

Infra funds – hoarding and splurging

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Blimey – what a start to the year. For us, January is hell on a skateboard with full-year reports and awards judging as we ramp up to the big nights in March.

Some rank self-promotion before switching to you shower – the ones who actually do things that matter (not all of you, to be fair) – this week we went live with our shortlists for the greenfield and refi awards:

- [Europe & Africa](#) – 9 March, London
- [North America](#) – 16 March, New York (in association with Wilmington Trust)
- [Latin America](#) – 16 March, New York (in association with Wilmington Trust)
- [Asia Pacific](#) – 23 March, Singapore
- [Middle East and North Africa](#) – 30 March, Dubai

This was preceded by the [full-year league tables](#) for greenfield PF and infra finance (a bit of a catch-all category), and the [funds and investors report](#) identifying the billions raised by infra funds in tandem with analysis on M&A activity.

But that's all backward-looking... and you're interested in what's about to happen.

So what the hell is going on out there

More to the point – what's exciting in the market these days? Energy transition and digital infrastructure... you don't say! Motivation on this front is as obvious as the nose on your face and too yawn-worthy to warrant the words.

So, let's take a look at the infra funds and what we can extrapolate from the IJInvestor Funds & Investors Report.

It reveals that (close-ended) infrastructure funds broke fundraising records with \$146,282 million amassed over the course of the last calendar year (subject to change as more data become available – but that's only going to push the number up).

To put that in context, while 2022 is the most impressive fundraise year to date for the infra asset class – as a giant, it sits on the shoulders of the inordinately tall.

The preceding 4 years of fundraising brought in:

- \$140,528 million – raised by close-ended infra funds in 2021
- \$109,385 million – 2020
- \$104,932 million – 2019
- \$115,672 million – 2018

That amounts to \$616.8 billion raised over the course of the last 5 years (much of it by the biggest fund managers)... and all to target equity (mostly) and debt in the infrastructure and energy space around the world.



To the casual observer, it looks like a runaway train with the impetus continuing unabated and LPs kicking down fund managers' doors.

However, the reality is that fund managers' doors are increasingly bereft of footprints and that looks to be the way of the world for the coming year.

Word on the street has considerable skittishness in the market across infrastructure equity and debt, with people now struggling to raise funds.

Denominator effect

There is broad agreement that fundraising is anything but a walk in the park right now, and one source points to this being driven by the "denominator effect" where pension funds find themselves overweight in illiquid assets... mandated to fix that before they can allocate more.

Further, mergers among the super funds in Australia are causing delays to allocations until the processes conclude and they have a full understanding of combined infrastructure portfolios. Given the amount of Ozzie cash in the system, that's going to take a while.

Looking at the bigger picture, fixed income is also now much better value than it was a couple of years ago due to increasing central bank rates. Gilts, treasury bills, and AAA bond yields are all up... so the case for infra yield – given the risk (especially illiquidity risk) – is making infra funds all the harder to sell.

Some say that managers with "a clearly differentiated strategy and good risk management" will continue to attract funds, and that those "who hung out a 'infra' shingle because it was a 'hot' asset class will probably throw in the towel" A source adds that "genuine infra fund managers (and investors) will remain".

Those with average – or below average – track record are struggling to raise new capital, while new entrants and start-ups are expected to decline in a maturing market where only the strong and high performing are raising new capital successfully.

That's an old tune to be thumping on this piano, but possibly it's all the more true now than it previously was, and all the while investors are more than happy to play the waiting game.

However, one curious response from the market was that in conversations about fundraising with managers and LPs, investors with commitments are now asking managers "to be prudent notwithstanding the terms they were raised on". Awks.

Hoarding cash

There is also a view in the market that managers have been out on the street wearing out more shoe leather than entirely required in a bid to hoard cash.

Some would have you believe that managers have been building war chests in the hope they will have free rein to go bargain hunting later this year should there be a market correction.

Further, with so much money pumped into the system – and with inflation remaining nail-bitingly high – people will need to put that cash to work (bargain or no).

Others are more of the view that deploying a, say, \$25 billion fundraise is not as easy as some would have you think, particularly given there are not that many large cap deals globally – in the \$2 billion equity ticket space, or even larger.

Then again, in a challenging market possibly it makes a bunch of sense to hold back funds so as not caught out by a market shift.

We will, however, continue to see minority stake trades progress, but that's time-honoured means of proving value rather than healthy deal flow... and that ain't much use to the market leaders that are looking to deploy big tickets.

A repeat view is that people will hold off on sales until the summer, but come the end of Q3 when it would be reasonable to expect a flood of activity. And this should prove to be a good time to start a process if you're selling... assuming nothing awful happens in the meantime.

And what does this all amount to? The death of Core+++ and a return to good, old-fashioned "infra"?

Perish the thought... it's just so... mundane.

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