as global demand for infrastructure development increases and governments attempt to reduce their widening budget deficits, we will see the private sector begin to take a more active role in plugging the resulting financing

Fig. 6: Annual Number of Deals Completed by Unlisted Infrastructure Fund Managers, 2004 - 2012



Source: 2013 Preqin Global Infrastructure Report

Fig. 7: Average Annual Deal Size by Year, 2004 - 2012



Source: 2013 Preqin Global Infrastructure Report

gap. This, combined with the increased availability of high quality infrastructure assets, makes it likely that we will see a growing number of deals made by unlisted infrastructure fund managers in the future.

2013 Preqin Global Infrastructure Report:

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- Most active fund managers
- Notable deals
- A breakdown of deals by industry

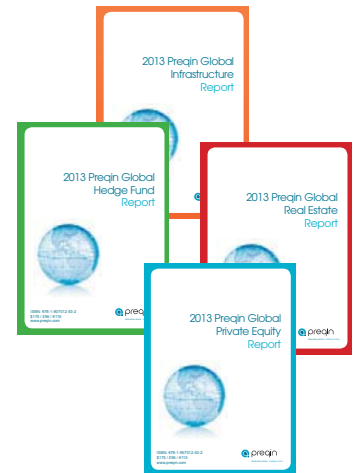
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