

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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The 2010 Preqin Infrastructure Review

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Infrastructure Spotlight

September 2010

Feature

Finding Some Common Ground: Fees, fund structures and leverage

In the second of our special features, we analyse the results of the latest Preqin infrastructure investor survey, looking at the key issues facing the asset class and the ways in which fund managers can meet the needs of infrastructure investors in the future.

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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.

Regulars

Deals Spotlight:

A round up of the latest deals completed in the infrastructure sector, including details of the 10 most active unlisted infrastructure managers over the last 12 months.

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Fundraising Spotlight:

All the latest fundraising statistics, including funds on the road and details of the recently closed Energy Capital Partners II.

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Details of upcoming infrastructure events.

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All the latest news on infrastructure investors. Including Nationwide Insurance's plan to increase its infrastructure allocation and Les Retraites Populaires' search for a new fund of funds manager.

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Finding Some Common Ground: Fees, fund structure and leverage

In the second of our features on Preqin's infrastructure investors survey, [Elliot Bradbrook](#) takes a look at the key issues faced by investors, and the ways in which fund managers can meet investor needs.

In a recent Preqin survey, 70% of institutional investors stated plans to make further unlisted infrastructure fund commitments in the coming 12 months, up from 40% in October 2009. This increased investor confidence is shown in recent fundraising figures, with 15 infrastructure funds reaching a final close so far in 2010, raising an aggregate \$18.7bn. This is already more than double the \$7.8bn raised in the whole of 2009.

However, these investors also highlighted several key issues that need to be addressed in order to ensure continued growth within the infrastructure industry. The \$18.7bn raised thus far in 2010 is still only just over half the \$33.9bn raised in 2008, meaning there is still a long way to go for the industry to reach pre-financial crisis levels. Although this is partly due to lack of available funds for new investments, there are other limiting factors causing investors to hold back from making new commitments.

In order for the asset class to continue to grow, both LPs and GPs need to understand the roadblocks currently limiting investor activity, and then work

together to find a resolution. In this month's feature, we examine these issues, and suggest what can be done to overcome them.

Fees

As shown in Fig. 1, management fees and carry structures represent the most pressing issues facing the industry in the eyes of investors questioned by Preqin. Many investors believe infrastructure fees should emulate the risk/return profile of an infrastructure asset, characterized by a lower level of risk rewarded with a lower and more stable level of return. However, in contrast to investor sentiment, many infrastructure fund managers remain reliant on the 2/20 private equity fee structure.

As shown in Fig. 2, 50% of infrastructure funds currently raising capital or those closed with a 2009/2010 vintage charge a 2%+ management fee during the investment period, showing there is a clear discrepancy between what investors expect and what many fund managers are currently willing to accept in terms of fees.

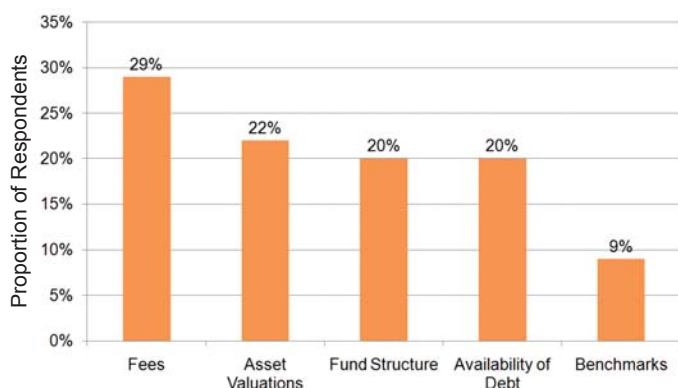
In contrast, 50% of infrastructure fund managers are beginning to address

this issue by charging a management fee lower than 2%. This shows that the industry is reacting to LP pressure with prominent private equity firms like KKR and Blackstone publicly lowering their management fee and carry to show their commitment to a mutually acceptable alignment of interests in their infrastructure vehicles.

Preqin's August edition of Infrastructure Spotlight (click here to view) featured an interview with Henri Piganeau, a member of the management team of the Cube Infrastructure Fund which recently closed on €1.1bn. Mr. Piganeau highlighted the importance of Cube's management fee structure in attracting investors: "It depends on the size of the ticket of each investor and the recognition that if you manage one investor with a €100mn investment it is easier than managing 50 with €2mn invested each – so it is a reduction by size of ticket."

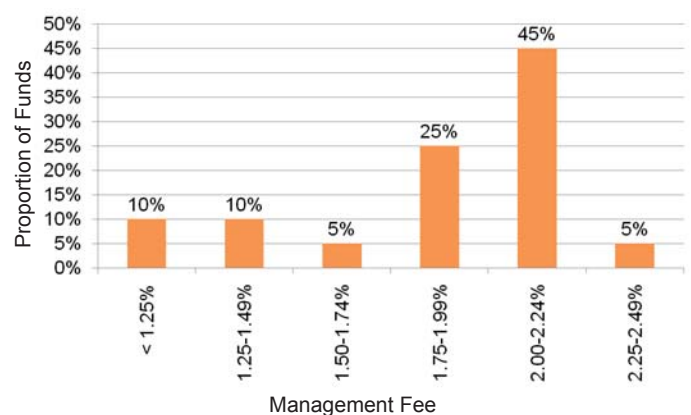
Going forward fund managers will need to make concessions in order to attract investor commitments. This will include reducing the management fee and/ or creating special structures to match

Fig. 1: Investor Views on the Key Issues Facing the Infrastructure Industry



Source: Preqin

Fig. 2: Management Fee Charged During the Investment Period, Funds in Market and Vintage 2009/2010 Funds Closed



Source: Preqin

“Fund manager industry knowledge is vital to overcoming issues...”

investor expectations. As Mr. Piganeau stated, the successful fundraising of the Cube Infrastructure Fund relied on LP and GP cooperation: “There are 22 investors, and they and their lawyers all have different requests. We came to a fair compromise.”

Asset Valuations and the Availability of Debt

42% of investors surveyed believe both asset valuations and the availability of bank debt are a problem in the current environment. As shown in Fig. 3, 2010 deal flow is significantly down on previous years, which is in part due to the relatively sluggish fundraising market, but also to vendors’ unrealistically high asset valuations and the continued reliance on debt to finance infrastructure projects.

Infrastructure investments traditionally require a significant level of debt financing, but the ongoing impact of the financial crisis means banks are now less willing or able to allocate this amount of debt. One surveyed investor commented: “Maximum debt levels should not exceed 35% of total value. It is ridiculous that so many infrastructure deals use such high levels of leverage.” In order to combat this, fund managers must be willing to increase the equity-to-debt ratio associated with infrastructure deals and vendors need to address their price aspirations.

Fund manager industry knowledge is also vital to overcoming these issues. Knowledge of a specific infrastructure industry will ensure fund managers are able to source appropriately priced assets and counteract the risks associated with high proportions of leverage.

Fund Structure

Fig. 4 shows that the majority of infrastructure investors (52%) believe the private equity fund model will continue to be utilized in the infrastructure asset class over the long term. However, these investors are concerned that the existing model does not correlate with the long-term nature of infrastructure assets and is more suited to the investment life of a private equity company. Building flexibility into fund commitments is one way in which liabilities and investment horizons can be matched – for example giving investors the opportunity to maintain an interest in underlying fund investments after a typical twelve year period.

What is clear is that concessions must be made by the fund manager in order to compensate for investor demands. In the short term a reduction in fees would represent the most obvious catalyst to ensure the continued growth of the infrastructure sector via the use of the private equity style fund structure, although other funding models are also an option including direct investment and evergreen funds.

Benchmarks

Infrastructure benchmarking continues to be an issue due to the relative immaturity of the majority of funds in the asset class.

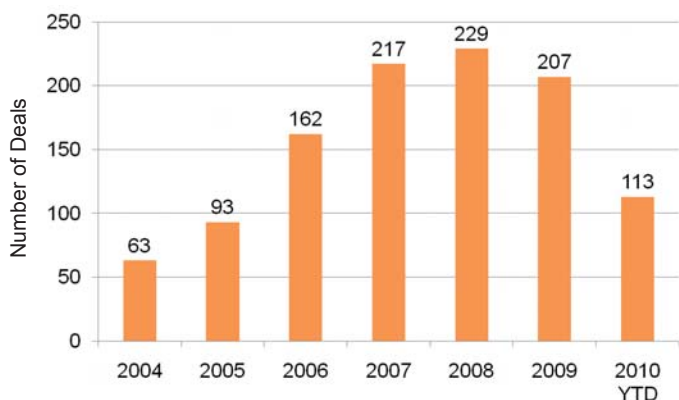
Investors are naturally concerned due to the lack of solid data to confirm the level of returns to be expected when making infrastructure fund commitments. However, despite the immaturity of data for the more recent funds, Preqin can begin to analyse the performance of older vehicles for an indication as to what investors can expect from younger funds. In total, we hold performance data for 82 infrastructure vehicles with total capital commitments of over \$100bn.

Fig. 5 illustrates the median net IRRs since inception for infrastructure funds of groups of older vintages, as well as the current maximum and minimum net IRRs for more recent vintage years. As expected, median net IRRs for the most recent vintages remain around the 0% mark, but there is evidence that older funds have delivered reasonable returns. Infrastructure funds with a vintage 1993-1999 have yielded a 9% median net IRR, which increases to 19.5% for funds of vintages 2000-2004. This is in line with what the majority of funds are currently targeting, with 76% of infrastructure vehicles targeting a net IRR of between 10% and 20%. As the industry matures, it will be possible to maintain reliable individual year benchmark figures, which will make it far easier for investors and advisors to objectively assess performance results of various managers and of the overall industry.

Outlook

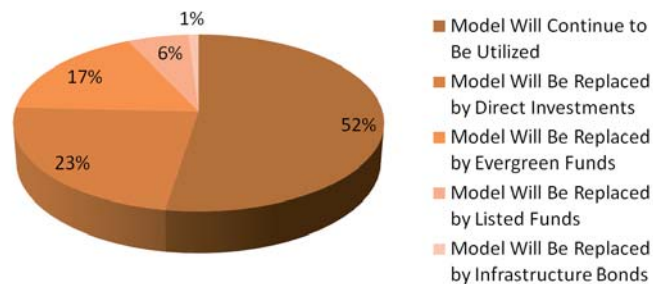
Both investors and fund managers are certainly agreed on the huge growth potential within the infrastructure sector. Investor confidence is slowly returning following the lows suffered in the

Fig. 3: Number of Deals Completed by Unlisted Infrastructure Fund Managers, 2004 - 2010 YTD



Source: Preqin

Fig. 4: Investor Views on the Future of the Private Equity Fund Model in Infrastructure Investment



Source: Preqin

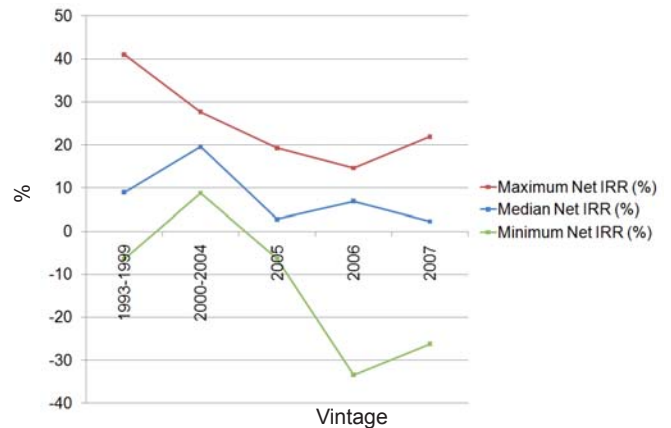
immediate aftermath of the financial crisis, there are a record number of funds on the road in which to invest and the need for global infrastructure development has never been greater.

However, although there has been a recent resurgence in the ability of infrastructure managers to raise capital from institutional investors, further development of the asset class is reliant on the resolution of the key issues identified in this article, and this can only be achieved by greater cooperation between fund managers and investors. With investors now wielding significantly more power when negotiating the terms of new vehicles than in previous times, fund managers must ensure that the key issues of fees, structure and debt are carefully considered when assembling PPMs. Although in some cases higher fees and highly leveraged strategies may be justifiable, it will become increasingly necessary to communicate the reasons for this in order to appease investor concerns in what remains to be an extremely challenging fundraising market.

[Download Data](#)



Fig. 5: Median, Maximum and Minimum Net IRRs for Infrastructure Funds of Vintages 1993 - 2007



Source: Preqin

Data Source:

The 2010 Preqin Infrastructure Review

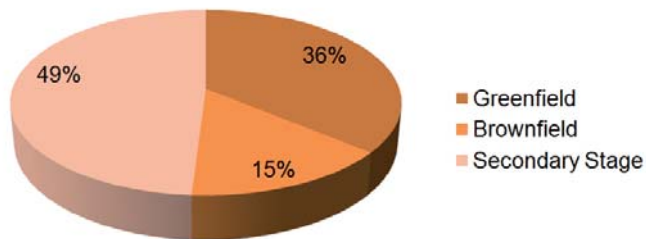
Now in its third year, the 2010 Preqin Infrastructure Review is the most comprehensive examination of the unlisted infrastructure fund market ever produced. With exclusive information on over 270 firms, 450 funds and 170 investors in the sector, and detailed analysis reviewing every aspect of the industry.



www.preqin.com/infrastructurereview

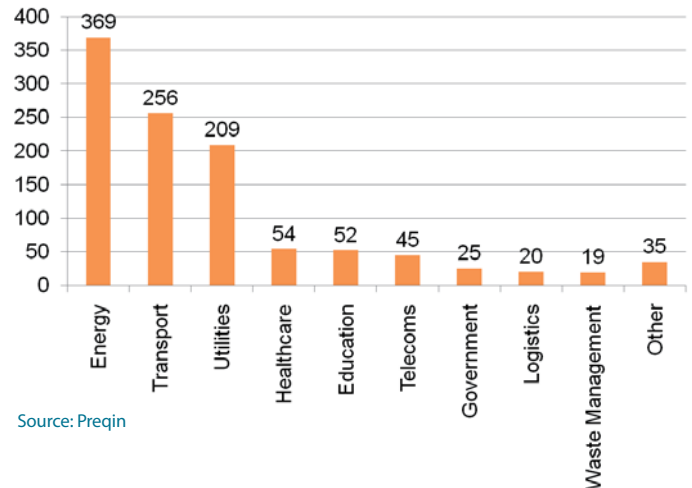
Deals Spotlight

Fig. 1: Breakdown of Infrastructure Deals by Project Stage, 2004 - 2010 YTD



Source: Preqin

Fig. 2: Number of Infrastructure Deals by Industry, 2004 - 2010 YTD



Source: Preqin

Fig. 3: 10 Most Active Unlisted Infrastructure Fund Managers in the Last 12 Months

Fund Manger	No. of Investments in Last 12 Months	Total Raised through Unlisted Infrastructure Funds (bn)
Macquarie Capital Funds	14	USD 18.7
DIF	12	EUR 0.9
LS Power Group	11	USD 4.3
Equitix	11	GBP 0.1
Innisfree	7	GBP 1.8
EnerCap Capital Partners	6	EUR 0.1
NIBC Infrastructure Partners	6	EUR 0.4
EnCap Investments	5	USD 0.8
ArcLight Capital Partners	5	USD 6.8
Energy Capital Partners	5	USD 6.6

Source: Preqin

Download Data



Recently Closed Deal: A63 Highway

In September 2010, the Atlandes consortium was named as the preferred bidder for the A63 Highway concession, a 105-mile toll road stretching between Salles and Saint-Geours-de-Mareme in Southwest France. The project includes a 40-year concession for the re-development of the existing road and

the upgrading and widening of part of the highway to six lanes. The total value of the deal amounted to EUR 1.1 billion, which included a EUR 400 million "entry fee" to be paid upfront to the procuring authority.

Deal Date – September 2010

Deal Size (mn) – EUR 1,100

Stake – 100%

Investors – The Atlandes Consortium: DIF Infrastructure II, Colas, Egis Projects, HSBC European Motorway Investments 1, Spie Batignolles

Project Stage – Greenfield/Brownfield

Data Source: Preqin Infrastructure Online

Preqin Infrastructure Online provides details on which funds are bidding for, buying or selling infrastructure assets. Includes information on the type of infrastructure asset and location, data on the equity invested and the percentage stake acquired by the fund, information on the deal date, structure and duration plus names of funds' co-investors in transactions.

www.preqin.com/infrastructure

Fundraising Spotlight

Fig. 1: Number of Infrastructure Funds on the Road

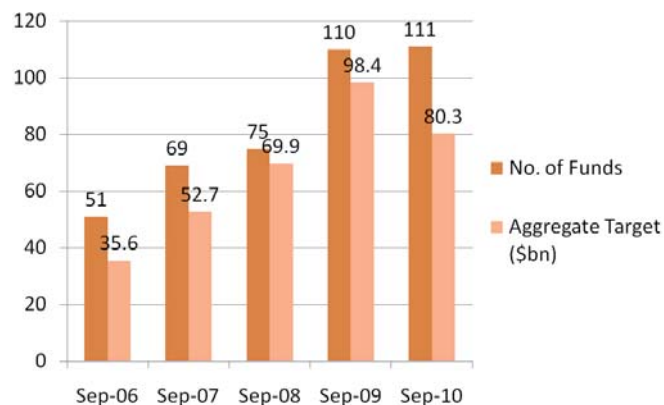
Number of Funds on the Road				
Funds on the Road	US	Europe	Asia& ROW	Total
Number	22	39	50	111
Total Target Value (\$bn)	25.4	31.3	23.6	80.3
Average Target Size (\$bn)	1.2	0.8	0.5	0.7

Source: Preqin

Download Data

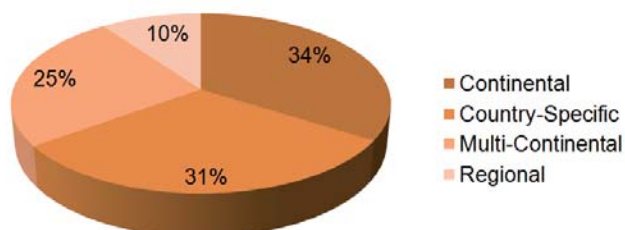


Fig. 2: Growth in the Number of Infrastructure Funds on the Road



Source: Preqin

Fig. 3: Breakdown of Infrastructure Funds on the Road by Geographic Investment Strategy



Source: Preqin

Recently Closed Fund: Energy Capital Partners II

Manager – Energy Capital Partners

Target Size (mn) – USD 3,500

Final Close (mn) – USD 4,335 (August 2010)

Geographic Focus – North America

Industry Focus - Distribution/Storage Facilities, Energy, Environmental Services, Natural Resources, Renewable Energy, Utilities

Placement Agent – Park Hill Group

Lawyer – Kirkland & Ellis

Sample Investors - California State Teachers' Retirement System (CalSTRS), Florida State Board of Administration, Henry J. Kaiser Foundation, Indiana Public Employees' Retirement Fund, Los Angeles City Employees' Retirement System, New York State Teachers' Retirement System, Ohio Public Employees' Retirement System, San Francisco City & County Employees' Retirement System, Teachers' Retirement System of Louisiana, Teachers' Retirement System of the State of Illinois

Fig. 4: 10 Largest Infrastructure Funds on the Road

Fund	Manager	Size (mn)	Manager Country
RREEF Pan-European Infrastructure Fund II	RREEF Infrastructure	3,000 EUR	UK
Highstar Capital Fund IV	Highstar Capital	3,500 USD	US
ArcLight Energy Partners Fund V	ArcLight Capital Partners	3,000 USD	US
CVC European Infrastructure Fund	CVC Infrastructure	2,000 EUR	UK
KKR Infrastructure Fund	Kohlberg Kravis Roberts	2,500 USD	US
Blackstone Infrastructure Fund	Blackstone Infrastructure Partners	2,000 USD	US
Macquarie State Bank of India Infrastructure Fund	Macquarie Capital Funds	2,000 USD	Australia
Marguerite Fund	Marguerite Adviser	1,500 EUR	Luxembourg
AXA Infrastructure Fund III	AXA Private Equity	1,500 EUR	France
United States Power Fund IV	Energy Investors Funds	1,750 USD	US

Source: Preqin

Conferences Spotlight: Forthcoming Events

Conference	Dates	Location	Organizer
Institutional Investing in Infrastructure	31 Oct-2 Nov 2010	Washington DC	IREI
AIS 2010 Abu Dhabi Showcase of Alternative Investment Funds	3-4 Nov 2010	Abu Dhabi	Leoron Events
Infrastructure Investment World Africa 2010	8-10 Nov 2010	Johannesburg	Terrapinn
Infrastructure Investment World India 2010	22-24 Nov 2010	Mumbai	Terrapinn
Infrastructure Investment World Europe 2010	30 Nov-3 Dec 2010	London	Terrapinn
Emerging Markets Summit: BRIC & Beyond	Dec 2010 (TBC)	New York	iGlobal Forum
Public-Private Financing and Investing Strategies Conference	13 - 15 Dec 2010	San Francisco	IIR

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Infrastructure Investment World India 2010

Date: 22- 24 November 2010

Location: Mumbai, India

Organiser: Terrapinn

Infrastructure Investment India 2010 is the platform for the entire infrastructure community - Back for the 4th year running, this 2 day conference brings together governments, funds, institutional investors, financiers, operators and developers to explore infrastructure investment and development opportunities in Asia.

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Institutional Investor News

Arizona Public Safety Personnel Retirement System aims to invest in two infrastructure funds in the coming 12 months

The USD 6.1 billion Phoenix-based pension fund will seek to increase its exposure to the infrastructure asset class in the coming year through commitments to approximately two new infrastructure funds. It plans to commit in the region of USD 30 million to these opportunities. Arizona Public Safety Personnel Retirement System is an opportunistic investor in infrastructure, and will consider a range of geographic locations including North America, Europe and Asia, as well as all project stages and a variety of industries. The pension fund currently has USD 150 million invested in the infrastructure asset class, which makes up part of its allocation to real assets.

Les Retraites Populaires to begin search for infrastructure fund of funds manager

The CHF 14.8 billion Swiss asset manager is looking to make its maiden commitment to unlisted infrastructure funds in 2011. Though no formal strategy has yet been set, Les Retraites Populaires plans to seek an infrastructure fund of funds manager to handle a CHF 30 million mandate to establish a diversified global infrastructure portfolio. The pension fund expects to begin the search before the end of 2010. Les Retraites Populaires has existing exposure to the asset class through direct investments in Swiss infrastructure projects.

Nationwide Insurance to increase infrastructure exposure

The USD 68 billion insurance company is looking to invest in at least one new infrastructure fund in the coming 12 months, through its allocation to private equity. It primarily invests in North America-focused funds, although it will also consider opportunities in Europe and Asia. Nationwide typically invests between USD 15 million and USD 20 million in an

individual fund. The insurance company's previous fund investments have provided it with exposure to energy assets, roads, sea ports and airports.

Kent County Council Superannuation Fund continues search for infrastructure manager

The GBP 2.6 billion county council pension scheme launched a search in January for a fund manager to handle a new GBP 50 million global infrastructure mandate. It drew up a shortlist in June and a final selection is expected in Q4 2010. Having previously gained exposure to the asset class through commitments to unlisted vehicles with a European focus, Kent County Council Superannuation Fund is looking to complement its existing investments with the new global mandate. The pension scheme is considering hiring both a fund of funds and direct fund managers. It issued the RFP in January.

Pension Fennia to target European infrastructure funds in 2010/11

The EUR 6.7 billion Finnish insurance company will look to invest in one or two new infrastructure funds over the next 12 months, committing between EUR 5 million and EUR 10 million to each opportunity. Pension Fennia invests in infrastructure through its private equity allocation and currently has EUR 5 million invested in the asset class. It will seek investment opportunities focused on Europe with a preference for the transportation industry, including gaining exposure to toll roads and airports. In general, the insurance company will look to invest in assets in the brownfield or secondary stage of development.

KWAP to further develop alternatives program

The USD 1.3 billion Malaysian government agency invests in infrastructure as part of its allocation to alternative assets. Over the next year, KWAP will commit to approximately one to four new funds in the alternative assets space, a proportion of

which will be dedicated to infrastructure. It will commit between USD 7 million and USD 30 million to each fund. KWAP maintains an opportunistic investment strategy and will commit to funds offering diversity in terms of geography and industry, although it will only commit to funds targeting brownfield and secondary stage assets. KWAP also prefers to invest with experienced managers, which could include spin-off teams, and will commit to funds with PPP/PFI exposure.

Data Source:

Preqin Infrastructure Online

Each month Spotlight provides a selection of the recent news on institutional investors in infrastructure.

This month, 32 new investors have been added and 251 investor profiles updated. More news and updates are available online for Infrastructure Online subscribers.

www.preqin.com/infrastructure