Infrastructure Spotlight

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April 2010 / Volume 3 - Issue 4

Welcome to Infrastructure Spotlight, the monthly newsletter from Preqin providing insights into performance, investors, deals and fundraising. Infrastructure Spotlight contains information from our online product, Infrastructure Online.

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Preqin Infrastructure Online is the industry's leading online source of information on infrastructure, with data on:

- Fundraising
- Fund Performance
- Investor Profiles
- Deals

We take an in-depth look at the product, and how it can help you. Includes information on ordering and registering for a demo.

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- Hermes Private Equity and Gartmore Private Equity
- London Borough of Hillingdon Pension Fund

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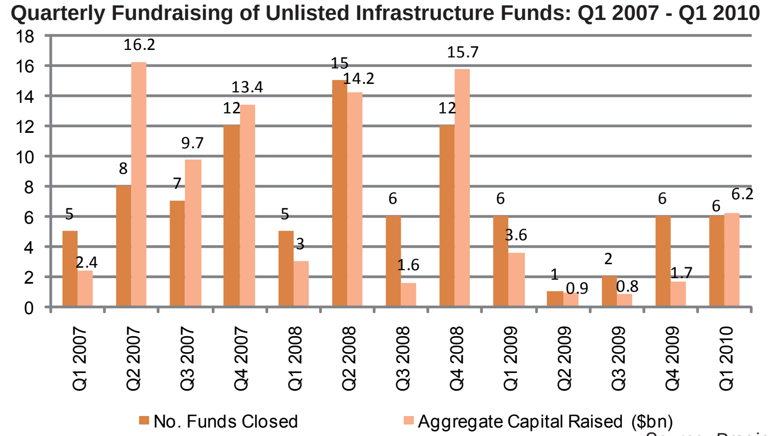
Infrastructure Fundraising - The State of Play

Challenging fundraising conditions in 2009 resulted in just 15 unlisted infrastructure funds closing during the year raising $7bn in total capital commitments. This was significantly lower than the $34.5bn and $41.7bn raised in 2008 and 2007 respectively. However, as predicted, the infrastructure fundraising market appears to have bottomed out and is now slowly on the rise with several funds reaching a final close so far in 2010.

As shown in Fig. 1, six unlisted infrastructure funds closed in Q1 2010 raising an aggregate $6.2bn, including the $4.1bn final close of Alinda Infrastructure Fund II in January. This is a marked improvement from Q4 2009 and almost matches the total capital raised by infrastructure funds in the whole of 2009. Despite ongoing investor caution, infrastructure fundraising looks set to exceed 2009 levels in the first half of 2010.

Fig. 1:



Source: *Preqin*

Despite early signs of a recovery, infrastructure fundraising will continue to be tough in 2010 with 100 funds currently in market seeking an aggregate $88.8bn. This represents an 8% decrease from the $96.8bn targeted in Q1 2009 showing that fund managers are starting to take a more realistic approach in terms of fundraising targets following the financial crisis.

The table in Fig. 2 shows the six funds that achieved a final close in Q1 2010. It is worth noting that without the closing of Alinda Infrastructure Fund II, the five remaining funds closed in Q1 2010 raised an aggregate $2.1bn. Although considerably lower than the total actually raised in the period, the aggregate capital raised by these funds was larger than that raised in Q2 2009 to Q4 2009.

Interim Closes

In the whole of 2009, 18 unlisted infrastructure funds reached an interim close raising just $6.7bn in total capital. However, in Q1 2010 alone, 11 funds held an interim close raising an aggregate $7.9bn, again showing good momentum within the market when compared to 2009. This included several sizeable interim closes such as the $3bn second close of Energy Capital Partners II with $3bn in total commitments and the third close of Brookfield Americas Infrastructure Fund on a total of $1.3bn.

As shown in Fig. 3, almost half of the 100 funds in market have held at least one interim close (45 funds seeking $43.1bn in total), showing that fund managers are succeeding in raising capital as the market recovers. This looks set to continue with many fund managers planning interim and final closes before the end of the year.

Fig. 2:

Unlisted Infrastructure Funds Closed in Q1 2010			
Fund	**Manager**	**Size (Mn)**	**Manager Location**
Alinda Infrastructure Fund II	Alinda Capital Partners	4,097 USD	US
Brookfield Colombian Infrastructure Fund	Brookfield Asset Management	361 USD	Canada
Brookfield Peruvian Infrastructure Fund	Brookfield Asset Management	460 USD	Canada
Equitix Fund I	Equitix	103 GBP	UK
European Renewable Energy Fund	Platina Partners	209 EUR	UK
JPMorgan Asian Infrastructure & Related Resources Opportunity Fund	JPMorgan - Infrastructure Investments Group	859 USD	US

Source: *Preqin*

" Investor sentiment is undoubtedly improving as suggested by the encouraging fundraising environment of the past few months."

Fig. 3:

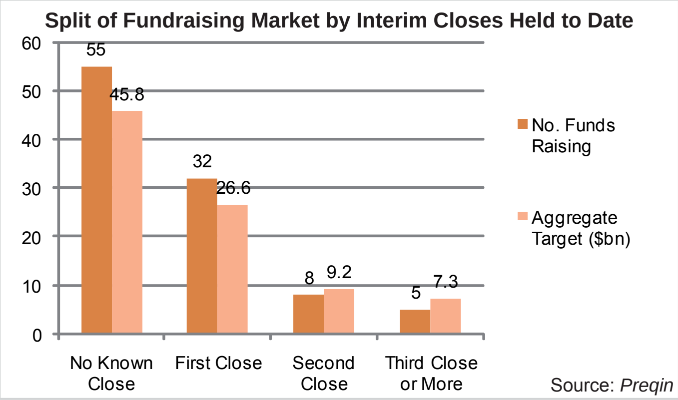
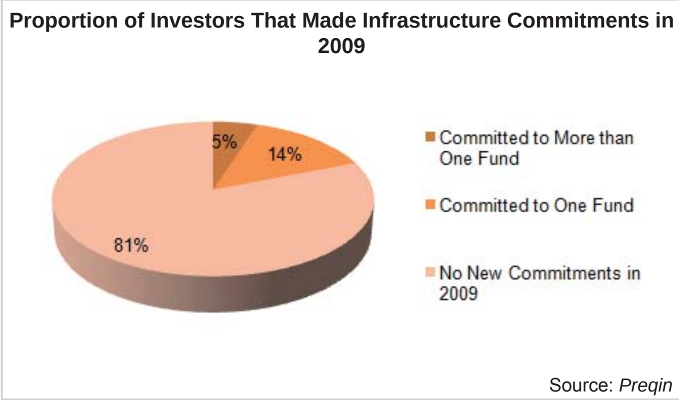


Fig. 4:



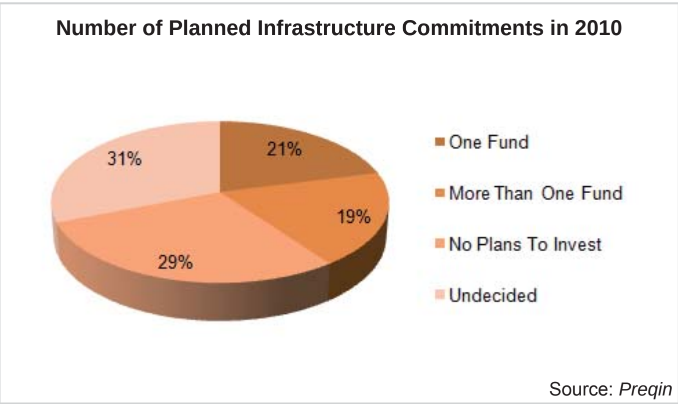
Investor Attitudes

The global financial downturn certainly influenced investor appetite for infrastructure funds in 2009. However, investor sentiment is undoubtedly improving as suggested by the more encouraging fundraising environment of the past few months. This reflects the findings of a recent Preqin survey conducted in Q4 2009, which revealed that many investors planned to return to the infrastructure market in 2010.

As shown in Fig. 4, just 19% of institutional investors surveyed invested in infrastructure in 2009. The majority of investors that invested did so sparingly, with 14% investing in only one fund and just 5% committing to multiple funds. Investors were forced to take stock of their investment portfolios and re-evaluate asset allocations during the financial crisis, which led to decreased investor activity in 2009.

In contrast, Fig. 5 shows that 40% of investors surveyed planned to make infrastructure investments in 2010, with nearly half planning to make multiple commitments. A further 31% of investors were undecided with many planning to review their investment strategies before determining future investment policies. This suggests that the caution exercised in 2009 may have been a temporary measure and that investors will gradually return to the market throughout 2010. Investors will continue to be highly selective when making fund commitments but on the whole remain positive towards the asset class over the long term. This has been proven by the positive growth in the infrastructure fundraising market since the turn of the year.

Fig. 5:



Looking to the Future

The outlook for future infrastructure fundraising is encouraging, as investor confidence in the asset class improves. We expect a modest increase in fundraising activity in the rest of 2010 compared to 2009. However, a dramatic increase over the short term is unlikely with fund managers continuing to find fundraising tough as investors take on a more conservative approach when investing in infrastructure.

The long-term outlook looks positive, with 63% of investors surveyed in Q4 2009 planning to continue investing in infrastructure in the future and a further 13% expecting to increase their allocations. A number are also planning to begin investing directly in infrastructure projects.

Elliot Bradbrook

This article features information taken from Preqin's industry-leading product, Infrastructure Online.

Infrastructure Online contains information on unlisted infrastructure deals and fundraising. It also contains detailed profiles of over 700 investors, 280 fund managers and 430 funds.

For more information, please visit:

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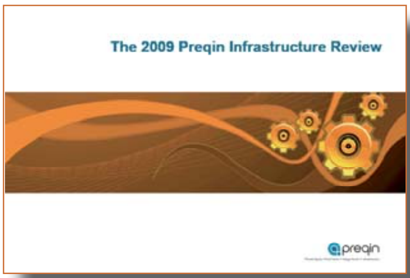
2009 Preqin Infrastructure Review: Order Form

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

- Detailed analysis examining the history and development of the infrastructure market; recent funds closed; 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.
- Fund terms and conditions listings for 27 vehicles, plus transparent performance data for 62 infrastructure funds (all performance data is net to investors).
- Profiles for over 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.



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Fundraising Spotlight: Infrastructure Funds on the Road

Fig. 1:

10 Largest Unlisted Infrastructure Funds on the Road			
Fund	**Manager**	**Target Size (mn)**	**Manager Location**
RREEF Pan-European Infrastructure Fund II	RREEF Infrastructure	3,000 EUR	US
Energy Capital Partners II	Energy Capital Partners	3,500 USD	US
GS Infrastructure Partners II	GS Infrastructure Investment Group	3,500 USD	US
Highstar Capital IV	Highstar Capital	3,500 USD	US
Macquarie European Infrastructure Fund III	Macquarie Capital Funds	2,500 EUR	Australia
Macquarie Infrastructure Partners II	Macquarie Capital Funds	3,000 USD	Australia
CVC European Infrastructure Fund	CVC Infrastructure	2,000 EUR	UK
KKR Infrastructure Fund	Kohlberg Kravis Roberts	2,500 USD	US
Marguerite Fund	Marguerite Adviser	1,500 EUR	Luxembourg
Blackstone Infrastructure Fund	Blackstone Infrastructure Partners	2,000 USD	US

Source: *Preqin*

There are currently 100 unlisted infrastructure funds on the road targeting $88.8bn in investor capital. In terms of target capital, this is significantly lower than the $102bn that was being sought by 95 funds in market in April 2009. This shows that fund managers are lowering the target sizes of funds in order to compensate for lower investor commitments (both in terms of size and frequency).

The table in Fig. 1 shows the 10 largest infrastructure funds on the road. There are still 35 infrastructure funds on the road targeting $1bn or more, 12 of which are targeting at least $2bn. These vehicles account for 71% of the total capital sought by infrastructure funds currently in market.

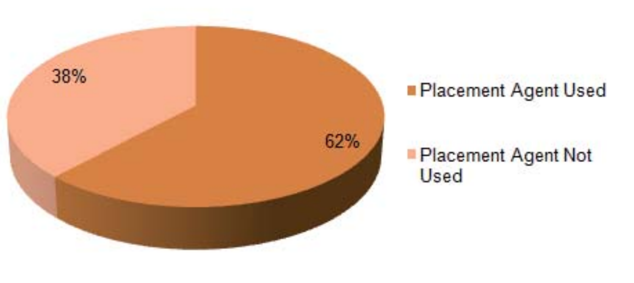
Placement Agent Use

Challenging fundraising conditions have led to an increasing number of fund managers enlisting the help of placement agents during the fundraising process. As shown in Fig. 2, of the 100 funds currently on the road, 62% use the services of a placement agent. This figure increased from 48% in 2008 to 57% in 2009.

Although hiring a placement agent does not necessarily ensure a fund will reach its target, it can give a fund a competitive advantage over other funds in market and may reduce the time it spends on the road. More managers are turning to placement agents in the current environment as they compete for limited investor commitments.

Fig. 2:

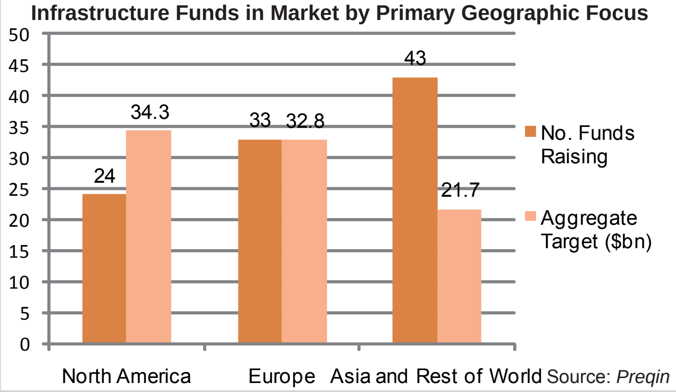
Placement Agent Use of Infrastructure Funds on the Road



Source: *Preqin*

Fig. 3:

Infrastructure Funds in Market by Primary Geographic Focus



Source: *Preqin*

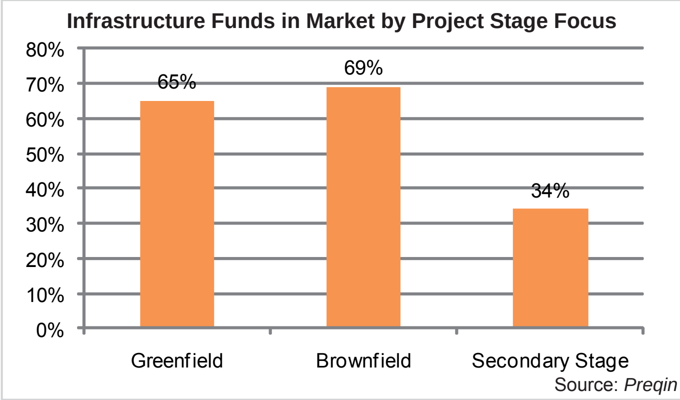
Geographic Focus

More funds in market are focused on Asia and Rest of World than on either Europe or North America. As shown in Fig. 3, a total of 43 funds are focused outside of the developed European and North American markets, showing the growing importance of emerging market opportunities. However, in terms of target aggregate capital sought, North American- and European-focused funds are more significant, targeting $34.3bn and $32.8bn respectively.

Project Stage Focus

The majority of funds on the road target a diverse portfolio and will therefore invest in more than one project stage. 60% of funds currently raising capital will consider investing in a range of project stages. As shown in Fig. 4, 65% will invest in greenfield projects, 69% will consider the brownfield stage of development and 34% of funds will target more established secondary stage opportunities.

Fig. 4:

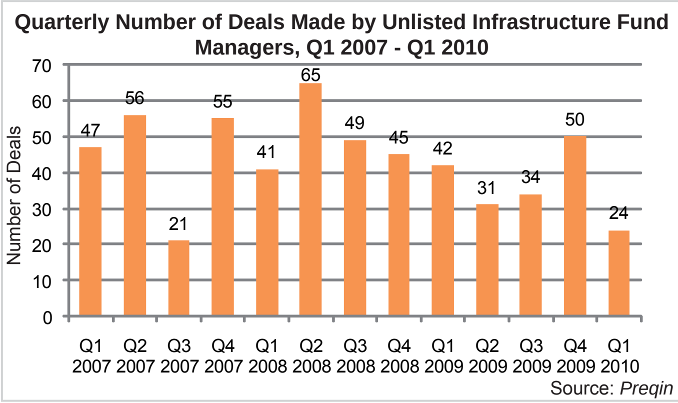


Deals Spotlight

Despite the recent growth in the infrastructure fundraising market, infrastructure deal volume continues to be restricted by the effects of the financial crisis. The ongoing contraction of the credit markets and lack of available bank debt means that many deals are dependent on increased equity ratios and/or a reduction in asset valuations. As a result, a significant increase in the number of deals being made by fund managers in 2010 is unlikely.

As shown in Fig. 1, unlisted infrastructure fund managers reported 24 completed deals in Q1 2010, less than half of the number reported in Q4 2009 and less than the 42 reported at the same point last year. Q1 2010 yielded the lowest quarterly number of deals since Q3 2007.

Fig. 1:



Deal Activity by Region

Fig. 2 shows the geographic location of the infrastructure deals made in Q1 2010. Europe and North America were the most prominent regions, accounting for 18 of the 24 deals made during the quarter. Four deals were made in assets located in Asia, while a single deal was made in both Australasia and Africa.

Deal Activity by Industry

Core infrastructure sectors such as energy, utilities, transportation and telecommunications dominated Q1 2010 deal activity. As shown in Fig. 3, 13 deals were completed in the energy sector, five in utilities, three in transportation and one in the telecoms industry. Two deals were also completed in the healthcare sector.

Significant Deals Made in Q1 2010

A number of significant deals were completed in Q1 2010 including the purchase of a 100% stake in Swedegas, the owner and operator of a large portion of Sweden's natural gas transmission network, by EQT Infrastructure in February. EQT purchased the stake from Swedegas's four shareholders with the assistance of a debt package provided by Nordea Bank and SEB Skandinaviska Enskilda Banken AB.

In the US, Energy Capital Partners II acquired the MASSPOWER, Lake Road and Dighton power facilities from BG Group for a total purchase price of $450mn. MASSPOWER is located in Massachusetts, and the Lake Road and Dighton facilities in Connecticut.

A significant deal made in Asia was the $425mn investment in Asian Genco by a consortium of investors led by Morgan Stanley Infrastructure Partners. Asian Genco is an infrastructure company that owns a portfolio of hydro, thermal and non-conventional generation assets in India totalling 4000MW in aggregate capacity.

Fig. 2:

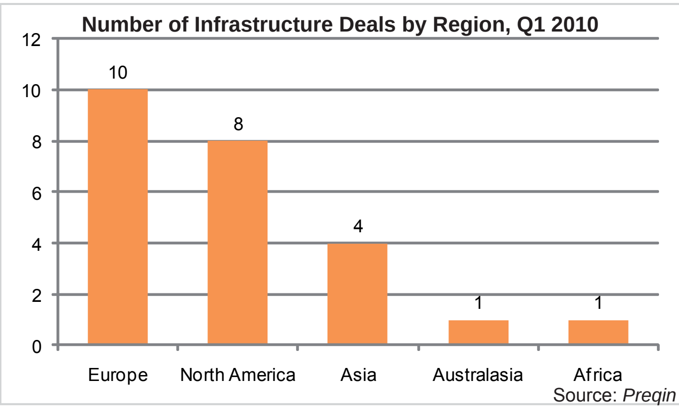
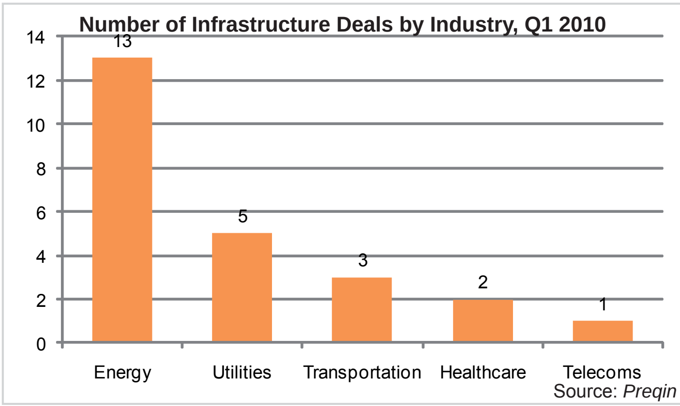


Fig. 3:



Guest Article
Barbara Weber and Hans Wilhelm Alfen: Infrastructure as an Asset Class

Barbara Weber and Hans Wilhelm Alfen's new book: Infrastructure as an Asset Class provides the reader with the necessary theoretical knowledge and background information to understand all aspects of infrastructure investments. The authors demonstrate that far from 'only' representing a conservative asset class, infrastructure assets offer a wide variety of risk/return and cash flow profiles, ranging from highly conservative bond/fixed income-style asset profiles through to investment opportunities that are comparable to (private) equity. Weber and Alfen point out that commonly, studies on infrastructure investments erroneously describe the risk/return profile of infrastructure investments by referring to their industry and sector alone. The authors argue that this approach oversimplifies matters and is therefore inadequate for capturing the risk/return profile of infrastructure investments. The various sub-sectors, their degree of regulation and, in particular, their seemingly endless range of sector and transaction-specific contractual structures mean that there is no such thing as a uniform risk/return profile within any given infrastructure sector.

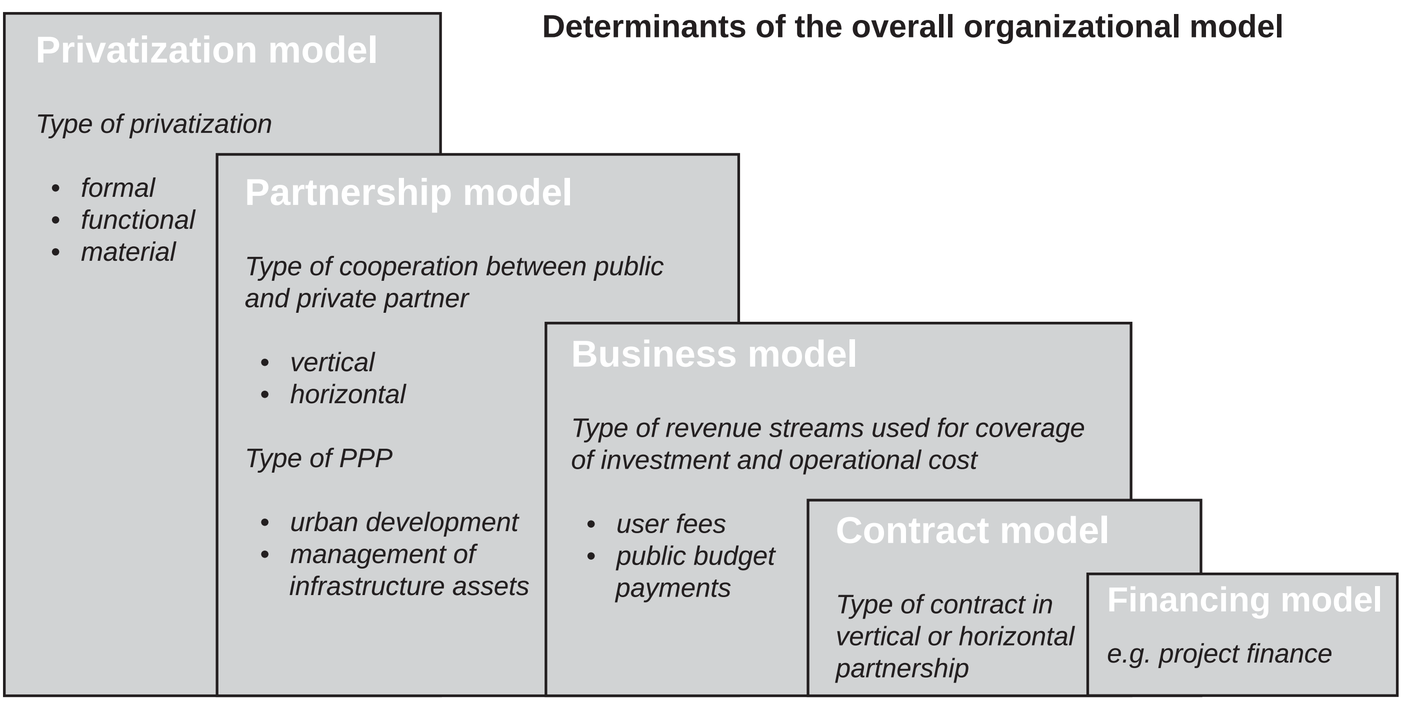
A central part of the book is an innovative new organizational model which enables readers to identify and assess all risks of any individual infrastructure project internationally, allowing for a judgment of the risk/return potential. In this month's guest article Weber and Alfen describe this new model in more detail.

Weber and Alfen's analytical model

The organizational model can be considered as being composed of or 'determined by' five self-contained, describable sub-models: the privatization model, the partnership model, the business model, the contractual model and the financing model (see Fig. 1 below).

(I) As far as the privatization model is concerned, we dismiss the commonly held prejudice that privatization means "selling the family silver". In its essence, the term privatization means nothing more than the transfer of assets and/or functions from the public sector into private hands. This may involve a simple procurement process, such as the purchase of facility management services. We differentiate between three privatization models, (i) formal, (ii) functional, and (iii)

Fig. 1:



material privatization. The key characteristics used to distinguish between these forms of privatization are: the nature and extent of the transfer of functions to the private sector, allocation of the "provision function", ownership interests, and duration of privatization.

(II) Only functional and partial material privatization models contain Private Sector Participation (PSP) or partnerships between the public and the private sector. In contrast, formal privatizations have no private sector involvement and full material privatization no public sector involvement. To clarify the structural relationships between public and private sector, we refer to PPPs as vertical or vertical/horizontal partnerships, and partial material privatization as a horizontal partnership.

(III) For the evaluation of the business models, the cost and income side of an investment are taken into consideration with a clear focus on the income side. Two fundamentally different, alternatively applicable income models exist which may be used for the same kind of infrastructure services. This is highly relevant when it comes to the assessment of the risk and the potential yield of an investment. As a basic rule, the business models of infrastructure companies can be broken down into 'budget-financed' and 'user-financed' models. In the case of the former, the private partner receives fixed remuneration that is generally payable by the principal (public entity) at regular intervals, for example: performance-based, availability-based, volume-based, results-based, or usage-based payments. The latter can be differentiated according to, for example compulsory usage, quasi-compulsory usage, and free choice of usage.

(IV) Fourth, an overview of the various contractual models for the planning, realization and operation of public infrastructure that are common throughout the world is given. This overview focuses on PPP contractual models that embody as extensive a 'lifecycle approach' as possible regarding the nature and extent of the transfer of functions and risks from the public to the private sector, and private financing in particular. This means that they entail an integrated outsourcing of planning, construction, financing and operation of public infrastructure assets to the private sector for a certain period of time. Here, we present a clear matrix with which to scrutinize the jungle of models that are indistinctly subsumed as 'PPP' internationally. For problematically, 'PPP' means different things around the world and even within countries – a major stumbling block for public bodies and private investors alike when it comes to performing due diligence. Relying on the letters used as abbreviations for services transferred (design, build, operate or own, transfer, lease, rent, and finance), we provide short descriptions for contract models that allow for the categorization of each and any individual complex scheme of private sector privatization (PSP) that exists internationally.

(V) Last but not least, financing models and instruments are discussed in the three remaining chapters of the book, with a particular focus on project finance. We explain why and how a project financing and its many contractual relationships constitutes the nucleus of any infrastructure investment, how it deals with the different interests and objectives of the shareholders, what the main structural and contractual differences between traditional project financings and PPP project financings are, and according to which principles the different risks are distributed among the various stakeholders. Most importantly, we offer a structured, rigid and very detailed risk assessment process, taking the reader step by step through all fourteen kinds of risks an investment may be exposed to, seven general and seven project-specific ones. The remainder of the book discusses the necessary financing instruments, equity, mezzanine, and debt, including public investment programs as well as national and international development banks. It closes with cash flow calculations and sensitivity analyses using practical examples.

Considering the fact that investment into infrastructure is likely to become an even hotter topic in the future, we hope that in uniting infrastructure investments, project finance and PPPs to compile a basis of theoretical information, Infrastructure as an Asset Class proves to be a useful tool, with real-life examples and the theoretical framework providing a valuable resource for practitioners in industry, finance and the various areas of the public sector.

Barbara Weber and Hans Wilhelm Alfen

Weber and Alfen's new publication Infrastructure as an Asset Class (2010) is available now, and can be ordered via

http://www.b-capitalpartners.com/english/mr_publications.php

Conferences Spotlight: Forthcoming Events

Terrapin Vietnam Investment Summit

Date: 8th - 9th June 2010
Location: Park Hyatt Hotel, Ho Chi Minh City, Vietnam
Organiser: Terrapinn

Vibrant Vietnam - Asia's most promising frontier market! This event brings foreign direct investors to meet local government, developers, owners and financiers to discuss investment opportunities presented by Asia's new tiger. Rebranded from Funds World Vietnam: we have a whole new agenda, focus, topics, sessions and speakers!

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Other Conferences

CONFERENCE/EVENT	DATES	LOCATION	ORGANISER
Infrastructure Investment World Americas 2010	26 - 29 April 2010	New York	Terrapinn
Investment Opportunities in Abu Dhabi	26 - 27 April 2010	Abu Dhabi	Fleming Gulf
MENA Transport Infrastructure Conference	10 - 11 May 2010	Abu Dhabi	Fleming Gulf
New York Infrastructure Summit	12 May 2010	New York	Dow Jones Events
Energy, Renewable & Infrastructure Finance Conference	13 - 14 May 2010	Istanbul	Euromoney Seminars
Global Infrastructure Forum	19 May 2010	London	UBM Information
LNG Outlook Asia 2010	31 May - 3 June 2010	Singapore	Terrapinn
Port Finance & Investments 2010	1 - 2 June 2010	Amsterdam	Millennium Conferences
Vietnam Investment Summit 2010	7 - 9 June 2010	Vietnam	Terrapinn
Europe-Africa Business Summit (EABS)	16-18 June 2010	Durban	Ikapa Media
Infrastructure Finance & Development Asia India Summit 2010	26 - 27 August 2010	Delhi	Incisive Media
Infrastructure Investment World Asia 2010	31 August - 3 September 2010	Hong Kong	Terrapinn

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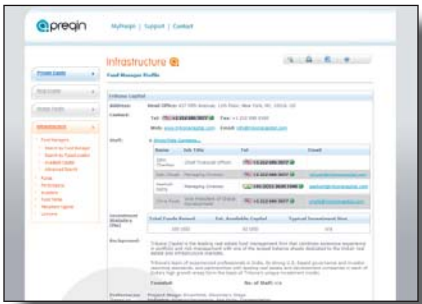
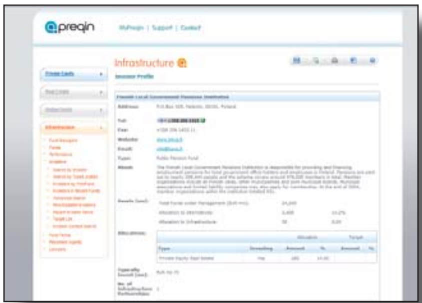
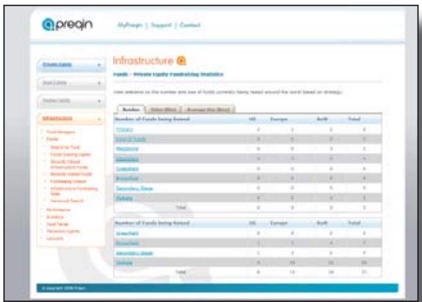
Infrastructure Online is the most comprehensive resource available to infrastructure professionals today. Whether you're a GP, LP, fund of funds, placement agent, lawyer, consultant or advisor this is a vital information service for you.







INVESTORS: See detailed profiles for over 700 investors who are actively investing in infrastructure funds. Investors include infrastructure fund of funds, pension funds, endowments, family offices and other institutional investors. Detailed profiles include background, contact details, investment plans, preferred fund strategies and known previous investments in infrastructure funds.

FUND TERMS: What are the typical terms that a infrastructure fund charges? What are the implications of making changes to different fees? How do these fees vary between fund type and strategy?

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FUND MANAGERS: View detailed profiles on over 280 Fund Managers from around the world including background, key contacts and funds raised. Carry out advanced searches to find GPs who focus on particular fund strategies, infrastructure industry types, infrastructure project stages or locations.

DEALS: 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.

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Investor Spotlight: Investor News

RBC Global Asset Management launches maiden infrastructure fund of funds vehicle.

The Infrastructure Investment Group of RBC Global Asset Management is launching a USD 250 million vehicle to invest in a portfolio of underlying funds and co-investments that offer diversification by geography, project stage, infrastructure industry and fund vintage. The fund of funds will invest globally, in both social and economic infrastructure, and across the project stage spectrum. RBC Global Asset Management was created in 2008 following the merger of RBC Asset Management and Phillips, Hager & North Investment Management in Canada, together with the US-based institutional asset management company, RBC Global Asset Management (US). In 2010, RBC Global Asset Management formed the Infrastructure Investment Group to provide institutional investors with access to unlisted fund of funds strategies and to offer customized infrastructure investment solutions.

Fund of funds managers merge to form Hermes GPE.

Hermes Private Equity and Gartmore Private Equity have established a new infrastructure fund of funds entity, following the merging of their parent companies. Hermes GPE aims to provide investment management products and services to institutional investors in Europe, North America and the Middle East by building on the private equity and infrastructure investment expertise of the existing teams at Hermes and Gartmore. Gartmore's third private equity vehicle, Gartmore Private Equity III, has limited exposure to the infrastructure assets class. The fund of funds traditionally targets buyout vehicles, but made a commitment to 3i India Infrastructure Fund, which provides exposure to a portfolio of Indian infrastructure opportunities. Going forward, Hermes GPE may gain further exposure to unlisted infrastructure funds through its private equity fund of funds vehicles.

London Borough of Hillingdon Pension Fund hires fund of funds manager.

The GBP 560 million pension scheme has issued a mandate to an infrastructure fund of funds manager to handle its new 5% allocation to the asset class. The pension fund did not release the name of the firm, but the mandate will provide it with exposure to a global portfolio of infrastructure assets through both closed and open-ended funds. London Borough of Hillingdon issued the tender in September 2009 and hired the manager based on the recommendation of its infrastructure consultant, Hymans Robertson. Over the next 12 months, the pension plan will look to maintain its 5% exposure to infrastructure but may invest opportunistically. It has the capacity to dedicate up to 10% of total assets to the infrastructure asset class over the long term.

Deutsche Bank acquires Sal. Oppenheim to form DB Private Equity.

The new infrastructure fund of funds entity was established following Deutsche Bank's purchase of Cologne-based Sal. Oppenheim Private Equity Partners (SOPEP) for EUR 1 billion. DB Private Equity will operate within Deutsche Bank's asset management division but act as an independent firm. It invests in the infrastructure asset class through its debut infrastructure fund of funds vehicle, SOPEP Infrastructure, which provides exposure to a diversified portfolio of assets with a particular focus on the US energy sector and PPP/PFI opportunities in the UK. The fund will likely change its name in the coming months in line with the acquisition. DB Private Equity also has limited exposure to infrastructure via the private equity fund of funds vehicles formerly managed by SOPEP.

Flick Privatstiftung to invest opportunistically in infrastructure.

The Austrian family office intends to monitor the infrastructure asset class in the coming months and potentially make opportunistic investments in infrastructure funds. Flick maintains a flexible allocation to infrastructure and prefers to invest on an opportunistic basis rather than be restricted by a defined target allocation. It has previously invested in three unlisted closed-end infrastructure funds and gained a diversified portfolio of infrastructure assets both in terms of geographic location and industry type. It prefers to invest with experienced fund managers and will not commit to funds launched by first-time fund managers.