

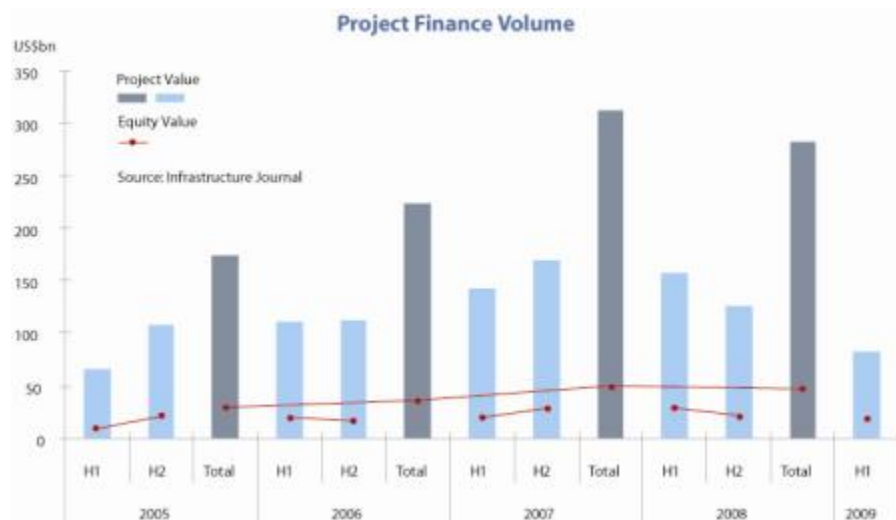
## Unlisted Infrastructure Funds – Equity Outlook

**Yoann Rey**  
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Equity investment in project finance totalled US\$17.4 billion in the first half of 2009 - a decrease of 16 per cent compared to H208.

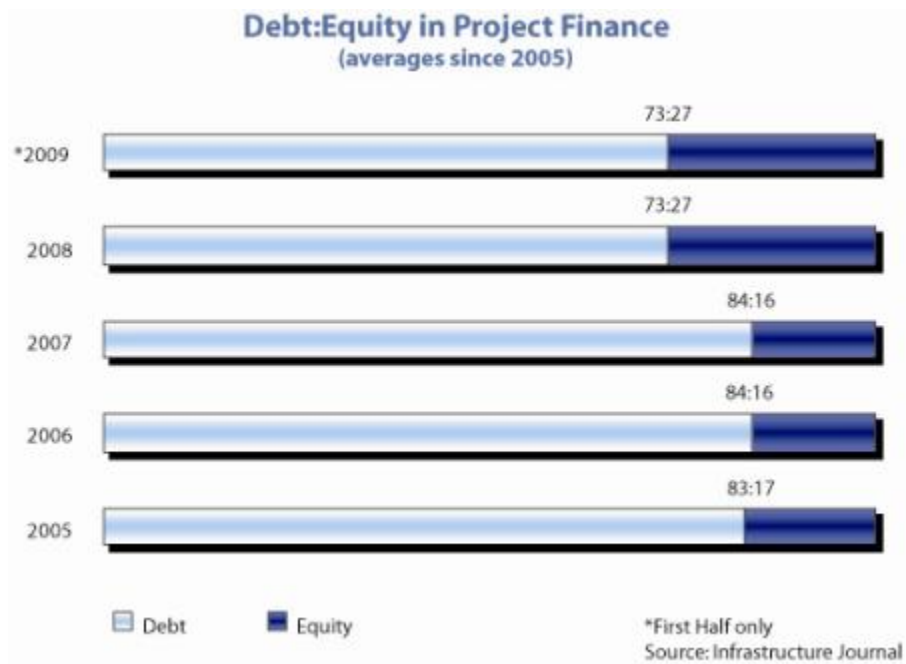
By comparison the total project value (including debt and equity) decreased by 34 per cent during the first part of the year. From January to the end of June, 136 projects registered an equity investment compared to 187 in the second half of 2008.

**Figure 1**

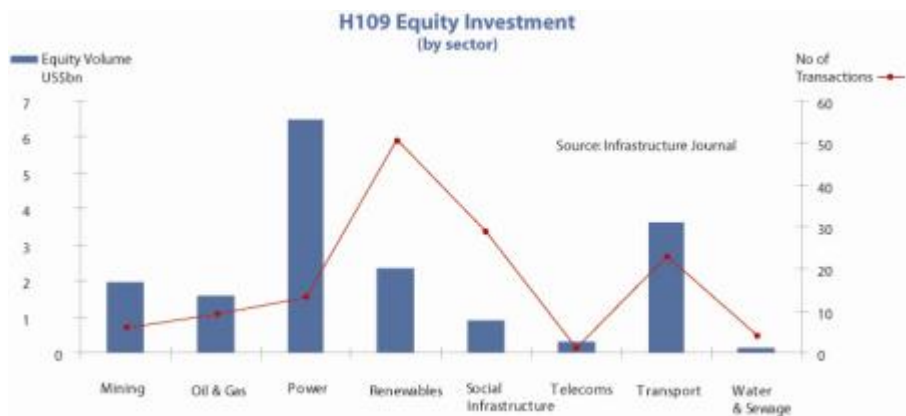


However, the average debt:equity ratio for project finance transactions followed a similar trend set in 2008 with a ratio of 73:27 - as stated in IJ's previous report [Equity Investment in Infrastructure 2009](#).

**Figure 2**



**Figure 3**



Projects in power sector attracted the most equity investment (see Figure 3). Five of the top ten equity stakes invested in project finance for 2009 were in this sector.

## Top 10 by Equity Invested H109

Transaction Name	Sponsors	Location	Sector	Financial Close	Equity Volume (US\$m)
Santo Antonio Hydroelectric Plant	Furnas (39%), Amazônia Energia II (20%), Norberto Odebrecht (19%), Andrade Gutierrez (12%), and Cemig (10%)	Brazil	Power	04/03/2009	1,854
Jirau Hydropower Plant	GDF Suez (50%), Eletrosul (20%), Chesf (20%), and Camargo Correa (10%)	Brazil	Power	29/06/2009	1,428
Minera Esperanza Sierra Gorda Mine	Antofagasta PLC (70%), and Marubeni (30%)	Chile	Mining & Metals	15/05/2009	1,250
Sasan UMPP	Reliance Power (100%)	India	Power	20/04/2009	978
Berlin Brandenburg International Airport	Flughafen Berlin Schonefeld (26%), Federal State of Berlin (37%), and Federal State of Brandenburg (37%)	Germany	Transport	30/06/2009	604
Al Dur IWPP	GIC (50%) and GDF Suez (50%)	Bahrain	Power	29/06/2009	528
Sterlite Jharsuguda Coal Plant	Sterlite Energy (100%)	India	Power	29/06/2009	426
Southeast False Creek Development	Millenium Development Corp (100%)	Canada	Social Infrastructure	30/04/2009	413
PL Propylene Dehydrogenation Plant	Lindsay Goldberg (100%)	USA	Oil & Gas	12/06/2009	412
Elba Express Expansion	El Paso Corp (100%)	USA	Oil & Gas	13/05/2009	378

Source: Infrastructure Journal

The largest was [Santo Antonio Hydroelectric Plant](#) in Brazil comprising US\$1.85 billion in equity and provided by Furnas (39 per cent), Amazônia Energia II (a fund of Banif and Santander - 20 per cent), Norberto Odebrecht (19 per cent), Andrade Gutierrez (12 per cent), and Cemig (10 per cent). It was followed by another Brazilian project - [Jirau Hydropower Plant](#) - comprising a US\$1.42 billion equity stake. Both projects are part of the Madeira River Hydroelectric complex, in the border regions of Peru, Bolivia and Brazil.

Transport was also strong for equity investments during this first half with US\$3.6 billion invested in 23 projects. The largest, in terms of the equity stake invested, was the [Berlin Brandenburg International Airport](#). It included a US\$604 million equity stake provided by Flughafen Berlin Schonefeld (26 per cent), the Federal State of Berlin (37 per cent), and the Federal State of Brandenburg (37 per cent). Road PPPs received the most subsector equity from investors with US\$2.8 billion - about 78 per cent of the total transport equity value.

As opposed to last year's huge deals and multi-billion dollar equity stakes, the oil & gas market witnessed a melt down in 2009 reaching a mere US\$1.6 billion in equity invested on just nine project finance transactions in the first half. However, a recovery in this market is slowly underway as the price of oil nears US\$70 a barrel. The fourth quarter of 2009 could see more activity and potentially bring back investor confidence in this sector.

**Figure 4**



With a total volume of US\$20.3 billion project financed during the first half, it is not surprising that Latin America also had the highest equity volume (US\$6 billion). The region finished H109 up 13 per cent by value from the full year 2008 with a third fewer projects comprising an equity stake. Western Europe was the next largest region with an equity value of US\$3.35 billion invested in 77 projects. It was followed by North America with US\$2.81 billion invested in 13 projects.

## Unlisted Infrastructure Funds

The market for unlisted funds has grown at a high rate in recent years. It is estimated that nearly 150 firms manage unlisted infrastructure funds with capital commitments of about US\$125 billion according to AMP Capital Investors. However, it is difficult to estimate the exact size of this market due to its opaque nature.

According to *Preqin*, the massive growth of unlisted funds slowed dramatically during the second quarter of 2009 and infrastructure funds currently face difficult fundraising conditions.

Rob Gregor, head of Infrastructure Europe at AMP Capital Investors told IJ: "The value of most assets didn't fall to the extent seen in the listed markets, and so many investors are now overweight infrastructure in the context of their overall portfolios."

However, Macquarie notes that many of these assets were traded through the recession and remain relatively unaffected. The firm says unlisted infrastructure is likely to outperform other alternative and traditional investments through this cycle.

In the view of Benjamin Baumann, vice president of Zurich-based SCM Strategic Capital Management, there are still several threads weighing on global economies - such as the refinancing of trillions of dollars of real estate debt, rising unemployment, rising foreclosure filings in the US, banks not willing to provide extensive financing and, as a consequence, limited M&A and private equity transaction activity.

Baumann says it is unlikely that investment activities will pick up before one has certainty that consumption replaces government stimulus as the key driver for economic growth. However, specifically related to infrastructure, there are still banks lending in the market, which will continue as long as cash-flows of the underlying projects are relatively safe and predictable.

Unlisted infrastructure funds have some advantages and disadvantages over the listed ones. First, unlisted funds have a low correlation to market volatility which makes them more stable than listed ones. They generally perform well, but have lower levels of liquidity - as expected from a long-term, unlisted investment. Because they are not traded on an exchange, there is no requirement to disclose financial information and less potential for short gains from share market volatility.

Infrastructure should be viewed as a long-term investment. In 2006, the World Bank estimated that US\$30 trillion would be needed to improve and maintain infrastructure over the next 25 years. Many of these opportunities will include existing assets in developed countries and new assets in developing countries.

As a whole, the infrastructure market is likely to develop as the real estate market did, according to Danny Latham, head of Europe Infrastructure Investment at First State Investments. He anticipates that unlisted infrastructure funds will recover in 2010 to the same levels of 2006-2007 and could reach €3 to 5 trillion in the next five years.

However, Benjamin Baumann says the fund market is still in its early stages with few infrastructure funds disposing of a long-standing, established track record of raising purely institutional fund vehicles. By way of example, many private equity firms and investment banks have entered the market challenging traditional terms, conditions and structures including open-end funds versus closed-end funds, carried interest fee schemes and mechanisms.


To continue to grow, unlisted infrastructure funds will have to evolve and find new alternative funding sources. AMP Capital expects to see further interest in the sector from pension funds, given the strong match between the stable long-term cash flows provided by infrastructure and the long duration liabilities that pension funds are typically exposed to.

In this way, one of the largest UK pension funds, the US\$5.15 billion London Pension Fund Authority (LPFA), is looking to invest part of its cash in infrastructure according to *Reuters*.

Danny Latham from First State Investments estimates that we will see a diversification of unlisted infrastructure funds. They will be more segmented by geographical area, risk and sector. Also, more fundraising will come from pension funds and insurance companies with a desire to hedge their portfolios against inflation.

Macquarie sees positive sentiment among institutional investors and says the infrastructure asset class is not simply continuing but growing. It has become a permanent feature of the institutional portfolio alongside other alternative assets. With the development of Macquarie's first infrastructure fund-of-funds - and some early infrastructure funds in the secondary market - the firm's current activity helps illustrate how the market is growing.

Funds-of-funds have emerged as a growing trend in the unlisted infrastructure market. This relatively new alternative asset class gives investors greater access to a wider portfolio of infrastructure and spreads risk within their investments. As the world will continue to need massive infrastructure investment to fund existing or new projects, such innovative forms of financing will continue to evolve and give plenty of opportunities for unlisted funds to grow and support the infrastructure asset class.

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