PREQIN SPECIAL REPORT: INFRASTRUCTURE FUND MANAGER OUTLOOK

H1 2018

FOREWORD

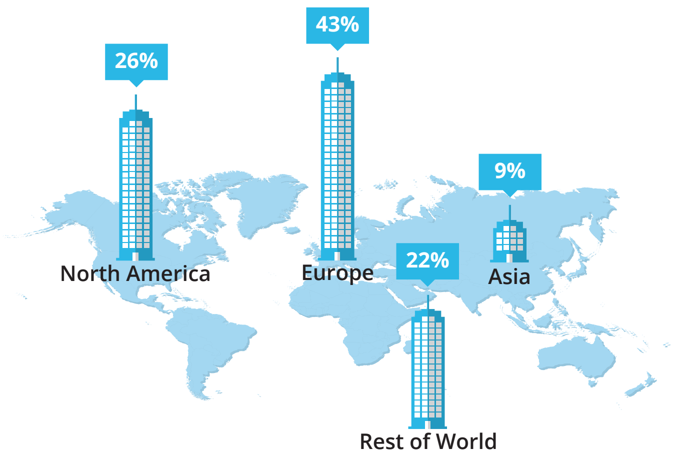
In November 2017, Preqin surveyed 65 infrastructure fund managers globally to determine their views on the key challenges facing the industry and the current level of competition for assets, as well as their outlook for the next 12 months. Valuations are at the forefront of fund managers' concerns at present. Against a backdrop of record levels of dry powder available for infrastructure investments, fund managers feel there is more competition for assets than 12 months ago and that, as a result, pricing is now higher.

Infrastructure fund managers have also observed an increase in appetite from institutional investors for the asset class. However, even with this increase the fundraising market remains highly competitive, with 176 unlisted infrastructure funds currently seeking capital. Those without a recognized brand will need to work hard to set themselves apart from the crowd.

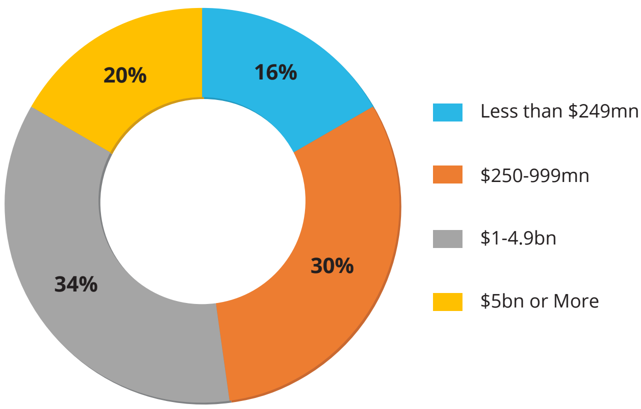
The infrastructure market is set to be very active in 2018 with the majority of fund managers expecting to deploy more capital in the year ahead. The high pricing environment will create more opportunities for attractive exits, and so the prospects are favourable for higher distributions to investors in the coming months.

We hope that you find this report useful and welcome any feedback you may have. For more information about Preqin and our services please visit www.preqin.com or contact info@preqin.com.

Survey Respondents by Headquarters Location:



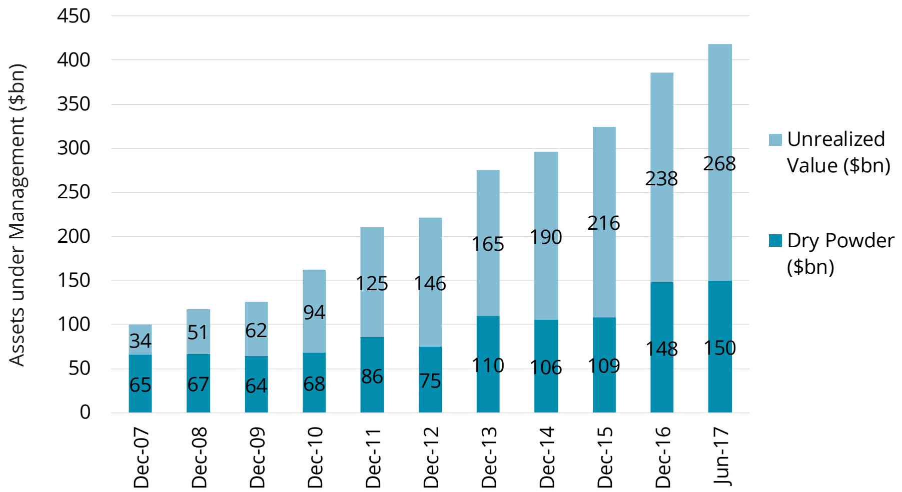
Survey Respondents by Assets under Management:



INDUSTRY OUTLOOK

The infrastructure market has grown rapidly over the past 10 years; many institutional investors have sought to diversify their portfolios by investing in infrastructure, which offers the prospect of steady, reliable returns with low correlation to other asset classes. As a result, the assets under management (AUM) held by infrastructure fund managers has quadrupled over this period, from $99bn in December 2007 to $418bn in June 2017 (Fig. 1).

Fig. 1: Unlisted Infrastructure Assets under Management, 2007 - 2017



Source: Preqin

However, the expansion of the industry has brought with it noticeable challenges, as the growing amount of capital allocated to infrastructure has created increased competition for deals and rising valuations. Valuations have yet again emerged as the number one concern among fund managers in our survey, with more than half (59%) reporting it as a key issue facing the industry at present (Fig. 2). Seventy-one percent of fund managers reported that pricing for infrastructure assets is higher now than it was 12 months ago, with just 2% believing it to be lower (Fig. 3). Rising prices were particularly noticed for core (71%) and core-plus (63%) assets.

Rising valuations pose a challenge as the need to deploy capital must be balanced against the risk of potentially over-bidding for assets. As a result, it may be difficult for fund managers to continue to generate the returns that investors expect: 57% of fund managers reported that valuations are leading them to reduce the targeted returns of funds that they are bringing to market, compared to just 13% that think high valuations will increase returns.

Despite these challenges, infrastructure fund managers generally remain optimistic that the industry will continue to grow in the future. Among those surveyed, 94% reported that they expect industry AUM to increase further in 2018, with none expecting assets to decrease.

FUND MANAGER VIEWS ON HOW INDUSTRY ASSETS UNDER MANAGEMENT WILL CHANGE IN THE NEXT 12 MONTHS

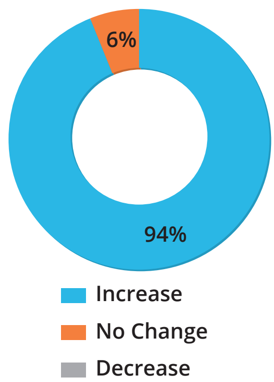
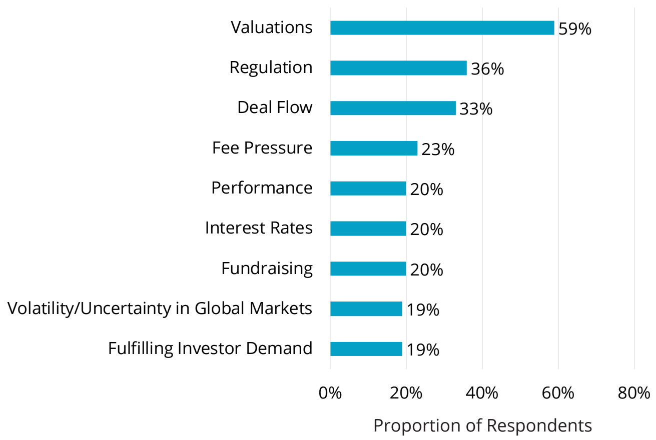
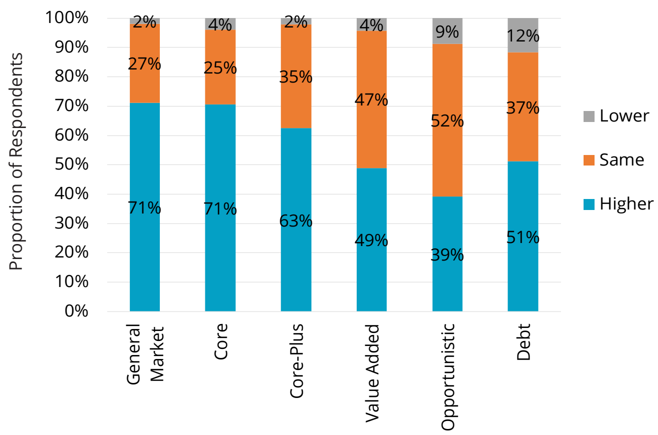


Fig. 2: Key Challenges Facing Unlisted Infrastructure Fund Managers in 2018



Source: Preqin Fund Manager Survey, November 2017

Fig. 3: Fund Manager Views on Pricing for Infrastructure Assets Compared to 12 Months Ago by Primary Strategy



Source: Preqin Fund Manager Survey, November 2017

DEAL ACTIVITY

DEAL FLOW AND COMPETITION

As growing numbers of investors look to infrastructure assets, the amount of capital held by managers continues to increase, with dry powder levels reaching a record $150bn as at June 2017. Among fund managers surveyed, the vast majority (74%) plan to invest more capital in 2018 than they did in the past 12 months, while the proportion that plan to invest less has fallen from 11% in November 2016 to 2% in November 2017 (Fig. 4).

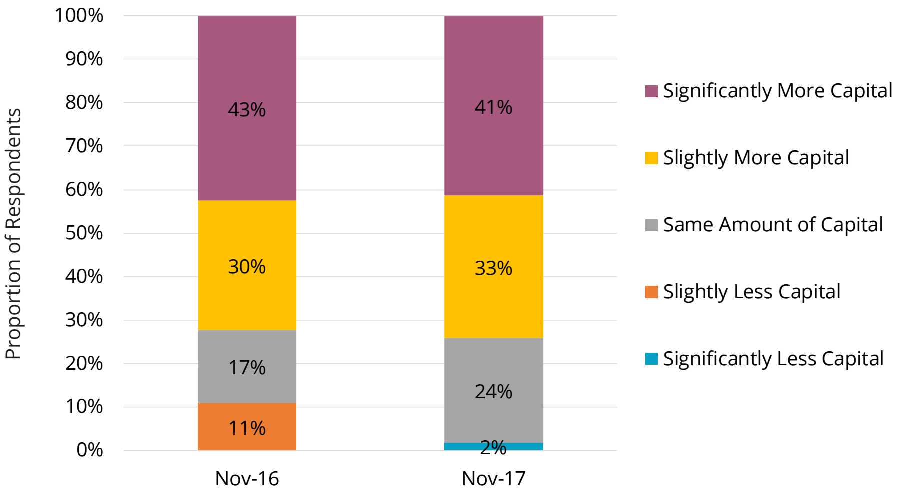
With all this capital available, fund managers are reporting the increasingly competitive nature of the infrastructure market: 81% feel that there is more competition for assets than 12 months ago, particularly for core (81%), core-plus (73%) and debt assets (70%, Fig. 5). The competitive market is further exacerbated by the increasing number of institutional investors becoming involved in the asset class. Fifty-six percent of fund managers reported that they are competing more frequently with institutions than a year ago, compared to 43% that reported increased competition from other fund managers and trade/strategic investors (33%).

As growing competition forces up asset prices, it becomes increasingly difficult to identify assets at compelling valuations. Forty-six percent of fund managers reported that they are finding it more difficult to find attractive investment opportunities than 12 months ago, compared to 2% that are finding it easier (Fig. 6). As a result, fund managers are broadening their searches, with 41% of fund managers reporting that they are reviewing more opportunities than this time a year ago, compared to just 5% that are reviewing fewer.

DEBT FINANCING

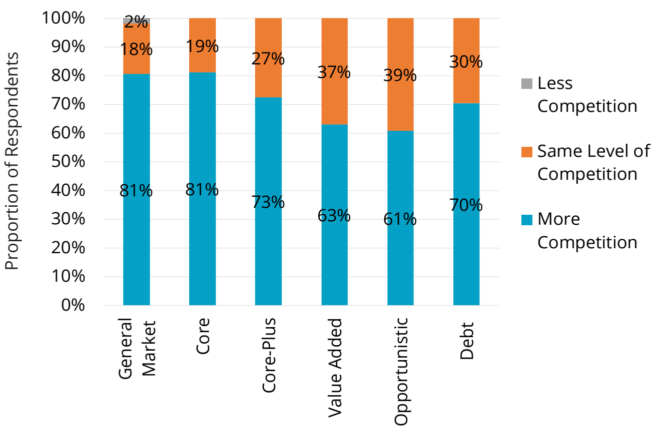
Thirty percent of respondents believe the terms of financing for infrastructure assets have improved from 12 months ago. GPs view banks as a key source of debt financing, with 69% expecting such institutions to provide the majority of, if not all, debt financing for infrastructure transactions in 2018 (Fig. 7). Fund managers also regard institutional investors as an important source of such capital, with 39% of fund

Fig. 4: Amount of Capital Fund Managers Plan to Deploy in Infrastructure Assets in the Next 12 Months Compared to the Previous 12 Months, 2016 vs. 2017



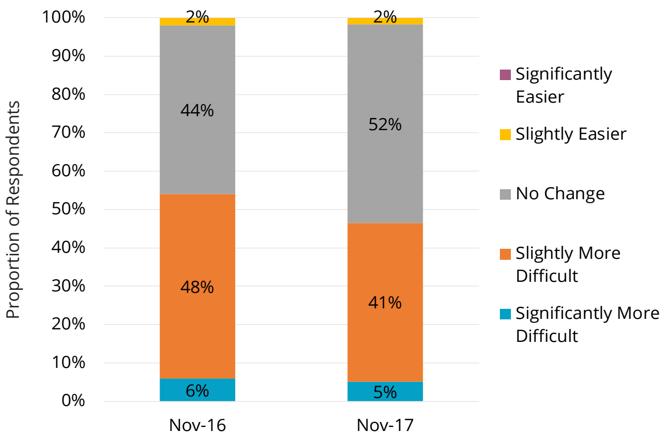
Source: Preqin Fund Manager Survey, November 2016 - 2017

Fig. 5: Fund Manager Views on the Level of Competition for Assets Compared to 12 Months Ago by Primary Strategy



Source: Preqin Fund Manager Survey, November 2017

Fig. 6: Fund Manager Views on the Difficulty of Finding Attractive Investment Opportunities Compared to 12 Months Ago, 2016 vs. 2017



Source: Preqin Fund Manager Survey, November 2016 - 2017 managers expecting them to provide a significant amount of financing. While the infrastructure debt market is still up and coming, 79% of respondents expect infrastructure debt funds to provide financing in 2018, significantly more than the 59% surveyed in November 2016.

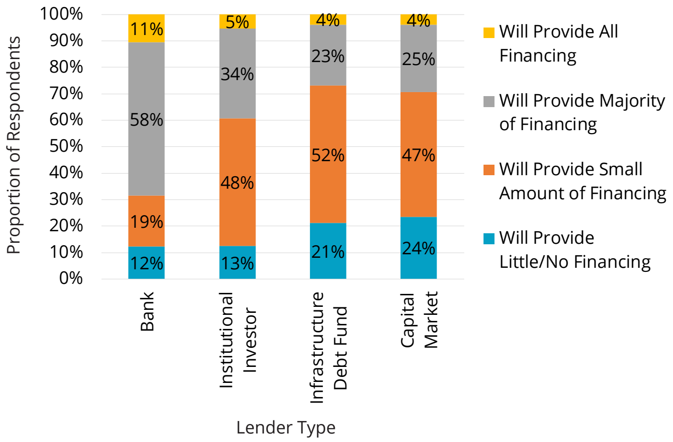
ESG POLICIES

Increasing investor attention to responsible investment practices in recent years have made environmental, social and governance (ESG) considerations a key part of the investment process for many fund managers. Eighty-one percent of fund managers reported that they consider ESG criteria for all of their deals, while a further 9% consider them for some deals (Fig. 8). Sixty-one percent of fund managers either occasionally or frequently decide not to invest in an asset due to ESG policies, indicative of the potential impact of such considerations on fund managers' portfolios.

EXIT ENVIRONMENT

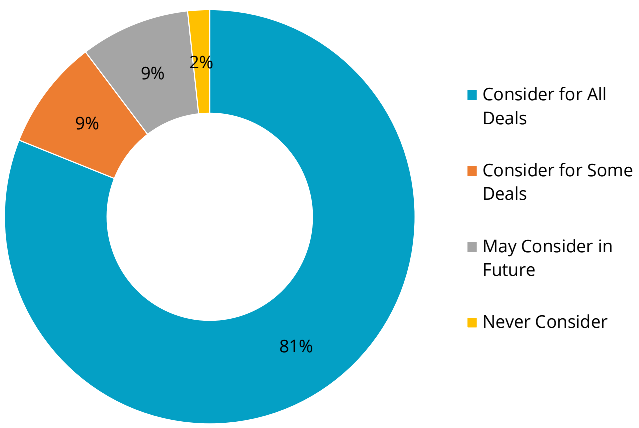
Although there are challenges surrounding sourcing new deals, fund managers believe that the opportunities for exits are currently strong. Forty-two percent of respondents predict that overall the level of exit activity among infrastructure fund managers will increase over the next 12 months (Fig. 9). In terms of their specific plans, among those fund managers planning exits, 44% expect to exit more investments in 2018 than they did in 2017, compared to only 18% that plan to exit fewer (Fig. 10).

Fig. 7: Fund Manager Views on the Importance of Various Types of Lenders as Sources of Debt Financing for Transactions in 2018



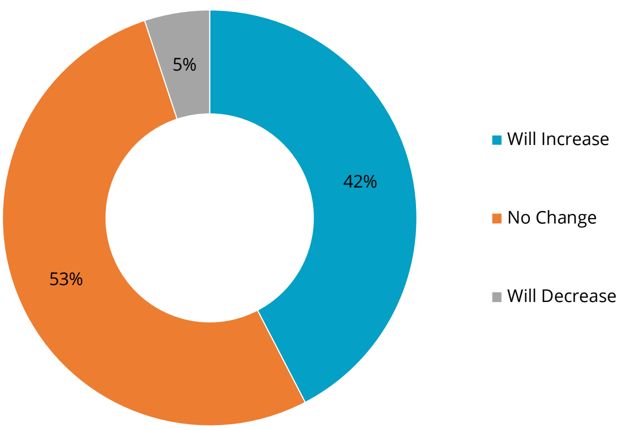
Source: Preqin Fund Manager Survey, November 2017

Fig. 8: Fund Managers that Consider ESG Factors as Part of the Deal-Making Process



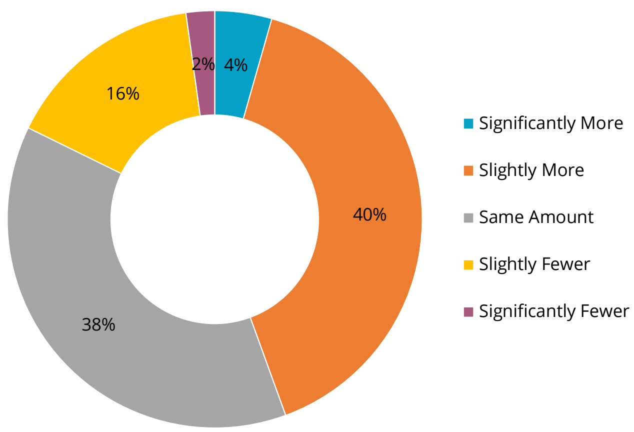
Source: Preqin Fund Manager Survey, November 2017

Fig. 9: Fund Manager Expectations for the Level of Exit Activity in the Next 12 Months



Source: Preqin Fund Manager Survey, November 2017

Fig. 10: Number of Exits Fund Managers Plan to Make in 2018 Compared to 2017



Source: Preqin Fund Manager Survey, November 2017

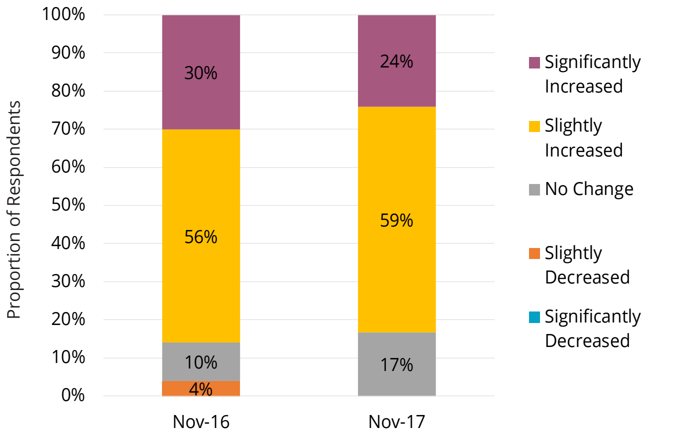
FUND MANAGER VIEWS ON INVESTOR APPETITE

While fund managers have some concerns about valuations, investors' attitudes to the industry remain largely positive. As shown in the **Preqin Investor Outlook: Alternative Assets, H1 2018**, 53% of investors surveyed in December 2017 have a positive view of infrastructure, compared to just 9% that view it negatively. Continuing this positive trend, 93% of surveyed investors also reported that their infrastructure fund investments had met or exceeded their performance expectations over the past 12 months. As a result, investor appetite continues to increase, as reported by 83% of fund managers (Fig. 11).

The increase in demand has come particularly from investors with longer-term liabilities, such as pension funds and insurance companies, which have been attracted by the steady, bond-like returns that infrastructure investments can produce in the current low-yield environment. Seventy-one percent of fund managers noted increased appetite from public pension funds in 2017, while 59% reported increased appetite from private sector pension funds and 51% from insurance companies (Fig. 12). At the other end of the scale, 28% of fund managers noticed less appetite from banks, compared to just 15% that observed an increase. Broken down by investor location, the increase in investor appetite has come particularly from Asia-based investors (60%) and those based in North America (54%, Fig. 13).

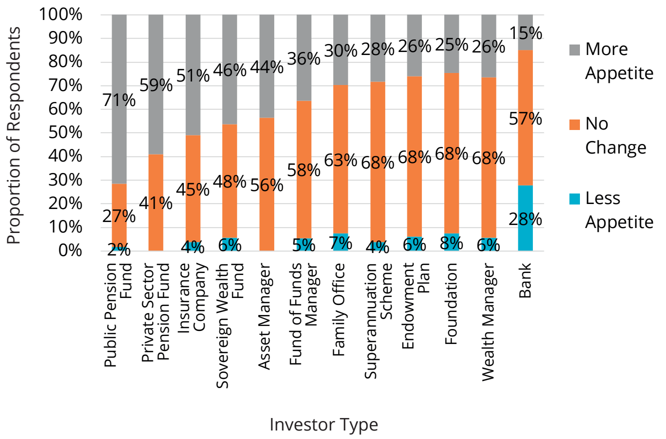
Although investor interest in infrastructure continues to increase, the fundraising market remains competitive. Eighty percent of fund managers believe there is more competition for investor capital than a year ago, including 21% that feel there is significantly more (Fig. 14).

Fig. 11: Fund Manager Views on How Institutional Investor Appetite for Unlisted Infrastructure Has Changed over the Past 12 Months, 2016 vs. 2017



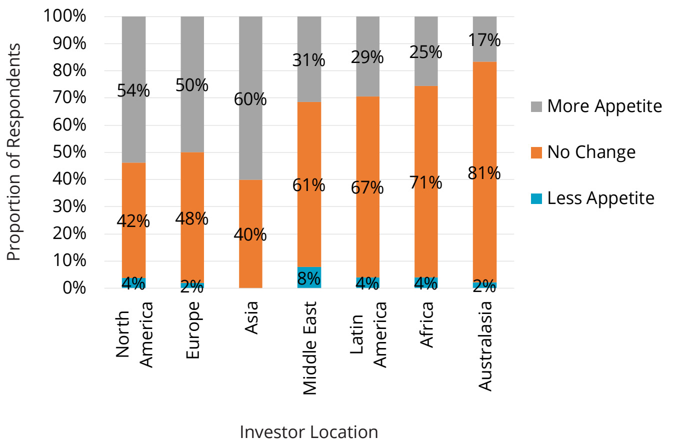
Source: Preqin Fund Manager Survey, November 2016 - 2017

Fig. 12: Fund Manager Views on Whether They Are Seeing More Appetite for Infrastructure from Different Investor Types Compared to 12 Months Ago



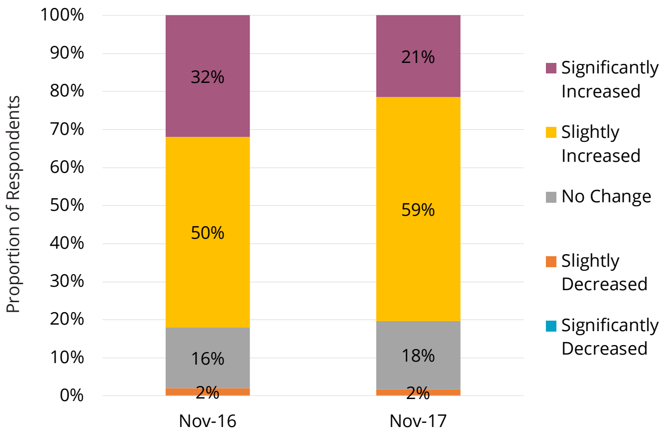
Source: Preqin Fund Manager Survey, November 2017

Fig. 13: Fund Manager Views on Whether They Are Seeing More Appetite for Infrastructure from Investors Based in Different Regions Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, November 2017

Fig. 14: Fund Manager Views on the Level of Competition for Investor Capital Compared to 12 Months Ago, 2016 vs. 2017



Source: Preqin Fund Manager Survey, November 2016 - 2017

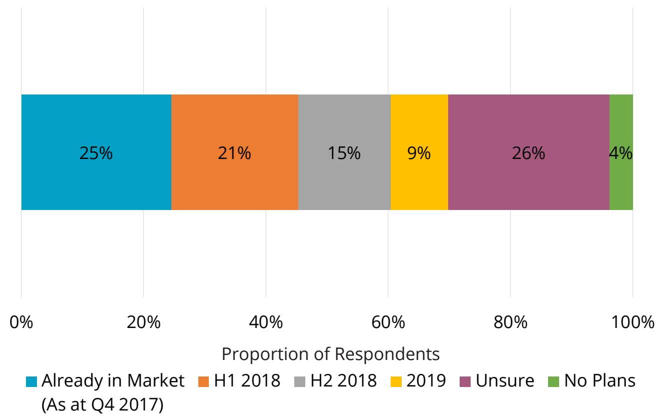
FUTURE PLANS

With strong investor appetite for infrastructure and a favourable fundraising environment, fund managers continue to plan significant launch activity for the year ahead. As shown in Fig. 15, among surveyed fund managers, 25% were already in market with their next vehicle at the end of 2017, while a further 36% were planning to begin fundraising before the end of 2018.

However, in addition to funds, fund managers are increasingly offering a variety of options to investors looking to boost their exposure to infrastructure. Forty-nine percent of fund managers reported that they are planning to offer more co-investment opportunities to investors in 2018 than in 2017, and 46% plan to offer more separate accounts (Fig. 16).

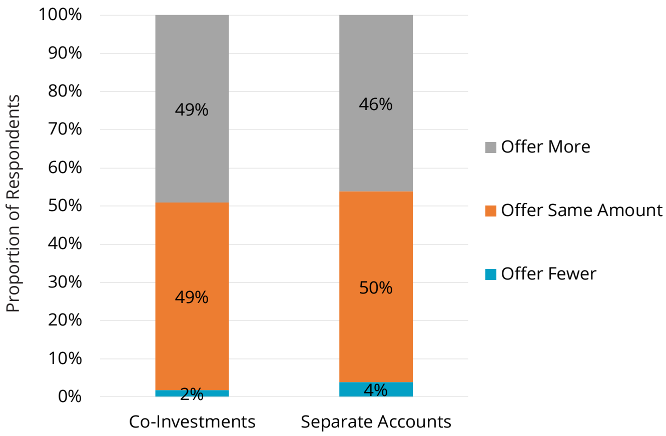
Looking at the opportunities ahead, fund managers view core-plus and value added infrastructure as the most promising strategies, cited by 43% and 35% of respondents respectively (Fig. 17). Geographically, the more established infrastructure markets of North America and Europe continue to present the best opportunities (45% and 40%, Fig. 18).

Fig. 15: Timeframe with Which Fund Managers Intend to Launch Their Next Infrastructure Fund



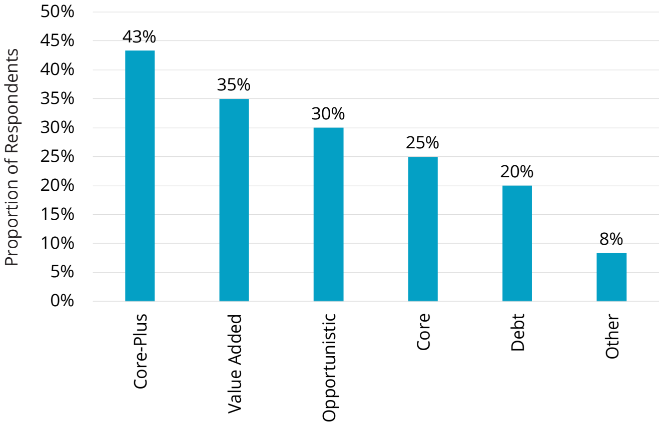
Source: Preqin Fund Manager Survey, November 2017

Fig. 16: Fund Managers' Plans to Offer Infrastructure Co-Investment Opportunities and Separate Accounts in 2018 Compared to 2017



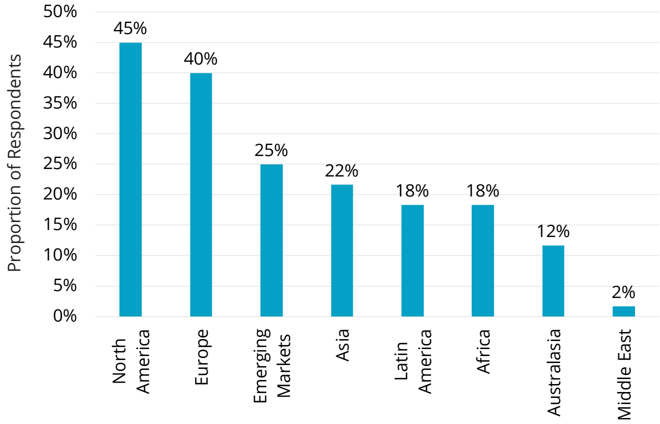
Source: Preqin Fund Manager Survey, November 2017

Fig. 17: Fund Manager Views on the Infrastructure Strategies Currently Presenting the Best Opportunities



Source: Preqin Fund Manager Survey, November 2017

Fig. 18: Fund Manager Views on the Regions Currently Presenting the Best Opportunities for Infrastructure



Source: Preqin Fund Manager Survey, November 2017

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