



PREQIN SPECIAL REPORT: **INFRASTRUCTURE FUND** **MANAGER OUTLOOK**

H2 2017

FOREWORD

In June 2017, Preqin surveyed infrastructure fund managers globally in order to determine their views on the key challenges facing the industry, the current level of competition for assets and capital in the market and their outlook for the next 12 months. Much like other closed-end alternatives, valuations remain the biggest concern for fund managers. Furthermore, a large majority feel that the pricing of assets is higher than it was 12 months ago.

Fuelling institutional demand for infrastructure exposure is the relatively high levels of capital that investors have received from their fund investments. Many are therefore now looking to re-invest this capital back into the asset class, with infrastructure firms seeing an increase in appetite for their offerings. There are currently 179 unlisted infrastructure funds in market, and standing out from the crowd is a difficult prospect, particularly when recent fundraising has centred around recognized brands with large offerings.

Despite the challenges, the asset class is positioned well for a strong H2 2017. High valuations make it a favourable time to be a seller, and distributions back from funds could increase over the coming months.

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

p3

Deal Flow and Competition

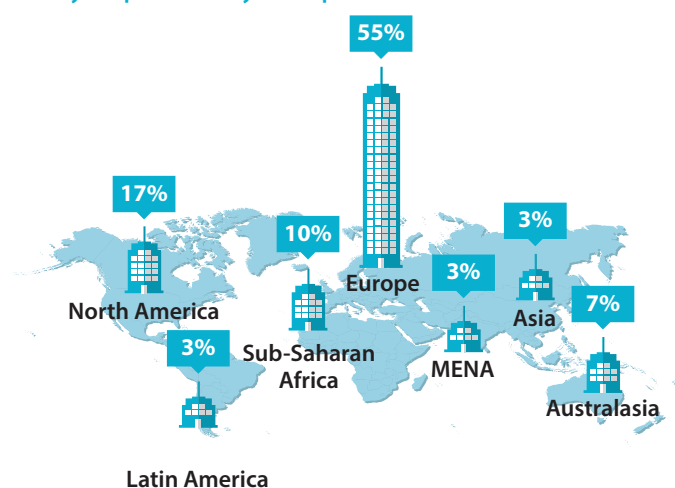
p5

Fund Manager Views on Investor Appetite

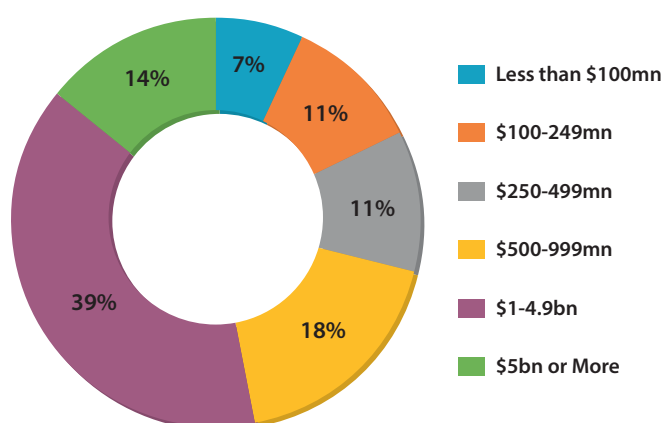
p6

Outlook and Future Plans

Survey Respondents by Headquarters Location



Survey Respondents by Assets under Management



All rights reserved. The entire contents of Preqin Special Report: Infrastructure Fund Manager Outlook, H2 2017 are the Copyright of Preqin Ltd. No part of this publication or any information contained in it may be copied, transmitted by any electronic means, or stored in any electronic or other data storage medium, or printed or published in any document, report or publication, without the express prior written approval of Preqin Ltd. The information presented in Preqin Special Report: Infrastructure Fund Manager Outlook, H2 2017 is for information purposes only and does not constitute and should not be construed as a solicitation or other offer, or recommendation to acquire or dispose of any investment or to engage in any other transaction, or as advice of any nature whatsoever. If the reader seeks advice rather than information then he should seek an independent financial advisor and hereby agrees that he will not hold Preqin Ltd. responsible in law or equity for any decisions of whatever nature the reader makes or refrains from making following its use of Preqin Special Report: Infrastructure Fund Manager Outlook, H2 2017. While reasonable efforts have been made to obtain information from sources that are believed to be accurate, and to confirm the accuracy of such information wherever possible, Preqin Ltd. does not make any representation or warranty that the information or opinions contained in Preqin Special Report: Infrastructure Fund Manager Outlook, H2 2017 are accurate, reliable, up-to-date or complete. Although every reasonable effort has been made to ensure the accuracy of this publication Preqin Ltd. does not accept any responsibility for any errors or omissions within Preqin Special Report: Infrastructure Fund Manager Outlook, H2 2017 or for any expense or other loss alleged to have arisen in any way with a reader's use of this publication.



DEAL FLOW AND COMPETITION

With high levels of capital secured from infrastructure funds in recent years, dry powder currently stands at a record \$149bn (as at August 2017). Competition for individual assets has been growing among fund managers as more capital becomes available to invest: 55% of surveyed firms stated that there is now more competition than 12 months ago. Furthermore, large institutional investors are also increasing their direct investment activity and are competing more frequently with established infrastructure firms for assets: 56% of fund managers surveyed have seen more competition for assets from institutional investors over the past year.

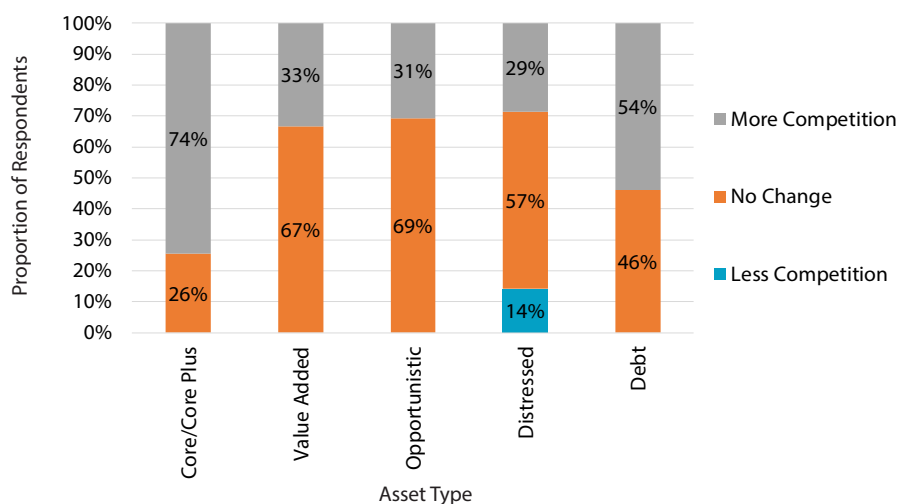
COMPETITION AND STRATEGIES

Managers report that competition is most intense for lower-risk core and core-plus assets. Seventy-four percent said that competition for assets had increased over the past year, while none had seen competition decrease (Fig. 1). With 66% of managers believing that core/core-plus assets currently present the most attractive investment opportunities, competition is likely to be greater than for other asset types. Moreover, political and economic uncertainty in Europe may be driving this demand for lower-risk assets, as investors factor in regulatory risk.

Contrastingly, distressed assets are the only asset type where fund managers have seen less competition for transactions than 12 months ago.

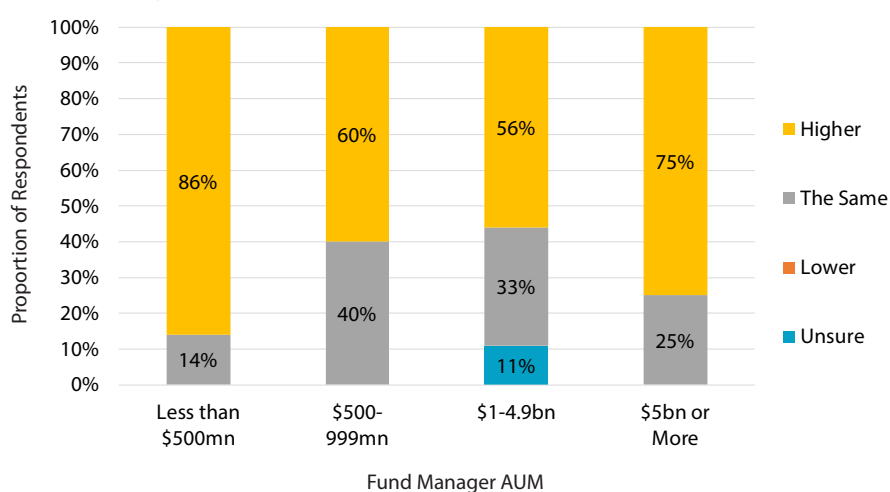
While the majority (56%) of managers reported that this increased competition had not altered their investment strategies, others have taken a flexible approach to investing in order to navigate the competitive environment. One manager explained: “we apply a diversified strategy to be able to shift our focus to sectors and

Fig. 1: Fund Manager Views on the Level of Competition for Transactions Compared to 12 Months Ago by Asset Type



Source: Preqin Fund Manager Survey, June 2017

Fig. 2: Fund Manager Views on Pricing for Infrastructure Assets Compared to 12 Months Ago by AUM



Source: Preqin Fund Manager Survey, June 2017

countries where the return dynamics are most favourable”.

VALUATIONS AND FINDING ATTRACTIVE INVESTMENT OPPORTUNITIES

The increased competition and high dry powder levels have kept upwards pressure on pricing. Valuations of

infrastructure assets remain a key concern in the industry, with 70% of surveyed managers citing it as the biggest issue facing the asset class at present (see page 6). Furthermore, the majority (68%) of managers believe asset pricing is now higher than 12 months ago. Pricing appears to be a more acute issue for

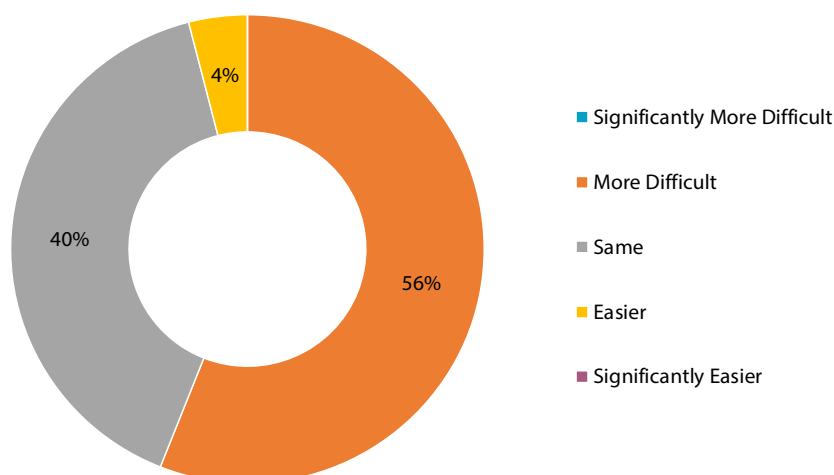
smaller firms: 86% of surveyed managers with less than \$500mn in assets have seen an increase in pricing in the past 12 months. It is unsurprising, therefore, that 56% of managers surveyed believe it is more difficult to find attractive investment opportunities than 12 months ago (Fig. 3).

“ Nearly half of managers plan to deploy significantly more capital in the next 12 months compared to 12 months ago

The majority (72%) of surveyed managers expect to increase the amount of capital they deploy in infrastructure assets over the next 12 months, including 48% that plan to deploy significantly more capital (Fig. 4).

However, many fund managers have adjusted their targeted returns for funds currently on the road as a result of the challenging environment; while 35%

Fig. 3: Fund Manager Views on the Difficulty of Finding Attractive Investment Opportunities Compared to 12 Months Ago



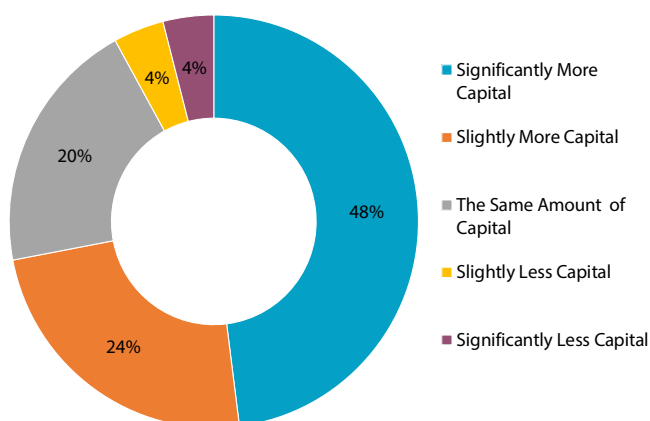
Source: Preqin Fund Manager Survey, June 2017

of firms state their targeted returns are independent of valuations, 56% of managers have reduced their targeted returns.

Fund managers encounter a variety of challenges when valuing their portfolio, with one manager citing the particular difficulty in accurately pricing “regulatory

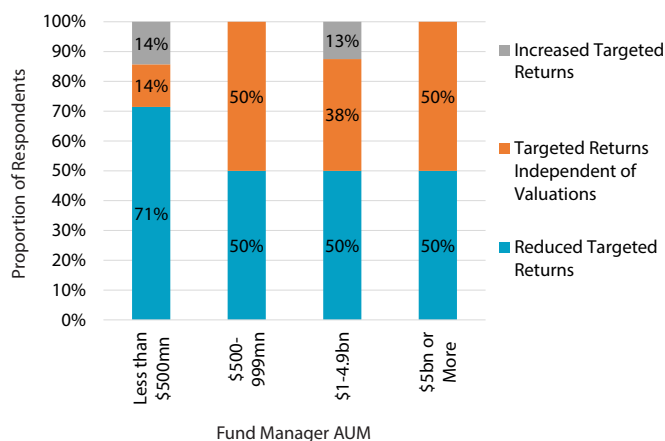
risk, greenfield risk and a possible increase in interest rates”. Despite being an asset class with a long investment horizon, short-term economic shifts such as interest rate changes can significantly impact portfolio valuation, especially when looking to source an appropriate discount rate.

Fig. 4: Amount of Capital Fund Managers Expect to Deploy in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Fund Manager Survey, June 2017

Fig. 5: Fund Manager Views on the Impact of Asset Valuations on Targeted Returns of Funds in Market by Fund Manager AUM



Source: Preqin Fund Manager Survey, June 2017

DATA SOURCE:

Access comprehensive information on over 500 infrastructure fund managers worldwide on Preqin's Infrastructure Online, including total capital raised in the last 10 years, estimated dry powder, number of portfolio companies, investment preferences, direct contact information for key decision makers and more.

For more information, please visit:

www.preqin.com/infrastructure



FUND MANAGER VIEWS ON INVESTOR APPETITE

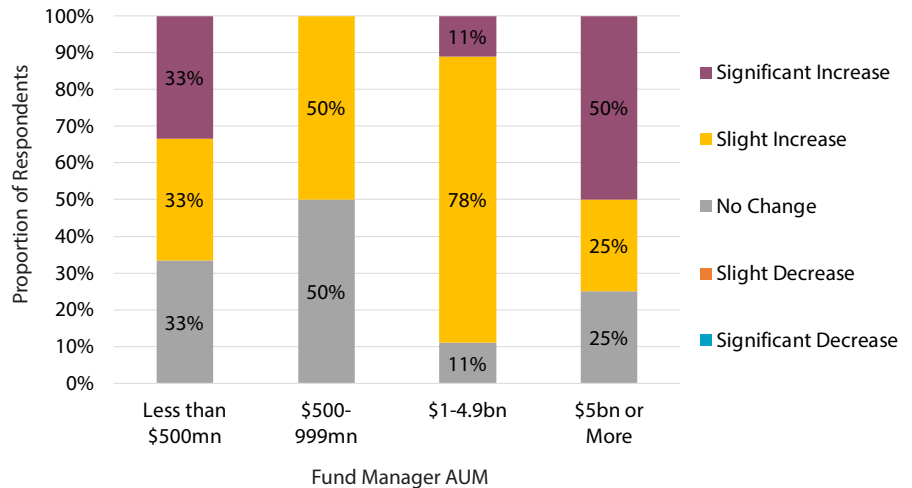
Fund managers reported a buoyant fundraising environment, with a substantial (74%) of surveyed managers having noticed an increase in investor appetite for infrastructure in the past 12 months, of which 22% saw a significant increase. In contrast, no infrastructure firms surveyed witnessed a decrease in investor appetite for the asset class.

INVESTOR LOCATION

“Twenty-two percent of fund managers have seen a significant increase in investor appetite for infrastructure”

North America-based investors have driven much of the demand for infrastructure: 73% of fund managers reported increased appetite from investors in the region, with no managers reporting a decrease in appetite (Fig. 7). This may reflect the anticipated public sector financing of infrastructure projects in the US, as announced by the new White House administration. Private capital could be solicited to finance a substantial proportion of these projects. Europe-based investors have shown more appetite for the asset class according to

Fig. 6: Fund Manager Views on How Institutional Investor Appetite for Infrastructure Has Changed over the Past 12 Months by Fund Manager AUM



Source: Preqin Fund Manager Survey, June 2017

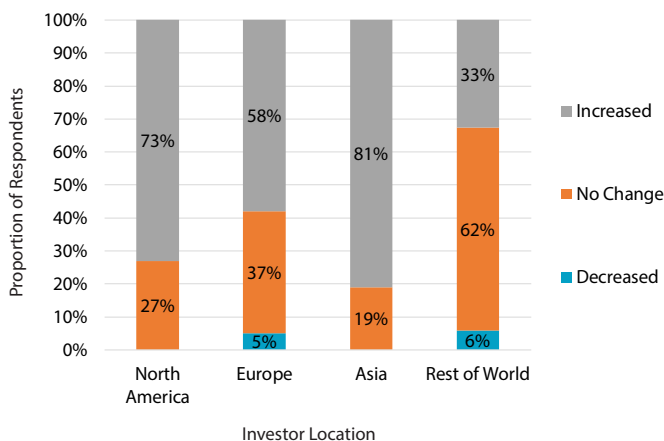
58% of fund managers, with 5% reporting a decrease in appetite. The economic and political uncertainty of Brexit may have left some investors wary of further infrastructure exposure.

Eighty-one percent of managers have seen an increase in appetite for the asset class from Asia-based investors, the largest proportion of all regions. As governments struggle to finance many of the infrastructure projects in Asia, private capital firms are increasingly filling the gap by providing both equity and debt capital.

COMPETITIVE MARKET

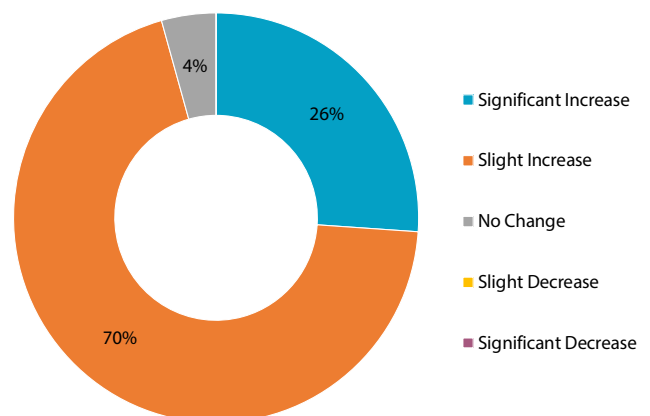
With a large number (179) of unlisted infrastructure funds currently on the road, competition for investor capital is fierce: 96% of surveyed managers reported an increase in competition, including 26% that had seen a significant increase compared to last year (Fig. 8). Notably, appetite has increased since December 2016, when 82% of managers reported an increase in competition.

Fig. 7: Fund Manager Views on How Institutional Investor Appetite for Infrastructure Has Changed over the Past 12 Months by Investor Location



Source: Preqin Fund Manager Survey, June 2017

Fig. 8: Fund Manager Views on the Level of Competition for Institutional Investor Capital Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, June 2017

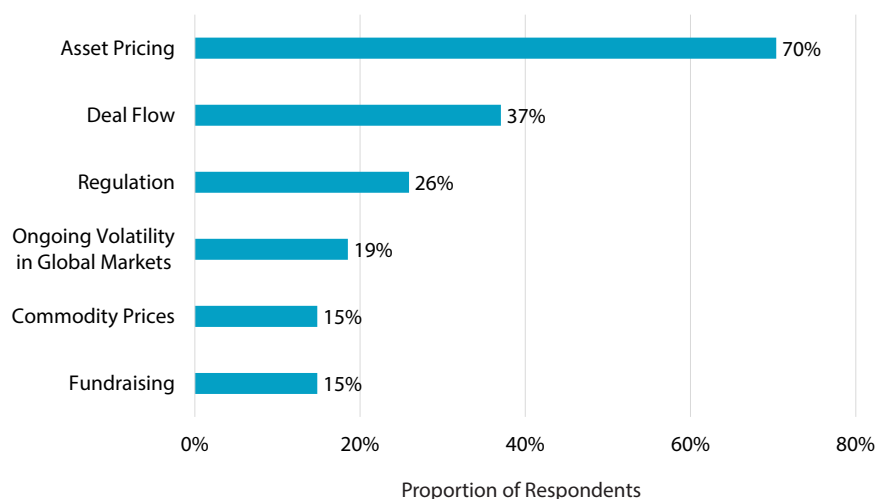
OUTLOOK AND FUTURE PLANS

Fund managers have to face a variety of challenges to operate in the market today. Asset pricing and deal flow remain key concerns: 70% and 37% of surveyed managers respectively believe they are the biggest challenges facing the industry in the next 12 months (Fig. 9). Perhaps reflecting the uncertainty surrounding Brexit and its impact on the legal and regulatory environment in Europe, 26% of managers see regulation as a substantial challenge for the industry. Similarly, the ongoing volatility and uncertainty in global markets was reported as a key concern by 19% of managers.

DEMONSTRATING VALUE

With the established branded firms attracting the largest ticket sizes, all other managers must be able to display a unique value proposition to institutional investors if they want to stand out from the crowd and secure capital commitments. The largest proportion (45%) of surveyed managers reported that their network was the most important factor in differentiating themselves from other managers (Fig. 10). An extensive network of industry contacts including placement agents, gatekeepers and investors can have a significant impact on the number of opportunities available to fund managers.

Fig. 9: Fund Manager Views on the Biggest Challenges Facing the Infrastructure Industry in the Next 12 Months



Source: Preqin Fund Manager Survey, June 2017

One surveyed manager explained that demonstrating “value add through active asset management” may help to attract investors.

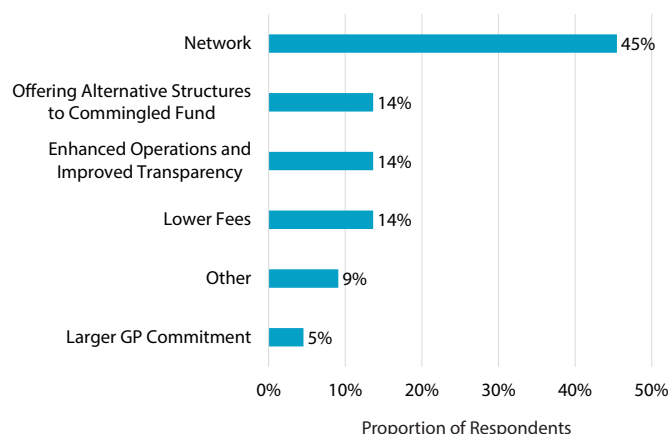
Fund managers have more work on their hands identifying attractive investments this year, with the majority (57%) of respondents reviewing more investment opportunities currently than in the past year (Fig. 11). If net distributions to investors continue to grow, managers can expect to see demand from the investor

community increase further, as LPs re-up with existing managers in their portfolio and other investors make their first foray into the asset class. Fund managers’ ability to differentiate themselves from the established firms will be crucial in securing capital quickly.

ATTRACTIVE OPPORTUNITIES

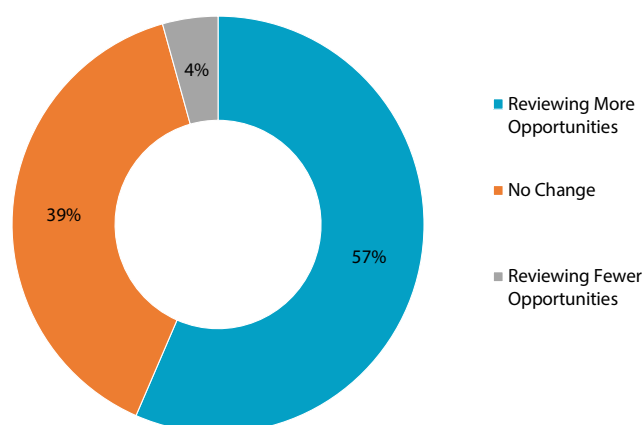
Europe is the most favoured region by fund managers: half of respondents believe it presents the best opportunities (Fig. 12). Europe is perhaps the most

Fig. 10: Fund Manager Views on How to Differentiate Themselves from Their Peers



Source: Preqin Fund Manager Survey, June 2017

Fig. 11: Amount of Investment Opportunities under Review by Fund Managers Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, June 2017



developed infrastructure market and, despite political uncertainty surrounding Brexit, investors are drawn to the stable 'bond-like' returns of European infrastructure assets. A sizeable proportion (35%) of fund managers cited North America as presenting the best investment opportunities. With the new White House administration promising public sector investment in US infrastructure, executing this is likely to require support from private capital firms. Fund managers focusing on North America may be poised to deploy capital if these opportunities arise.

ESG POLICIES

In recent years, investors have shown an increasing interest in the environmental, social and governance (ESG) factors in the

underlying investments in their portfolio. Investment decisions that are, for example, complicit in deforestation or human rights violations can negatively affect profits, and damage the brand and reputation of companies that are deemed culpable. In response to the growing pressure from the investor community to account for these factors, the large majority (92%) of surveyed fund managers said that they consider ESG policies for at least some of their deals, with 72% considering ESG factors for all of their activity (Fig. 13).

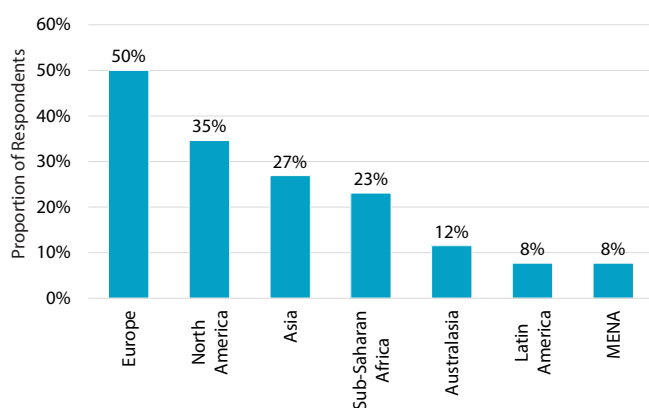
Many investors expect to be updated regularly on the ESG metrics of their fund commitments: 36% of managers have to report this on a quarterly basis to investors (Fig. 15). This does create

difficulties for firms that now have to deal with an increased reporting burden, with 43% of managers citing the need for more granular investor reporting as the greatest operational challenge they face in the next 12 months.

OUTLOOK

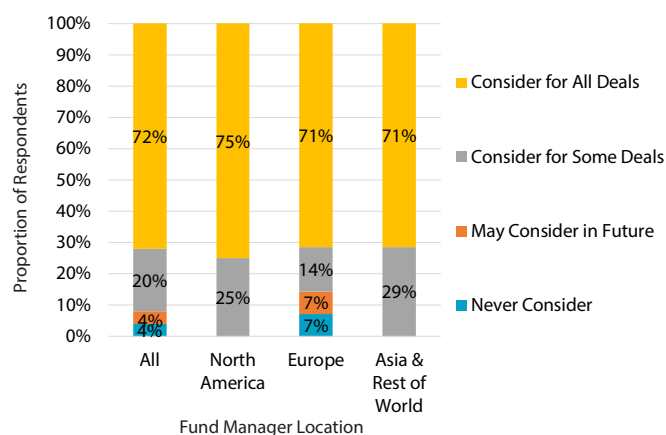
Despite the many challenges in the industry, most managers are optimistic regarding the future of the asset class. The majority (85%) of those surveyed expect industry AUM to increase in the coming year, with none expecting a decrease.

Fig. 12: Regions Fund Managers view as Presenting the Best Opportunities



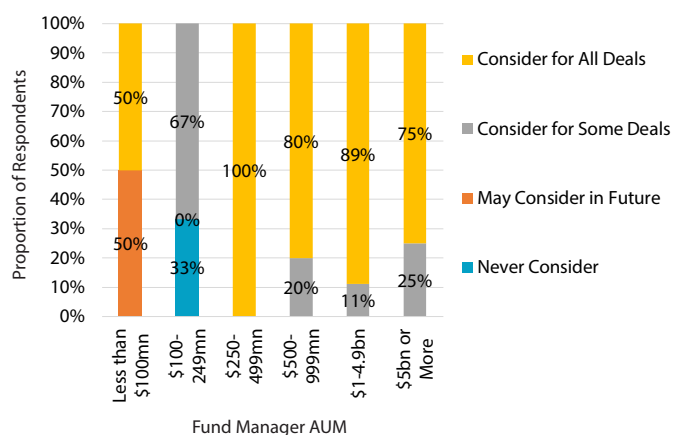
Source: Preqin Fund Manager Survey, June 2017

Fig. 13: Fund Managers that Consider ESG Factors as Part of Their Deal Making Process by Fund Manager Location



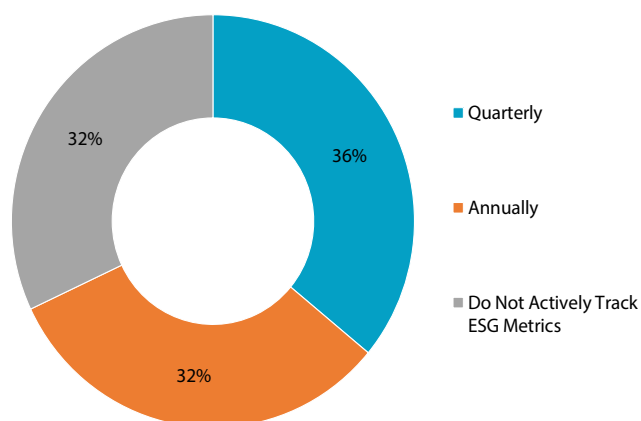
Source: Preqin Fund Manager Survey, June 2017

Fig. 14: Fund Managers that Consider ESG Factors as Part of Their Deal Making Process by Fund Manager AUM



Source: Preqin Fund Manager Survey, June 2017

Fig. 15: Frequency with Which Fund Managers Report on ESG Metrics of Their Portfolios to Investors (Post-Investment)



Source: Preqin Fund Manager Survey, June 2017



PREQIN SPECIAL REPORT: INFRASTRUCTURE FUND MANAGER OUTLOOK

H2 2017

PREQIN

Alternative Assets Data & Intelligence

Preqin provides information, products and services to fund managers, investors, consultants and service providers across six main areas:

- **Investors** – Allocations, Strategies/Plans and Current Portfolios
- **Fund Managers** – Funds, Strategies and Track Records
- **Funds** – Fundraising, Performance and Terms & Conditions
- **Deals/Exits** – Portfolio Companies, Participants and Financials
- **Service Providers** – Services Offered and Current Clients
- **Industry Contacts** – Direct Contact Details for Industry Professionals

New York ■ London ■ Singapore ■ San Francisco ■ Hong Kong ■ Manila

info@preqin.com
www.preqin.com