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Press Release

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Unlisted Infrastructure Funds Turn to Higher-Risk Strategies

Core and core-plus vehicles dominate asset class, but higher-risk funds account for growing proportion of industry assets

The unlisted infrastructure market is dominated by core and core-plus vehicles, in line with its perception as a lower-risk, lower-return asset class. These funds account for the largest proportions of annual fundraising, and collectively hold over a quarter of a trillion dollars in assets under management. However, there are signs that higher-risk, higher-reward approaches such as value added funds are accounting for an increasing portion of the market. Over the past decade, the AUM of value added funds has grown at a compound annual rate of 26%. As a result, while core-plus funds have accounted for a steady proportion of industry assets, and core funds have represented a falling share, value added funds have risen from 8% of total assets to 20%.

For more information and analysis, see the full *November 2017 Real Assets Spotlight* here:
https://www.preqin.com/docs/newsletters/RA/Preqin-Real-Assets-Spotlight-November-2017.pdf

Key Unlisted Infrastructure Strategies Facts:

- **Over a third of unlisted infrastructure funds closed since 2008 focus on core-plus assets**, and in seven of the past 10 years core and core-plus funds have secured more than half the annual capital raised for the asset class.
- **Core-plus funds represent the largest part of the unlisted infrastructure market**, with a combined AUM of $157bn as of March 2017. Core funds are the second-largest segment, with $102bn in assets.
- However, over the past decade, core-plus assets have grown at an average annual rate of 16%, while core assets have grown by 9%. By contrast, **value added AUM has increased by an annual average of 31%**.
- **Value added assets have grown from $8bn as of the end of 2007 to $86bn as at March 2017.**
- As a result, core-plus funds accounted for 37% of industry assets in March 2017, the same proportion as in December 2007. **Core funds saw their market share fall from 45% to 24%** in the same period.
- By contrast, **value added funds saw their share of industry assets rise from 8% to 20% in the past decade**.
- Looking ahead, although the largest proportion of investors (35%) surveyed view core strategy as presenting the best opportunity, **the second largest proportion (28%) think value added present the best opportunities**.

Tom Carr, Head of Real Assets Products:

"The unlisted infrastructure market has traditionally been seen as a lower risk asset class that investors value for its portfolio diversification, strong risk-adjusted returns and downside risk protection. This is certainly still the case: activity has typically been concentrated on core and core-plus vehicles, and these strategies have accounted for over half of all infrastructure fundraising over the past 10 years. This may be in part due to the low interest rate environment, which has seen some investors turn to infrastructure instead of traditional fixed income products.

However, as unlisted infrastructure has become more common in investors' portfolios and more competitive among fund managers, we are increasingly seeing vehicles moving up the risk/return scale in search of value. Although core and core-plus strategies remain the only segments of the infrastructure market to hold more than $100bn in assets, value added funds have a much higher growth rate over the past decade. They therefore represent a growing proportion of the market, and this may be a sign that in years to come increasing attention will be put on this end of the unlisted infrastructure asset class."

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