

# Infrastructure funds – big news

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In the same week that *IJGlobal* goes live with our infrastructure funds database – *IJInvestor* – it feels appropriate to turn the focus on an interesting trend in the equity space: the rise of technical advisers as investors.

Yes, that does mean there are now more mouths to feed in an overheated market... but these are very different vehicles to those already in play and it's a rather compelling shift with an interesting driver.

Bottom line is, the infrastructure funds have already hoovered up pretty much every conceivable brownfield asset out there and greenfield opportunities are few-and-far-between. As such, funds with overflowing coffers – most of them – are having to push the boundaries, relying on technical advisers to identify opportunities.

In this, they are setting the challenge for TAs to source greenfield deals with the half-hearted promise of a fee to be won... while simultaneously forcing them to slash said fees.

Not surprisingly, tech advisers – they ain't idiots, you know – have identified an opportunity and some have already moved to capitalise on their skills at identifying early-stage targets that are ripe for investment... but they want skin in the game.

Not only is this an interesting development for the infra fund space, the involvement of TAs as shareholders surely also opens up the possibility of establishing themselves as asset managers, carving out another business stream.

The swift growth in the number of infra funds and the wall of cash in them is matched only by the diminishing pool of brownfield assets for them to target. Added to that, with some pension funds holding assets indefinitely, this pushes equity investors deeper into greenfield... further into risk.

According to our new database, across the world there are 882 funds that will invest in both greenfield and brownfield, but only 182 that are focused on greenfield alone. From what people are saying this week, TAs involvement is most likely to land in the greenfield space, though doubtless the door will be left open to brown.

This is a fantastic opportunity for the TAs with the chops to evolve and capitalise on a position created by a struggling market that does not have as good a view as the tech advisers – like AECOM, Atkins, Arup and Mott Mac – of opportunities in the brewing.

AECOM has first-mover advantage – and we're not talking about sweat-equity stakes here, this is the real deal.

## **Taking the bull by the horns**

The best example of a TA playing in the equity space has to be AECOM and its imaginatively-named [AECOM Global Fund I](#), operating out of New York and Los Angeles under fund manager AECOM Capital. It is cashed up to the tune of \$150 million and made it to final close in 2013.

With a focus on infra and real estate, when launched AECOM Capital chief exec John T Livingston said P3 would be a key target but – given a lack of activity in this space – it’s hardly surprising that the first investment fell in the property space.

The first thing AECOM Capital did was to partner with Toll Brothers City Living and invested in Provost Square – a 417-unit rental apartment tower in Jersey City. It hit the market with apartments up for lease in 2015.

Having gained a taste for equity, AECOM Capital is understood to ramp up its ambitions with a \$2 billion infrastructure fund which has greater scope than the first one. Daiwa Securities Group is understood to be a cornerstone investor in the larger fund, and is likely invested in the smaller one too.

Through one of its vehicles, AECOM recently invested in an LNG facility [in Mexico](#).

AECOM Capital is also an LP investor in the €600 million Meridiam Infrastructure Fund alongside the EBRD, EIB and Credit Agricole. This fund was launched in 2006, has a vintage year of 2008 and is focused on PPPs in OECD countries. Its keystone investment is a \$123 million in Virginia’s Interstate 66.

AECOM’s ambitions know no bounds, however, as this year it acquired Shimmick Construction in the US so that it could set up its stall as a builder as well! Might want to keep an eye on how far you spread your ambitions...

But – when it comes to equity – AECOM is far from alone in its desire to carve a niche.

Atkins famously had a stake in the M25 – which is currently [going through refi](#) – but it sold this to Skanska for £18 million back in the spring of 2013. Beyond that, Atkins had skin in the game for the Connect Roads A50 UK motorway that closed in December 2002, as well as the A30/A35 that closed mid-1990s.

Beyond these two, Egis has definitely been involved in funding projects, as has Parsons, Mott Mac and Rebel Group.

## **But TAs aren’t alone**

Technical advisers are not the only ones to have done their level best to get in on the equity game. Financial advisers have been trying their hand for ages.

Now, this needs an immediate caveat that some financial advisers launched with the intention of creating an infrastructure fund – Ancala being one such – while other FAs one day have the bright idea to launch one (Sequoia with two debt funds and Augusta & Co).

And then there are the infra funds that start fundraising, struggle to get the money in and sell their wares as advisers to keep the wolf from the door. Could mention a few, but that would be rude.

A few years ago, PwC looked into creating an infra fund from the Paris office. There was a lot of talk of Chinese walls, but little talk of any cash coming in. It is not alone. There are others, but it’s all a bit woeful.

## **Sniping from the cheap seats...**

Chatting with folk in the industry this week, some were well acquainted with AECOM’s involvement, others (mostly those with grey hair) harked back to Atkins and started babbling about the mid-90s, while others frothed at the mouth insisting the market was overheated to the point of imminent collapse and what didn’t the TAs know their place.

The strongest views are that there are a good number of funds out there that are on the verge of hitting the wall and that too much is being paid for assets in a hugely overheated market – so more of them is not good news.

One source – clearly wrinkling his nose at the other end of the phone – says: “I can only think of the conflicts that could arise from a so-called independent adviser also being a shareholder.”

Another adds, positively snooty: “I think there’s a feeling – either implicitly or driven by financial regulation – that being an adviser and an investor gives more complex conflicts of interest to manage, particularly if there’s other investors

involved too. One can't help but question where the primary interest lies in the organisation doing the deal, and where duty of care is."

If your view is that the market is already over-blown, then the noise when a few more hit the wall shall be all the more shocking.

Alternatively, you can take the view that if technical advisers' funds are plugged in at the earliest stage of opportunities with cash in the back pocket and a big-brother investor to stand with them... that's a pretty good place to be.

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