The rise of the core-plus fund manager

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In the past four months, three fund managers have reached final close on vehicles targeting core plus and value added strategies. All three raised their capital reasonably quickly and managed to attract relatively high volumes of capital from institutional investors. As the pipeline dries up for traditional, core infrastructure assets and investors become increasingly yield-hungry, managers willing to go higher up in the risk-return spectrum will find it easier to raise larger pools of capital.

Rapid raising

Emerging market private equity manager Actis recently hit its $2.75 billion hard cap on its fourth energy fund Actis Energy 4 (AE4). The Actis fund officially began raising capital in July 2016 and had already hit its $2 billion target size by January 2017. Commitments came from 53 limited partners from across the US, Europe, the Middle East, Asia and Australasia, and Mexico.

A few days before, Swedish manager EQT reached final close on its third vehicle, EQT Infrastructure III, hitting the hard cap at €4 billion ($4.2 billion). Like Actis, EQT spent around seven months fundraising and attracted more than 100 investors, evenly spread across the Scandinavian region; the rest of Europe, the Middle East and Africa (EMEA); the Americas and the Asia Pacific region. A 70% re-up rate from existing investors suggests a trust in the manager's previous performance.

Just before the end of 2016, French manager Antin also announced that it had oversubscribed its third generation fund, Antin Infrastructure Partners III, by collecting €3.6 billion – also the hard cap - in less than five months. Commitments came in from 85 investors globally including pension funds, insurance companies, asset managers and sovereign wealth funds. Specifically, 50% of commitments came from pension funds, 20% from insurance companies and the remaining 30% is spread across asset managers, sovereign wealth funds and banks. The majority of investments (70%) came in from European investors, predominantly from the Nordics, Germany, France and the UK, with the remaining part being evenly spread across North America, Asia and the Middle East.

Higher returns

Although they do not take the same approach to investing, the three managers are largely regarded by market participants as non-traditional infrastructure managers which often spill into private equity territory in their investment mandate. To give an example of the type of returns these funds can offer, the EQT fund I and II generated a 26% and 35% internal rate of return respectively, sources said. The Swedish manager explicitly says that it takes an industrial, private equity approach to infrastructure investing which avoids core infrastructure and seeks to invest in assets and companies where operational improvements can be made. The fund's equity investment target will typically be between €200 million and €500 million.

In Actis and Antin's case the non-traditional, private equity style is reflective of the regions and sectors the managers seek to deploy their capital. Unlike most managers, Actis specifically targets control investments in electricity generation and distribution businesses in select countries in Latin America, Africa and Asia – a region that is not easy for equity fund managers. Antin meanwhile has invested in assets such as UK crematoria business Westerleigh and a portfolio of 10 psychiatric clinics owned by French business INICEA, which are at the fringes of what can be described as infrastructure.

But traditional or not, investors seem to support these managers at least as much as traditional core fund managers. The reasons are multiple. "Target returns have been coming down for core infrastructure assets as it is now perceived as very competitive. Therefore managers which are able to achieve significantly higher returns, north of 15%, are very well supported by institutional investors", says Campbell Lutyens partner James Wardlaw.

Mathias Burghardt, head of infrastructure at Ardian (which manages core assets), also said he has noticed an increased number of GPs targeting the core plus space, as hard infrastructure assets are difficult to source and generally require more experience. "Core infrastructure assets have become rare and difficult to source and managers tend to pay a very high price for them. Our view is that if a manager wants to stick with core infrastructure assets then it needs to own and develop the asset rather than just buying stakes in companies. However, in order to do that, a high level of construction risk experience is necessary."