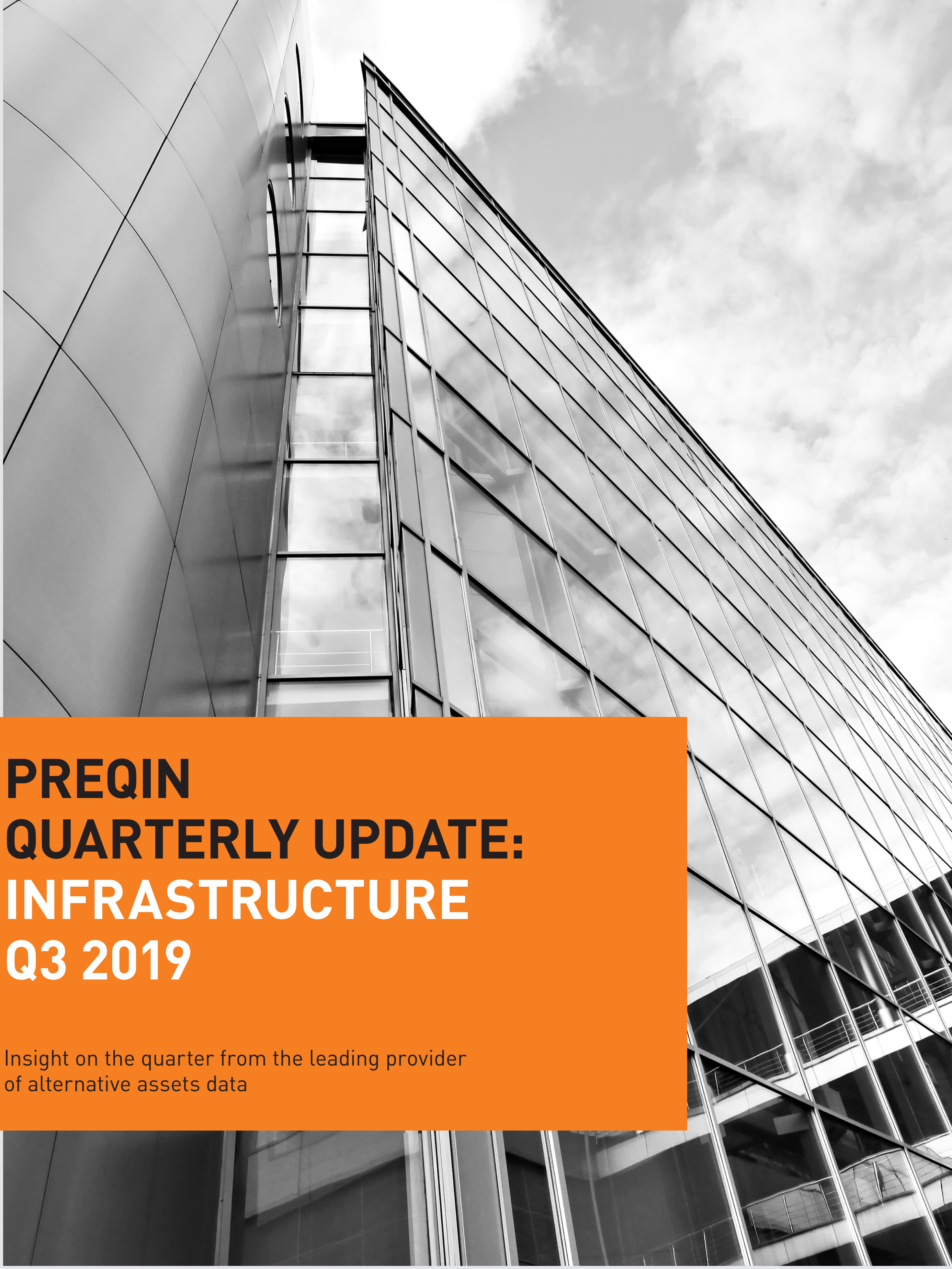

PREQIN QUARTERLY UPDATE: INFRASTRUCTURE Q3 2019

Insight on the quarter from the leading provider of alternative assets data

preqin

Fundraising
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Foreword

The record fundraising year of 2018 has proven hard to follow so far in 2019: between Q1 and Q3 2019, unlisted infrastructure funds have secured just 40% of the capital raised in the same time range in 2018. With continued concerns about asset valuations and questions as to whether a correction is imminent, the growth of the asset class has slowed.

In Q3 2019, 19 funds raised $8.4bn, significantly down on the record $44bn raised in Q3 2018. Notably however, 83% of funds closed in Q1-Q3 2019 reached a final close within two years of their launch, up from 77% for funds closed in 2018, indicating institutional demand remains strong. It should also be noted that Brookfield Infrastructure Fund IV and Global Infrastructure Partners IV, each targeting a record $20 billion, are anticipated to close during Q4.

The aggregate value of infrastructure deals dropped from $176bn in Q2 2019, inflated by the acquisition of Anadarko Petroleum, to $88bn in Q3 2019. The number and aggregate value of these deals in Q3 are broadly in line with the figures recorded for the same period in 2018 with a relatively strong deal pipeline demonstrated.

The modest quarter-on-quarter decline in number of deals completed was driven by North America and Europe. Conversely, Asia recorded growth of 40% in the number of deals from Q2 to Q3. The growing middle class in Asia is a key factor in this, especially in China and India where urbanization is rapidly increasing, resulting in heightened demand for essential services.

There is a question as to whether the asset class can continue its growth and strong performance. However, with the two largest ever funds in market expected to close this year, 2019 could still be a record year. Although competition is increasing across the industry, squeezing returns in Core markets, investor sentiment and appetite for the asset class remain robust.

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Fundraising

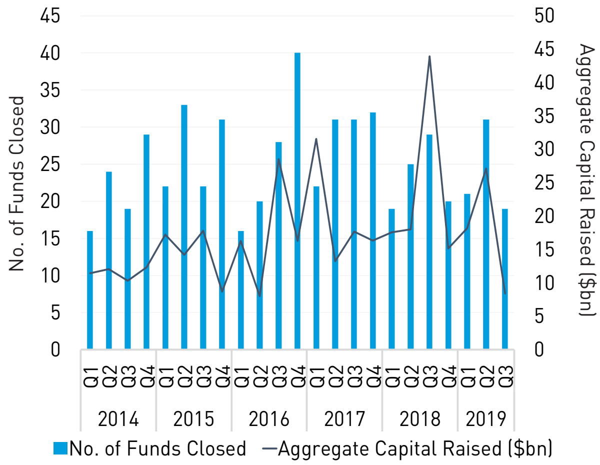
Infrastructure fundraising experienced a dramatic slowdown in Q3 2019 compared to the preceding quarter. While 19 funds reached a final close, they secured only $8.4bn collectively (Fig. 1), the lowest quarterly figure since Q2 2016. However, across the whole fundraising market, more than $14.5bn was raised in Q3 2019 by funds holding interim closes.

Only six North America- and five Europe-focused funds held a final close in Q3, raising a combined $2.6bn and $2.3bn respectively (Fig. 2). Just one Asia-focused fund closed, raising $500mn. By contrast, seven funds closed targeting the Rest of World, raising a combined $3.1bn.

More than four out of five funds closed so far this year (83%) were in market for less than two years, demonstrating the continued institutional demand for infrastructure (Fig. 3). 2019 has seen a smaller proportion of funds on the road for more than 25 months, at 17% compared to 23% for 2018.

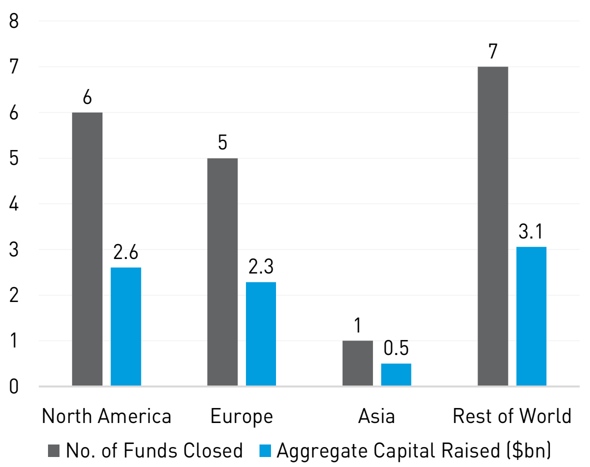
The involvement of fund managers and investors alike in the non-core segments of the market is demonstrated by the dominance of Value-Added and Opportunistic strategy funds, which raised $2.4bn and $2.3bn respectively, comprising 57% of total capital raised.

Fig. 1: Quarterly Global Unlisted Infrastructure Fundraising, Q1 2014 - Q3 2019



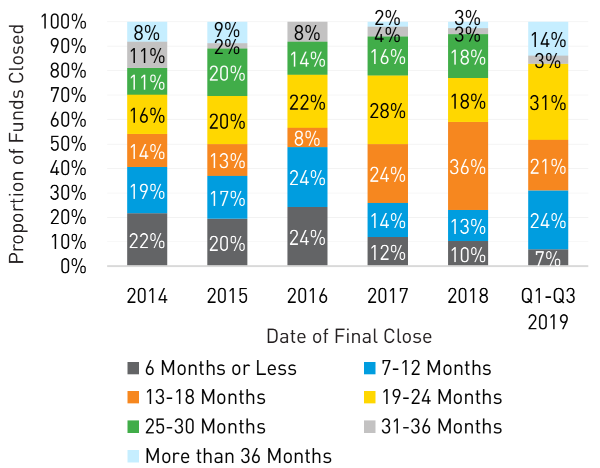
Source: Preqin Pro

Fig. 2: Unlisted Infrastructure Fundraising in Q3 2019 by Primary Geographic Focus



Source: Preqin Pro

Fig. 3: Time Spent in Market by Infrastructure Funds Closed, 2014 - Q1-Q3 2019



Source: Preqin Pro

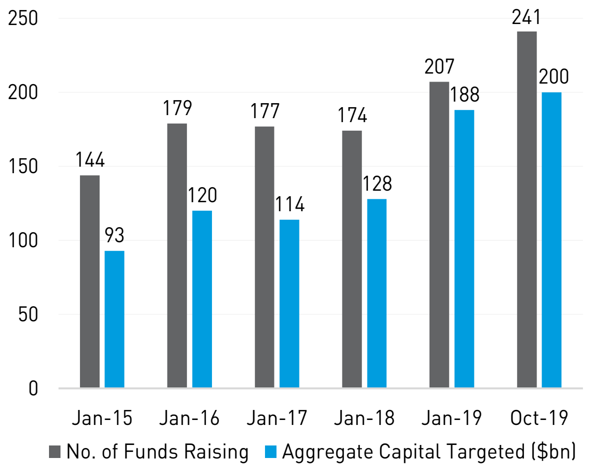
Funds in Market

There are a record 241 funds on the road as of the start of Q4, targeting a combined $200bn in investor commitments (Fig. 4). With total capital targeted up 5% from the start of Q3, it is clear that fund managers anticipate sustained investor demand.

North America-focused funds are seeking $100bn, while Europe-focused vehicles are targeting $75bn. Notably, more than 50% of funds on the road are targeting $500mn or more, (Fig. 5) while almost one in five (18%) is seeking $1bn or more.

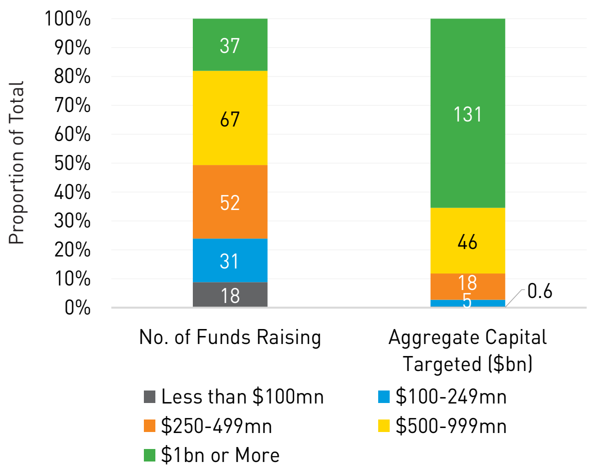
The six largest unlisted infrastructure funds in market, all longstanding series funds (as seen in Fig. 6), are together targeting $68bn, which accounts for 34% of the global total. This capital concentration among larger, more experienced managers is likely to continue with particular prominence in infrastructure, given its associated larger ticket sizes.

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 October 2019

Fig. 6: Largest Unlisted Infrastructure Funds in Market

Fund	Firm	Vintage	Target Size (mn)	Fundraising Status	Geographic Focus
Brookfield Infrastructure Fund IV	Brookfield Asset Management	2019	20,000 USD	First Close	North America
Global Infrastructure Partners IV	Global Infrastructure Partners	2019	20,000 USD	First Close	North America
Stonepeak Infrastructure Partners IV	Stonepeak Infrastructure Partners	2019	10,000 USD	Raising	North America
Antin Infrastructure Partners IV	Antin Infrastructure Partners	2019	5,500 EUR	First Close	Europe
ArcLight Energy Partners Fund VII	ArcLight Capital Partners	2019	6,000 USD	First Close	North America
Energy Capital Partners IV	Energy Capital Partners	2018	6,000 USD	Fourth Close	North America

Source: Preqin Pro. Data as of October 2019

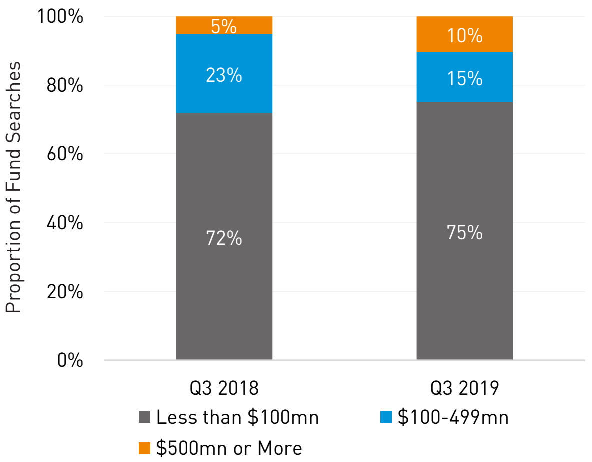
Investors

From Fig. 7 it is apparent that many investors are taking a cautious approach to infrastructure in the next 12 months: 75% plan to commit less than $100mn in fresh capital. Although this proportion is considerable, other investors are relying on the asset class's ability to provide long-term stable returns in the face of economic uncertainty: the proportion of investors planning to commit at least $500mn has doubled to 10% compared to a year ago.

Investors' strategy of choice remains primary funds (Fig. 8), but interest in funds of funds has seen the sharpest increase in comparison with Q3 2018, with the proportion of investors targeting the strategy almost doubling to 23%.

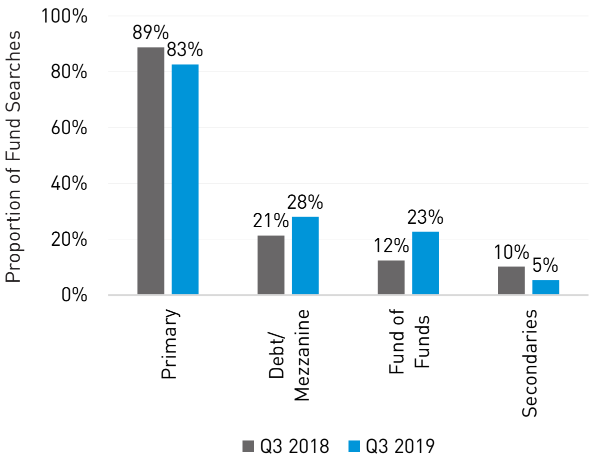
Although most investors continue to target OECD jurisdictions across developed markets, the proportion of investors targeting North America in the next 12 months has dropped by eight percentage points on Q3 last year, and five percentage points for Asia-Pacific (Fig. 9). In contrast, interest in Rest of World has doubled to 10%. In addition, 37% more investors intend to target global funds as traditional markets become more congested.

Fig. 7: Amount of Fresh Capital Investors Plan to Commit to Unlisted Infrastructure Funds over the Next 12 Months, Q3 2018 vs. Q3 2019



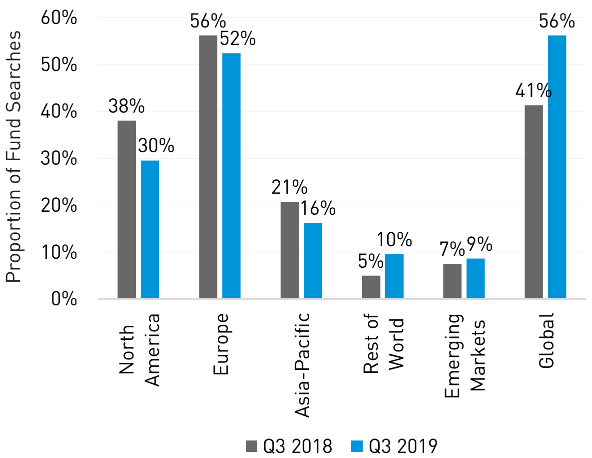
Source: Preqin Pro

Fig. 8: Strategies Targeted by Infrastructure Investors over the Next 12 Months, Q3 2018 vs. Q3 2019



Source: Preqin Pro

Fig. 9: Regions Targeted by Infrastructure Investors over the Next 12 Months, Q3 2018 vs. Q3 2019



Source: Preqin Pro

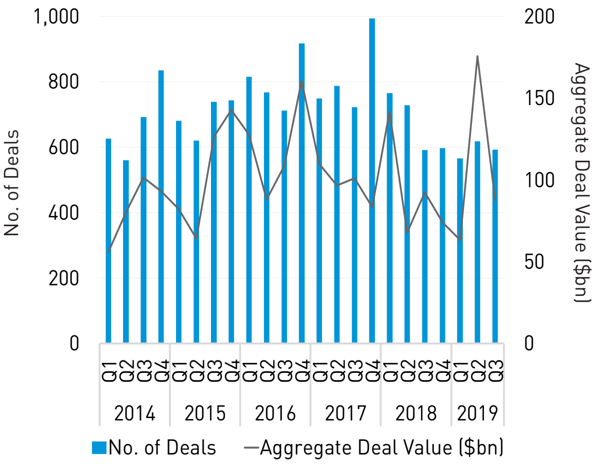
Deals

In Q3 2019, 593 infrastructure transactions were completed for an aggregate value of $88bn (Fig. 10). Although this marks a quarter-on-quarter fall of 50% in total deal value, following the quarterly record of $176bn set in Q2 2019, this can be largely attributed to the $55bn acquisition of Anadarko Petroleum in Q2. In fact, investment levels are almost identical to Q3 2018, when 592 deals were completed for a total of $93bn.

The number of infrastructure transactions in Asia increased from 69 in Q3 2018 to 104 in Q3 2019 (Fig. 11), whereas North American deals declined by 23% over the same period, falling from 198 to 158.

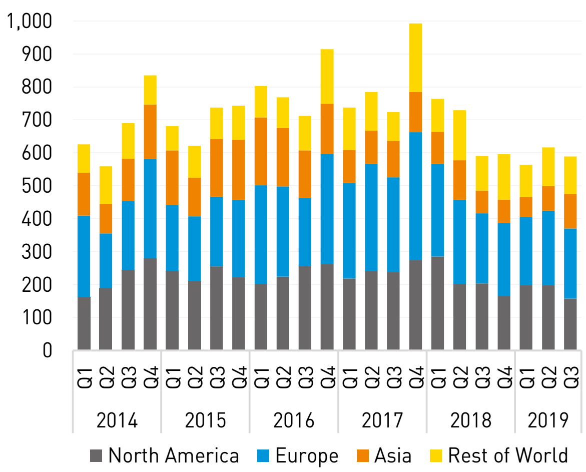
Renewable energy remains the largest sector in the market, accounting for 51% of all completed deals in Q3 2019 (Fig. 12). ESG credentials and predictable cashflows make it an attractive proposition for investors. Nevertheless, other industries are on the rise – the total number of transport deals surpassed energy deals for the first time since Q2 2016 (84 vs. 74 respectively), while the number of telecoms deals nearly doubled from 22 to 40 between Q3 2018 and Q3 2019 – a reflection of the growing demand for assets like cell towers and data centres, and an example of the broadening definition of the asset class.

Fig. 10: Quarterly Infrastructure Deals, Q1 2014 - Q3 2019



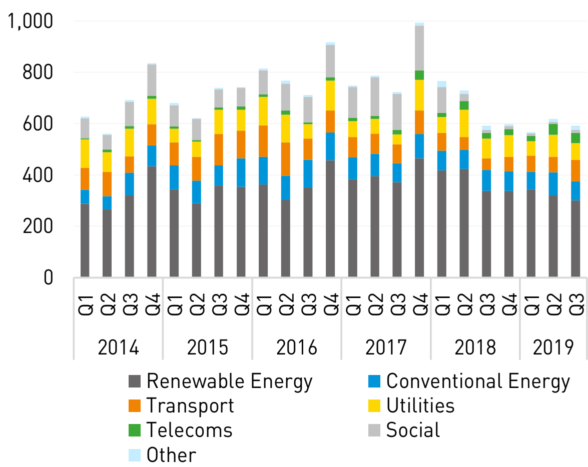
Source: Preqin Pro

Fig. 11: Number of Infrastructure Deals by Region, Q1 2014 - Q3 2019



Source: Preqin Pro

Fig. 12: Number of Infrastructure Deals by Sector, Q1 2014 - Q3 2019



Source: Preqin Pro

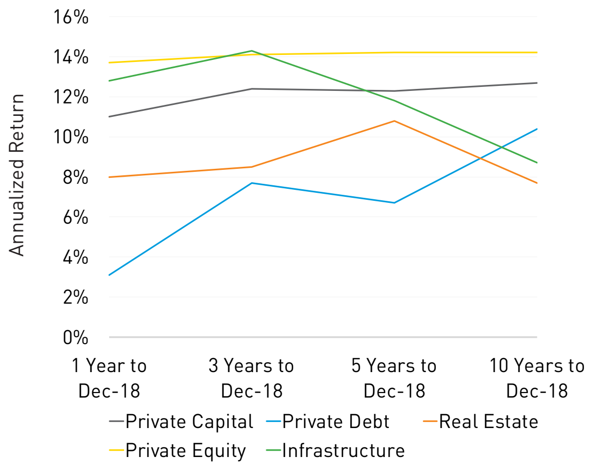
Performance

Unlisted infrastructure outperforms all other asset classes examined in Fig. 13 over the three-year horizon to December 2018, with an annualized return of 14.3%, 0.2 percentage points higher than private equity. The asset class also outperforms real estate in each time period examined.

The PrEQIn Infrastructure Index has continued to outperform the PrEQIn Private Capital Index and the public markets examined, posting a return of 2.5% in the quarter to December 2018 and reaching 241.2 index points. (Fig. 14). The gap between the PrEQIn Infrastructure Index and both the S&P Global Infrastructure Index (TR) and S&P Global Oil Index (TR) has further widened following the negative returns recorded by both public indices in Q4 2018.

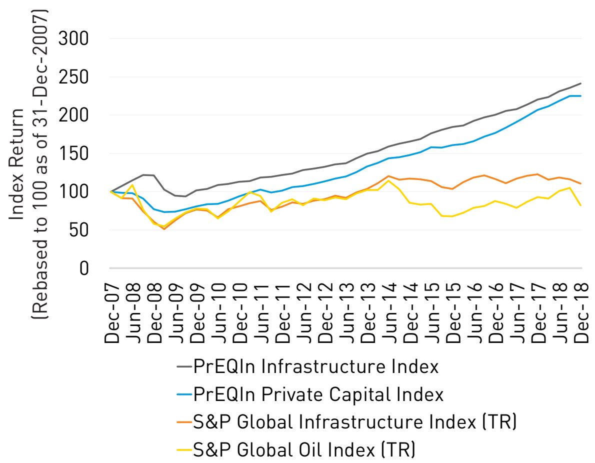
Annual capital called up remains higher than annual capital distributed, producing a negative cash flow (-$5.3bn) for the asset class over 2018 (Fig. 15). Capital called up in 2018 was $5.7bn less than in 2017, which marks the first decrease in annual capital called since 2012, and reflects a slower investment year for infrastructure fund managers.

Fig. 13: Horizon IRRs by Asset Class



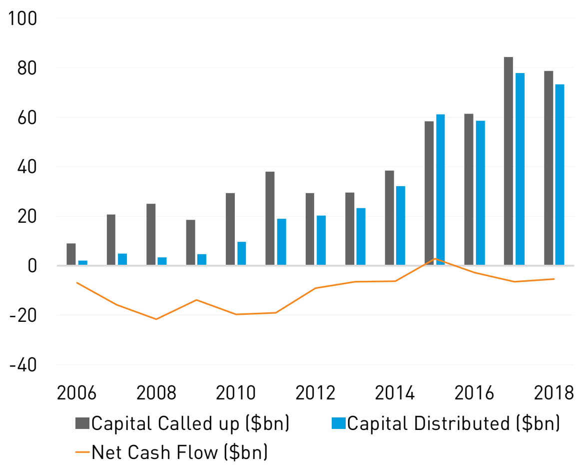
Source: Preqin Pro

Fig. 14: PrEQIn Index: Infrastructure vs. Private Capital and Public Markets (Rebased to 100 as of 31 December 2007)



Source: Preqin Pro

Fig. 15: Unlisted Infrastructure: Annual Capital Called up, Distributed and Net Cash Flow, 2006 - 2018



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