PREQIN QUARTERLY UPDATE: INFRASTRUCTURE Q1 2018

Insight on the quarter from the leading provider of alternative assets data

Content includes:

Fundraising
Funds in Market
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Fund Performance and Dry Powder

FOREWORD - Patrick Adefuye, Preqin

Five unlisted infrastructure funds reached a final close in Q1 2018 for an aggregate $5.7bn. Following a record year of fundraising in 2017, this is not only the lowest amount of capital raised in a single quarter since Q3 2013, but also the smallest number of funds closed since Q3 2009. Funds closed in Q1 2018 secured an average of 120% of their target, showing that investor demand is strong – particularly for established managers. At the start of Q2 2018, there are 178 unlisted infrastructure funds in market seeking an aggregate $133bn; these funds have already raised $52bn in interim closes, suggesting the possibility of a healthy fundraising environment for the rest of 2018.

The number and estimated aggregate value of infrastructure transactions in Q1 2018 were both down on Q4 2017 totals, standing at 564 transactions completed for an estimated $222bn, compared with 825 transactions worth $230bn. However, the average deal size has increased by 39% to reach $439mn. The combination of fewer deals with higher average values emphasizes the twin issues of finding attractive opportunities and high valuations facing infrastructure fund managers, both of which were highlighted as concerns by respondents to Preqin's fund manager survey at the end of 2017.

With regards to investment plans for the year ahead, institutional investors in infrastructure maintain a strong preference for domestic investment opportunities; however, North America-based investors are more interested in exposure to global infrastructure markets than investors in Europe and Asia. Showing more evidence of a continued strong appetite for the asset class, the proportion of investors looking to commit $100mn or more has increased from 39% in Q1 2017 to 50% in Q1 2018, and three-quarters of investors plan to invest in two or more funds in 2018.

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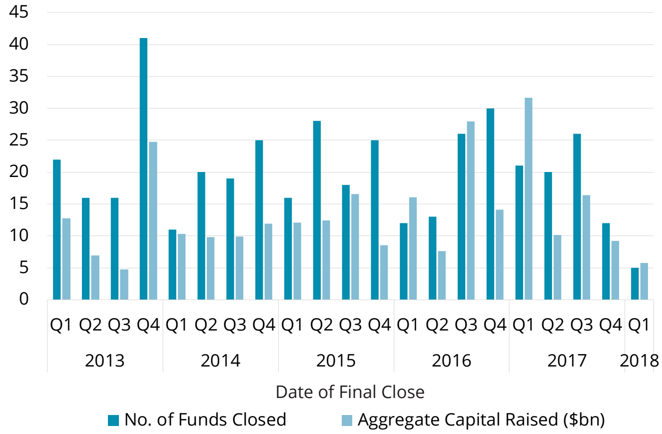
FUNDRAISING

Unlike the record-setting highs of infrastructure fundraising in Q1 2017 when – bolstered by the $15.8bn closure of Global Infrastructure Partners III – 21 funds secured $32bn, Q1 2018 saw the lowest amount of capital raised in a single quarter since Q3 2013, and the lowest number of funds closed since Q3 2009. Five funds in total reached a final close, securing $5.7bn in aggregate capital over the period (Fig. 1).

What has remained consistent, however, is the leading presence of Europe- and North America-focused funds within the market: in Q1 2018, Europe-focused funds represented 70% ($4.0bn) of aggregate capital raised, with the remaining 30% ($1.7bn) secured by North America-focused funds (Fig. 2).

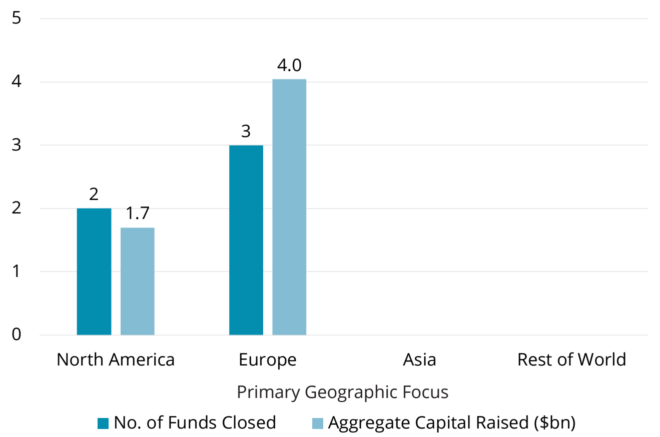
While many funds were not able to reach a final close in Q1 2018, the five that were able to close achieved 120% of their target on average, with no funds falling short of their initial target amount (Fig. 3). The largest fund closed in the quarter was Partners Group Direct Infrastructure 2016, which secured 110% of its initial €2bn target (Fig. 4). This was followed by Basalt Infrastructure Partners II, which raised $1.3bn, 29% above target.

Fig. 1: Global Quarterly Unlisted Infrastructure Fundraising, Q1 2013 - Q1 2018



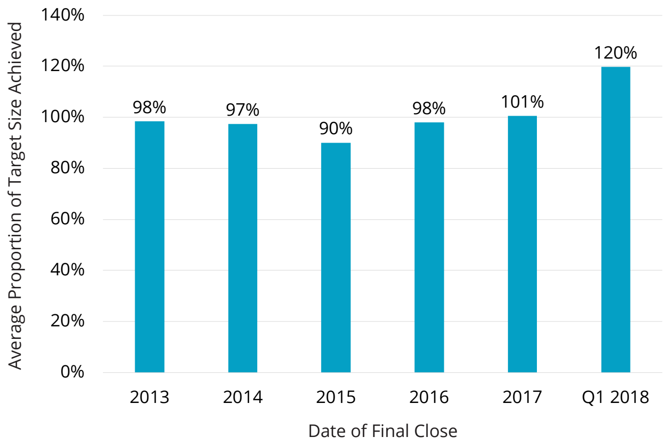
Source: Preqin

Fig. 2: Unlisted Infrastructure Fundraising in Q1 2018 by Primary Geographic Focus



Source: Preqin

Fig. 3: Average Proportion of Target Size Achieved by Unlisted Infrastructure Funds, 2013 - Q1 2018



Source: Preqin

Fig. 4: Unlisted Infrastructure Funds Closed in Q1 2018

Fund	Firm	Fund Size (mn)	Geographic Focus
Partners Group Direct Infrastructure 2016	Partners Group	2,200 EUR	Europe
Basalt Infrastructure Partners II	Basalt Infrastructure Partners	1,285 USD	Europe
Brookfield Infrastructure Debt Fund I	Brookfield Asset Management	885 USD	US
Orion Energy Credit Opportunities Fund II	Orion Energy Partners	816 USD	US
Green Return Fund - Core	wpd Invest	40 EUR	Europe

Source: Preqin

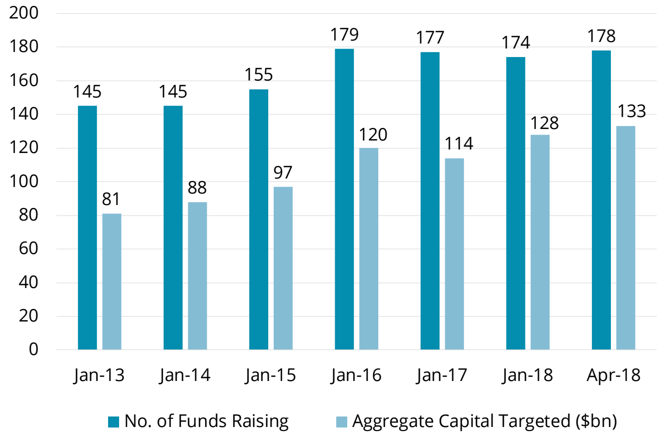
FUNDS IN MARKET

At the start of Q2 2018, there are 178 unlisted infrastructure funds in market collectively seeking $133bn in capital, compared to 174 funds targeting $128bn at the beginning of the year (Fig. 5). Alongside this increase in the number of funds on the road, funds currently in market are targeting an additional $5.0bn. Of these funds, 61% have been in market for over a year, and 54% have held an interim close, securing $52bn; among these funds is Fondi Italiani Per Le Infrastrutture III, which secured €3.1bn for its first close, above its initial target of €3.0bn.

Europe-focused unlisted infrastructure funds constitute the largest proportion (46%) of funds currently in market, followed by vehicles targeting North America (26%); however, despite this, North America-focused funds are seeking $9.8bn more than their Europe-focused counterparts (Fig. 6). Therefore, there remains significant disparity between the average target size of funds in market across these regions: North America-focused funds are targeting an average of $1.6bn, compared with $632mn for Europe-focused funds.

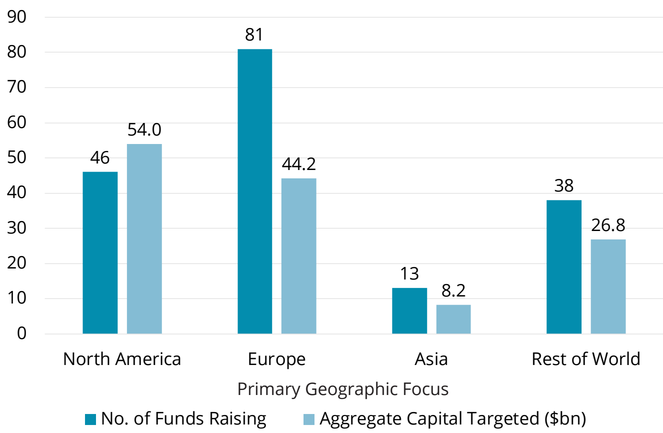
Renewable energy remains the sector targeted by the most funds in market: 34% have a main focus on this industry, representing 22% of aggregate target capital (Fig. 7). This is followed by the energy (excluding renewables) and transport sectors, which are targeted by 11% and 9% of funds respectively. Competition for investor capital in the market remains high, and this is reflected in the willingness of fund managers to take a more diversified approach to ensure the best quality investments are obtained: 43% of funds currently in market, representing 61% of aggregate target capital, have a diversified primary investment strategy.

Fig. 5: Unlisted Infrastructure Funds in Market over Time, 2013 - 2018



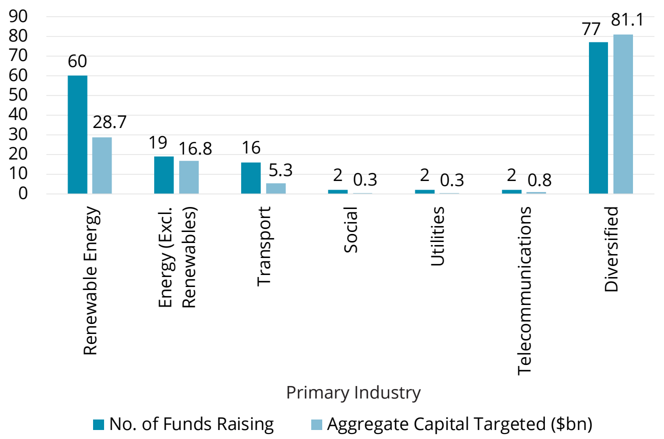
Source: Preqin

Fig. 6: Unlisted Infrastructure Funds in Market by Primary Geographic Focus



Source: Preqin

Fig. 7: Unlisted Infrastructure Funds in Market by Primary Industry



Source: Preqin

Fig. 8: Largest Unlisted Infrastructure Funds in Market

Fund	Firm	Target Size (mn)	Geographic Focus
Energy Capital Partners IV	Energy Capital Partners	6,000 USD	US
Alinda Infrastructure Fund III	Alinda Capital Partners	5,000 USD	US
EIG Energy Fund XVII	EIG Global Energy Partners	5,000 USD	US
ISQ Global Infrastructure Fund II	I Squared Capital	5,000 USD	US
KKR Global Infrastructure Investors III	KKR	5,000 USD	US

Source: Preqin

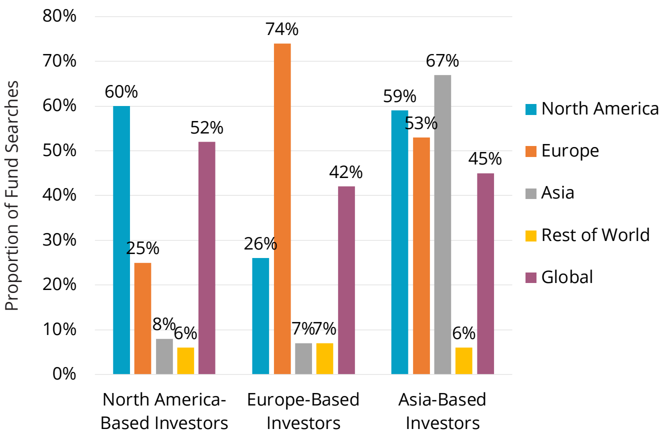
INSTITUTIONAL INVESTORS

Over the next 12 months, institutional investors will continue to focus on investments in their domestic markets (Fig. 9). While investors in North America and Europe show a particularly strong preference for their home markets, Asia-based investors' preferences are more evenly spread across more established markets and their own.

Across all regions, unlisted funds remain the most common route to market for institutional investors active in the asset class (Fig. 10). Europe- and Asia-based investors have a significantly greater propensity for direct infrastructure investments, with 38% and 35% of these investors respectively seeking this route to market, compared with just 17% of North America-based investors.

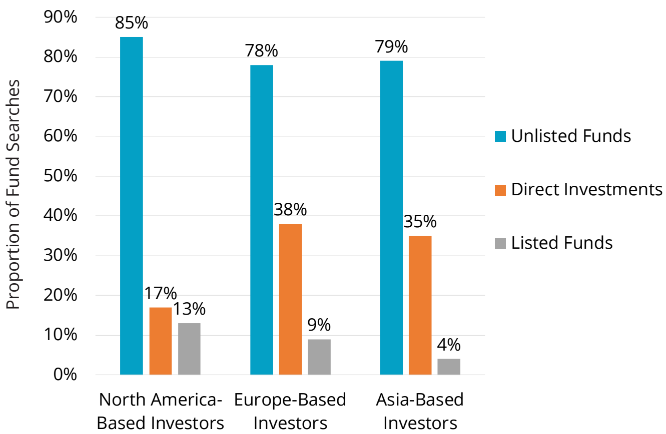
The proportion (13%) of investors looking to allocate $500mn or more to unlisted infrastructure in the next 12 months has nearly doubled compared to Q1 2017 (Fig. 11), and the proportion of investors planning to commit less than $100mn has declined from 61% to 49%. This, combined with an increase in the proportion of investors looking to invest in four funds or more compared to Q1 2017, indicates a promising year for the infrastructure asset class. As can be seen in Fig. 12, there is a clear implication that, although the fundraising environment may remain challenging, there are still clear opportunities for fund managers to find capital commitments.

Fig. 9: Regions Targeted by Infrastructure Investors in the Next 12 Months by Investor Location



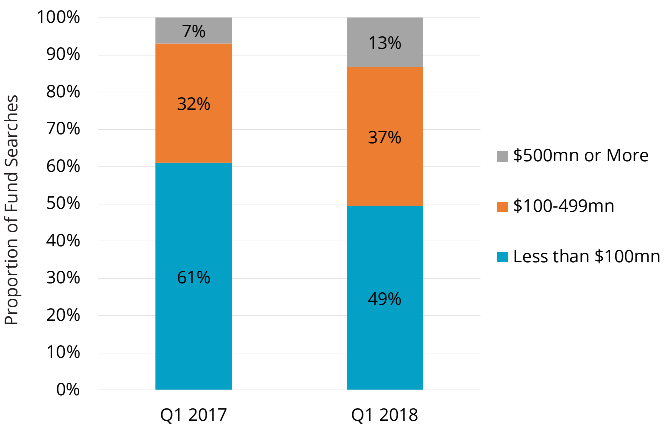
Source: Preqin

Fig. 10: Preferred Route to Market of Infrastructure Investors for the Next 12 Months by Investor Location



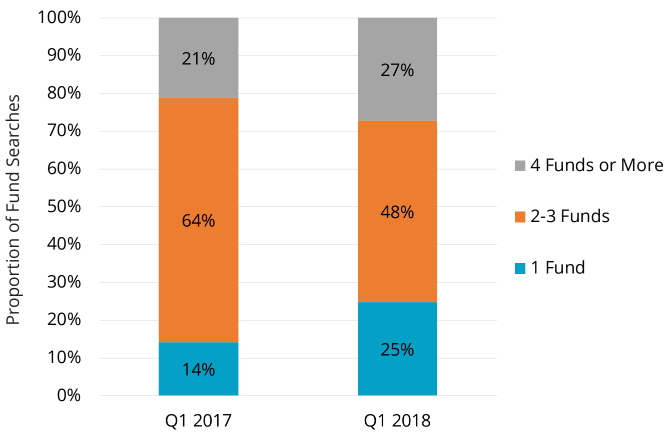
Source: Preqin

Fig. 11: Amount of Capital Investors Plan to Commit to Unlisted Infrastructure Funds in the Next 12 Months, Q1 2017 vs. Q1 2018



Source: Preqin

Fig. 12: Number of Unlisted Infrastructure Funds Investors Plan to Commit to in the Next 12 Months, Q1 2017 vs. Q1 2018



Source: Preqin

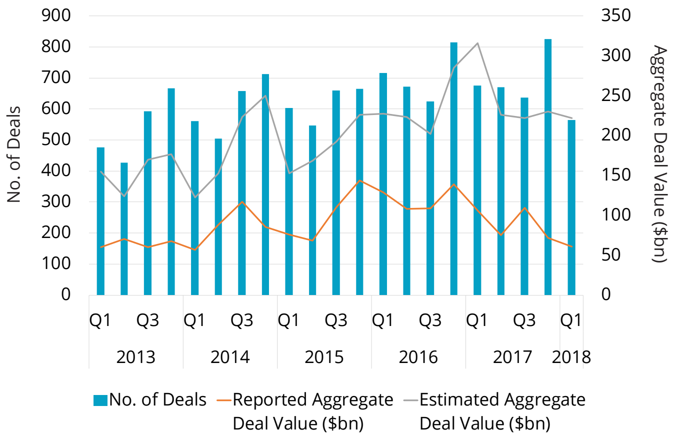
DEALS

In Q1 2018, 564 transactions were completed for an estimated $222bn; compared with 825 deals worth an estimated $230bn in Q4 2017, 32% and 3% lower respectively (Fig. 13). Average deal size increased by 39% in the same period to reach $439mn (Fig. 14), suggesting that while fewer investments are being made, investors are willing to pay higher ticket prices for assets in the market.

North America and Europe continue to dominate the industry, with three-quarters of all infrastructure transactions completed in these regions in Q1 2018 (40% and 35% respectively, Fig. 15). While the proportion of deals completed in Europe has remained the same compared to Q1 2017, the proportion of deals completed in North America has increased by five percentage points. However, the average size of deals in North America has decreased significantly over the past 12 months, from $988mn in Q1 2017 to $329mn in Q1 2018. Comparatively, the average size of deals completed in Europe has risen from $303mn to $677mn over the same period.

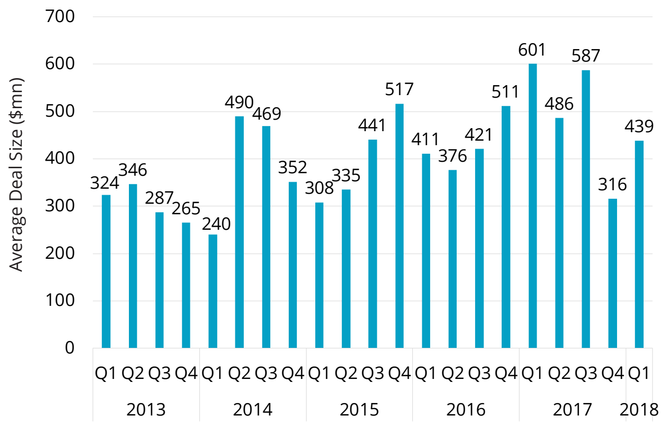
As has been the overall trend within the market for the past five years, the renewable energy sector represents the majority (53%) of completed deals in Q1 2018 (Fig. 16), reflecting the trend within the fundraising market. Sixty-seven percent of infrastructure deals involved secondary-stage assets, a fall of two percentage points from Q1 2017; this shift is in line with the decrease in the share of greenfield deals from 29% of all deals completed in Q1 2017 to 26% in Q1 2018. One notable deal completed in Q1 2018 was the acquisition of a 100% stake in LUCID Energy – a developer of hydropower technology – by Riverstone Global Energy and Power Fund VI, West Street Capital Partners VII, West Street Fund I and West Street Infrastructure Partners III, for $1.6bn.

Fig. 13: Infrastructure Deals Completed Globally, Q1 2013 - Q1 2018



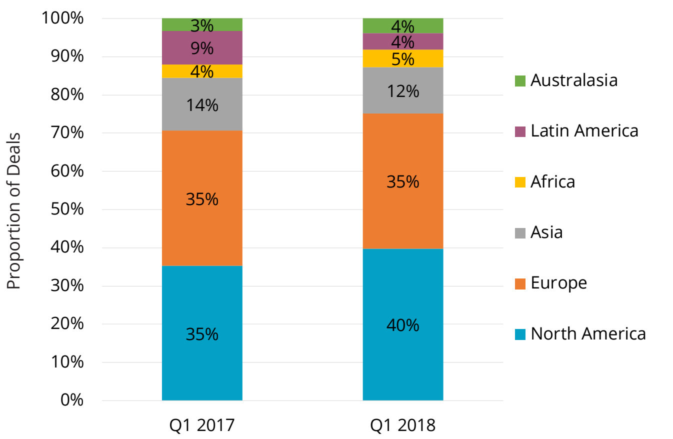
Source: Preqin

Fig. 14: Average Size of Completed Infrastructure Deals, Q1 2013 - Q1 2018



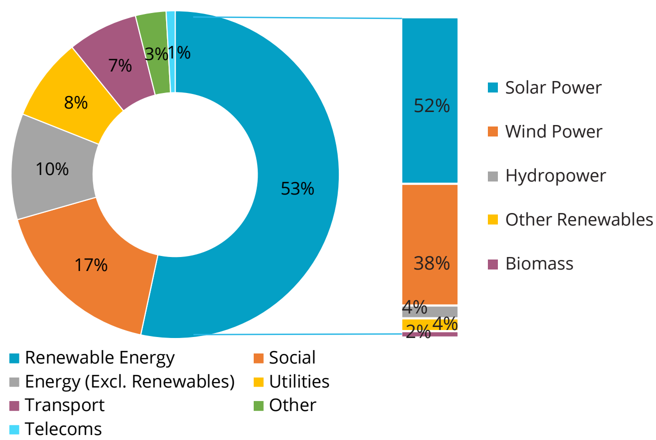
Source: Preqin

Fig. 15: Completed Infrastructure Deals by Region, Q1 2017 vs. Q1 2018



Source: Preqin

Fig. 16: Infrastructure Deals Completed in Q1 2018 by Industry



Source: Preqin

FUND PERFORMANCE AND DRY POWDER

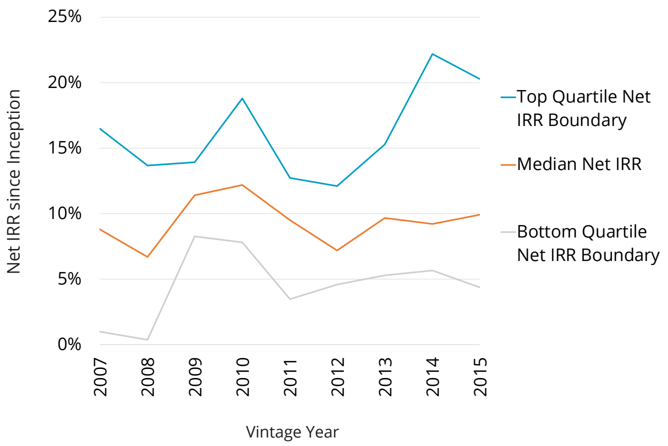
Preqin's latest infrastructure performance data shows consistent returns over the long term, with an average median net IRR of 9.4% across 2007-2015 vintages (Fig. 17). Volatility in median net IRRs appears to have decreased in more recent vintage years; however, the interquartile range has experienced a sharp rise in 2014 and 2015 vintage funds. This is perhaps due to a number of top performing funds with a 2014 vintage year, with six funds posting double-digit returns.

Fig. 18 compares the performance of infrastructure funds against that of all other private capital funds. It illustrates that across all vintages examined, infrastructure funds have returned median net IRR of 10%, in line with most other private capital strategies.

Mega funds (those of $2bn or more in size) dominate the fundraising landscape, holding the largest proportion (46%) of dry powder as at March 2018 (Fig. 19). This trend has been seen since 2006; however, the dominance of mega funds has lessened over the past two years.

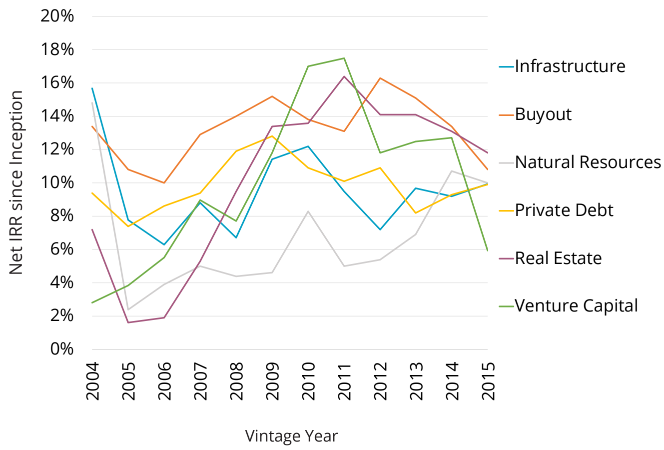
The PrEQIn Infrastructure Index stands at 208.4 index points as at June 2017, significantly higher than the PrEQIn Private Capital Index (190.9) at the same date, suggesting that infrastructure is offering higher average returns than the private capital industry as a whole (Fig. 20). The figures in the index have been rebased to 100 as at 31 December 2007, and the value of 208.4 indicates that infrastructure funds have more than doubled their value between 2007 and H1 2017.

Fig. 17: Unlisted Infrastructure: Median Net IRRs and Quartile Boundaries by Vintage Year



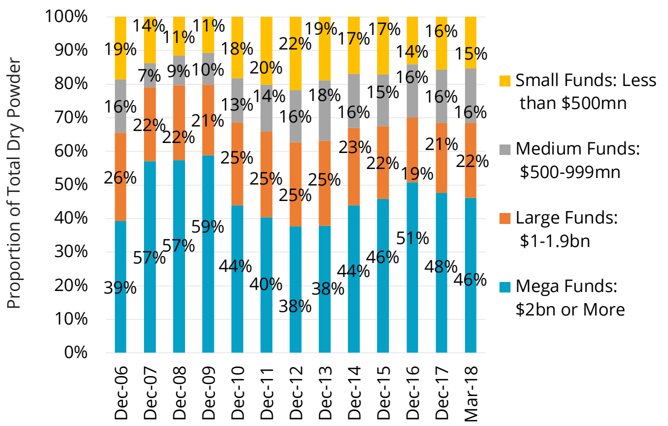
Source: Preqin

Fig. 18: Unlisted Infrastructure vs. Other Private Capital Strategies: Median Net IRRs by Vintage Year



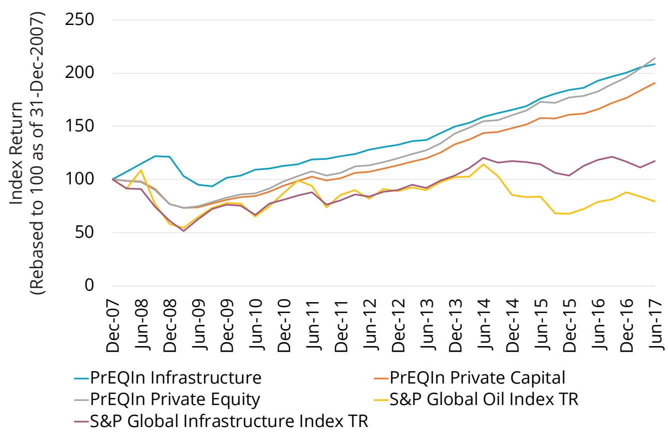
Source: Preqin

Fig. 19: Unlisted Infrastructure: Dry Powder by Fund Size, 2006 - 2018



Source: Preqin

Fig. 20: PrEQIn Index: Infrastructure vs. Private Capital, Private Equity and Public Indices (Rebased to 100 as of 31 December 2007)



Source: Preqin

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