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North American funds: The bigger kids on the block

Viola Caon

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A few weeks ago, US-based private equity manager Blackstone announced the launch of a $40 billion infrastructure fund, which is set to become the largest fund ever raised in this sector.

The fund was seeded with a $20 billion anchor investment from the Public Investment Fund (PIF) of Saudi Arabia, which is said to be the largest commitment made by an institutional investor into an infrastructure fund. PIF and Blackstone signed a non-binding memorandum of understanding (MOU) at the end of May and continue to negotiate to agree definitive documentation.

Once the partnership is formally defined and concluded, Blackstone will launch a capital raise seeking up to an additional $20 billion commitments. The manager will target global institutional investors including predominantly pension funds, insurance companies and sovereign wealth funds.

Unlike other mega funds recently raised or launched by North America-based managers, Blackstone's will be open-ended, a choice made to guarantee better liquidity to investors, sources said. Blackstone's announcement follows a series of similar endeavours carried out by its North American peers over the past 12-18 months.

Fund raise momentum

Currently in fundraising across the pond are the likes of Stonepeak Infrastructure Partners and I Squared Capital, which recently launched funds seeking commitments of $5 billion each. Both managers' previous funds - Stonepeak Infrastructure Fund II and ISQ Global Infrastructure Fund - raised $3.5 billion and $3 billion respectively. The increasing amount of capital being sought confirms the trend of institutional investors allocating more capital to infrastructure and energy, but doing so through few, trusted funds which offer track record as a guarantee.

Alinda Capital Partners is also in fundraising targeting $5 billion for its third fund, Alinda Infrastructure Fund III. Macquarie Infrastructure and Real Assets (MIRA) is seeking betweewn $3.5 billion and $4 billion for its Macquarie Infrastructure Partners IV (MIP IV).

Between July 2016 and January 2017 the two largest infrastructure funds were raised and again, it was a US and a Canada-based manager to do so. Brookfield Asset Management raised $14 billion for its Brookfield Infrastructure Fund III- BIF III, while Global Infrastructure Partners closed its third fund - GIP III - at $15.8 billion at the beginning of the year.

Many predicted that these mega funds would have a hard time finding large enough deals to deploy such high amount of capital into. However, BIF III has already 45% of its $14 billion, CEO Bruce Flatt told shareholders in a letter update at the end of the first quarter of the year.

The impact of these large vehicles will not be disruptive, as smaller and medium-sized funds will continue to carve out a niche for themselves, sources say. “There are still a number of assets out there that are below the radar and while it might be tricky for smaller funds to find their niche, they still have a number of options to consider. For instance, they could team up in consortia and access deals as minority stakeholders, which we have seen on a number of occasions throughout 2016,” Andy Briggs, partner at Hogan Lovells, told *IJGlobal*.

European trends

While the phenomenon is more widespread in North America, especially the US, the trend of larger amount of capital being raised by fewer funds is also seen in Europe. At the beginning of 2016, French manager Ardian closed its fourth fund - Ardian Infrastructure IV - at €2.65 billion, which at the time was the largest fund raised in Europe. However, throughout 2016 the record was broken by other European fund managers including MIRA's Macquarie European Infrastructure Fund (MEIF5), which closed above target at €4 billion; Antin Infrastructure Partners III closed at €3.6 billion at the beginning of December last year, followed by EQT Infrasrtucture Fund III at €4 billion in February this year.

Although a bit more peculiar compared with others due to its more specific investment mandate and regional focus, Actis Energy 4 also wrapped up fundraising pretty quickly, closing at $2.75 billion in March 2017.

The North American funds mentioned above cover the vast majority of the current local fundraising market, while large European funds are surrounded by a significant number of funds targeting commitments around €1 billion or below. The higher concentration of capital registered in North America, especially the US, is reflective of a market where institutional investors tend both to write bigger tickets to fund managers and to select fewer of them to manage their infrastructure and energy allocation, a source said.

Either way, the trend is largely expected to continue in both Europe and North America as 2017 is slated to be a record year for fundraising.