

2016 Preqin Global Infrastructure Report: Fund Manager Outlook



Deal Flow Key to Infrastructure Firms Success in 2016

The demand for infrastructure and the increased availability of debt financing, together with more investors looking to make direct investments and the high levels of dry powder available to fund managers, has led to increased competition for infrastructure assets, pushing up pricing. Fifty-one percent of fund managers are now finding it more difficult to find attractive investment opportunities than a year ago, and as a result, deal activity has slowed. However, most fund managers are confident they can put sizeable amounts of capital to work in the coming year: over three-quarters of surveyed fund managers plan to deploy more capital in infrastructure assets in 2016 than they did in 2015.

Competition is not limited to deal flow; two-thirds of fund managers have seen an increase in competition for investor capital over the last year, with capital becoming increasingly concentrated among a smaller selection of managers. Investors are placing their faith in the deal-sourcing capabilities of the largest players in the industry, with 52% of the total capital raised for unlisted funds in 2015 secured by only six infrastructure funds. The unlisted fund market is more crowded than ever before, with 179 unlisted infrastructure funds in market targeting \$120bn in institutional capital. With such a large number of funds on the road, and relatively few reaching a final close each year, fund managers must be prepared to spend a long time marketing their offerings.

Previous fundraising success has increased competition and valuations, leading to concerns from investors that committing capital now may not deliver the strong, stable returns to which they have become accustomed. Only time will tell, however, whether today's asset prices will have an adverse effect on the overall performance of unlisted infrastructure funds currently investing capital, although record distributions from infrastructure funds, rising appetite and the large proportion of investors underweighted to the asset class should see a continuation of the strong fundraising figures in the year to come.

Using information collected for the **2016 Preqin Global Infrastructure Report**, the **Infrastructure Fund Manager Outlook** presents the views of more than 65 infrastructure firms and examines the key issues facing infrastructure managers over the coming year, as well as their views on deal flow, competition, fundraising and regulation. To order your copy of the **2016 Preqin Global Infrastructure Report**, please visit: www.preqin.com/gir.

Key Challenges: Deal Flow



52%

Proportion of surveyed fund managers that say finding attractive investment opportunities is their biggest challenge in 2016.



51%

Proportion of surveyed fund managers that say it has become more difficult to find attractive investment opportunities than 12 months ago.



55%

Proportion of surveyed managers that are having to review more investment opportunities than 12 months ago.

Activity in 2016



77%

Proportion of surveyed fund managers planning to commit more capital to infrastructure in 2016.



61%

Proportion of surveyed managers planning to offer more co-investment opportunities to investors in 2016.



62%

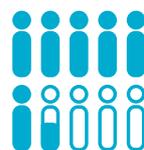
Proportion of surveyed managers expecting banks to provide the majority of debt financing over 2016.

Rising Investor Appetite



74%

Proportion of surveyed managers that believe there has been an increase in investor appetite for unlisted infrastructure over 2015.



66%

Proportion of surveyed fund managers that have witnessed an increase in competition for investor capital in the past year.



67%

Public pension funds have exhibited more appetite for infrastructure compared to other investor types according to the highest proportion of fund managers.

2016 Preqin Global Infrastructure Report

The **2016 Preqin Global Infrastructure Report** is the most comprehensive review of the industry available, covering a wide range of topics, with expert commentary, key trends from recent years, historical statistics, league tables and survey results.

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Fund Manager Outlook for 2016

As infrastructure becomes a more established alternative asset class, the number of active fund managers will continue to grow in order to take advantage of the demand from institutional investors. Preqin's **Infrastructure Online** has details for over 480 infrastructure fund managers worldwide holding approximately \$309bn in assets under management*. In November 2015, Preqin conducted an in-depth study of over 65 infrastructure fund managers to gain an insight into the issues affecting their business, deal flow and financing, as well as their views on investor appetite and regulation within the infrastructure industry.

Key Issues

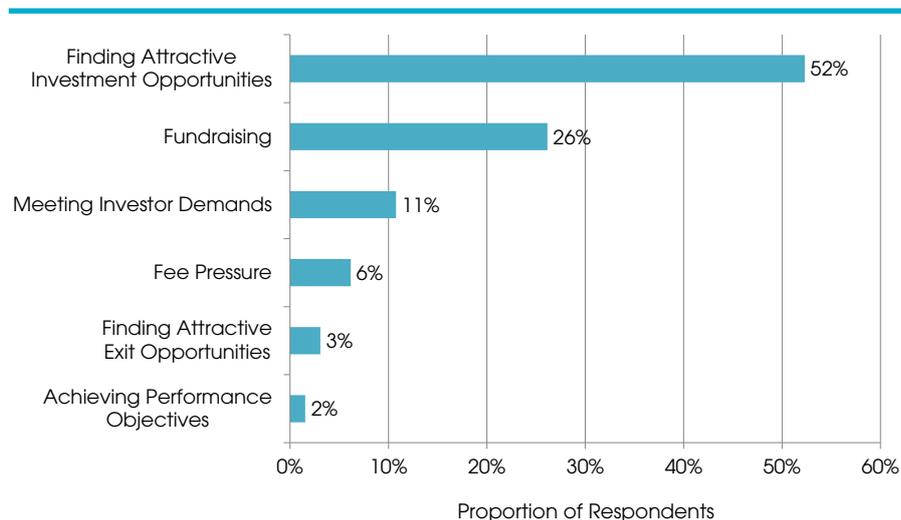
High pricing is clearly making sourcing deals a difficult prospect for many firms, with "finding attractive investment opportunities" named as the biggest single issue affecting their business by the majority of respondents (52%, Fig. 1). In response to the difficulties in attracting institutional investor capital in a crowded marketplace, fundraising was named by just over one-quarter (26%) of firms as a key concern, while other issues were named by just a small proportion of respondents.

Deal Flow

With strong fundraising in recent years, managers of infrastructure funds still have high amounts of dry powder (\$108bn). This, coupled with more competition from other sources, such as strategic or corporate buyers and institutional investors making direct investments, means competition for assets is growing; 51% of fund managers are finding it more difficult to find attractive investment opportunities in the current market compared to a year ago (Fig. 2). One Canada-based fund manager stated that "it was difficult to find deals outside of the auction process", while another UK-based firm detailed the importance of developing relationships with sponsors as key to gaining access to syndicated transactions at an earlier stage.

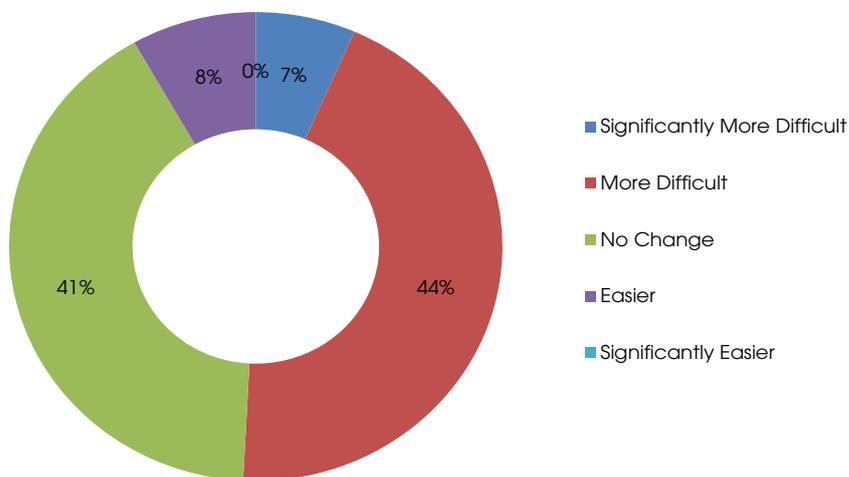
Consequently, managers have to review more opportunities than 12 months ago,

Fig. 1: Biggest Challenges Facing Unlisted Infrastructure Managers in 2016



Source: Preqin Fund Manager Survey, November 2015

Fig. 2: Fund Managers' Views on the Level of Difficulty in Finding Attractive Investment Opportunities Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, November 2015

with 55% of respondents conducting due diligence on a greater number of opportunities. Furthermore, competition has increased across a variety of asset types. Fig. 3 reveals that the majority of respondents have seen greater levels of competition for the more established, income-generating infrastructure assets compared to those at the development phase.

However, despite increasing competition, most fund managers are confident they can put sizeable amounts of capital to work in the coming year. Fig. 4 reveals that over three-quarters (77%) of surveyed fund managers plan to deploy more capital in infrastructure assets in 2016 than they did in 2015, including 16% intending to significantly increase the amount of capital. This may be partly due to the greater availability

*Preqin defines a firm's assets under management as the sum of its dry powder and unrealized value of portfolio assets.

of debt financing, with more attractive terms for borrowers. Forty-four percent of managers surveyed believe the pricing and terms of debt financing for infrastructure assets has improved from 12 months ago, while just 7% believe it is now worse.

The overall consensus among fund managers appears to be that banks will provide the majority of, if not all, financing in 2016, as stated by 69% of fund managers (Fig. 5). Indicative of how institutional investors are growing in influence as lenders, a notable 29% of respondents stated that institutional investors will provide the majority of financing, with a further 3% indicating that they will provide all financing for transactions in 2016. While infrastructure debt funds are still in the relatively early stages of their development, 17% of fund

managers reported that infrastructure debt funds will provide the majority or all financing in 2016.

Investors and Fundraising

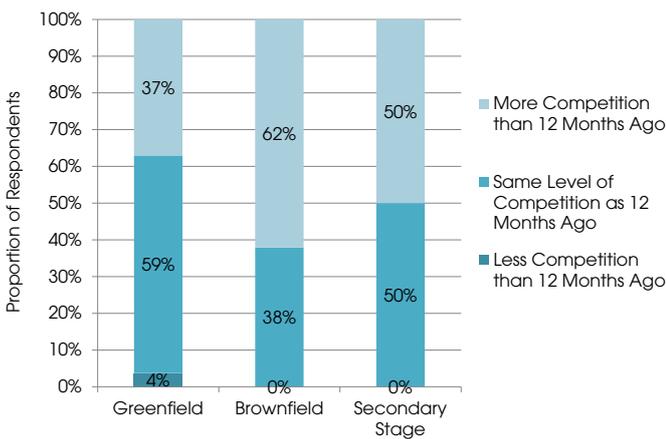
With record distributions to investors meaning many have more capital to invest back into infrastructure, and growing levels of capital being raised in recent quarters, it is unsurprising that approximately three-quarters of fund managers believe that investor appetite for unlisted infrastructure has increased over the last year, with just 4% seeing reduced appetite (Fig. 6).

However, there seems to be significant variation in appetite from different types of institutional investor. Public pension funds, insurance companies, private sector pension funds and sovereign

wealth funds have demonstrated greater appetite for infrastructure over the past year (Fig. 7). This is perhaps unsurprising considering these investors typically have the longest investment horizons and can match their long-term liabilities against the steady cash flows produced by infrastructure assets. In contrast, fund managers are not seeing more appetite from the typically smaller institutional investors, such as foundations or endowment plans, although there are also no signs of a decline in appetite for the asset class from any investor type.

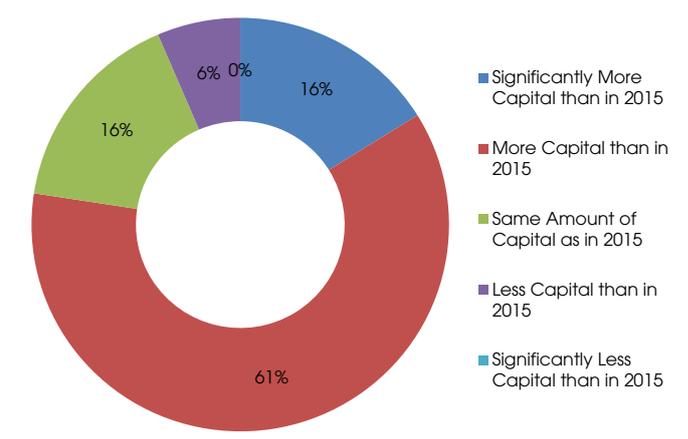
Despite the increased appetite from investors, capital has become more concentrated among a smaller selection of fund managers. It is therefore unsurprising that two-thirds of surveyed fund managers have seen an increase

Fig. 3: Fund Managers' Views on the Level of Competition for Assets by Project Stage



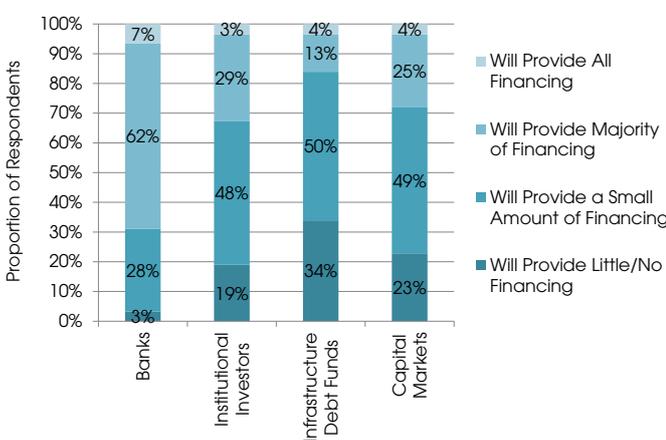
Source: Preqin Fund Manager Survey, November 2015

Fig. 4: Amount of Capital Fund Managers Plan to Deploy in Infrastructure Assets in 2016



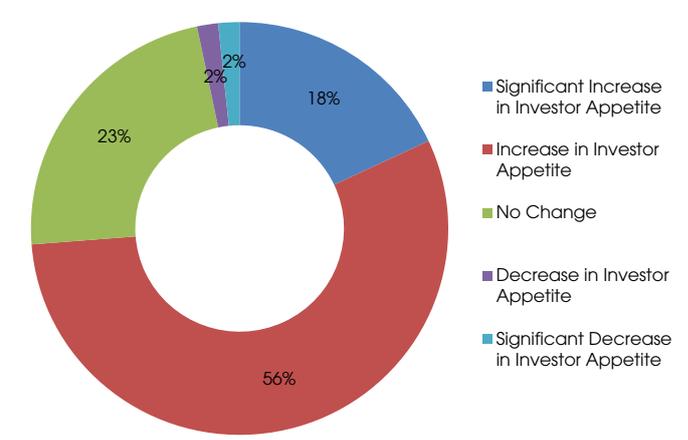
Source: Preqin Fund Manager Survey, November 2015

Fig. 5: Fund Managers' Views on the Importance of Various Types of Lenders as Sources of Debt Financing for Transactions in 2016



Source: Preqin Fund Manager Survey, November 2015

Fig. 6: Fund Managers' Views on How Institutional Investor Appetite for Unlisted Infrastructure Has Changed over the Past Year



Source: Preqin Fund Manager Survey, November 2015

in competition for institutional capital commitments over the last year, with only 2% of surveyed firms witnessing a reduction in competition (Fig. 8).

In a crowded and competitive market, fund managers may look to secure additional capital by offering alternative structures to the traditional commingled fund model such as separate account vehicles and co-investment rights. The largest proportion of surveyed managers (66%) are looking to offer more co-investment opportunities to investors in 2016, while 42% of respondents are looking to offer more separate accounts.

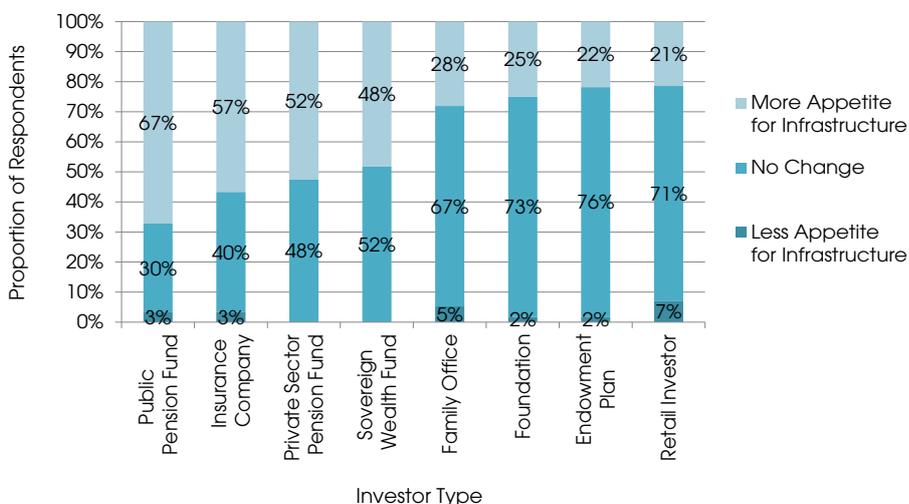
Regulation

Regulation within the infrastructure industry has been met with relatively little enthusiasm over the past few years. However, there appears to be some change in manager sentiment; a third of fund managers believe that regulation will change the infrastructure industry for the better over 2016, while over half thought that regulation would have no effect, and only 16% think it will change the industry for the worse (Fig. 9).

When asked specifically if they were compliant with the AIFMD requirements, 43% of managers stated their funds were compliant, with a further 10% planning to comply by the end of 2016. The main concerns of participant firms include the increased complexity in the market and the cost of compliance, cited by 34% and 32% of fund managers respectively. Of those that have actively sought to comply with AIFMD regulation, 40% have stated that costs are higher than expected, with one manager describing recently introduced regulation as “burdensome and expensive while providing few benefits”. Another fund manager noted that “there is uncertainty surrounding the AIFMD, causing confusion among asset managers. [There is] no harmonization across EU states. Each state has its own set of guidelines which makes it convoluted”.

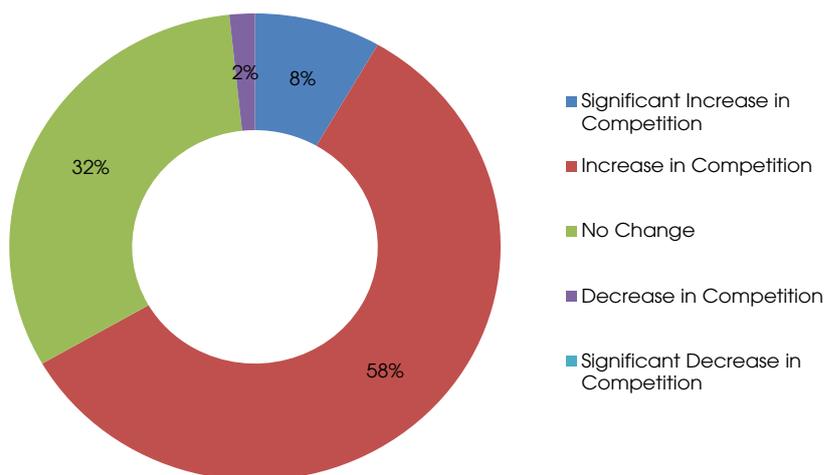
While the majority of non-EU-headquartered respondents will not be raising capital from EU-based investors in the near future, of those that will, 46% will establish an EU AIFM to take advantage of the passport, while 27% and 19% will use national private placements or reverse solicitation only to raise capital from these investors respectively.

Fig. 7: Fund Managers’ Views on Whether They Are Seeing More Appetite for Infrastructure from Different Types of Investor



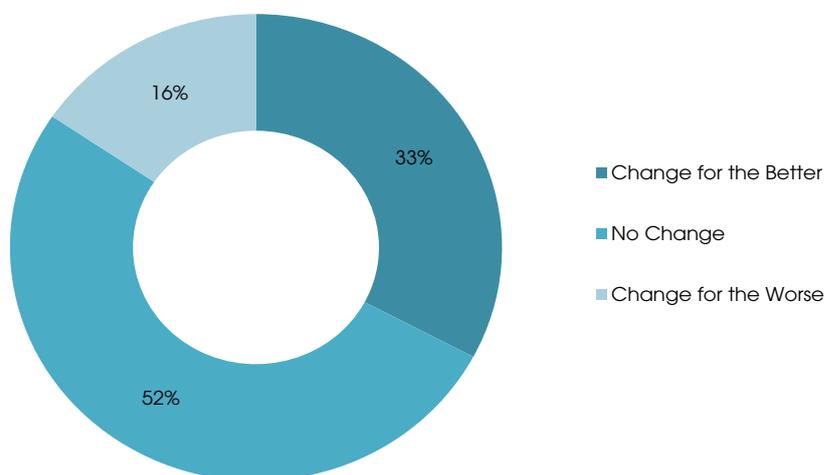
Source: Preqin Fund Manager Survey, November 2015

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



Source: Preqin Fund Manager Survey, November 2015

Fig. 9: Fund Managers’ Views on How Regulation Will Affect the Infrastructure Industry in 2016



Source: Preqin Fund Manager Survey, November 2015

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