



PREQIN QUARTERLY UPDATE: INFRASTRUCTURE

Q1 2019



Fundraising
Funds in Market
Investors
Deals
Performance
Dry Powder

FOREWORD

Unlisted infrastructure fundraising stayed strong in the first part of 2019 after an unprecedented period of momentum. More funds are coming to market to seek capital from investors, whose appetite for the asset class remains substantial.

Enthusiasm for infrastructure has several drivers: the likes of China's Belt and Road Initiative and the US Government's infrastructure program have highlighted massive global infrastructure deficits, drawing new investors and capital to the asset class. At a time when correlation between asset classes is very high, infrastructure projects are often largely uncorrelated, helping to diversify and protect investors' portfolios; and, with widespread concerns about diminishing yields in other asset classes as well as a potential market downturn, infrastructure assets can provide a stable income and hedge against inflation.

Given these conditions, it is no surprise that 2018 proved a banner year for the industry, and there is every indication that 2019 will follow the same path. Of particular note are the largest funds currently in market: Global Infrastructure Partners IV and Brookfield Infrastructure Fund IV are each targeting \$20bn, suggesting that these experienced fund managers anticipate a great deal of potential allocation from investors to infrastructure. This is in addition to open-ended vehicles like



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Blackstone Infrastructure Fund I, which is seeking \$40bn from investors in 2019.

Infrastructure is not immune to the capital concentration and increased competition trends that have sculpted challenging conditions in other asset classes, but there is such strong momentum behind the industry at the moment that it is difficult to see these challenges slowing its growth in the coming months.

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FUNDRAISING

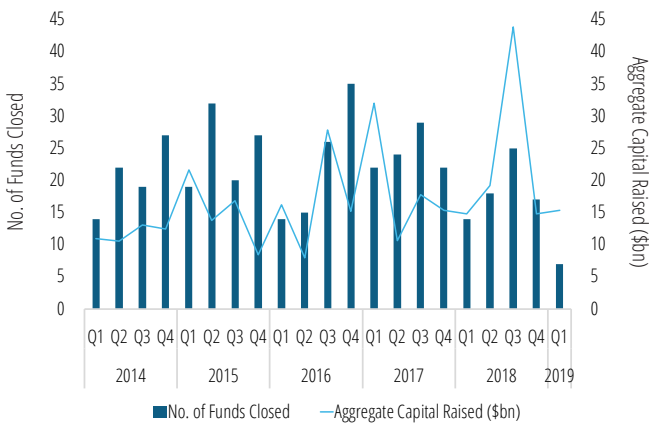
The fundraising momentum from 2018 has continued into Q1 2019; despite capital totals not coming close to matching the \$44bn raised by funds closed in Q3 2018, the \$15bn secured is on par with both Q4 and Q1 of last year (Fig. 1). On that basis, 2019 could be another blockbuster fundraising year for the unlisted infrastructure industry.

The number of funds reaching final close in the quarter fell sharply from 17 in Q4 2018 to just seven in Q1 2019. Capital is increasingly concentrated among the largest fund managers in private capital generally, but this trend is particularly prevalent in infrastructure – the fundraising market is dominated by a select group of established fund managers that, with long track

records, are able to raise multibillion-dollar funds which make up a sizeable proportion of overall activity.

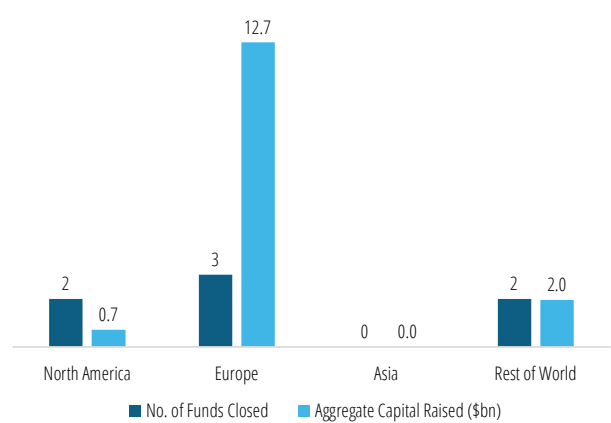
Capital secured in the quarter was heavily weighted towards Europe (Fig. 2); one fund in particular, EQT Infrastructure IV, raised €9.0bn for investment in the region (Fig. 3), alone accounting for the majority (66%) of total capital raised. This somewhat counters recent trends: while Europe has historically been the most active market for private infrastructure investment, North America has seen a large number of funds raised in recent years, particularly in the energy sector. With a growing number of larger funds in market targeting energy, we may see that balance shift in the months to come.

Fig. 1: Global Quarterly Unlisted Infrastructure Fundraising, Q1 2014 - Q1 2019



Source: Preqin Pro

Fig. 2: Unlisted Infrastructure Fundraising in Q1 2019 by Primary Geographic Focus



Source: Preqin Pro

Fig. 3: Largest Unlisted Infrastructure Funds Closed in Q1 2019

Fund	Firm	Fund Size (mn)	Primary Strategy	Geographic Focus
EQT Infrastructure IV	EQT	9,000 EUR	Value Added	Europe
Quinbrook Low Carbon Power Fund	Quinbrook Infrastructure Partners	1,600 USD	Core-Plus	Australasia
Mirova Core Infrastructure Fund II	Mirova	1,200 EUR	Core	Europe
Archmore Infrastructure Debt Platform II	UBS Infrastructure Asset Management	1,000 EUR	Debt	Europe
New Energy Capital Infrastructure Credit Fund II	New Energy Capital	500 USD	Debt	US

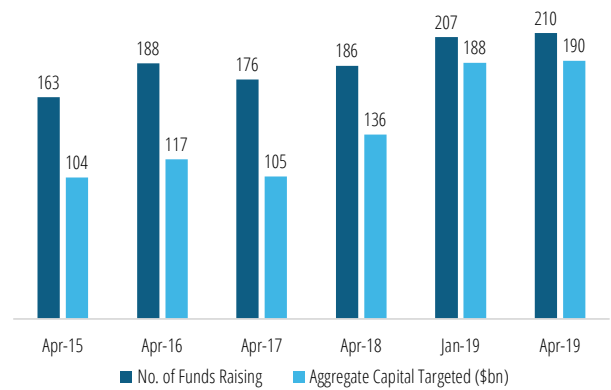
Source: Preqin Pro

FUNDS IN MARKET

The number of unlisted infrastructure funds in market has recently plateaued: there are 210 currently on the road, up from 207 in January 2019, and aggregate capital targeted is broadly unchanged from \$188bn at the start of 2019 to \$190bn currently (Fig. 4). Nonetheless, these figures are significantly higher than in previous years: at the start of Q2 2018, there were 186 funds seeking \$136bn; further to this, almost half (113) of funds currently in market have had at least one interim close having secured an aggregate \$47bn.

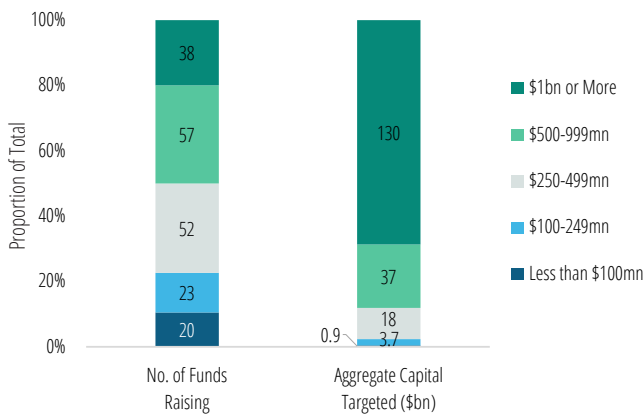
There are 38 funds in market that are each targeting \$1bn or more, indicating that the trend of capital concentration will hold steady or even accelerate in 2019 (Fig. 5). Collectively, these funds are targeting \$130bn of the \$190bn sought, driven by two funds seeking \$20bn apiece: Global Infrastructure Partners IV and Brookfield Infrastructure Fund IV are poised to become the largest unlisted infrastructure funds ever raised (Fig. 7). The funds make up a large portion of capital (\$89bn) sought by funds focusing on North America, but the greatest number (96) of funds are targeting Europe (Fig. 6).

Fig. 4: Unlisted Infrastructure Funds in Market over Time, 2015 - 2019



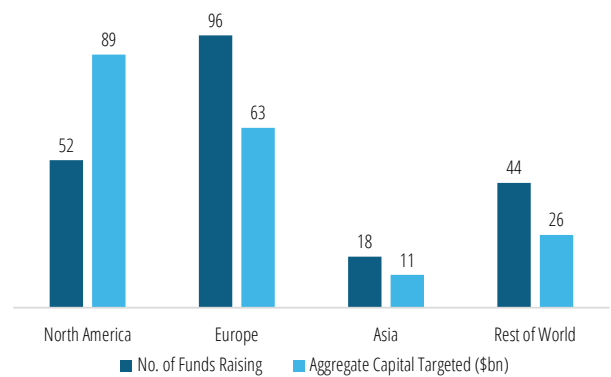
Source: Preqin Pro

Fig. 5: Unlisted Infrastructure Funds in Market by Target Size



Source: Preqin Pro. Data as of April 2019

Fig. 6: Unlisted Infrastructure Funds in Market by Primary Geographic Focus



Source: Preqin Pro. Data as of April 2019

Fig. 7: Largest Unlisted Infrastructure Funds in Market

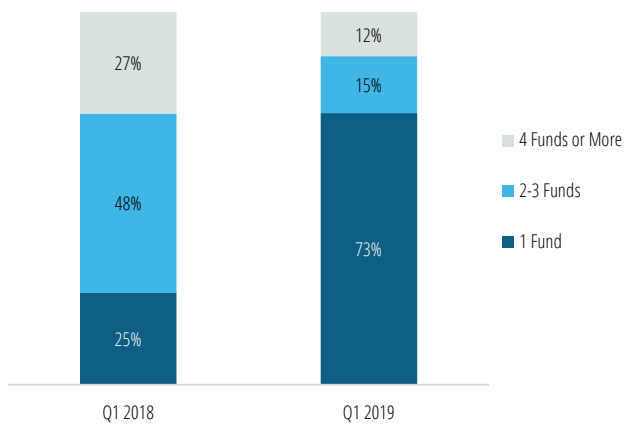
Fund	Firm	Target Size (mn)	Primary Strategy	Geographic Focus
Brookfield Infrastructure Fund IV	Brookfield Asset Management	20,000 USD	Core-Plus	US
Global Infrastructure Partners IV	Global Infrastructure Partners	20,000 USD	Value Added	US
Antin Infrastructure Partners IV	Antin Infrastructure Partners	5,500 EUR	Value Added	Europe
Ardian Infrastructure Fund V	Ardian	5,500 EUR	Core-Plus	Europe
ArcLight Energy Partners Fund VII	ArcLight Capital Partners	6,000 USD	Value Added	US
Energy Capital Partners IV	Energy Capital Partners	6,000 USD	Core-Plus	US

Source: Preqin Pro. Data as of April 2019

INVESTORS

The latest data from Preqin Pro suggests that infrastructure investors are scaling back their commitments in 2019. Over Q1, investors issued 219 mandates for infrastructure funds, of which 73% were for commitments to a single fund (Fig. 8). Further to this, a significant 81% of investors are planning to commit less than \$100mn per infrastructure fund in the year ahead, up from 49% in Q1 2018 (Fig. 9). Investors may be close to their target allocations after a record fundraising year in 2018; alternatively, they could be concerned about future performance given the high valuations in the current environment – whatever their motives, all the signs point to a more cautious investment approach in 2019.

Fig. 8: Number of Unlisted Infrastructure Funds Investors Plan to Commit to over the Next 12 Months, Q1 2018 vs. Q1 2019

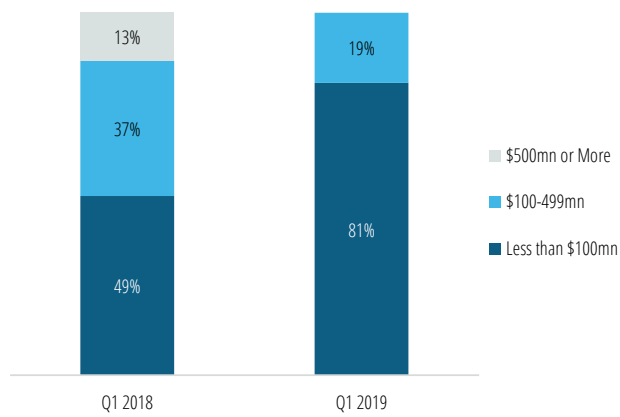


Source: Preqin Pro

Unchanged from previous quarters, primary funds remain the strategy of choice for infrastructure investors, as targeted by 91% in the next 12 months (Fig. 10).

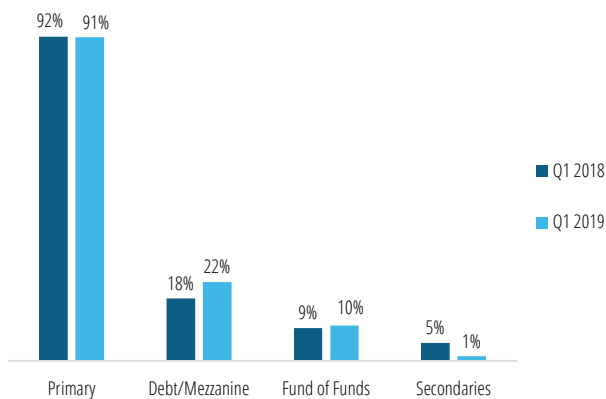
Over half (51%) of investors plan to make new commitments to Europe-focused funds over the next 12 months, while 26% will target North America, down from 55% and 33% at the start of 2018 respectively (Fig. 11). Appetite for Asia-Pacific-focused funds has also declined but, to balance this, a greater proportion of investors are looking at opportunities in Rest of World – as investors have become more experienced, they have sought higher returns, despite the potentially higher associated risks.

Fig. 9: Amount of Fresh Capital Investors Plan to Commit to Unlisted Infrastructure Funds over the Next 12 Months, Q1 2018 vs. Q1 2019



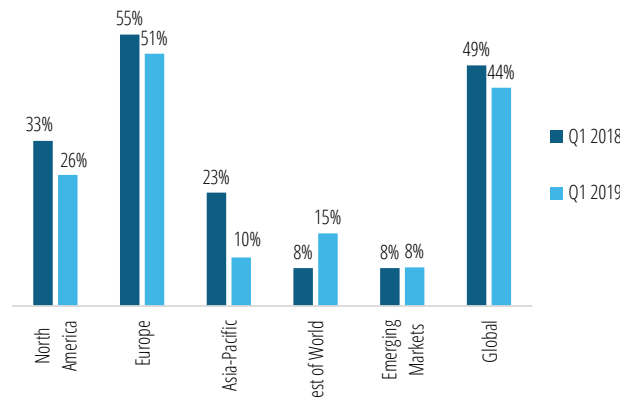
Source: Preqin Pro

Fig. 10: Strategies Targeted by Infrastructure Investors over the Next 12 Months, Q1 2018 vs. Q1 2019



Source: Preqin Pro

Fig. 11: Regions Targeted by Infrastructure Investors over the Next 12 Months, Q1 2018 vs. Q1 2019



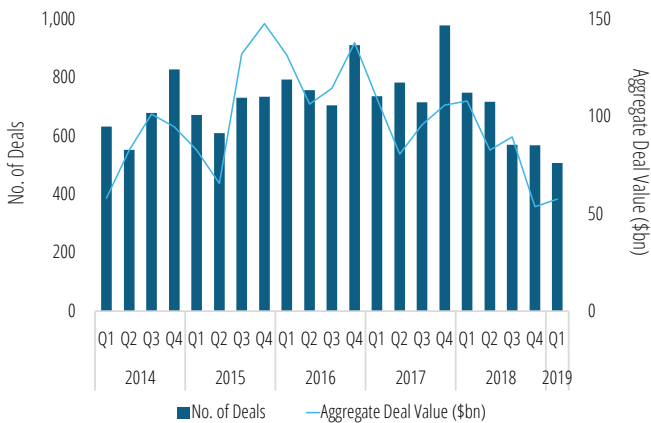
Source: Preqin Pro

DEALS

There has been a protracted slowdown in infrastructure deal activity over the past 15 months. The number of deals announced globally has declined each quarter since Q4 2017's peak of 980 to 508 deals worth a total \$58bn in Q1 2019. This is not only a five-year low for the number of deals, but also the second-lowest quarterly deal value on record (Fig. 12).

All regions have recorded a slowdown in the number of deals, but Europe is on a particularly steep decline: just 180 deals were announced in the region in Q1 2019, down from 276 in Q1 2018 (Fig. 13). That is not to say this trend is not noticeable in other regions – in Asia and North America the number of deals have fallen by 43% and 32% respectively from Q1 2018.

Fig. 12: Quarterly Infrastructure Deals, Q1 2014 - Q1 2019



Source: Preqin Pro

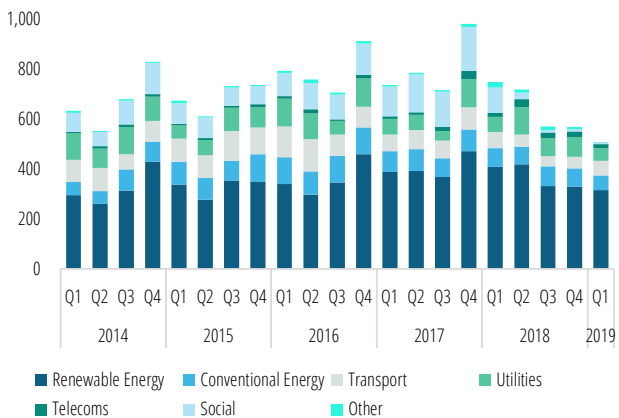
Deal activity has also dipped notably in renewable energy and transport – traditionally two of the most prominent sectors of infrastructure (Fig. 14). Although renewable energy investments still comprised the largest proportion of deals in the quarter, only 315 deals were announced in Q1 2019 compared with 408 in Q1 2018. Managers have historically preferred to acquire pre-existing renewable energy assets at the secondary stage rather than build greenfield developments (Fig. 15), but with asset prices so high the scope for existing assets to generate returns is limited. We may see fund managers start to shift more towards greenfield sites in the sector as a response to rising competition and high pricing.

Fig. 13: Number of Infrastructure Deals by Region, Q1 2014 - Q1 2019



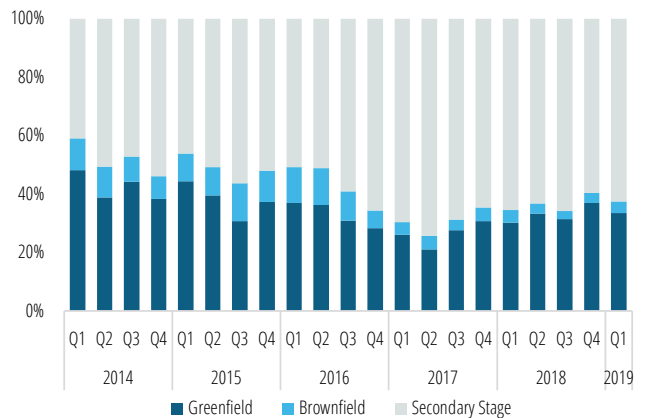
Source: Preqin Pro

Fig. 14: Number of Infrastructure Deals by Sector, Q1 2014 - Q1 2019



Source: Preqin Pro

Fig. 15: Proportion of Infrastructure Deals by Project Stage, Q1 2014 - Q1 2019



Source: Preqin Pro

PERFORMANCE & DRY POWDER

Unlisted infrastructure funds of vintage years 2007-2016 have typically delivered a median net IRR in the region of 8-11%, with the exception of vintage 2014 (+13.7%) and 2015 (+14.2%) funds (Fig. 16). The top quartile boundary peaks at 27.6% for vintage 2014 funds.

The PrEQIn Infrastructure Index continues to outperform both public markets and the PrEQIn Private Capital Index (Fig. 17). When rebased to 100 as of 31 December 2007, PrEQIn Infrastructure reached a high of 232 as of June 2018, demonstrating the stable, long-term growth of the asset class.

In H1 2018, \$35bn was called up by fund managers, compared with \$83bn for the whole of 2017, suggesting that if the second half of 2018 continued at this rate, the total amount of capital called may decline in comparison to the previous year for the first time since 2012 (Fig. 18).

Unlisted infrastructure dry powder stands at a record \$175bn as of March 2019, the largest proportion (\$60bn) of which is held in core-plus funds (Fig. 19). Dry powder held by core funds has increased significantly in recent months to reach \$45bn, higher than the \$35bn held in value-added funds. Furthermore, concentration at the top end of the market continues to intensify: mega funds account for 53% of infrastructure dry powder.

Fig. 16: Unlisted Infrastructure: Median Net IRRs and Quartile Boundaries by Vintage Year

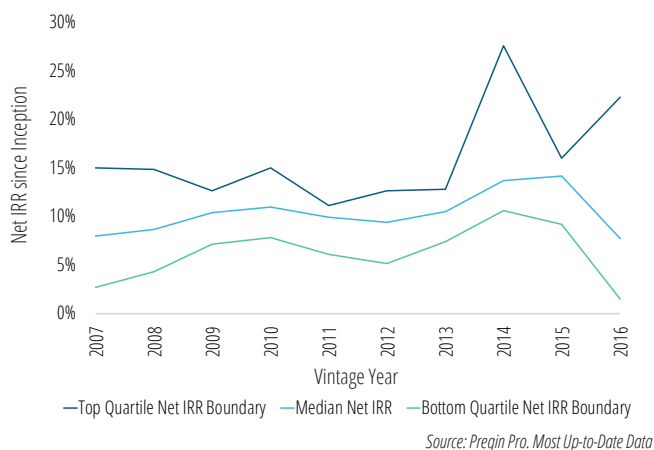


Fig. 17: PrEQIn Index: Infrastructure vs. Private Capital and Public Markets (Rebased to 100 as of 31 December 2007)

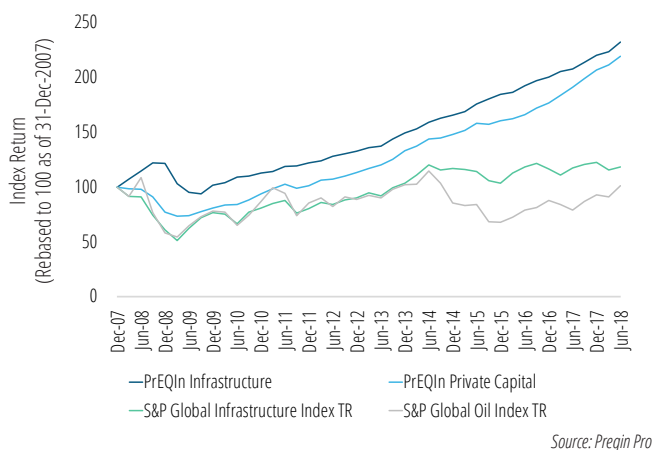


Fig. 18: Unlisted Infrastructure: Annual Capital Called up, Distributed and Net Cash Flow, 2003 - H1 2018

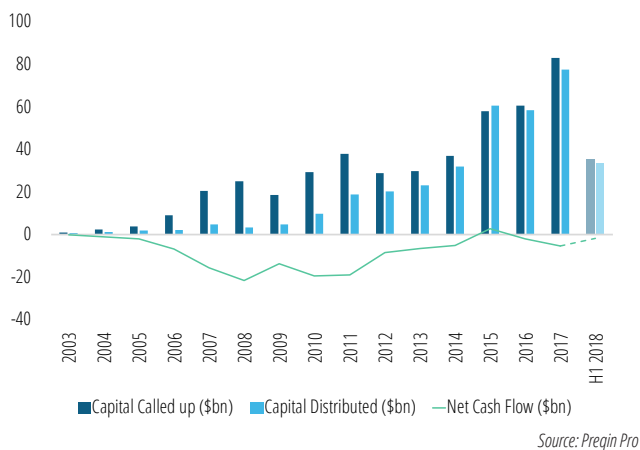
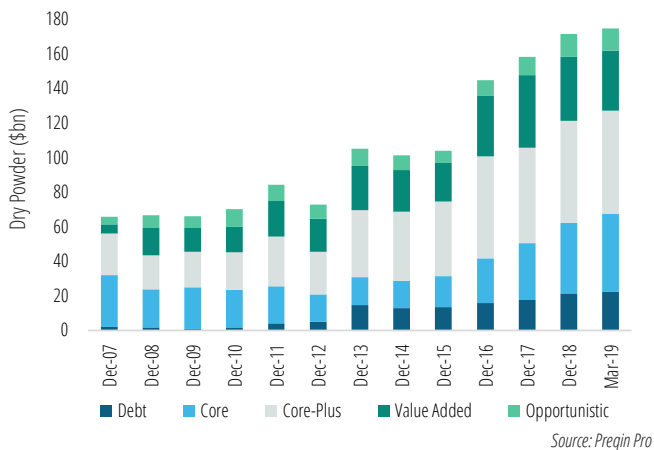


Fig. 19: Unlisted Infrastructure: Dry Powder by Primary Strategy, 2007 - 2019





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