

PREQIN QUARTERLY UPDATE: INFRASTRUCTURE Q2 2018

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

Content includes:

- Fundraising
- Funds in Market
- Institutional Investors
- Deals
- Fund Performance and Dry Powder



FOREWORD - Patrick Adefuye, Preqin

Q1 2018 recorded the lowest amount of capital raised in a single quarter since Q3 2013; however, fast-forward to Q2 2018 and 17 unlisted infrastructure funds reached a final close securing a combined \$25bn in institutional capital, the highest amount raised in a quarter since Q1 2017 (\$32bn). These funds achieved an average of 125% of their target size which, as capital becomes increasingly concentrated among fewer firms, illustrates strong investor appetite – particularly for established managers. With 180 unlisted infrastructure funds on the road currently looking to raise an aggregate \$127bn, fund managers must demonstrate that they can find and create value in the market.

The number and estimated aggregate value of infrastructure transactions in Q2 2018 are 10% and 16% lower than Q1 2018 totals respectively, with 569 deals completed for an estimated aggregate \$209bn. Similar to the previous quarter, this is likely to reflect the difficulty faced by fund managers in sourcing investments that would deliver the desired returns.

Institutional investors in infrastructure generally maintain a strong preference for domestic investments. A greater proportion of Asia-based investors, relative to investors in other regions, seek opportunities outside of their home market. The proportion of investors looking to commit at least \$500mn has more than doubled from Q2 2015. The majority of investors looking to make new commitments in the next 12 months plan to commit to two or more funds, illustrating that opportunities exist for fund managers to secure investor capital to meet their targets.

We hope that you find this report useful and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

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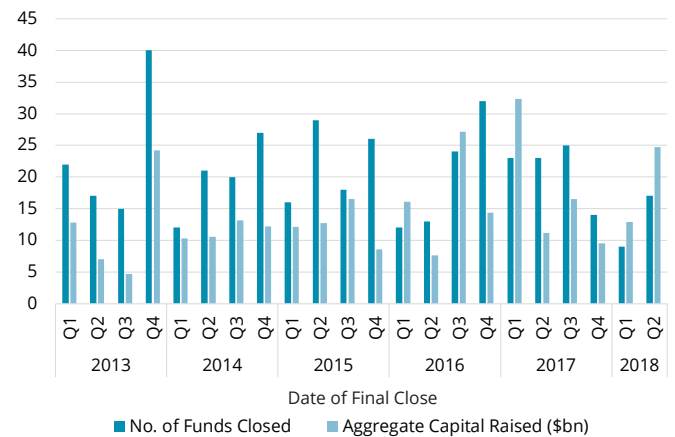
FUNDRAISING

Seventeen unlisted infrastructure funds reached a final close in Q2 2018, securing \$25bn in institutional capital (Fig. 1). This marks the highest amount of capital raised in a single quarter since Q1 2017 (\$32bn), which was supported by the \$15.8bn closure of Global Infrastructure Partners III. While almost twice as many funds have closed in this quarter than the previous quarter, this number remains below the quarterly average (21) between Q1 2013 and Q2 2018. This indicates that a greater amount of capital is concentrated among fewer funds, with the average size of unlisted infrastructure funds closed in Q2 exceeding \$1bn for the second consecutive quarter.

North America and Europe remain the dominant markets in the infrastructure industry: North America-focused funds secured 49% (\$12bn) of aggregate capital raised in the quarter, and Europe-focused funds 36% (\$9.0bn); the remaining 14% of capital secured was accounted for by Asia-focused vehicles (Fig. 2).

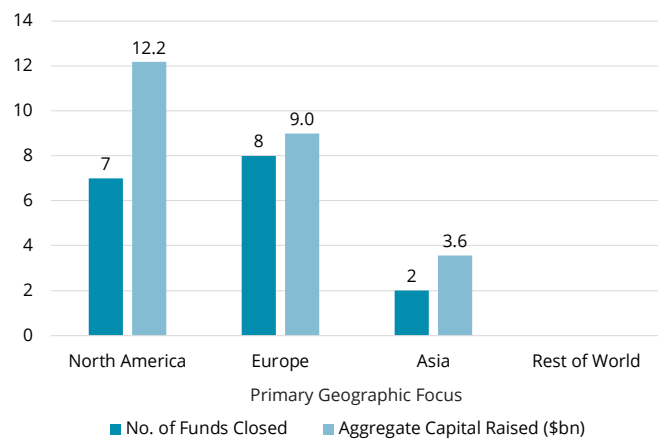
The infrastructure funds that closed in H1 continue to build on the fundraising success of previous years, with these funds achieving an average of 125% of their target size (Fig. 3). This was bolstered by the closure of funds such as Strategic Partners Real Assets

Fig. 1: Global Quarterly Unlisted Infrastructure Fundraising, Q1 2013 - Q2 2018



Source: Preqin

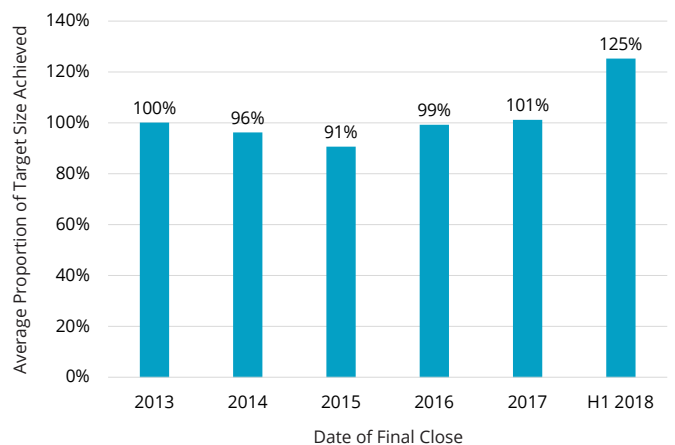
Fig. 2: Unlisted Infrastructure Fundraising in Q2 2018 by Primary Geographic Focus



Source: Preqin

II, which held a final close on \$1.75bn in April (Fig. 4). The fund secured 175% of its \$1bn target, illustrating a sustained investor appetite, particularly for established managers.

Fig. 3: Average Proportion of Target Size Achieved by Unlisted Infrastructure Funds Closed, 2013 - H1 2018



Source: Preqin

Fig. 4: Largest Unlisted Infrastructure Funds Closed in Q2 2018

Fund	Firm	Headquarters	Fund Size (mn)	Primary Strategy	Geographic Focus	Final Close Date
ISQ Global Infrastructure Fund II	I Squared Capital	New York, US	6,500 USD	Core-Plus	Global	Jun-18
Macquarie Asia Infrastructure Fund II	Macquarie Infrastructure and Real Assets (MIRA)	London, UK	3,300 USD	Core	Asia, Australasia	Apr-18
Infracapital Partners III	Infracapital	London, UK	1,850 GBP	Core-Plus	Europe	May-18
DIF Infrastructure V	DIF	Schiphol, Netherlands	1,900 EUR	Core	Australasia, Europe, North America	May-18
Strategic Partners Real Assets II	Strategic Partners Fund Solutions	New York, US	1,750 USD	Secondaries	West Europe	Apr-18

Source: Preqin

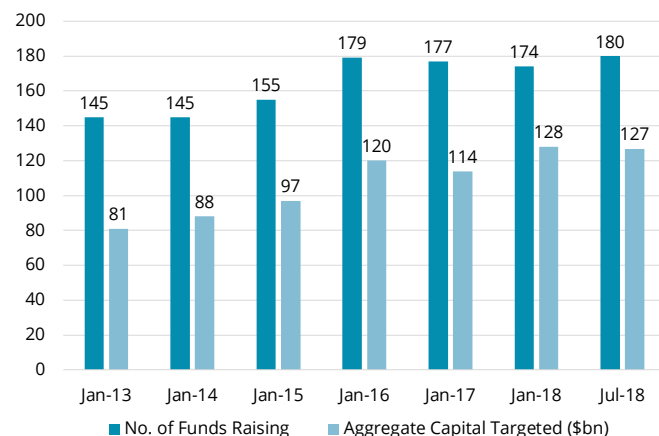
FUNDS IN MARKET

At the start of Q3 2018, there are 180 unlisted infrastructure funds in market collectively targeting \$127bn in investor capital. The number of funds raising capital is slightly up from the start of the year, while the total capital sought by these vehicles remains at a similar level (Fig. 5).

Europe-focused unlisted infrastructure funds represent the largest proportion (44%) of funds currently in market, followed by vehicles targeting North America (24%) and Rest of World (23%). North America-focused vehicles are seeking \$12bn more capital than their Europe-focused counterparts (Fig. 6), and there is a notable difference between the average target size of funds in market across these regions: North America-focused funds are seeking an average of \$1.7bn, compared with \$558mn for Europe-focused funds.

Firms are continuing to launch, resulting in a fiercely competitive fundraising environment. Fund managers are having to spend a considerable amount of time on the road to set themselves apart from their competitors and raise the necessary institutional capital to meet their targets. All funds currently in market have been on

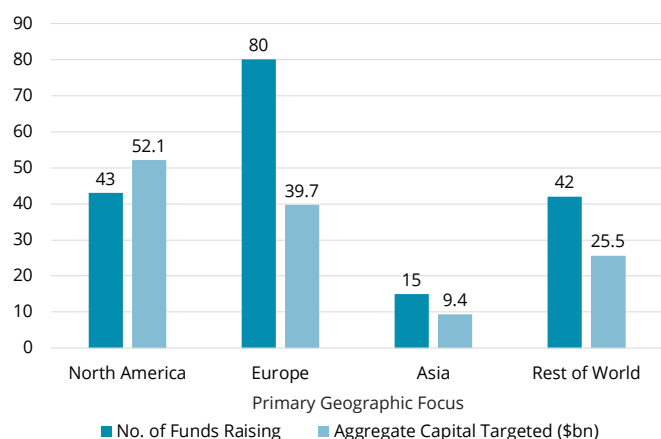
Fig. 5: Unlisted Infrastructure Funds in Market over Time, 2013 - 2018 (As at July 2018)



Source: Preqin

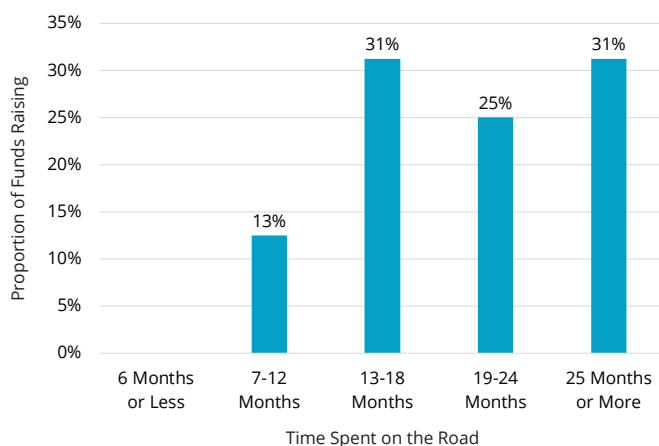
the road for more than six months, including 31% that have spent more than two years raising capital (Fig. 7).

Fig. 6: Unlisted Infrastructure Funds in Market by Primary Geographic Focus (As at July 2018)



Source: Preqin

Fig. 7: Time Spent on the Road by Unlisted Infrastructure Funds in Market (As at July 2018)



Source: Preqin

Fig. 8: Largest Unlisted Infrastructure Funds in Market (As at July 2018)

Fund	Firm	Headquarters	Target Size (mn)	Primary Strategy	Geographic Focus	Status
KKR Global Infrastructure Investors III	KKR	New York, US	7,000 USD	Core	Global	First Close
Energy Capital Partners IV	Energy Capital Partners	New Jersey, US	6,000 USD	Core-Plus	US	Third Close
Alinda Infrastructure Fund III	Alinda Capital Partners	Connecticut, US	5,000 USD	Core	Europe, North America	First Close
EIG Energy Fund XVII	EIG Global Energy Partners	Washington, US	5,000 USD	Debt	Global	Third Close
Macquarie Infrastructure Partners IV	Macquarie Infrastructure and Real Assets (MIRA)	London, UK	5,000 USD	Core	North America	Second Close

Source: Preqin



INSTITUTIONAL INVESTORS

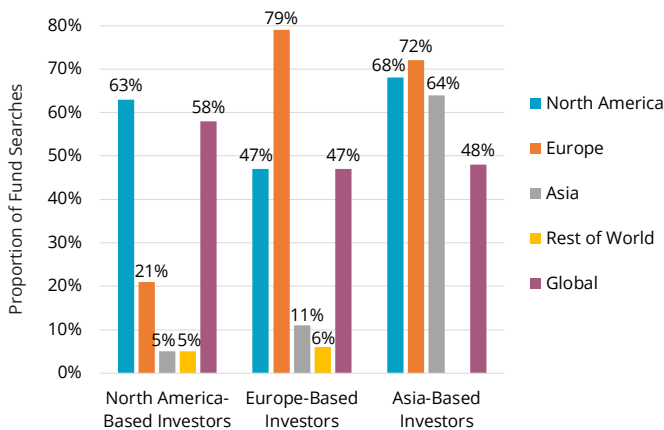
Over the next 12 months, institutional investors will continue to largely focus on investments in their domestic markets (Fig. 9). While investors in North America and Europe show a strong preference for their home markets, Asia-based investors continue to diversify their investment portfolios: over half of these institutions target opportunities in Europe (72%) and North America (68%) in addition to investments in their domestic market (64%).

Unlisted funds remain the most favoured route to market for the majority of active investors in the asset class regardless of investor location (Fig. 10). Direct investments are targeted by a similar proportion of investors across all regions, contrary to previous

quarters in which a notably smaller proportion of North America-based institutions sought such opportunities (17% in Q1 2018 vs. 18% in Q3 2017 and just 14% in Q2 2017).

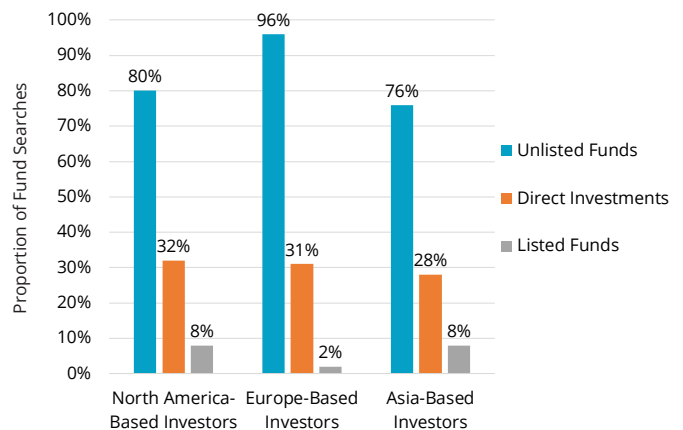
A quarter of investors are planning to commit \$500mn or more to unlisted infrastructure funds in the next 12 months, more than double the proportion in Q2 2015 (Fig. 11). The proportion (38%) of investors looking to invest in one fund in the next 12 months is notably higher than a year ago (18%, Fig. 12). While there is an implication of capital being concentrated among fewer fund managers, there remain opportunities for firms to secure investor capital and meet their fundraising targets.

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



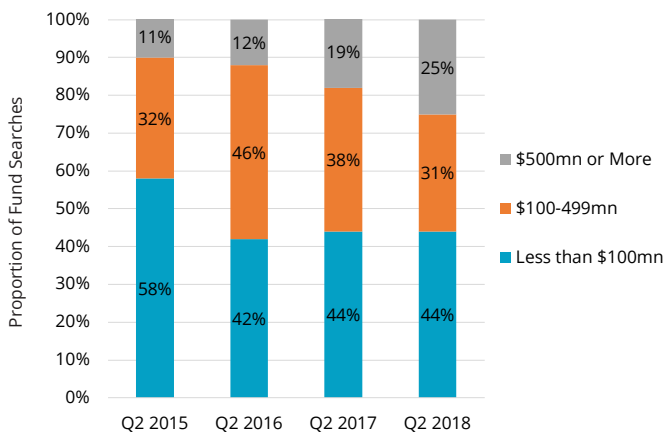
Source: Preqin

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



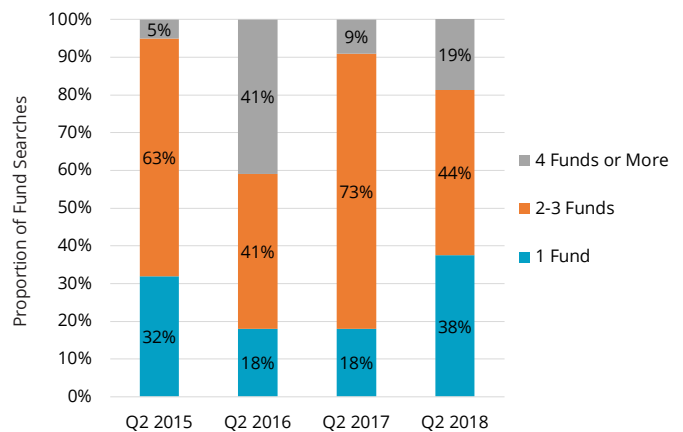
Source: Preqin

Fig. 11: Amount of Capital Investors Plan to Commit to Unlisted Infrastructure Funds in the Next 12 Months, Q2 2015 - Q2 2018



Source: Preqin

Fig. 12: Number of Unlisted Infrastructure Funds Investors Plan to Commit to in the Next 12 Months, Q2 2015 - Q2 2018



Source: Preqin

DEALS

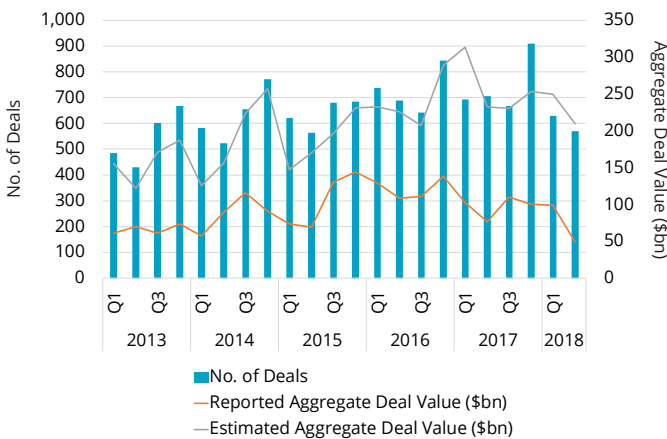
In Q2 2018, 569 infrastructure transactions worth an estimated \$209bn were completed. Compared to the previous quarter, the number of deals completed and aggregate estimated deal value were 10% and 16% lower respectively (Fig. 13). The cause of a slowdown in deal flow is likely to reflect the challenge fund managers have faced in sourcing attractive infrastructure assets at affordable prices to meet investors' return expectations.

North America and Europe continue to dominate the industry, with 66% of all infrastructure transactions in Q2 2018 completed for assets located in these regions (Fig. 14). However, Europe's share of 31% of all deals in the quarter was down 20 percentage points compared with Q2 2017. North America's share (35%) of total deals was up six percentage points from Q2 2017, yet the average size of deals in the region was down by 31%, from

\$678mn in Q2 2017 to \$464mn in Q2 2018. By contrast, the average size of European deals was 1.6x greater in Q2 2018 than in Q2 2017 (\$455mn vs. \$279mn).

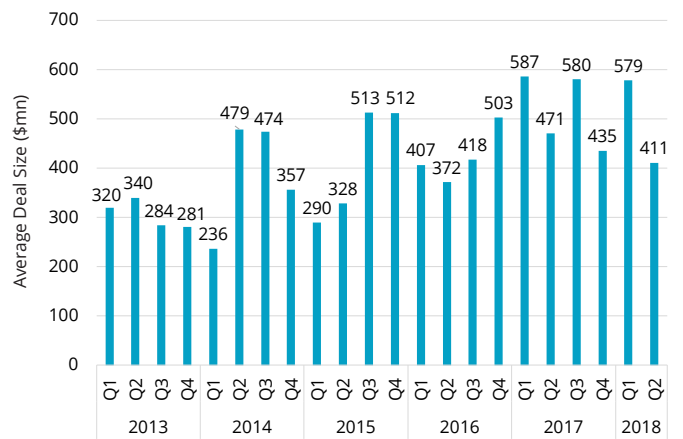
Continuing a trend from previous quarters, the renewable energy industry accounted for the majority (57%) of infrastructure deals completed in Q2 2018 (Fig. 16). Fifty-nine percent of infrastructure deals involved secondary-stage assets, down 19 percentage points from Q2 2017 but still above the 50% average in 2016. One notable deal completed in Q2 2018 involved Queen Alia International Airport, the first PPP airport transaction in the Middle East. In April 2018, ASMA Capital Partners, Groupe ADP, Meridiam and IDB Infrastructure Fund II (Mena Airport Holding) acquired an 86% stake in the airport from Abu Dhabi Investment Authority, EDGO, J&P and Noor Financial Investment for \$615mn.

Fig. 13: Quarterly Infrastructure Deals Q1 2013 - Q2 2018



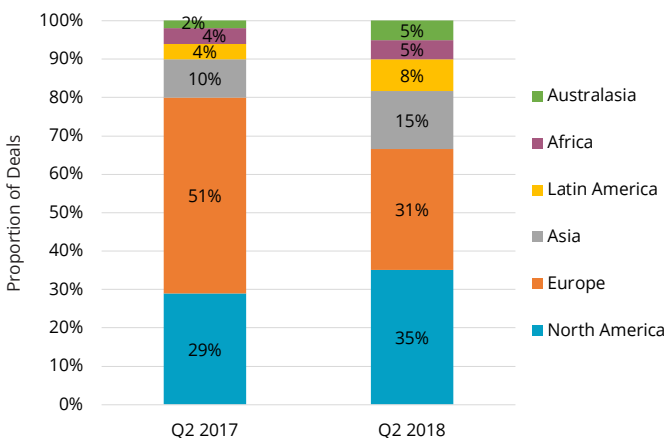
Source: Preqin

Fig. 14: Average Size of Infrastructure Deals, Q1 2013 - Q2 2018



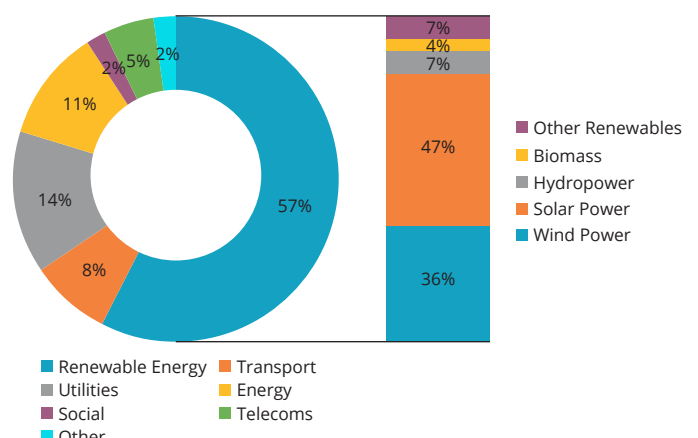
Source: Preqin

Fig. 15: Infrastructure Deals by Region: Q2 2017 vs. Q2 2018



Source: Preqin

Fig. 16: Infrastructure Deals in Q2 2018 by Industry



Source: Preqin



FUND PERFORMANCE AND DRY POWDER

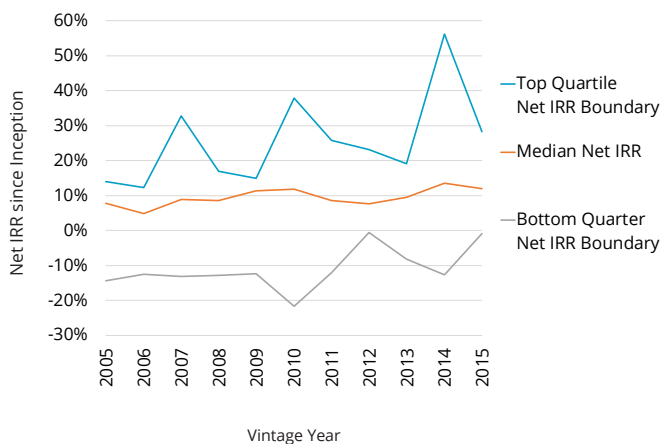
Prequin's latest infrastructure performance data shows the consistent returns generated by unlisted infrastructure funds over the long term, with median net IRRs between 7% and 12% across all vintages since 2007 (Fig. 17). Furthermore, Fig. 18 shows that infrastructure returns have experienced relatively low volatility for vintage 2005-2013 funds. Infrastructure is currently the second best performing (+13.6%) asset class among private capital funds for vintage 2014 vehicles, behind only buyout funds (+14.9%); however, these figures may yet change as it is still very early in these funds' lifespans.

Mega funds (those of \$2bn or more in size) account for almost half (49%) of total unlisted infrastructure dry powder as at June 2018 (Fig. 19). Their dominance has grown over the past five years in an industry which has seen investor capital become increasingly

concentrated among a small group of managers. An increase in these funds' share of dry powder may also illustrate the difficulty in sourcing attractive investment opportunities at relative value.

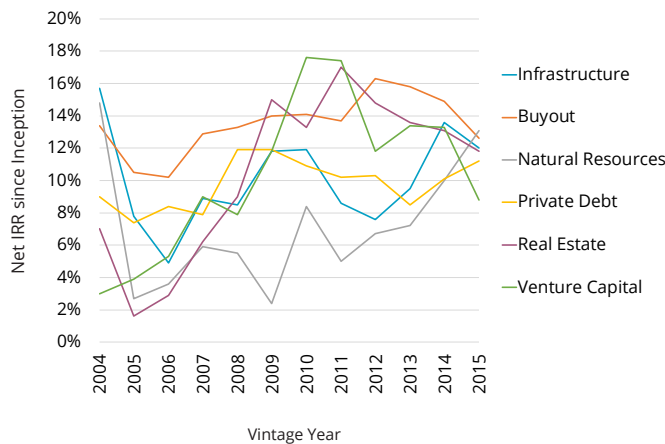
The PrEQIn Infrastructure Index has outperformed the public market (S&P Global Oil Index TR and S&P Global Infrastructure Index TR) since December 2007, while also outperforming the PrEQIn Private Capital Index over the same period (Fig. 20). However, the PrEQIn Private Equity Index outperformed the PrEQIn Infrastructure Index for the first time in a decade, recording a high of 223.4 as at September 2017. The PrEQIn Infrastructure Index stands at a record high of 213.4 as at September 2017, a 76% increase since December 2008, demonstrating the stable, consistent, long-term growth associated with the asset class.

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



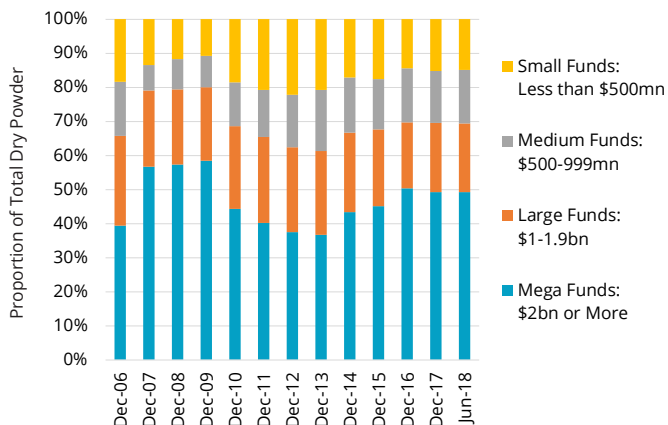
Source: Preqin

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



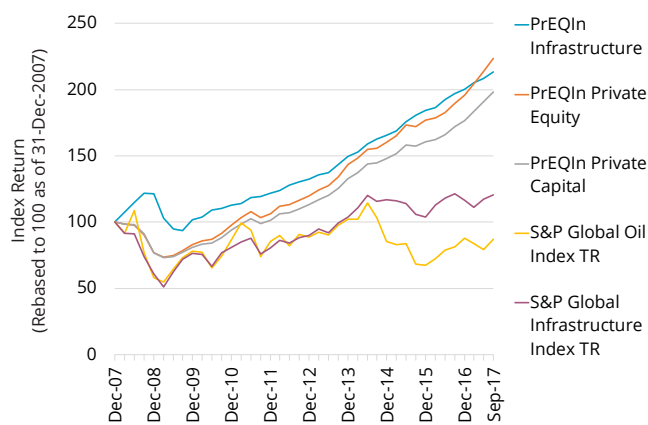
Source: Preqin

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



Source: Preqin

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



Source: Preqin



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