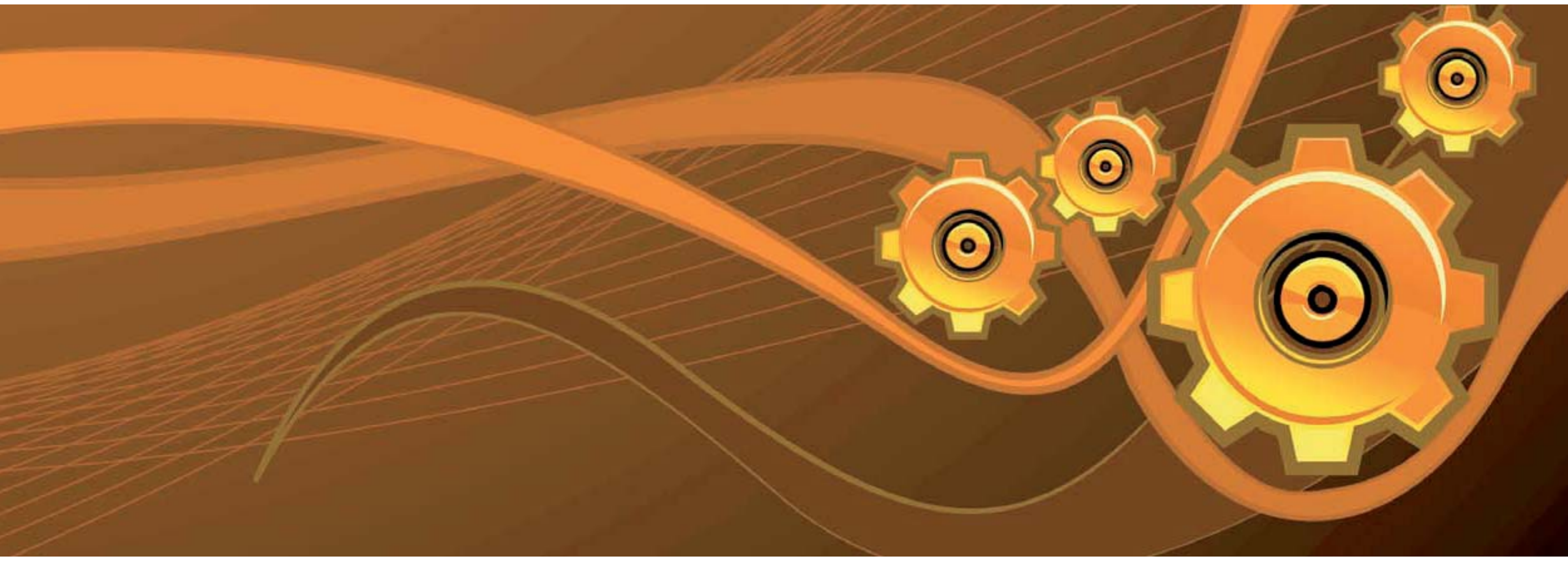
Preqin Special Report:

Infrastructure - A Pause in the Growth Story?

August-2009



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Private Equity • Real Estate • Hedge Funds • Infrastructure

Infrastructure
A Pause in the Growth Story?

All data taken from the 2009 Preqin Infrastructure Review: www.preqin.com/IR

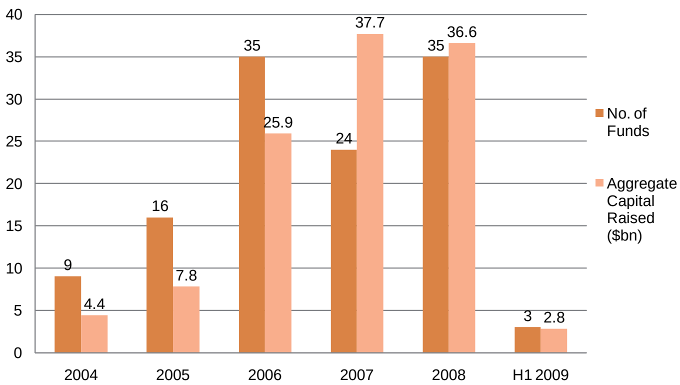
As Fig. 1 shows, the infrastructure fund industry has experienced significant growth over the course of the 21st Century, growing from what most considered as a small subset of the private equity industry, into what is now often considered to be an asset class in its own right.

From Niche Sector to Separate Asset Class

Fig. 2 shows the proportions of investors using different sources from which to fund their infrastructure investments. 31% of infrastructure investors make investments in the asset class though their private equity allocations and 16% do so through their real assets allocations. Some investors prefer to make infrastructure investments through their private equity or real assets allocations so that they can maintain a strategy of investing in infrastructure opportunistically. However, an increasing number of investors are carving out separate allocations to the asset class as they put in place permanent programs for infrastructure investing. 53% of investors now have a separate allocation to infrastructure, up from the 47% observed in last year's Review.

The reason for many investors to establish a separate allocation for infrastructure investments is due to the markedly different risk return profile that is exhibited by the asset class in comparison with other private equity fund types such as buyout. Infrastructure fund investments tend to shoot for lower returns, but with a much lower risk profile.

Fig. 1: Infrastructure Fundraising Over Time



Low Risk, Low Returns?

As Fig. 3 shows, a significant proportion of vehicles (24%) are targeting returns between 10% and 13.9%, which is relatively low in comparison with the targeted returns of other alternative assets funds. A further 24% are targeting between 14% and 17.9%. The biggest data point is for firms targeting between 18% and 21.9%, which although is still shy of the returns regularly sought by other alternative asset managers, is still a relatively high return that would satisfy a significant proportion of investors. Only 17% of funds in our sample were seeking returns at a level comparable with private equity buyout funds at 22-30%.

Fig. 2: Split of Infrastructure Investors by Source of Infrastructure Allocation

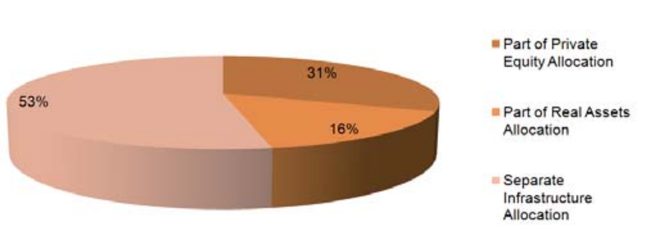
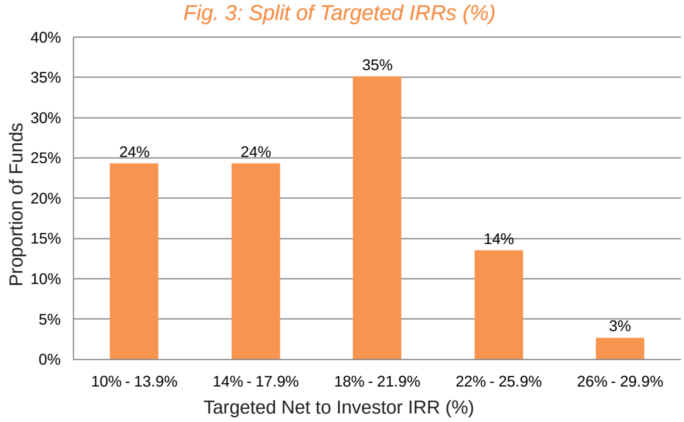


Fig. 3: Split of Targeted IRRs (%)



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Although the relative immaturity of the asset class means that the majority of vehicles are not yet at a stage where their performance can be viewed in an especially meaningful way, the returns that are available are encouraging, with only a single fund on the Preqin database showing a negative IRR, and 40% of vehicles displaying a performance exceeding 18% IRR.

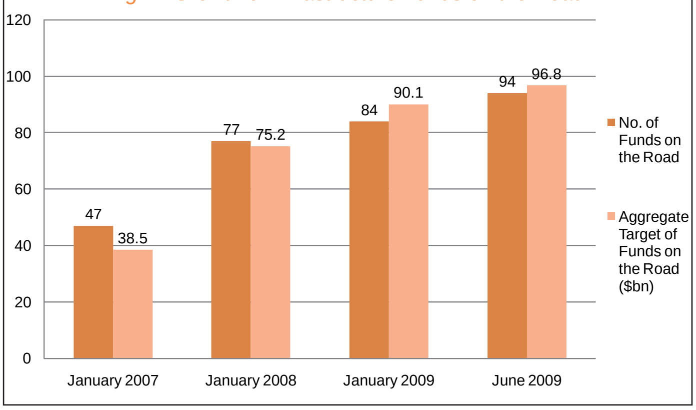
Infrastructure after the Crash

As Fig. 1 shows, infrastructure fundraising has clearly taken a massive hit following the onset of the credit crunch. At the mid-year point in 2009 only $2.8 billion had been raised by three funds achieving a final close. The drop in fundraising clearly has little to do with the number of funds on the road – as Fig. 4 shows, the number of vehicles currently seeking capital is at record levels with 94 funds seeking an aggregate $96.8 billion. This reversal of fortunes raises questions as to whether this drop represents a temporary blip or a more fundamental change in investor appetite.

Are Investors Still Keen on Infrastructure?

All the evidence shows that investors are keen to access infrastructure investments, with both existing investors showing a desire to make further investments in the future, and with new institutions establishing infrastructure allocations on a regular basis.

Fig. 4: Growth of Infrastructure Funds on the Road



There has been increasing acknowledgement over recent years of the need for massive infrastructure development across the globe – for new assets in developing countries and for widespread renewal of existing assets in the developed world. Investors and managers alike began to realise the potential array of investment opportunities opening up.

Low Correlation to Other Asset Types

Additionally, infrastructure investments, particularly private unlisted fund investments, have a low correlation to other types of investments, and as such can be attractive to investors for portfolio diversification purposes. The stable and uncorrelated returns produced by infrastructure investments derive from the nature of the services provided by infrastructure assets. Whatever the state of the economy or consumer confidence, consumer demand for the services provided by infrastructure assets is generally quite inelastic, as the assets are often essential utilities such as water and electricity provision. Social infrastructure assets, such as schools and hospitals, are considered to be particularly defensive investments, as their revenue streams are especially resilient in the face of an economic downturn.

An Attractive Prospect in the Current Market

The defensive properties displayed by infrastructure investments have meant that investor interest in the asset class has continued to grow at a time when other asset classes have been more badly affected by the recent economic crisis. In addition to this, numerous stimulus packages announced by governments around the world have included infrastructure as an important part of their overall plans, including providing backing by guaranteeing the financing of infrastructure projects, which improves the risk/return profile for investors and will stimulate investment in the sector. In times of recession, the consistent returns provided by investments in infrastructure, and the fact that they are easily predictable into the future, make the asset class an attractive prospect to investors.

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Hedging Against Inflation

However, investors have now begun to look at how conditions will develop as we move towards economic recovery. One popular belief is that the massive fiscal stimuli funded through government borrowing, as well as increases in money supply, will inevitably lead to rising inflation in the future, and thus the consideration of the need to build protection against future inflation increases into investment portfolios is growing in importance. Investments in infrastructure often have the beneficial characteristic of providing an inflation hedge. Infrastructure assets often have contracts in place that annually adjust tariffs charged according to a measure of the country's rate of inflation (consumer price index or retail price index, for example) and therefore protect returns from the threat of inflation, given the price and income inelasticity of demand for such assets in many circumstances.

Stalling Rather Than Decreasing

Whilst it is true that the pace of commitments has slowed, it appears that sentiment and optimism towards the asset class remains high and that new investors are still entering the market. The infrastructure investment market's momentum has stalled somewhat, rather than decreased, with investors still keen on the asset class and waiting for the right time to make further commitments.

As a result of the shift in the global economy, many institutional investors have distressed investment portfolios as a result of falling valuations of assets across the board, and have not been able to make commitments at the same rate as in previous years.

Although other areas of alternatives have also been negatively affected by this situation, infrastructure funds tend to be amongst the largest of all closed-end investment funds, and are therefore reliant upon gaining big commitments from investors if they are to achieve a final close. With relatively high minimum commitment levels, infrastructure funds will take more time to recover than other private equity fund types in the current market, as it is these types of commitments that will be most difficult to attract in the current market.

Momentum in the Fundraising Market

However, although final closes have been scarce, we have seen an increasing number of fund managers holding interim closes on their vehicles in market, enabling them to actively start investing while still seeking to attract institutional support for their latest vehicles.

In total, 40 of the 94 funds in market have held an interim close, with these vehicles having an aggregate total target of $39.1 billion. We would expect that as market conditions improve, the vast majority of these funds will be able to complete their fundraising within the next 18 months, and that the infrastructure asset class will once again see fundraising occurring at the high levels that we experienced in 2007 and 2008.

Although current conditions are certainly challenging, we believe that the infrastructure asset class represents a compelling investment opportunity for investors, and that once funds become available we will see a recovery in infrastructure fundraising, with the current economic turbulence actually helping to attract investors to the asset class.

The 2009 Preqin Infrastructure Review

All the data and analysis contained within this research report is taken from our newest publication - The 2009 Preqin Infrastructure Review.

For more information on this industry-leading publication, please see page 8 and 9 of this report or visit our website:

www.preqin.com/IR

Infrastructure
Key Stats & Facts - Fundraising

All data taken from the 2009 Preqin Infrastructure Review: www.preqin.com/IR

Fundraising in 2007 – H1 2009

- Infrastructure funds closed in 2007 – H1 2009 that primarily invest in North America raised the largest amount of capital of any region, with 20 funds closing on an aggregate $41 billion.
- 27 Europe focused funds raised a total of $29 billion in the period, while 15 funds focusing on Asia and Rest of World raised an aggregate $7.1 billion.
- Although these figures represent the primary investment region targeted by the funds, in many cases they will also invest in other regions of the world.

Funds Currently in Market

- The largest number of infrastructure funds currently seeking capital from investors will primarily focus their investments outside of North America and Europe: there are 48 funds currently fundraising that will focus on Asia and Rest of World.
- However, the highest amount of total capital is sought by funds that will focus on Europe, which are targeting an aggregate $33.8 billion. North American focused funds are targeting $31.8 billion, and Asia and Rest of World focused funds are targeting $31.2 billion.

Fig. 5: 2007 - June 2009 Infrastructure Fundraising by Primary Geographical Focus

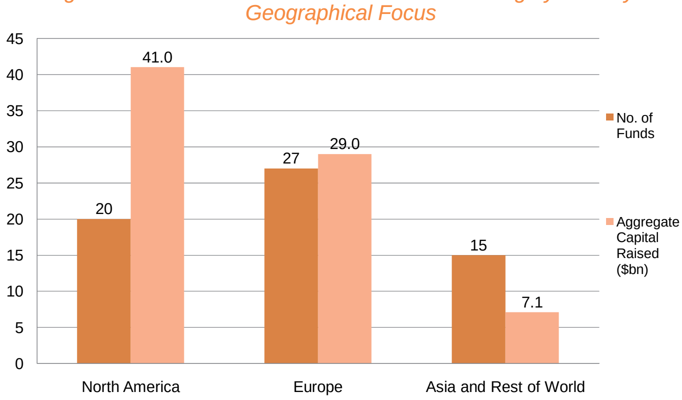
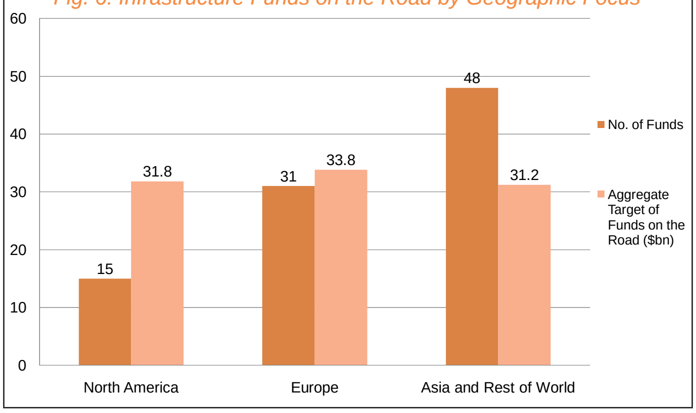


Fig. 6: Infrastructure Funds on the Road by Geographic Focus



Infrastructure
Key Stats & Facts - Fund Managers

All data taken from the 2009 Preqin Infrastructure Review: www.preqin.com/IR

Regional Location of Infrastructure Firms

- The globalization of the infrastructure market has meant that the location of firm managers within the industry is quite evenly split between North America, Europe and Asia and Rest of World.
- The region with the most infrastructure firms is Europe, with 38% of all fund managers headquartered in the continent.
- The second most popular region is Asia and Rest of World, which is home to 32% of infrastructure fund managers. Unlisted infrastructure is particularly prevalent in this area, which has an active PPP market.
- The smallest percentage of infrastructure fund managers, 30%, resides in North America. This low percentage is representative of the fact that the US has been relatively slow to allow private investment in infrastructure.

Split of Current Fundraising Total by Fund Manager Experience

- The largest proportion of funds currently on the road, 43%, are being raised by first-time fund managers.
- 18% of funds are being raised by managers that are raising their second fund. This means that 61% of all infrastructure funds on the road are being raised by firms that are relatively inexperienced in the infrastructure sector.
- A significant proportion, 19%, of vehicles are being raised by fund managers that are raising capital for at least their tenth fund.

Fig. 7: Regional Location of Infrastructure Firms

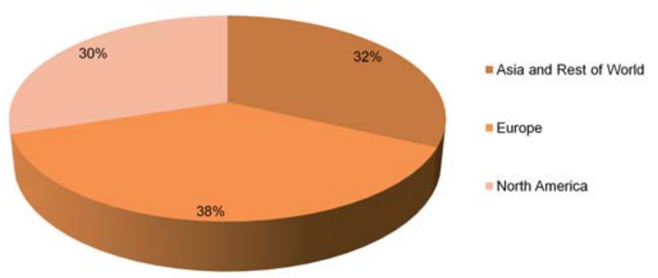
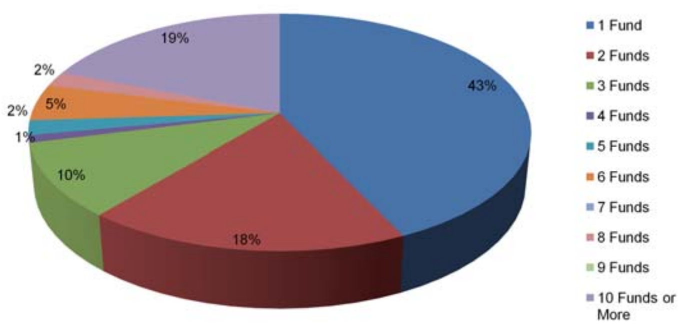


Fig. 8: Split of Current Fundraising Total by Level of Experience for Fund Managers Based on Number of Funds Managed Historically

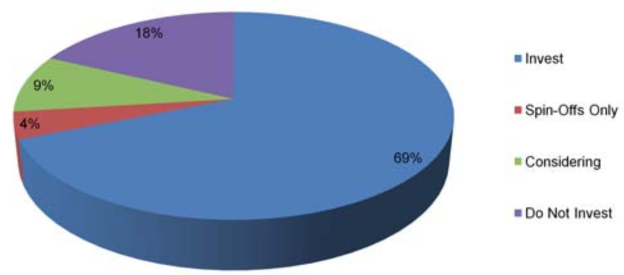


Infrastructure
Key Stats & Facts - Institutional Investors

All data taken from the 2009 Preqin Infrastructure Review: www.preqin.com/IR

Fig. 9: Split of Infrastructure Investors by Assets under Management

Fig. 10: Proportion of Investors that Invest in First-Time Funds



Investors by Assets under Management

- 16% of investors in infrastructure have less than $1 billion in assets under management and more than half have less than $10 billion.
- Infrastructure investments have historically consisted of large commitments, including high minimum commitment levels to infrastructure funds, which meant that generally only the larger institutional investors were able to create suitable infrastructure portfolios.
- There are now smaller, specialist investment vehicles available to invest in, as well as increasing numbers of infrastructure-specific fund of funds vehicles, which give investors the opportunity to invest in a diversified portfolio of infrastructure fund investments for a relatively small level of commitment.

Investors' Attitudes to First-Time Funds

- Nearly 70% of investors will invest in first-time funds. This is unsurprising given the relative youth of infrastructure fund investing as an investment sector, and it is likely that this figure will decrease somewhat as the industry matures.
- 4% will invest in first-time funds managed by teams that have spun out of a parent firm, while an additional 9% would potentially consider investing in a first-time fund.
- 18% of investors would not consider investing in a first-time infrastructure fund under any circumstances.

All the data and statistics in this research report was taken from our new publication **The 2009 Preqin Infrastructure Review**. For more information please visit:

www.preqin.com/IR

The 2009 Preqin Infrastructure Review

The newly released 2009 Preqin Infrastructure Review is the most comprehensive examination of the unlisted infrastructure fund market ever produced. With exclusive information on 250 firms, 400 funds and over 230 investors in the sector, plus detailed analysis reviewing every aspect of the industry, the 2009 Preqin Infrastructure Review is a vital purchase for fund managers, fundraising professionals, advisors, consultants, legal firms and investors in this rapidly growing market.

Key features of this year's publication include:

- Detailed analysis examining the history and development of the infrastructure market; recent funds closed; the current fundraising market; fund terms and conditions; investors; performance; the listed fund market; plus separate sections showing key facts and figures for the most important regions.
- Profiles for 250 infrastructure firms and 400 funds, including detailed investment strategies and key information.
- Profiles for over 230 investors in the sector, including investment plans and key contact details.
- Detailed listings for all funds ever closed, plus funds currently raising.
- Fund terms and conditions listings for 27 vehicles, plus transparent performance data for 62 infrastructure funds (all performance data is net to investors).

Benefits of this year's publication include:

- Wide-ranging analysis will help you understand the latest market trends and is essential for producing reports, presentations and marketing materials.
- Our detailed profiles will save hundreds of research hours looking for firm or investor backgrounds and contact details.
- Most comprehensive report available today, with exclusive information all compiled by our team of dedicated analysts via direct contact with firms and investors.
- Industry's most trusted source of data with over 400 firms worldwide using our data, including 7 of the top 10 infrastructure firms by size.

More information:

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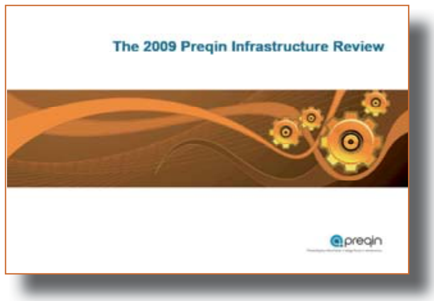

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