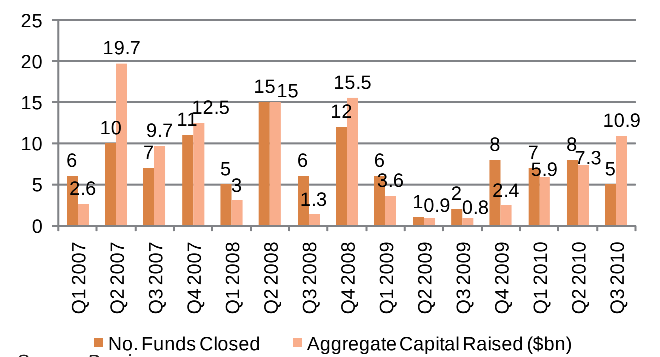
Preqin Research Report
Infrastructure Fundraising: November 2010 (1)

Infrastructure fundraising has improved significantly in 2010, with 20 funds reaching a final close so far this year raising an aggregate $24bn. This is more than three times the $7.8bn raised by unlisted infrastructure funds in the whole of 2009. The fundraising market remains challenging, but investors are clearly growing more confident in the wake of the financial crisis, and fund managers are once again beginning to attract capital.

As shown in Fig. 1, five unlisted infrastructure funds closed in Q3 2010 raising $10.9bn. This represents 45% of the total capital raised so far in 2010 and the highest quarterly total since Q4 2008, when 12 infrastructure funds closed raising $15.5bn. The Q3 2010 figure includes the closure of several sizeable funds such as the $4.3bn Energy Capital Partners II and the $2.7bn Brookfield Americas Infrastructure Fund.

The average size of an infrastructure fund to close in 2010 to date is $1.2bn, significantly higher than the $460mn average in 2009 and also larger than the $900mn average in 2008. This can be attributed to a number of large funds closing this year, including the $3.1bn GS Infrastructure Partners II and the $4.1bn Alinda Infrastructure Fund II.

Fig. 1: Quarterly Fundraising by Unlisted Infrasturcture Funds, Q1 2007 - Q3 2010



Source: *Preqin*

Despite this apparent resurgence, infrastructure fundraising will remain tough in a crowded market, with 109 funds currently on the road seeking an aggregate $76.3bn. This represents a significant 29% decrease from the $107.8bn targeted in Q3 2009, showing that fund managers are setting more realistic fundraising targets following the financial crisis.

Interim Closes

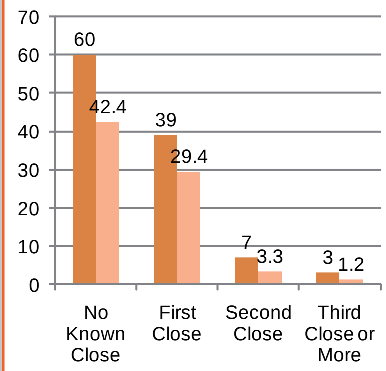
In addition to managers achieving a final close, there are a significant number of firms holding interim closes, showing good movement in the market.

As shown in Fig. 2, nearly half of the 109 funds in market have held at least one interim close (49 funds seeking $33.9bn in investor capital), showing that fund managers are succeeding in raising capital as the market continues to recover. This looks set to continue, with many fund managers planning interim and final closes before the end of the year.

Investor Attitudes

Investor sentiment towards the infrastructure asset class is undoubtedly improving, as suggested by the more encouraging fundraising environment. The global financial crisis certainly influenced investor appetite for infrastructure funds in 2009, but investor confidence is returning. This reflects the findings of a Preqin survey conducted in June this year, which revealed that many

Fig. 2: Split of Fundraising Market by Interim Closes Held to Date



Source: *Preqin*

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investors planned to make additional fund commitments in the following 12 months.

In a similar survey conducted in October 2009, just 19% of institutional investors surveyed had invested in infrastructure funds during the year. As shown in Fig. 3, the majority of investors that invested in 2009 did so sparingly, with 14% of those surveyed investing in only one fund and just 5% committing to multiple funds. In total, just 40% of investors planned to make further commitments in 2010.

In contrast, Fig. 4 shows that 70% of investors surveyed in June 2010 planned to make infrastructure investments in the following 12 months, with 26% planning to make multiple commitments. Many investors are likely to employ a more conservative investment strategy in the future, as demonstrated by the 27% of investors looking to invest on an opportunistic basis in 2011.

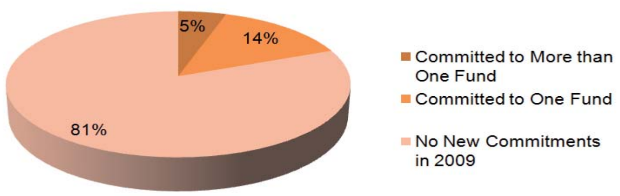
Looking to the Future

The outlook for infrastructure fundraising is positive. The $24bn raised by unlisted infrastructure funds so far in 2010 is well short of the $44.5bn raised in 2007, but is approaching the $34.9bn raised in 2008.

We expect a further modest increase in fundraising activity in Q4 2010, with a number of funds planning to hold closes in the coming months. However, a dramatic increase over the short term is unlikely as fund managers are reducing their targets and continuing to find fundraising difficult.

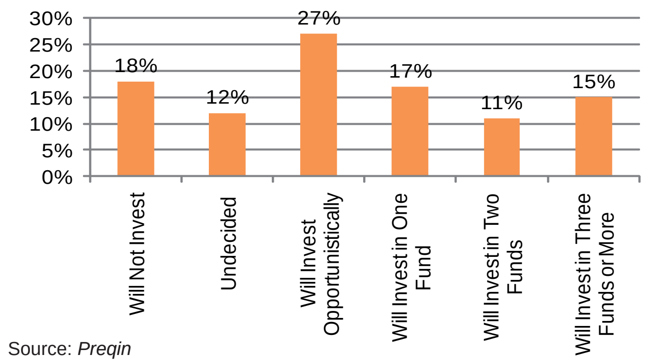
The long-term outlook is encouraging, with almost 50% of active investors investing in the asset class via a separate allocation to infrastructure. This shows that a growing number of investors are creating dedicated pools of capital for infrastructure investment in order to capitalize on the long-term stability that the asset class offers.

Fig. 3: Proportion of Investors That Made Infrastructure Commitments in 2009



Source: *Preqin*

Fig. 4: Investor Plans for Infrastructure Investments in the Next 12 Months



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