Infrastructure Fundraising: Future Prospects

As fundraising levels remain low in light of the financial crisis, Elliot Bradbrook analyzes Preqin's latest fundraising data to explore the realistic prospects for infrastructure funds in 2013.

The unlisted infrastructure fundraising landscape has changed significantly as a result of the global financial crisis. Since 2008, institutional investor sentiment has generally shifted from that of confident optimism to more measured caution. As a result, infrastructure fund managers now face a tough challenge when trying to stand out from the crowd and successfully attract fresh investor commitments. This has led to a saturated marketplace, with fund managers targeting lower levels of capital despite calls for greater private sector investment in infrastructure assets.

As we move into the final month of 2012, this article explores what infrastructure fund managers can realistically expect to achieve in the coming year, and the prospects for successfully raising a fund in 2013.

The Evolution of the Fundraising Market

Fig. 1 illustrates the severe impact of the global financial crisis on infrastructure fundraising levels, with the total capital raised by fund managers in 2008 and 2009 falling 10% and 79% respectively from the record $44.5bn raised in 2007. During this period, investor confidence and appetite for infrastructure funds slumped in light of growing economic volatility, which lead to a lack of new fund commitments. The market rebounded positively in 2010, although much of the $32.1bn raised by funds reaching a final close during the year was committed pre-crisis, with little in the way of fresh capital.

The majority of infrastructure vehicles that remained in market at the turn of 2011 had launched since the financial crisis and at the start of a long fundraising process. In essence, the infrastructure fundraising market started afresh, with a large number of fund managers seeking capital from a highly cautious investor base. Therefore, although fundraising levels fell 30% between 2010 and 2011, much of the $22.4bn raised during the year came from capital commitments secured since the onset of the financial crisis, a positive sign for infrastructure GPs.

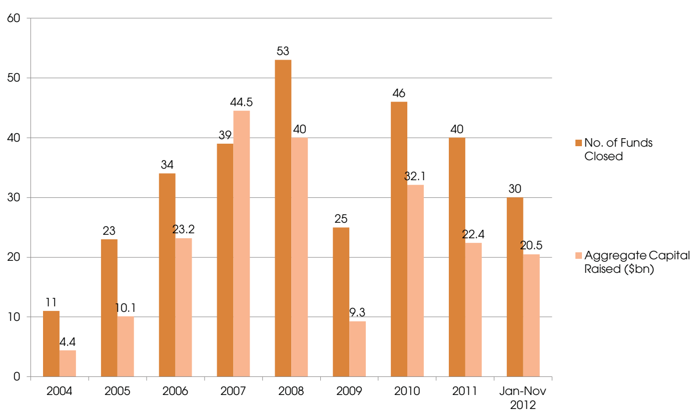
This trend continued in 2012, with an encouraging level of fresh capital raised by infrastructure fund managers holding both interim ($14.4bn) and final closes ($20.5bn) between January and November. Admittedly, the $8.25bn final close of Global Infrastructure Partners II in October 2012 contributed to these encouraging figures, but fresh capital is still being raised by infrastructure GPs.

The Current Fundraising Market

There are currently 142 unlisted infrastructure funds on the road seeking institutional investor capital. These vehicles have an aggregate target of $86.9bn, considerably less than the record $114.6bn sought by the 119 unlisted funds that were in market in Q1 2010. These figures show that fundraising targets have, on average, decreased over the past few years as a result of investor caution and economic volatility. The geographic focus of these vehicles is illustrated in Fig. 2.

Of these 142 unlisted infrastructure funds in market, 72 (51%) have already held at least one interim close and secured $23.2bn in total capital. Since securing the initial seed capital needed to kick start

Fig. 1: Unlisted Infrastructure Fundraising, 2004 - November 2012



Source: Preqin Infrastructure Online

Fig. 2: Proportion of Unlisted Infrastructure Funds on the Road by Manager Location and Fund Focus

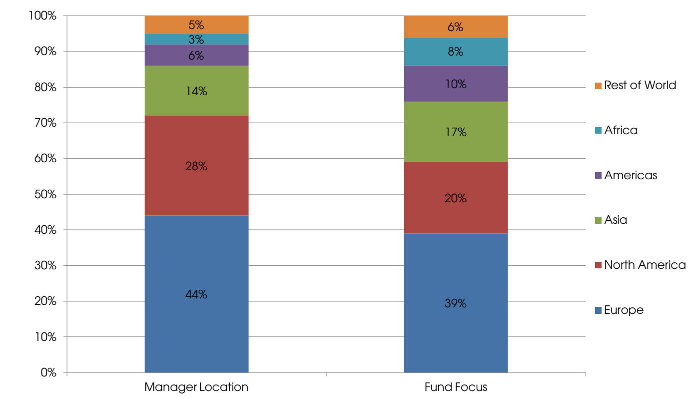


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Fig. 3: Breakdown of Funds Closed in the Last 18 Months by Time Spent on the Road

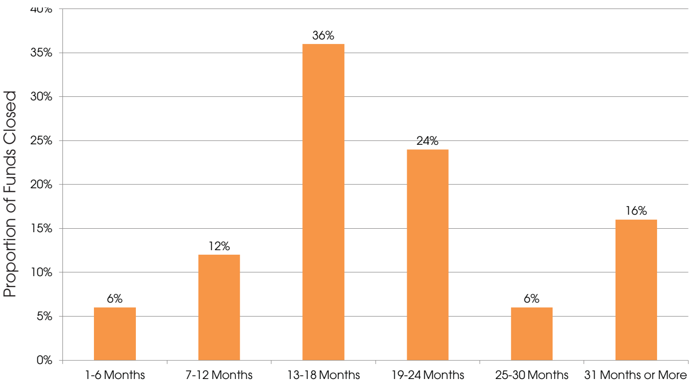

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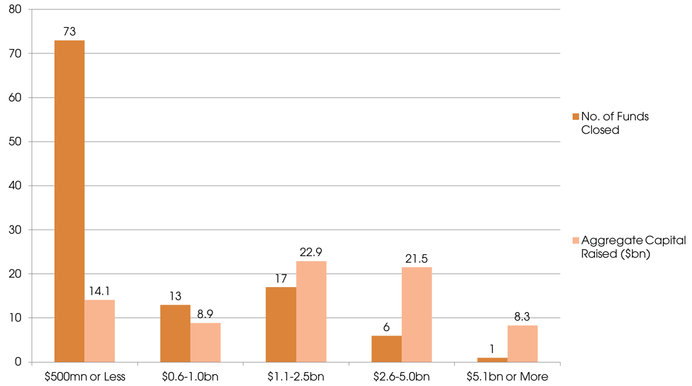
Fig. 4: Unlisted Infrastructure Fundraising by Fund Size, 2010 - November 2012



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the fundraising process is a key issue for many fund managers, this shows that over half of infrastructure funds on the road have already managed this, a positive sign for the market. We would therefore expect many of these vehicles to work towards further interim and final closes going forward, likely adding at least another $20-30bn to aggregate fundraising levels over the coming 12-18 months.

Future Fundraising Prospects

Since June 2011, 47 unlisted infrastructure funds have reached a final close having raised an aggregate $32.8bn. The length of time each of these vehicles spent in market is outlined in Fig. 3. Thirty-six percent of these funds took between 13 and 18 months to complete the fundraising process, while 24% spent between 19 and 24 months on the road. A considerable 22% of funds took over two years to reach a final close, including 16% that took over 31 months. Just 18% of funds managed to reach a final close within a year, again highlighting the tough conditions faced by GPs.

The average unlisted infrastructure fund to reach a final close between January and November 2012 spent 24 months on the fundraising trail; this represents a slight increase from both 2011 and 2010 when the average time spent on the road in each year was 20 months. Going forward, this timeframe is unlikely to reduce significantly as institutional investors continue to operate conservative investment strategies and take more time to finalize fund commitments. When applied to the current fundraising market, 29 of the 142 funds on the road have already spent 24 months actively raising capital and could potentially hold final closes in the coming 12 months. These vehicles are seeking an aggregate $23.7bn in investor capital.

In terms of fund size, a significant 73 of the 110 unlisted infrastructure funds that reached a final close since January 2010 attracted $500mn or less in total investor capital. As shown in Fig. 4, despite accounting for 66% of the total number of funds raised, these vehicles contributed just $14.1bn, or 19%, of the $75.8bn raised during the period. Relatively few funds closed with over $1bn in investor commitments, but those vehicles that did accounted for a significant 70% ($52.7bn) of aggregate capital commitments. Just one vehicle, Global Infrastructure Partners II, raised over $5bn.

Fund managers are generally lowering their fundraising targets in the current environment and this looks set to continue to going forward. The average unlisted infrastructure fund currently on the road is targeting $617mn, and only 35 vehicles (25% of all funds) are looking to raise upwards of $1bn in total capital. Just eight "mega" funds, those looking to raise over $2bn, are currently in market targeting an aggregate $18.1bn. Based on this trend, the average amount of capital raised per fund is likely to be lower in the coming 12-18 months than in the past.

The lower proportion of funds meeting or exceeding their initial fundraising goals over recent years is another indication of the challenging nature of the unlisted infrastructure fund market. Prior to the downturn, infrastructure fund managers were able to raise much higher levels of investor capital, but this has been restricted since 2008. In 2007, a significant 73% of unlisted infrastructure funds either met or exceeded their fundraising targets, a figure which has now fallen considerably. As shown in Fig. 5, the proportion of funds meeting or exceeding their pre-determined fundraising goals sunk to 41% in 2010, 52% in 2011 and 41% between January and November 2012.

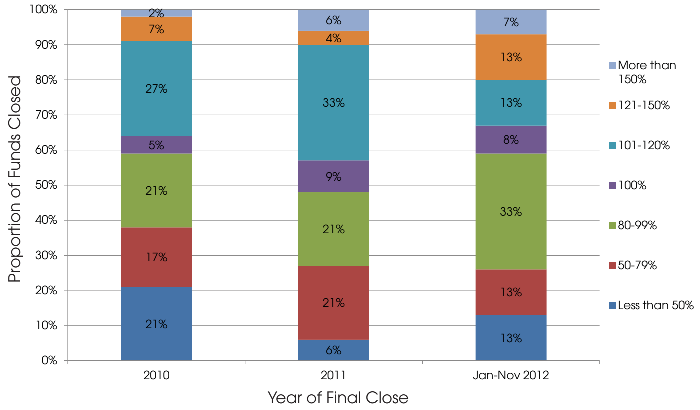
In the coming 12 to 18 months, therefore, there is unlikely to be a significant rise in the aggregate capital raised by fund managers meaning the proportion of vehicles meeting or exceeding their fundraising targets is likely to remain subdued. Although many managers are now targeting lower and perhaps more realistic levels of capital, the average fund to close between January and November 2012 achieved just 88% of its initial fundraising target. If this trend continues as expected the 142 infrastructure funds currently on the road will likely not reach their current aggregate capital target of $86.9bn; once or if these vehicles reach a final close, the actual aggregate capital raised is likely to be lower.

What Can Fund Managers Do to Stand Out?

The prospect of successfully raising capital in 2013 will therefore in many instances be determined by the fund manager's ability to effectively distinguish themselves in a crowded fundraising market. The reality is that many of the 142 funds currently on the road will struggle to secure any capital commitments due to intense competition.

The use of a placement agent to assist in the fundraising process can help to market a fund to a wider investor audience, particularly in a tough fundraising climate. Of the infrastructure funds to reach a final close since January 2010, a significant 65% utilized the services of a placement agent. Fifty-eight percent of the 29 funds to close between

Fig. 5: Final Close as a Percentage of Target Value, 2010 - November 2012



Source: Preqin Infrastructure Online

January and November 2012 that used a placement agent either met or exceeded their fundraising targets, compared to 38% that did not use a placement agent.

Institutional investors are seeking managers with a well thought out, cohesive and clear plan for their investments. Fund managers that have strong past performance, team experience and a deal pipeline will likely attract fresh investor capital. Those managers able to intelligently approach investors and with sufficient compromises at hand if necessary will be successful going forward.

Outlook

Infrastructure fund managers can therefore expect another tough 12 months in the search for investor commitments despite increasing LP appetite for unlisted infrastructure funds and growing demand for private sector investment in the asset class. Many first-time fund managers will struggle to raise capital in such a crowded marketplace and even experienced firms may find they need to adapt to survive the impending log jam of funds on the road.

The infrastructure fundraising market is now characterized by a greater number of funds on the road targeting lower levels of capital than ever before. GPs will be forced to spend longer on the fundraising trail going forward and may have to accept falling short of their pre-determined fundraising goals. Those fund managers willing to consider LP demands, make concessions if necessary, and present a clear and defined investment proposal will stand out going forward and will have the best chance of success in 2013.

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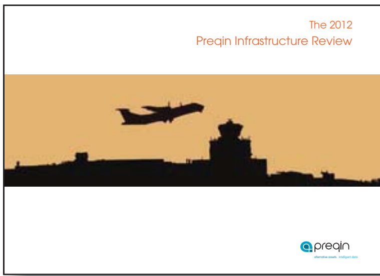

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