



Interests Aligned? Infrastructure Fund Terms and Conditions

Many investors choose to disregard potential investment in an infrastructure fund due to terms and conditions. Utilizing information from the [2015 Preqin Private Equity Fund Terms Advisor](#) and the [Preqin Investor Outlook: Alternative Assets, H2 2015](#), Oliver Senchal examines the fund terms and conditions of unlisted infrastructure funds and their effect on the alignment of interests between investors and fund managers.

In Q3 2015, Preqin conducted a series of detailed interviews with active institutional investors in infrastructure in order to gain insight into their attitudes towards the asset class. The study revealed that investor appetite for infrastructure is strong, with 79% of respondents expecting to commit more capital or the same amount to unlisted infrastructure funds in the coming 12 months as in the previous year.

Competition for investor capital remains intense, with over 170 unlisted infrastructure funds in market. Although established fund managers with strong track records have had significant fundraising success, they will need to carefully consider the terms and conditions of their new funds to align with changing market conditions; this will ensure they do not dissuade prospective investors, and that they are able to justify differing fees. It is crucial for fund managers attempting to secure these commitments to understand why investors are choosing infrastructure investments in order to develop terms to suit.

Management Fees

Fig. 1 shows that the mean management fee is approximately 2.00% for most private equity-style fund strategies (funds currently raising or with a 2014/2015 vintage). Unlisted infrastructure funds have some of the lowest management fees of any private equity-style investment strategy (1.50%), reflective of the main reasons investors choose infrastructure (Fig. 2). While the private equity fee model may be suited to higher risk/return strategies, most infrastructure investors are looking for fees to reflect the types of assets being invested in and the levels of returns expected when gaining exposure to lower risk/return infrastructure assets.

Fig. 2: Investors' Main Reasons for Investing in Infrastructure

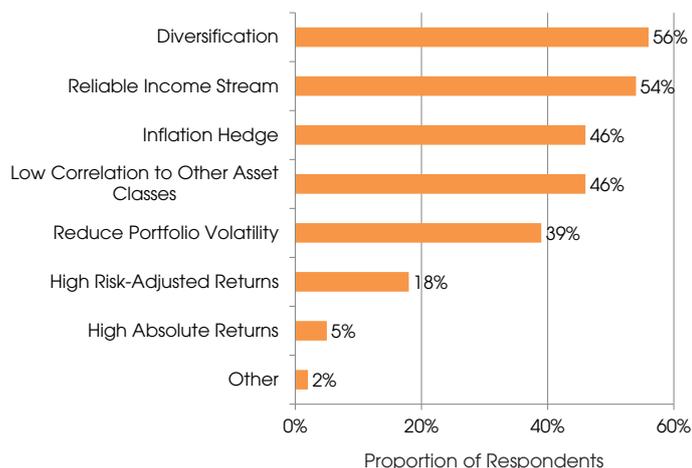
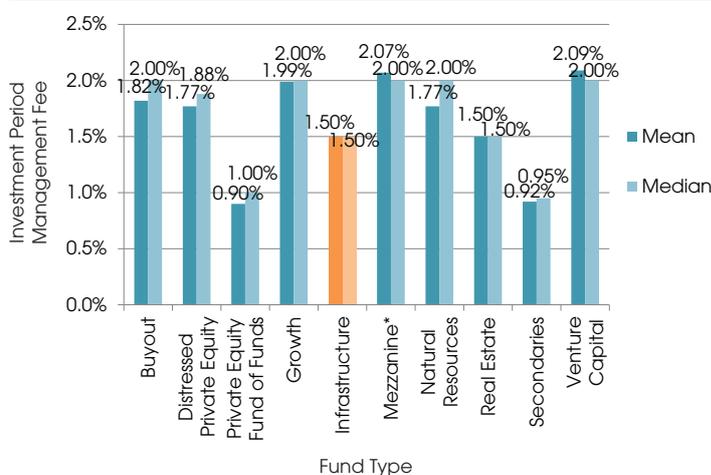


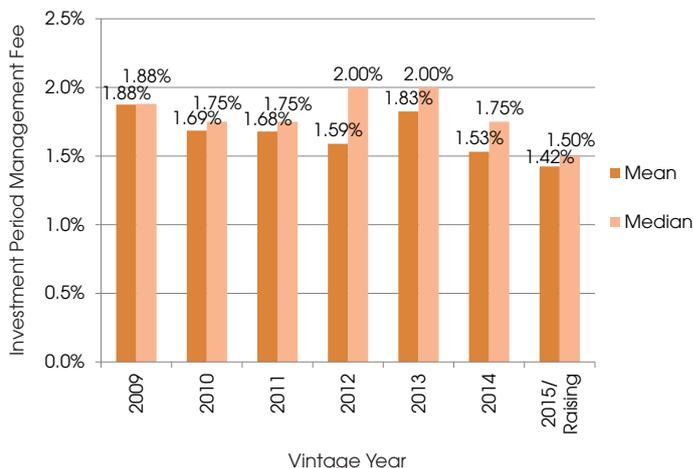
Fig. 1: Average Management Fee during Investment Period by Fund Type (Funds Raising & Vintage 2014/2015 Funds Closed)



*Fund outlier with management fee significantly above 10% has been omitted.

The market has evolved over time to reflect investor demands, with fund managers making greater concessions in this area to attract investor commitments. The average management fee for infrastructure funds has been falling over recent years, with the median at 1.50% for most recent funds (Fig. 3).

Fig. 3: Infrastructure Funds - Average Management Fee by Vintage Year





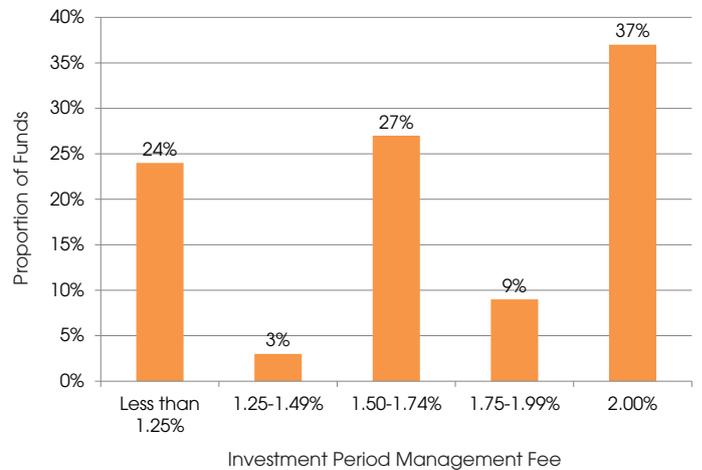
Despite the average management fee falling over recent years, a large proportion of funds (37%) still charge a management fee of 2.00% – the maximum management fee charged by any of the funds in the sample (Fig. 4). However, this also shows how fund managers have evolved in terms of making concessions to investors; for funds of vintage years 2012 and 2013, a significant 61% charged a management fee of 2.00% or more.

The size of the infrastructure fund has a clear impact on the management fee charged, with larger funds generally charging less than smaller funds. Fig. 5 shows that infrastructure funds sized \$500-999mn had the lowest mean and median fees – 1.12% and 1.30% respectively – whereas funds in the \$1bn or larger category interestingly charge slightly higher fees, with a mean management fee of 1.28%. Smaller infrastructure funds (less than \$500mn in size) have the highest average fee at 1.76%, although this is still below the 2.00% average for private equity as a whole.

Alignment of Interests

The alignment of interests between the two parties is central to creating a positive relationship and driving further capital commitments from the investor. As shown in Fig. 6, a substantial 86% of surveyed investors feel that investor and fund manager interests are properly aligned, or do not have a strong opinion either way. This compares to the 51% of surveyed investors which stated the same in June 2013, suggesting that fund managers have largely listened to concerns regarding fees and the growing requirement to adopt terms that better meet investors' needs.

Fig. 4: Infrastructure Funds - Management Fee during Investment Period (Funds Raising & Vintage 2014/2015 Funds Closed)



Source: 2015 Preqin Private Equity Fund Terms Advisor

Outlook

In an increasingly competitive unlisted infrastructure fundraising market, investors are more discerning than ever before regarding where they place their capital. A delicate balance now exists between appropriate compensation for performance and securing investor commitments; for fund managers, getting this balance

2015 PREQIN PRIVATE EQUITY FUND TERMS ADVISOR



The 2015 Preqin Private Equity Fund Terms Advisor is the ultimate guide to private equity fund terms and conditions, featuring analysis based on over 4,500 funds – more than ever before!

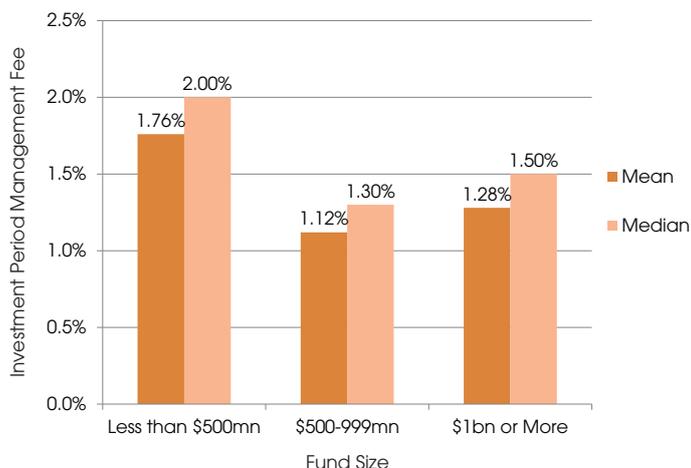
- Identify **typical terms** and **benchmark funds** to see how terms compare to the market
- View **actual terms and conditions data** for over 2,500 funds
- **Download data** to conduct your own analysis
- Model the **real economic impact** of various terms
- Review data and analysis on the **actual fees and costs incurred by LPs**

Every purchase of the 2015 Preqin Private Equity Fund Terms Advisor includes a free 12-month subscription to Preqin's Fund Terms Advisor online service.

For more information, please visit: www.preqin.com/fta

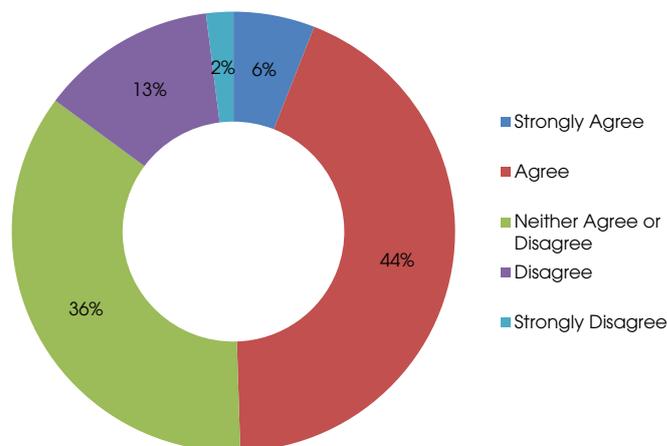


alternative assets. intelligent data.

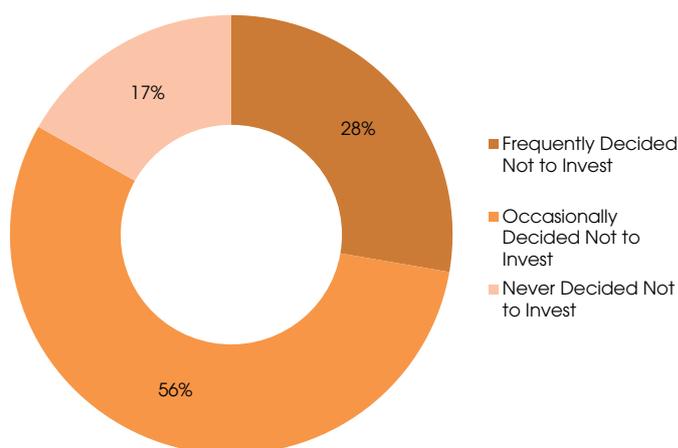
**Fig. 5:** Infrastructure Funds - Average Management Fee by Fund Size (Funds Raising & Vintage 2014/2015 Funds Closed)

Source: 2015 Preqin Private Equity Fund Terms Advisor

right could determine whether or not a successful fund close is achieved. The vast majority of investors responding to a study conducted by Preqin at the end of H1 2015 have decided not to invest in an unlisted infrastructure fund due to the proposed terms and conditions, demonstrating how important terms and conditions have become (Fig. 7). It is vital that fund managers structure the terms and conditions of their funds appropriately to prevent the potential loss of institutional capital commitments. This is particularly the case for managers without a proven track record in the space, or those unable to illustrate successful past performance, as they cannot justify terms outside the market standard.

Fig. 6: Proportion of Investors that Feel Fund Manager and Investor Interests Are Properly Aligned

Source: Preqin Investor Outlook: Alternative Assets, H2 2015

Fig. 7: Frequency with Which Infrastructure Investors Have Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions

Source: Preqin Investor Outlook: Alternative Assets, H2 2015

Preqin Investor Outlook: Alternative Assets, H2 2015

The data in this article draws on the recently released **Preqin Investor Outlook: Alternative Assets, H2 2015**, a unique and in-depth look at the appetite, plans, expectations and concerns of institutional investors in infrastructure, real estate, private equity, hedge funds and private debt. The report draws on conversations between Preqin's dedicated research analysts and key investment decision makers at over 460 institutional investors from across the globe.

For more information, and to download your free copy, please visit:

www.preqin.com/investoroutlook





Global private equity fundraising

Capstone Partners (www.csplp.com) is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms. The Capstone team includes 25 experienced professionals in North America, Europe and Asia.

New Water Capital Partners

We congratulate the New Water team on the successful closing of New Water Capital Partners at its hard cap.



www.csplp.com

Americas – Europe – Middle East – Asia Pacific

Securities placed through CSP Securities, LP
Member FINRA/SIPC
Authorised by FINMA