

# 2019 Preqin Global Infrastructure Report

## Sample Pages



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## DATA PACK FOR 2019 PREQIN GLOBAL INFRASTRUCTURE REPORT

The data behind all of the charts and infographics featured in this report, plus additional datasets for each of the chapters in the book, is available to purchase in Excel format. Ready-made charts and graphs are also available, and can be used in marketing materials, presentations or company reports.

To purchase the data pack, please contact your Preqin representative or download an order form here:

[www.preqin.com/gir](http://www.preqin.com/gir)


# KEY TRENDS OF 2018

Infrastructure has certainly delivered on its promise to investors: record capital (\$77bn) was distributed back to investors in 2017, bolstering the positive sentiment among industry participants. Such activity has prompted most investors to maintain or even increase allocations to the asset class going forwards. Despite the concerns over the challenging pricing environment and significant competition for assets, our end-of-year surveys indicate that fund managers and investors feel positive about infrastructure in the year ahead.

### INVESTORS SATISFIED WITH INFRASTRUCTURE

Record distributions in 2017 of **\$77bn**


Investors invest in infrastructure for **diversification** and a **reliable income stream**



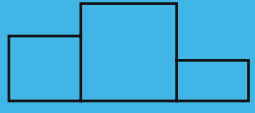
**84%** of surveyed investors felt that infrastructure met or exceeded their expectations in 2018

### COMPETITION FOR ASSETS INTENSIFIES

**66%** of surveyed fund managers feel competition for assets will be a key challenge for return generation in 2019

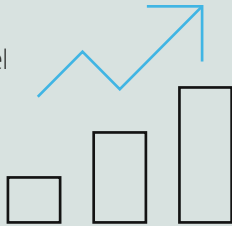


**\$542mn** Average deal size in 2018 vs. \$492mn in 2017



### ASSET VALUATIONS HIGHER THAN EVER


**54%** of surveyed fund managers feel valuations will be a challenge for return generation in 2019 (second most cited challenge after competition for assets)



**\$179bn** Record levels of dry powder available (as at June 2018)

### CAPITAL CONCENTRATION ON THE RISE


**50** largest funds closed in 2018 secured 98% of total capital raised (compared to 92% in 2017)



**76%** of surveyed fund managers agree that competition for investor capital is more intense than 12 months ago

### SLOWDOWN IN DEALS

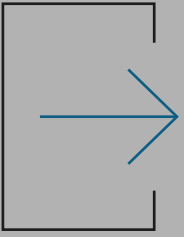
**22%** Decrease in the number of deals completed in 2018 from 2017



**61%** of surveyed investors feel we are at the peak of the current equity market cycle

### HEALTHY EXIT ENVIRONMENT

**\$666mn** Average size of exits in 2018, up from \$635mn in 2017



**46%** of surveyed fund managers anticipate increased exit activity in the next 12 months

# PRIVATE CAPITAL'S PART TO PLAY IN INFRASTRUCTURE INVESTMENT

## In your opinion, what key trends emerged or persisted in the infrastructure space over 2018?

A persistent theme is the continued capital seeking to find a home in the sector, which appears to be having a two-fold impact. Firstly, we are seeing ever larger funds raised, and secondly, managers continue to stretch the definition of infrastructure in search of value in a more crowded marketplace. However, pleasingly, this year we have also witnessed increased recognition of the critical role that private capital must play in order to meet the infrastructure investment requirements in Europe and further afield, which is generating significant investment opportunity. We have also seen an emerging focus on the need for the private sector to mobilize behind the investment needed in Europe's infrastructure, offering attractive infrastructure investment opportunities.

In the same year that governments and consumers alike were increasingly focused on climate change and more inclusive societies and economies, the European Commission (EC) launched its Action Plan<sup>1</sup> on financing sustainable growth. The plan seeks to mobilize the private sector, calling for the private sector to "support the €180bn of additional investment a year needed to transition to a low-carbon economy." This initiative has been a catalyst for sustainable investment across a wide range of different sectors including clean energy, fibre, transport and social infrastructure.

## How did Infracapital respond to these trends?

We have looked to capitalize on this sizeable opportunity in Europe, where deal flow remains strong, through both our brownfield and greenfield strategies. On the brownfield side we recently closed our third fund at its £1.85bn hard cap and are pleased to have already completed several investments. We have benefitted from remaining relatively small and focused on the mid-market.



## ANDY MATTHEWS

Head of Greenfield, Infracapital

With a dedicated greenfield strategy team with specialist greenfield expertise, we have formed a number of attractive platforms with our developer and industrial partners, offering attractive investments supporting the need for new, essential infrastructure. The speed, quality and diversity of our deployment highlights the strong pipeline of opportunities in this space. I think the main attraction of the strategy for LPs has been how it complements their existing brownfield infrastructure exposure by providing a different return profile, albeit the portfolio once fully operational will be yielding for the majority of the fund life.

## What opportunities are you seeing in the greenfield space today?

There is a vast requirement in Europe for new infrastructure across all sectors, with the EC estimating that 75% of infrastructure required by 2050 has not yet been built.<sup>2</sup> This is driven by low levels of infrastructure investment since the Global Financial Crisis, a growing need for energy-efficient infrastructure and the impact of new technologies.

The impact of technology creates opportunities in several sectors, spanning transport, fibre broadband and energy infrastructure. For instance, governments and car manufacturers are increasingly committed

<sup>1</sup> The European Commission Action on Financing Sustainable Growth, March 2018.

<sup>2</sup> Sustainable Infrastructure and Finance, June 2016. Published by United Nations Environment and Global Infrastructure Basel.

to 'going electric'. This is resulting in a substantial need for mass charging infrastructure (an estimated €40-50bn of investment is needed by 2030), but also generating broader investment opportunities. For example, substantial reinforcement of the national grid, which will be materially impacted by the vehicle-charging behavioural model which is still developing, with potentially more 'refuelling' at home and overnight than at stations. We have also focused on fibre broadband where there is a sizeable backlog of demand, especially in the case of Germany and the UK. We have recently made investments in both countries, where fibre connections amount to less than 10% of homes.



**By investing earlier in the asset lifecycle, an investor can enjoy a significant return premium without being forced into more 'private equity-style' investments.**

The investment in renewable energy assets is well documented, but the rise of decentralized energy systems, and the impact of energy intermittency on the grid, has also created new opportunities. It is estimated that the grid will require €20bn of investment by 2020<sup>3</sup>, including energy storage, to cope with decentralized energy sources and unpredictable energy generation. We see investments such as our asset Bioenergy Infrastructure Group (BIG), a waste-to-energy platform launched in 2015, as a great example of how private capital can solve both a societal problem (waste) and generate energy more sustainably.

As a manager we tend to only speak of the growing opportunities in the sector, but equally there are

<sup>3</sup> *SUSI Analytics (2017).*

## ABOUT INFRACAPITAL

Infracapital is a leading European infrastructure investor with significant experience in mid-market investing, having raised and managed over £5bn of funds. Infracapital's platform offers investors multiple ways to access essential European infrastructure with strategies in both greenfield and brownfield infrastructure. Infracapital's focus is to build and actively manage a diverse portfolio of businesses that delivers stable returns to investors, while meeting the changing needs of society and supporting sustainable economic growth.

[www.infracapital.co.uk](http://www.infracapital.co.uk)

challenges and headwinds we must respond to. Take the development of autonomous cars: this may well disrupt aspects of our current transport infrastructure as autonomous and connected vehicles change the demands on our roads. However, such change can also deliver attractive investment prospects through digital and power infrastructure required to support such change.

**Preqin's survey found that 70% of investors in infrastructure expect to increase their allocations over the next five years. What part do you feel greenfield will play in this?**

Long-term investors are increasingly attracted to infrastructure and we think greenfield investment should be considered a part of any LP's infrastructure portfolio. By investing earlier in the asset lifecycle, an investor can enjoy a significant return premium without being forced into more 'private equity-style' investments. Institutional investors that can accept the lower yield in the early years of a greenfield fund's life are well compensated through access to long-term yields in this untapped market, well in excess of equivalent brownfield infrastructure.

Of course, investors must be cognisant of construction risk, and should be wary of managers that lack the specialist skillset and track record required to effectively manage a portfolio through construction. However, a seasoned manager can mitigate this through effective and measurable risk management techniques.

We think greenfield investment is a great solution for both investors and consumers alike. Greenfield projects can help solve the allocation challenges facing pension schemes and other institutional investors, while simultaneously solving the funding gap faced by governments, who alone cannot meet the changing needs of modern society.

# ANOTHER SUCCESSFUL YEAR FOR FUNDRAISING

The natural resources fundraising market was in a healthy state in 2018; the \$93bn raised by unlisted natural resources funds represents the highest amount raised in any year (Fig. 2.1). The number of funds that have successfully closed, however, has declined by 37% compared to 2017's total of 145 funds. This concentration of capital suggests that investors are much more selective in the fund managers they back – this trend was most recently observed in 2017 (with the number of funds closed down from 157 in 2016) but was more pronounced in 2018, as the average size of funds closed in the year reached a record \$1.1bn.

## FUNDS SPEND MORE TIME ON ROAD

Despite the record sums raised, fundraising conditions have been tough on some managers; the average time spent on the road by natural resources funds closed in 2018 was 17.3 months, up from just 15.0 months for funds closed in 2016 (Fig. 2.6). Our survey revealed that investors are looking to re-up with the most experienced and trusted fund managers over 2019 to ride out expected choppy waters ahead (page 30). Follow-on funds are more likely to achieve a first close faster than first-time funds: 37% of follow-on funds closed in 2018 were able to achieve a first close in 12 months or less, compared with just 25% of first-time funds.

## ENERGY DOMINATES THE ASSET CLASS

Energy is historically the most prominent strategy within natural resources, and there are no signs of this changing (Fig. 2.2). The tale for the non-energy strategies in 2018 is mixed. Metals & mining fundraising was up for the year with \$2.5bn raised compared to \$782mn in 2017. Fundraising for agriculture/farmland funds on the other hand was significantly lower than in 2017, with just \$740mn raised by seven funds, compared to \$1.9bn raised in 2017 by 17 funds. This represents the third consecutive annual decline in the amount raised by agriculture/farmland funds. The sector has faced challenges, not least the looming threat of interest rate rises in recent years playing out in 2018, which is negatively impacting farmland pricing.

## EUROPE'S MARKET SHARE GROWS

Within Europe, there has been a push towards renewable energy, driven in part by EU legislation, which is opening up new avenues for investing that managers and investors are keen to exploit. Of the total natural resources capital secured in 2018, 30% will be deployed in Europe, up from 26% in 2017 and 18% in 2016.

North America is still the destination of the majority of natural resources capital: the region's share of total capital was up from 58% in 2017 to 62% in 2018. The gains in North America and Europe were counterbalanced by a steep decline in fundraising elsewhere, from \$14bn in 2017 to only \$7.6bn in 2018 (Fig. 2.3).



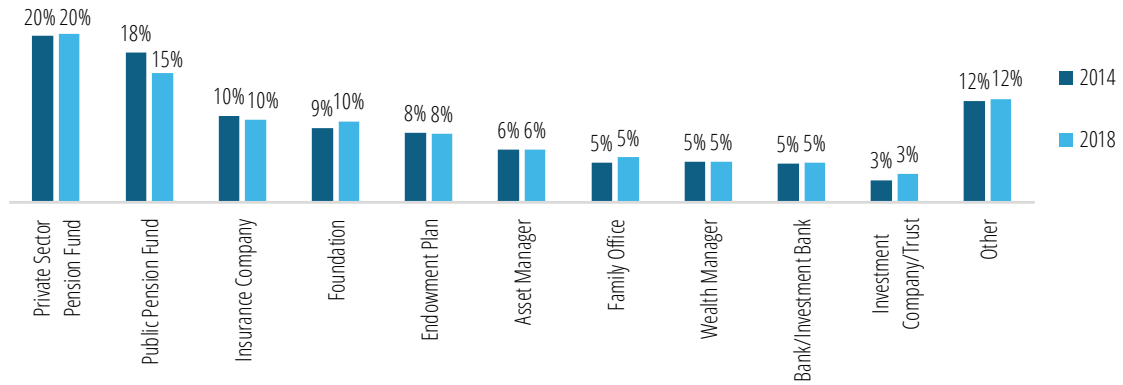
**The high number of funds in market is to be expected given the overhang of managers that failed to complete fundraising in 2017 and 2018 in the face of a more selective investor base.**

## CAPITAL CONCENTRATION CONTINUES

Across the private capital industry, the largest fund managers are securing significant capital – and natural resources is no exception. The proportion of aggregate capital raised by the 10 largest natural resources funds has increased to 53% in 2018 from 44% in 2014, indicating that capital is flowing to the largest fund managers (Fig. 2.4). Indeed, the majority (81%) of fund managers surveyed in November 2018 felt that competition for investor capital had intensified over the past year – perhaps another indication of the difficulty of securing capital without pre-existing relationships with investors. With a greater proportion of surveyed investors more inclined to re-up with GPs (38%) than form new GP relationships (19%) for investments in 2019, there is an evident trend of investors sticking with more established fund managers.

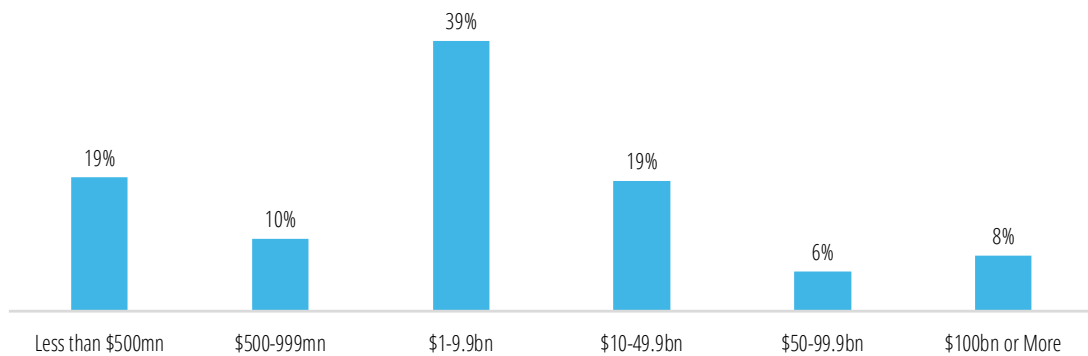
# INVESTORS

**Fig. 4.1: Institutional Investors in Infrastructure by Type, 2014 vs. 2018**



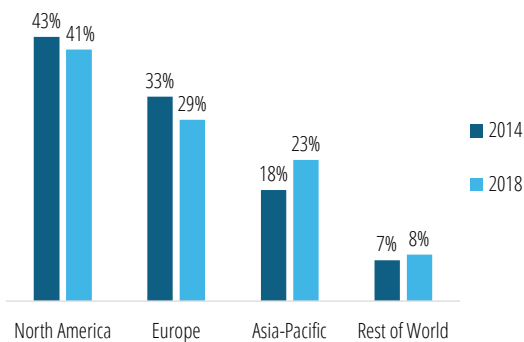
Source: Preqin Pro

**Fig. 4.2: Institutional Investors in Infrastructure by Assets under Management**



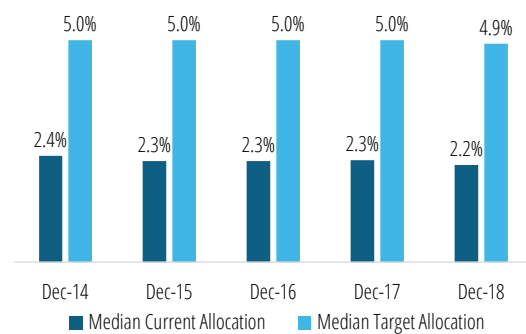
Source: Preqin Pro

**Fig. 4.3: Institutional Investors in Infrastructure by Location, 2014 vs. 2018**



Source: Preqin Pro

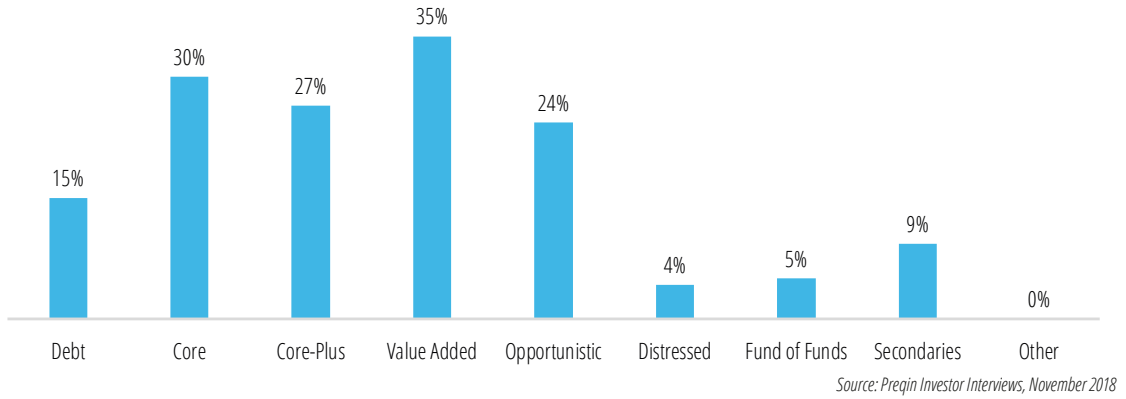
**Fig. 4.4: Investors' Median Current and Target Allocations (As a % of Total AUM) to Infrastructure, 2014 - 2018**



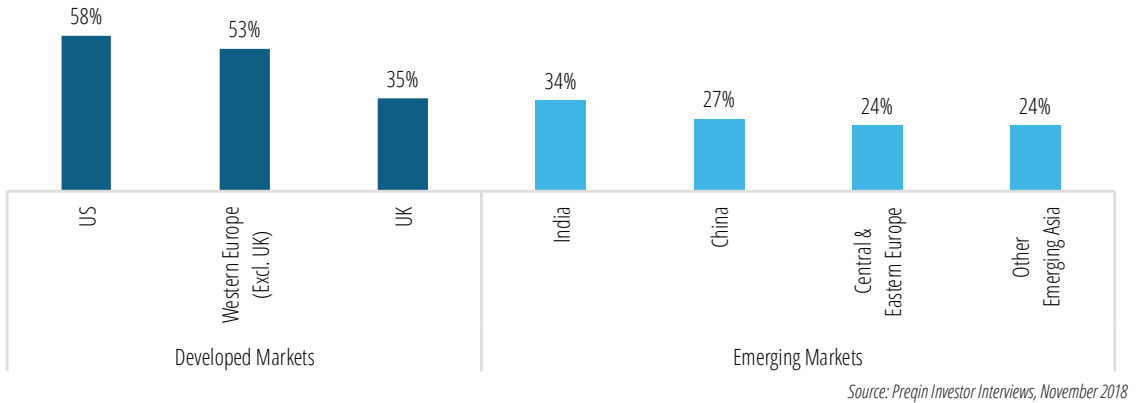
Source: Preqin Pro

“Regulatory risk will become a greater concern for investors. Regulated assets traditionally have been considered one of the ‘safer’ subsectors of infrastructure. With the regulatory risk coming into sharper focus, industry participants will need to diversify their portfolios and consider valuations in this sector.”  
*Julio Garcia, IMF Investors*

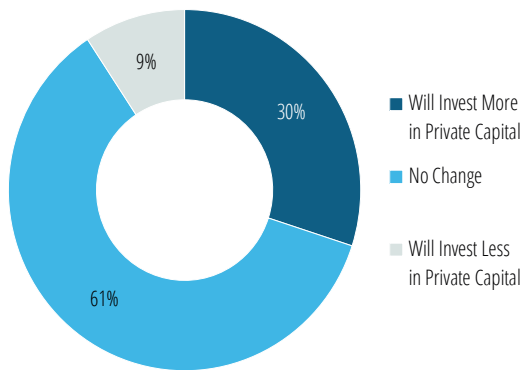
**Fig. 7.3: Strategies that Investors View as Presenting the Best Opportunities**



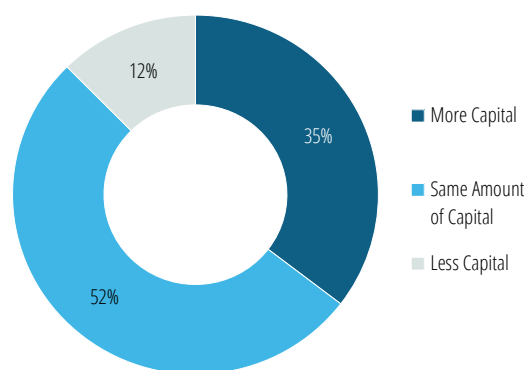
**Fig. 7.4: Developed and Emerging Markets that Investors View as Presenting the Best Opportunities**



**Fig. 7.5: Infrastructure Investors’ Plans to Alter Their Level of Private Investment in Response to the Cycle**



**Fig. 7.6: Investors’ Expected Capital Commitments to Infrastructure in the Next 12 Months Compared with the Previous 12 Months**





# 2019 PREQIN GLOBAL ALTERNATIVES REPORTS



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