Fundraising… swimming naked in the rip tide

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Roaming around the market this week – as is one's wont – it's comforting (if not a tad worrisome) to hear rumblings from within the infra fund community that confirm what's been said for a while… with bells on.

If I was now to say that fundraising is challenging, readers would exit en masse, and with good cause. If I was now to say that infra funds are working 24/7, year-round with cap out to investors, likewise an understandable departure. Oh yes, and investors are taking longer to make decisions than was previously the case… isn't that excuse getting a bit old?

All stand true… but there's a lot more to the picture.

This is where today's Friday Editorial gets increasingly difficult to write. When you're trusted with off-record information that you cannot share (at pain of excommunication from the infra community) it's difficult to explain just how bad the situation is, without citing examples and burning sources.

So, bear with as I tread gingerly around sensitive information that would bring a toothy smile to the hatchet visage of a litigation lawyer.

It ain't good

Lengthy discussions this week with those in the know has this infra hack overwhelmed with sensitive data which sit uncomfortably next to a far-from-sensitive inclination to keeping schtum.

It rather brings to mind the mantra of an old editor who snarled through a smouldering cigarette: "If you aren't p**ssing people off, you aren't doing your job." However, he would also have been horrified at the notion of costing someone their job for the sake of a few extra hits on a story.

So here goes…

The world has turned on its head. Big name infra funds are lauding "successful" fundraising for what – in previous years – would likely have resulted in a sacking.

Let's just run through what we have seen in recent times – which can't get me into trouble with sources as we've long since published stories on these.

Brookfield AM made it to final close earlier this month at $6 billion on Brookfield Infrastructure Debt Fund III which had a target size of $4 billion. But that's debt.

Also in November, KKR & Co closed KKR Global Impact Fund II raising $2.8 billion. That's more than double the first iteration (KKR Global Impact Fund) at $1.3 billion. You also have Ares Management with final close on its Pathfinder II having hit its hard cap of $6.6 billion, exceeding the target of $5 billion.

And finally to round off recent activity with Goldman Sachs AM raising $4 billion at final close on West Street Global Infrastructure Partners IV. This vehicle had a target size of $1.9 billion, but its focus is on value-add… more on that later.

Bearing in mind that is a quick round robin of the last couple of months, it doesn't look **that** bad… but let's not be taken in. And as one source says: "How inconvenient! The people who entrust us with their money want to take their time to think about it properly."

But that's not everyone's view. One old chum quotes Warren Buffett who said: "Only when the tide goes out do you learn who has been swimming naked." The infra source went on to add: "The LPs are watching the tide go out and realising they've invested in those naked swimmers. So, they're waiting for it to go fully out."

There's a picture stuck in your head that'll endure for the weekend.

A final contact rounds it off nastily: "Investors have less to allocate, are thinning their herds of managers and are being more cautious. Many GPs are pretending the world hasn't changed, and LPs are taking pause. This is a good thing, and a difficult market separate the wheat from the chaff."

A receding tide

So, labouring the imagery of a receding tide that exposes all fund manager nudity (shudder… in most cases), where's it all going wrong?

Well now, the broad consensus is that it's not so much a case of LPs taking their sweet old time to make their minds up, leaving GPs hanging. It's more that they aren't playing ball… and have found new playmates or want to change the game.

LPs are increasingly looking to invest direct and are demanding options to co-invest which rather craters the business model for an infra fund.

Returns from infra funds are not as attractive as they used to be in a high-inflation environment which gives investors options.

As one infra fund veteran says: "Interest rates being higher now means that FI investors can achieve the returns they need in fixed income without having to venture into infrastructure – which is regarded as the next safe haven after FI.

"I would query whether that's appropriate in a low IR environment, but certainly infra provides a very attractive risk / return profile, which means that FI investments into infra have dried up.

"That combined with the dearth of funds that grew up in the years of low interest rates and loads of capital searching for a safe home in infra means that fundraising is harder. Less capital looking for a home with more choice."

Meanwhile investors are now demanding that infra funds only take their fees on drawdown of funds… which is a complete game changer.

This column has banged on repeatedly that the big names will continue to pull in the big bucks… and does so again today. It's the niche, minnow and bog standard that will struggle.

Bottom line is – Core's dead and Core+ is down on its uppers.

If you're a fund manager and you don't fall into the "value add" category, you might as well cash in now or wibble along to maturity and wander off into the wilderness of retirement.

If you’re in the platform acquisition and build space, your future is golden.