



PREQIN QUARTERLY UPDATE: INFRASTRUCTURE Q2 2017

Insight on the quarter from the leading provider of alternative assets

Content includes:

Fundraising

Funds in Market

Institutional Investors

Deals

Fund Performance and Dry Powder



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FOREWORD - Tom Carr, Preqin

After the close of Global Infrastructure Partners III on a record \$15.8bn, unlisted infrastructure fundraising ended Q1 2017 on a high; however, Q2 has not continued this momentum, with 11 funds securing \$5.3bn over the period. Infrastructure mega funds continue to attract attention; this quarter, Blackstone Group has announced a new infrastructure fund targeting \$40bn, with \$20bn coming from Saudi Arabia's Public Investment Fund. If this fund were to meet its target it would be the largest infrastructure fund ever raised by a considerable margin.

The growing levels of opportunity for mega funds in the fundraising market is reflected in the future plans of investors in the asset class, which continue to favour larger allocations to a smaller number of funds. The proportion of investors planning to commit \$500mn or more to infrastructure funds in the next 12 months has increased to 19% from 12% this time last year, while the proportion of investors planning to commit to four or more funds has fallen from 41% to 9%.

The large sums of capital raised by these funds have also contributed to the growing sums of dry powder held for infrastructure investment. In June 2017, this figure reached \$151bn, having doubled since December 2012. The proportion of dry powder held by mega funds (funds that have raised \$2bn or more) increased from 31% to 47% over this period. With valuations high, fund managers will face the challenge of deploying this capital while maintaining the returns that have previously attracted investors to the asset class.

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p3	Fundraising
p4	Funds in Market
p5	Institutional Investors
p6	Deals
p7	Fund Performance and Dry Powder

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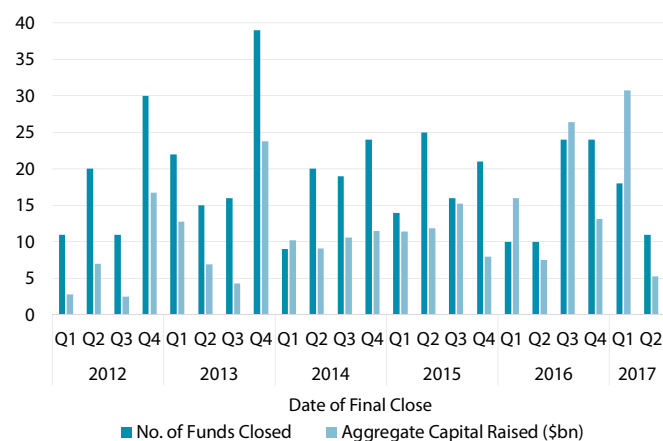
FUNDRAISING

Following a particularly strong Q1 for unlisted infrastructure fundraising – in which 18 funds raised \$31bn, helped by the \$15.8bn close of Global Infrastructure Partners III – fundraising slowed in Q2. Eleven funds in total reached a final close, securing \$5.3bn in aggregate capital over the period (Fig. 1). This is the lowest amount of capital raised in a single quarter since Q3 2012.

As has been consistently seen over the years, North America and Europe continue to lead the infrastructure fundraising market, with North America-focused funds representing 55% (\$53bn) of aggregate capital raised since the beginning of 2016. Forty percent of vehicles closed are focused on Europe (Fig. 2).

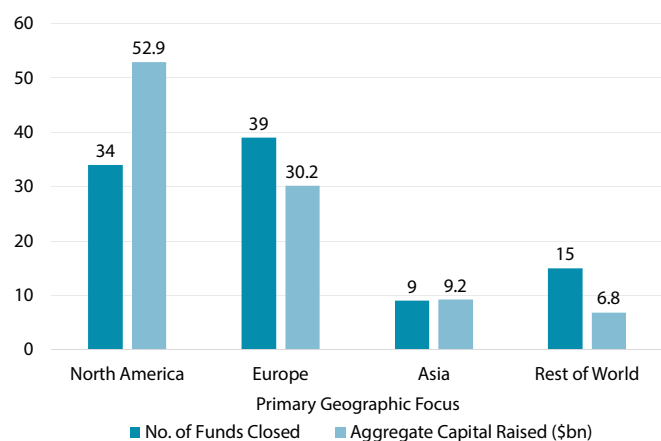
So far this year, infrastructure funds have on average been more successful in meeting their fundraising targets than in recent years, achieving an average of 107% of their target size (Fig. 3). This was bolstered by the closure of Fund IV: New Energy Capital Infrastructure Credit Fund, which secured 130% (\$325mn) of its initial \$250mn target. The largest infrastructure fund closed in the quarter was iCON Infrastructure Partners IV, which raised €1.2bn to invest in core infrastructure assets in developed markets across Europe and North America (Fig. 4).

Fig. 1: Unlisted Infrastructure Fundraising, Q1 2012 - Q2 2017



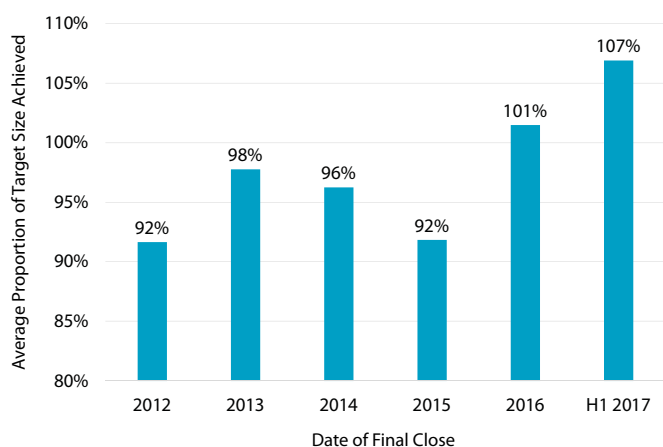
Source: Preqin Infrastructure Online

Fig. 2: Unlisted Infrastructure Fundraising by Primary Geographic Focus, 2016 - H1 2017



Source: Preqin Infrastructure Online

Fig. 3: Average Proportion of Target Size Achieved by Unlisted Infrastructure Funds, 2012 - H1 2017



Source: Preqin Infrastructure Online

Fig. 4: Five Largest Unlisted Infrastructure Funds Closed in Q2 2017

Fund	Firm	Fund Size (mn)	Geographic Focus
iCON Infrastructure Partners IV	iCON Infrastructure	1,200 EUR	North America, Europe
Castlelake Aviation III	Castlelake	1,000 USD	Global
InstarAGF Essential Infrastructure Fund	InstarAGF Asset Management	740 CAD	North America
JPMorgan Global Maritime Investment Fund II	JPMorgan - Infrastructure Investments Group	480 USD	Global
Octopus Renewable Energy Income Partnership	Octopus Energy	300 GBP	Europe, UK

Source: Preqin Infrastructure Online

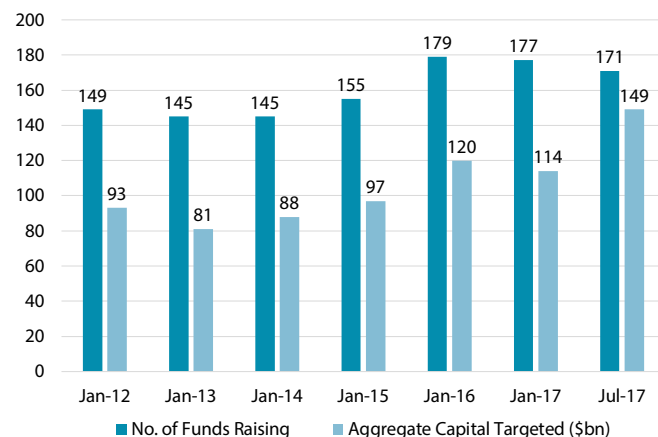
FUNDS IN MARKET

As at the start of Q3 2017, there are 171 unlisted infrastructure funds in market, collectively seeking \$149bn in capital; this compares to 177 funds targeting \$114bn at the beginning of the year (Fig. 5). The growth in target capital is largely due to Blackstone Group's announcement in May that it is targeting \$40bn for Blackstone Infrastructure I, which would make it the largest unlisted infrastructure fund ever raised. The firm has agreed a Memorandum of Understanding with Saudi Arabia's sovereign wealth fund, Public Investment Fund, to commit \$20bn.

While approximately half of aggregate target capital is earmarked primarily for investment in North America, the largest number of funds available to investors are focused on Europe: 74 funds are in market compared with 44 and 42 funds respectively for North America- and Rest of World-focused offerings (Fig. 6). Excluding Blackstone's new vehicle, the average North America-focused fund has a target size of \$816mn, compared with \$618mn for Asia-focused funds and \$538mn for Europe-focused funds.

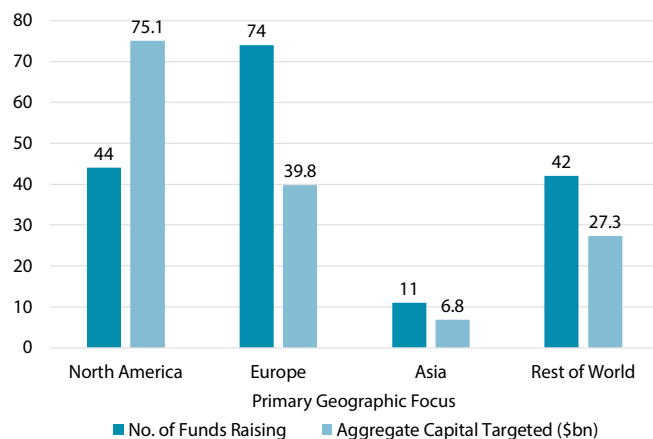
Competition for investor capital remains high, and is reflected in the length of time these funds are spending in market. Most funds (72%) have been on the road for over a year (Fig. 7); on average, funds currently in market have been raising for 23 months.

Fig. 5: Unlisted Infrastructure Funds in Market over Time, 2012 - 2017



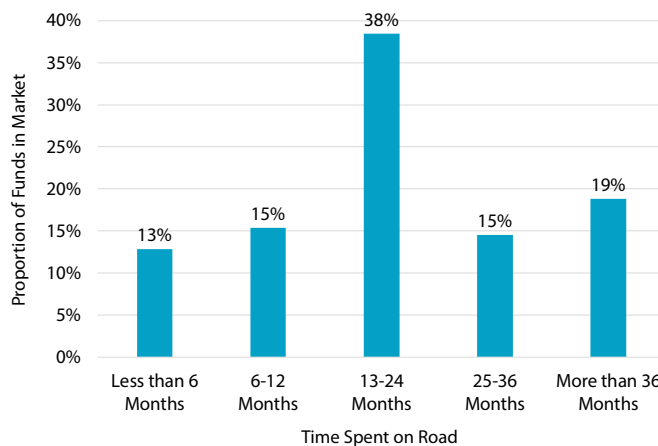
Source: Preqin Infrastructure Online

Fig. 6: Unlisted Infrastructure Funds in Market by Primary Geographic Focus



Source: Preqin Infrastructure Online

Fig. 7: Time Spent on the Road by Unlisted Infrastructure Funds in Market



Source: Preqin Infrastructure Online

Fig. 8: Five Largest Unlisted Infrastructure Funds in Market

Fund	Firm	Target Size (mn)	Geographic Focus
Blackstone Infrastructure I	Blackstone Group	40,000 USD	North America
Alinda Infrastructure Fund III	Alinda Capital Partners	5,000 USD	North America, Europe
MCCP Infrastructure	IFC Asset Management Company	5,000 USD	Emerging Markets
ISQ Global Infrastructure Fund II	I Squared Capital	4,000 USD	Global
Macquarie Infrastructure Partners IV	Macquarie Infrastructure and Real Assets (MIRA)	3,500 USD	North America

Source: Preqin Infrastructure Online



INSTITUTIONAL INVESTORS

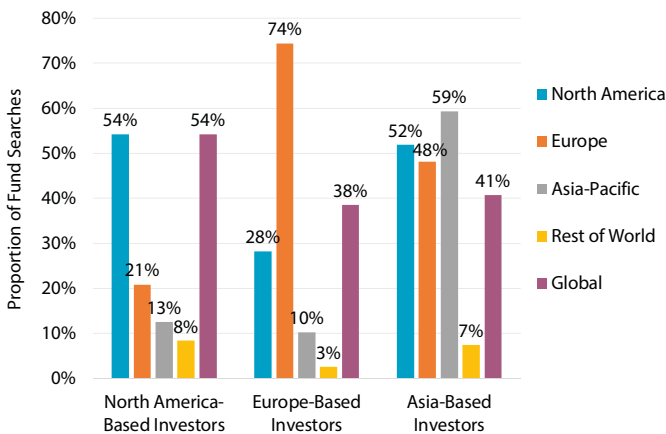
Over the next 12 months, the majority of investors will continue to favour infrastructure vehicles targeting their domestic market (Fig. 9). However, over half (54%) of North America-based investors will also be targeting global vehicles, and Asia-based investors have more interest in regions outside their own than their Europe- and North America-based counterparts.

Unlisted funds remain the preferred route to market for the vast majority of active investors in the next 12 months (Fig. 10). A greater proportion of Asia- and Europe-based investors will favour direct investment than investors based in North America. However, North America-based investors show more interest in listed vehicles than Asia- and Europe-based investors.

In terms of capital allocation, a greater proportion (19%) of investors plan to commit \$500mn or more to infrastructure in the next 12 months than at the same time last year (12%, Fig. 11). However, the proportion planning to invest less than \$100mn has also increased over the same period, from 42% to 44%.

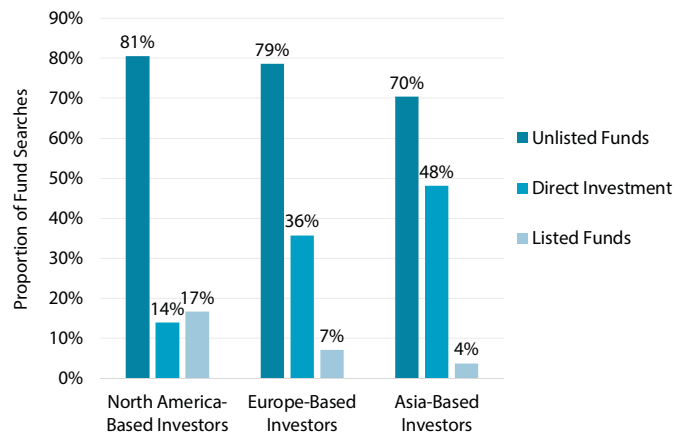
Investors are, however, typically looking to allocate this capital to a smaller number of funds. The proportion of investors planning to invest in four or more funds over the next 12 months has decreased from 41% in Q2 2016 to just 9% this quarter (Fig. 12).

Fig. 9: Regions Targeted by Infrastructure Investors in the Next 12 Months by Investor Location



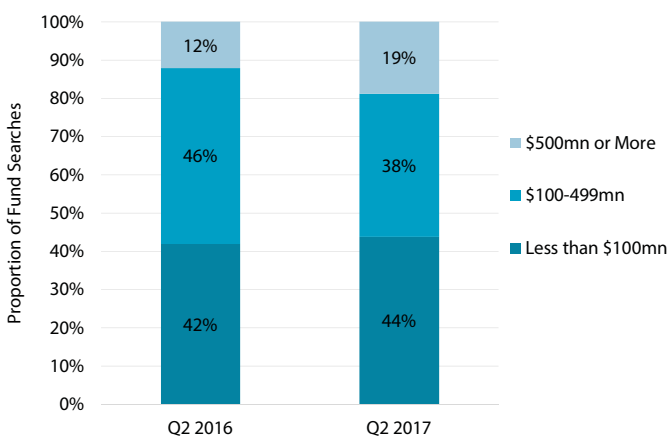
Source: Preqin Infrastructure Online

Fig. 10: Preferred Route to Market of Infrastructure Investors in the Next 12 Months by Investor Location



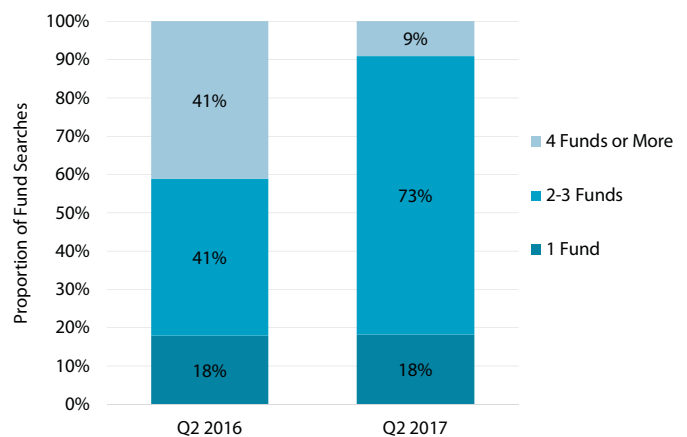
Source: Preqin Infrastructure Online

Fig. 11: Amount of Capital Investors Plan to Commit to Unlisted Infrastructure Funds in the Next 12 Months, Q2 2016 vs. Q2 2017



Source: Preqin Infrastructure Online

Fig. 12: Number of Unlisted Infrastructure Funds Investors Plan to Commit to in the Next 12 Months, Q2 2016 vs. Q2 2017



Source: Preqin Infrastructure Online

DEALS

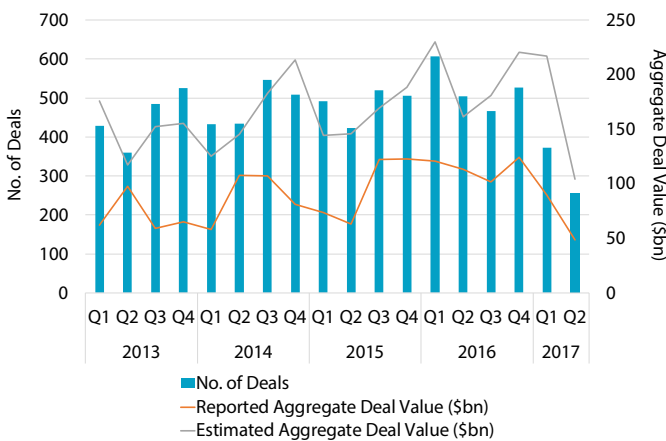
Over the past quarter, 256 infrastructure deals were completed, worth an estimated aggregate \$104bn (Fig. 13). In context, 372 deals were completed the previous quarter for a combined value of \$217bn. This represents the second quarterly decline in the number of deals since 526 deals were completed in Q4 2016, yet the final Q2 2017 figure may increase further as more data becomes available. Despite a decline in the overall number of transactions, average deal size (\$406mn) remains elevated; although lower than the average size of transactions in Q1 (\$583mn), this figure is still higher than the majority of quarters since 2013 (Fig. 14).

European deals represent the largest proportion of transactions completed in Q2 2017, with over half (51%) taking place in the region (Fig. 15) – an increase of nine percentage points from Q1 2017. North American deals accounted for a further 29%, followed

by Asia with 10%. However, although more infrastructure deals took place in Europe than in North America, they also tended to be smaller in size, with an average size of \$420mn compared with \$652mn for North American deals.

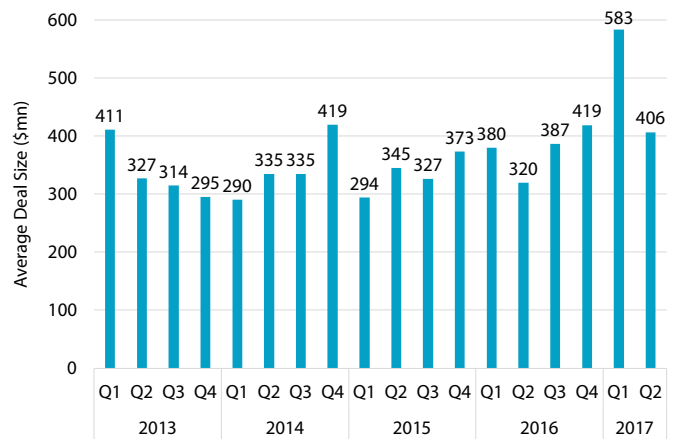
As in previous quarters, the renewable energy sector continued to account for the largest proportion (59%) of deals (Fig. 16). Seventy-eight percent of deals were for secondary stage assets; following an already strong Q1, when they represented 76% of deals in the quarter, this is a much higher figure than the 50% average in 2016. One notable secondary stage deal in Q2 2017 was the acquisition of Veresen, a Canada-based limited partnership which owns and operates natural gas infrastructure assets across North America. In May 2017, Pembina Pipeline Corporation acquired a 100% stake in Veresen, in a deal valued at CAD 9.7bn.

Fig. 13: Infrastructure Deals Completed Globally, Q1 2013 - Q2 2017



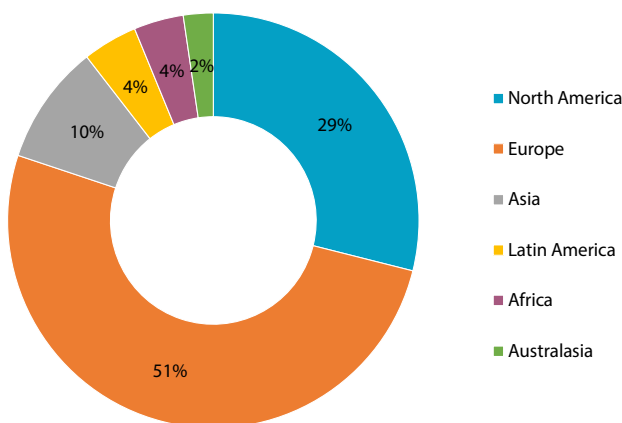
Source: Preqin Infrastructure Online

Fig. 14: Average Infrastructure Deal Size, Q1 2013 - Q2 2017



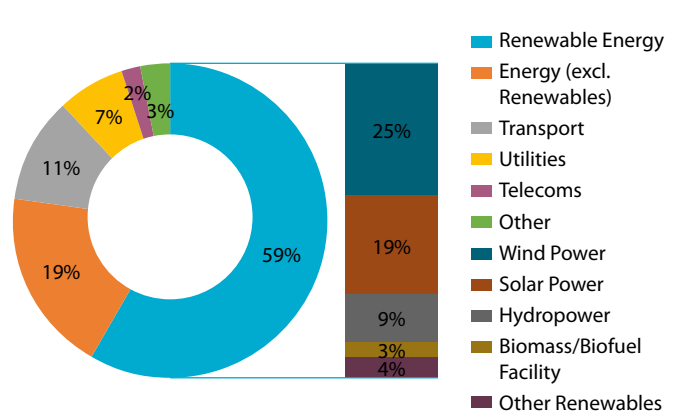
Source: Preqin Infrastructure Online

Fig. 15: Completed Infrastructure Deals in Q2 2017 by Region



Source: Preqin Infrastructure Online

Fig. 16: Completed Infrastructure Deals in Q2 2017 by Industry



Source: Preqin Infrastructure Online



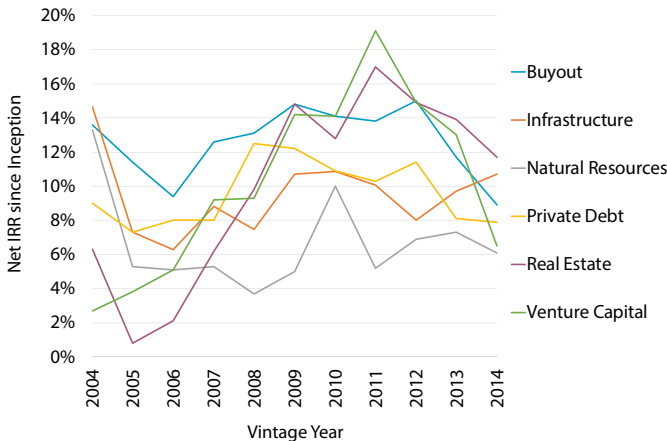
FUND PERFORMANCE AND DRY POWDER

Infrastructure funds have generally delivered consistent returns for investors, with median net IRRs between 6% and 11% for all vintages since 2005 (Fig. 17). There remains, however, a significant gap between the best and worst performing funds, with the largest difference (57 percentage points) for 2011 vintage funds.

The PrEQIn Infrastructure Index stands at 196.5 as at September 2016 (rebased to 100 as at December 2007), meaning that infrastructure funds have almost doubled their value over this period (Fig. 18). These funds have returned slightly more than the All Private Equity benchmark over this period and have significantly outperformed the S&P Global Infrastructure Index, a listed infrastructure benchmark, which stands at 121.5.

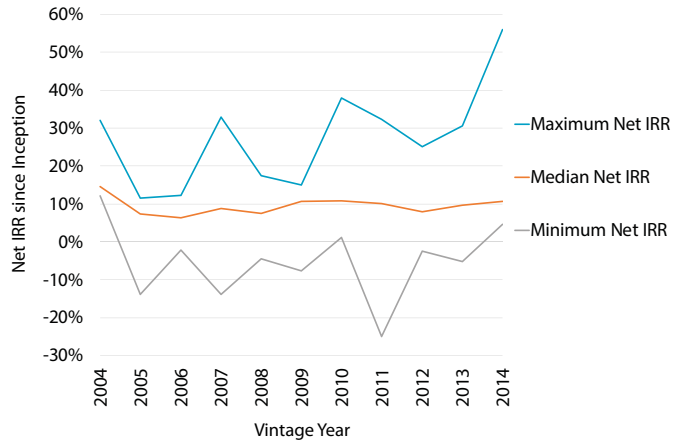
Total dry powder held by infrastructure funds stands at \$151bn as at June 2017 (Fig. 20). North America-focused funds have added the least dry powder (\$2bn) since the beginning of the year, while Europe-focused funds have added the most (\$6bn).

Fig. 18: Median Net IRRs by Vintage Year and Strategy



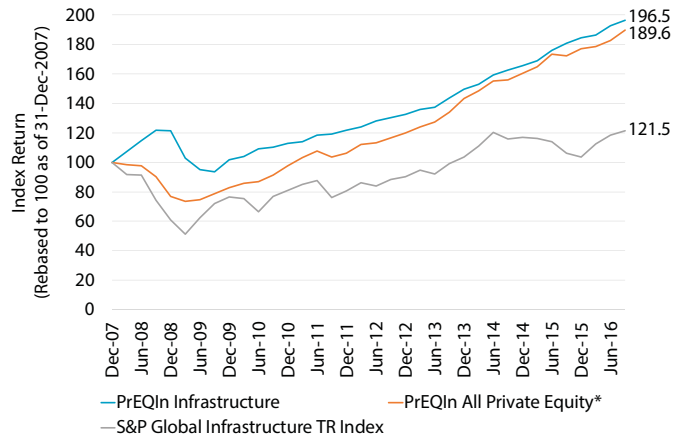
Source: Preqin Infrastructure Online

Fig. 17: Maximum, Median and Minimum Net IRRs for Unlisted Infrastructure Funds by Vintage Year



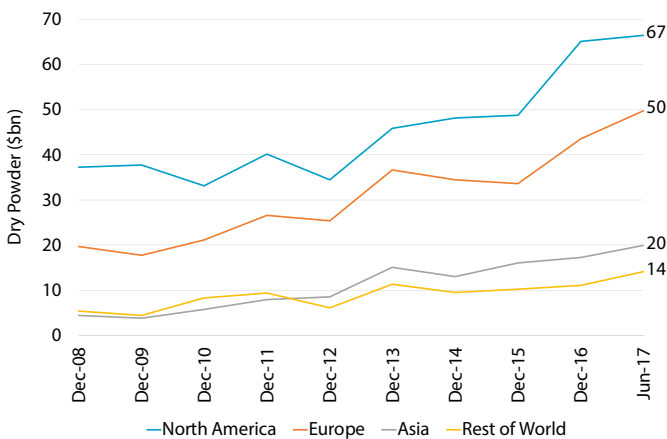
Source: Preqin Infrastructure Online

Fig. 19: PrEQIn Index: Infrastructure vs. All Private Equity and S&P 500 Global Infrastructure TR Index



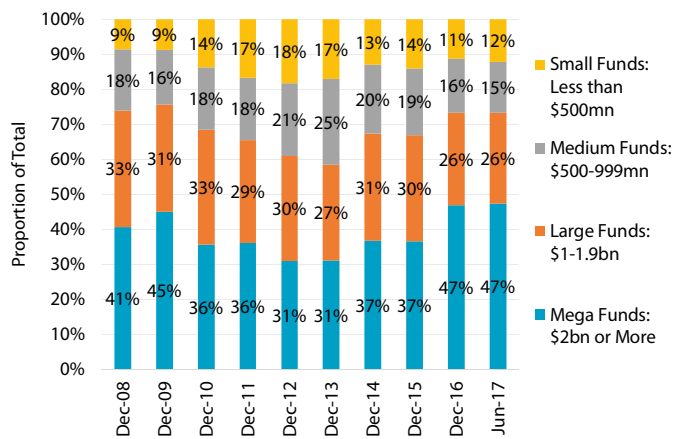
Source: Preqin Infrastructure Online

Fig. 20: Unlisted Infrastructure Dry Powder by Fund Primary Geographic Focus, 2008 - 2017



Source: Preqin Infrastructure Online

Fig. 21: Unlisted Infrastructure Dry Powder by Fund Size, 2008 - 2017



Source: Preqin Infrastructure Online

*PrEQIn All Private Equity Index comprises private equity, real estate, infrastructure, natural resources and private debt (excluding direct lending).



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