Broken (investor) relations…

Angus Leslie Melville

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Reaching out to the market this week, you're left with a curious sense that it's divided into 2 schools of thought when it comes to fund managers drumming up cash.

Today's editorial is prompted by an evening out with a handful of infra types in mid-December when one immediately recognisable IR person expressed relief that LPs were starting to loosen the purse strings.

Having let that notion percolate for a couple of months, this week's conversation de semaine started with: "I'm talking to someone who says that the fundraising log jam had washed through and money's starting to flow. How does that stack up from your side?"

This was met with a variety of responses that ranged from one suggesting that my source was dining heartily on magic mushrooms through to agreement – with the caveat that tickets are smaller, but yes, it's picking up.

This more positive view is stood up by our funds report for full-year 2023 which logged the worst year in the last 5, while also identifying – no sh*t Sherlock – that investors continue to pile into the 5 largest funds with more deployed there than across the slew of other vehicles we track.

The total capital raised by infra funds in 2023 was the lowest since 2019 despite receiving a shot in the arm from the $30 billion final close on Brookfield Infrastructure Fund V – but that's a spike if ever there was one and stands up the "flight to scale" thinking.

Having asked one of the IJ staffers to pull together all the fundraise stories from this year, it was staggering to see just how much we had reported on.

Just looking back over the first few days of February, we had Ardian hit the halfway mark to its €10 billion target for Ardian Infrastructure Fund VI, Ancala Partners achieving final close at €1.4 billion on Ancala Infrastructure Fund III; Brookfield Asset Management raising $10 billion at first close on Brookfield Global Transition Fund II ($17 billion target).

The biggest news from January was EQT raising €14.5 billion of its €20 billion target on EQT Infrastructure VI and Macquarie Asset Management reaching final close at €8 billion on Macquarie European Infrastructure Fund 7. There were a bunch more stories from the more humble fundraising end of the scale, but this is starting to look like a laundry list… so let's move on.

Glass half full…

The majority of infra fund people spoken to this week were of a – cautiously – positive frame of mind, with one saying: "There was a significant shift in sentiment among most investor groups globally during Q4 2023."

This was put down to market recovery and reduction of the denominator effect. Added to that were "fading concerns around a delayed revaluation of the sector" and fears that European insurers was where liquidity concerns are constraining new allocations.

One veteran of the infra equity world puts it with customary brevity: "Overall tickets are resuming but the general trend is for smaller cheques. Manager selection is also becoming more important with clear winners and losers."

The smart money is on this first quarter setting the scene for the year to come, but the majority are of the view that it will be the second half – most plumping for Q3 – that will see the lion's share of allocation announcements.

One infra friend says: "I am hearing more optimism, but also caution. The first quarter will be a much better indicator – new year, new targets and allocations – but interest rates and inflation uncertainty aren't making judging when to invest any easier. Some folks are telling me that it is more likely we will see an uptick in Q3-Q4 than Q1-Q2."

This is joined by: "Things are indeed settling – a bit – and the last few months have seen some huge numbers being quoted in relation to infra. For a number of managers, capital is indeed starting to flow again, but is this because of the Blackrock type announcements or a regaining of confidence?

"In my opinion, it is the former and I wonder if the momentum will continue or will people find out that the tide continues to be going out. For the top tier – the ones with good track record – commitments are being made by LPs again, but it's very selective.

"Pension funds remain cautious and capital remains challenging. Managers continue to sell assets to either de-leverage or release capital for other commitments."

And on that front, the market is not without its challenges: "There seems to be an air of optimism. However, as a buyer, the optimism is on the sell side. For the moment, there remains a mismatch of 50-100bp on what sellers believe they can sell for, versus what buyers are willing to pay. The sellers also think that now is a good time to offload challenging assets."

The positivity is rounded off nicely with a final observation: "While money is in motion, the ever increasing size of the mega funds is probably over… or at least will have lost momentum."

Broken glass, half empty…

Cautious optimism was not embraced by all. A good number of folk this week seemed to be of the view that the sky is falling in.

One source – while admitting that 2024 was shaping up better than 2023 "but that's not difficult" – bemoaned smaller tickets "leading to the 'flat is the new up' analogy in terms of fund size".

Another cautioned being swept along by the media that focus entirely on the big players and the success they are enjoying while shooting fish in a barrel, saying "it remains a mixed economy with the mega funds doing better than others, specialist mid-market is ok, but it's hard for new entrants".

One infra fund adviser says: "Everyone is pinning their hopes on falling interest rates which should, in theory, break the logjam by Q2/3. Therefore, IR teams are ramping up their outreach efforts now to make sure they catch the wave.

"Large asset managers – the likes of Blackstone, Ares – have still been fund raising and, while the amounts they have been raising has not been as high as before, that still does not bear out the thesis.

"However, what we are seeing more of is caution, with LPs showing caution in being anchor investors for new funds/strategies. Which becomes a chicken and egg situation. So all in all, LPs are regaining optimism, but not quite confidence to invest."

The trend of LPs focusing on fewer, larger managers remains the case: "Smaller fund managers have, however, been successful in recent fundraises where they have delivered on what they have promised and Ancala is good example of that.

"Others have experienced – and are still experiencing – slow progress and may wrap up fundraising at levels below their targets, something that would have been very rare back in the halcyon days.

"The challenge now is that, as your IR chap highlighted, the logjam that was definitely there has mostly gone, but there are a lot of managers seeking capital and so LPs can be choosy.

"Not everyone, as a result, will be successful.

"As was the case with Ancala, those who have delivered on or above target returns to LPs are most likely to get cash for new funds through re-ups. So, fundraising is easier than it was, but there are still a lot of managers out there and LPs can take their pick."

And the last word goes to an old infra equity friend: "Where capital is more scarce, there will also be a flight to quality, so smaller managers with a less successful track record are really going to struggle. The really good managers might be flat or down a little, the decent guys will be down by half, the rest of the pack will be (well, I can't print that word)".

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