Institutional Infrastructure Survey 2015

INVESTMENT & PENSIONS EUROPE

In partnership with

Stirling Capital PARTNERS LTD

REAL ESTATE
GLOBAL MARKET INTELLIGENCE FOR INSTITUTIONAL REAL ESTATE INVESTMENT

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It is our pleasure for both Stirling Capital Partners and Investment & Pensions Europe (IPE) to release the results of our second Institutional Infrastructure Survey. This study has been prepared to provide observers, institutional investors and their peers insight into the current trends and attitudes of institutional investors investing in the infrastructure asset class globally. For further information on the survey results contact, you can contact Stirling Capital Partners or IPE.

Stirling Capital Partners

Stirling Capital Partners (SCP) specialises in advising, institutional investors, which include pension, sovereign wealth funds and insurance companies, on investing in infrastructure. SCP works with institutional investors by performing due diligence and advising on the selection of both direct and indirect infrastructure investments. SCP also organises Europe's largest annual infrastructure investor conference for pension funds.

Michael Stirling is a professional advisor to financial institutions and a corporate lawyer with over 15 years' experience in the City of London. He has corporate finance experience within a Big Four accounting firm advising on financial structuring and worked for an investments bank advising on project finance. Michael has a longstanding interest in infrastructure projects. He has relationships with institutional investors, government bodies, project owners whom he advises on infrastructure investments.

IPE/IP Real Estate

IPE is the leading European publication for institutional investors and those running pension funds. It is published by IPE International Publishers Ltd, an independently-owned company founded in July 1996. IPE's sister publications are IP Real Estate and FD Pensioen Pro | IPE. Our annual Conference & Awards event is the largest gathering of European pension funds under one roof.

IP Real Estate is the leading publication for institutional investment in the global property and other real asset classes, including infrastructure. It combines global market reporting with an in-depth knowledge of the pension fund industry. Richard Lowe has been editor since 2011. He has written for numerous real estate and pension titles, and won Pensions Journalist of the Year (trade publications) at the State Street Institutional Press Awards in 2010.

Survey facts at a glance

Total respondents	77
Duration of survey	19 September–31 October 2014
Total countries represented	26
Total AUM of respondents (€bn)	1,949.1
Average AUM of respondents (€bn)	25.3
Total infrastructure AUM of respondents (€bn)	20.9

Investors wise up to reality

This year's survey shows investors becoming more discerning as the asset class matures, while illiquidity has becomes less of an allocation obstacle

The second Institutional Infrastructure Survey, conducted by IPE and Stirling Capital Partners in September and October 2014, provides the latest snapshot of asset allocation trends among investors.

According to the survey, the majority of institutional investors see infrastructure as fulfilling at least some of their needs as long-term investors. But the research also shows tentative signs that interest in the asset class is falling back somewhat – perhaps as it matures and investors become more knowledgeable and discerning about what they require.

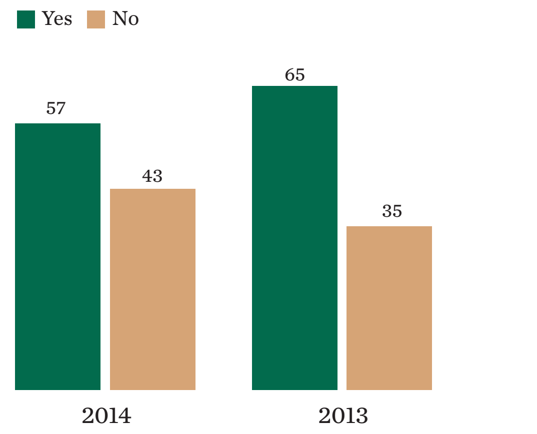
While 57% of this year's respondents do invest in the asset class, this proportion has fallen from the 65% seen in the inaugural 2013 survey (figure 1). The 77 respondents are spread across 26 countries and manage an average of €25.3bn in total assets, and between them, €20.9bn of infrastructure investments. More investors are now reporting that they have considered a particular infrastructure investment recently, but then decided not to invest. The percentage giving such a response climbed markedly to 21.5% in 2014 from 11.1% in 2013 (figure 2).

The number of respondents saying they have definite plans to invest in infrastructure in the future has fallen to 6.1% in 2014, from 13.9% in 2013. On the other hand, fewer institutional investors now say they have never been involved in the asset class and do not intend to be so in the future, with this percentage falling back to 18.2% from 25.0%. Around 64% of investors both this year and last year said they may invest in infrastructure in the future.

It might be expected that, as an asset class becomes more established, allocations would vary less from year to year. There are signs that this is true: in the 2014 survey, responses show institutional investors expect their allocations to infrastructure to fluctuate less than they had thought the year before. The proportion expecting their allocation to rise in the next 18 months dropped to 59.1% in 2014 from 63.2% in 2013, while

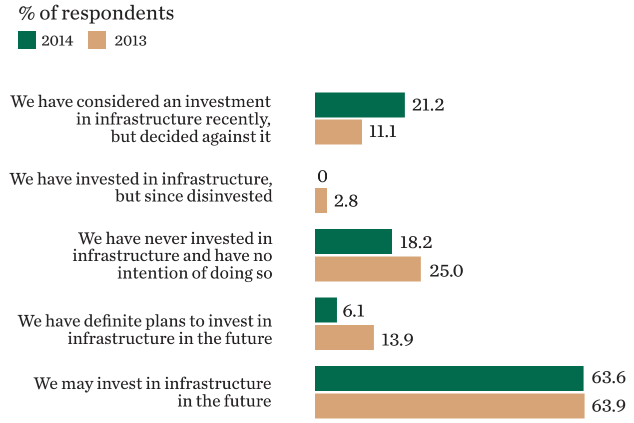
1. Do you invest in infrastructure?

% of respondents



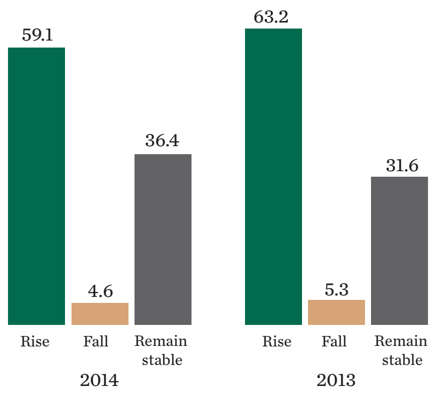
2. If you do not invest in infrastructure, which of the following apply?

% of respondents



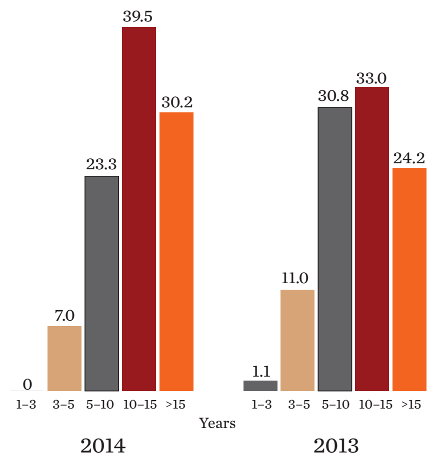
3. Do you expect your allocation to change over the next 18 months?

% of respondents



4. What investment holding period are you comfortable with for infrastructure assets?

% of respondents



just 4.6% expected it to fall, compared with 5.3% saying they anticipated a fall in their allocation when they answered the question in 2013 (figure 3). Some 36.4% expected their allocation to remain stable over the next year and half, up from 31.6% the year before.

Investments in roads, rail, energy plants and the like are undoubtedly long-term undertakings, particularly since revenue streams post-construction are usually part of the deal. Pension funds and other institutional investors have very long-term liabilities and the ability of infrastructure returns to match their liabilities is often cited as an advantage of investment in the asset class.

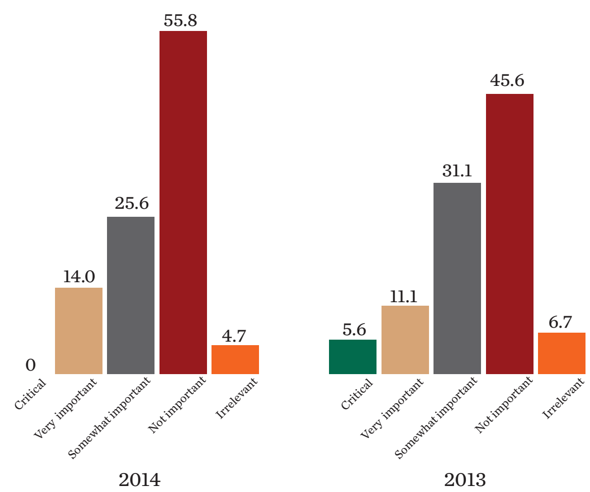
The 2014 IPE/Stirling Capital Partners survey indicates that institutional investors are becoming happier to hold their infrastructure investments for longer periods than was the case a year ago. The results show just under 70% of respondents are comfortable holding the assets for 10 years or more, compared with 2013's results, which showed 57.2% happy to keep them for this long (figure 4). Looking at the shorter term, the proportion of respondents comfortable with holding periods of 10 years or less fell to 30.3% in 2014 from 42.9% the year before.

Investors are also increasingly accepting the illiquid nature of most infrastructure investments, according to the new survey. The proportion of respondents saying liquidity was important in their infrastructure portfolio declined to 39.6% in 2014, from 47.8% a year before (figure 5). This contrasts with 60.5% considering liquidity either not important or else irrelevant in 2014, up from the 52.3% giving that response in 2013.

The ability of investors to accommodate the illi-

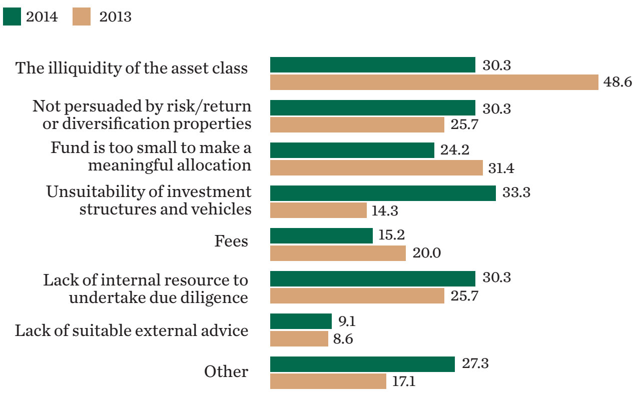
5. How important is liquidity in your infrastructure portfolio?

% of respondents



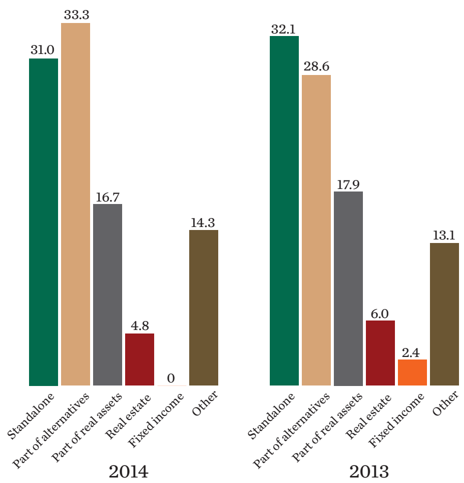
6. What are the main reasons you do not invest in infrastructure?

% of respondents



7. Where does infrastructure sit within your portfolio?

% of respondents



quidity of infrastructure was evident elsewhere in the survey. When asked to give the main reasons for not wanting to invest in infrastructure, just 30.3% cited illiquidity in 2014 (figure 6). A year before, however, almost half of participants in the poll – 48.6% – gave this as a key reason.

Another clear change in investors' attitudes was apparent when they were asked to respond to the assertion that investment structures and vehicles might be unsuitable for them – this was given as a main reason for not investing in the asset class. This year, 33.3% of respondents gave the unsuitability of structures and vehicles as a main reason for holding back from investment, although the year before just 14.3% had cited this.

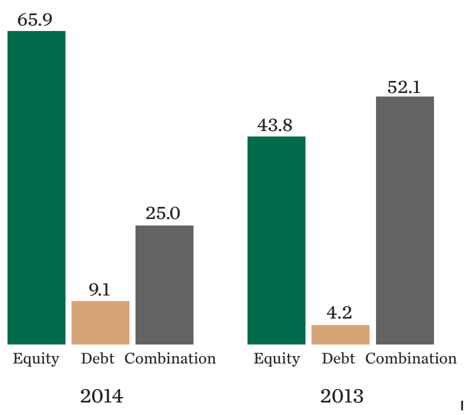
More investors are putting infrastructure holdings within the 'alternatives' category of their portfolios, according to the survey, with 33.3% of investors saying this was where infrastructure sat (figure 7). Last year, 28.6% said infrastructure sat within alternatives. Fewer respondents said the asset class belonged to their real estate allocation or was part of their real estate allocation, with this proportion dropping to 21.5% in 2014 from 23.9%.

Institutional investors also seemed clearer this year about whether they wanted to invest in infrastructure debt or equity. Whereas in 2013, just over half – 52.1% – had said they were more interested in a combination of both debt and equity investment, by 2014 this had dropped to 25.0% (figure 8). Now 65.9% say they are more interested in equity, and 9.1% responded in favour of debt alone.

Fewer investors are now interested in buying infrastructure loans from banks than was the case last year. This year's survey showed only 4.6% interested in doing this, down from 21.7% last year (figure 9). An unequivocal 72.7% of respondents said they were not

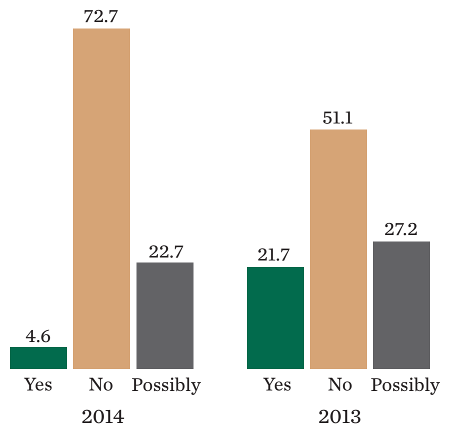
8. Are you more interested in investing in infrastructure equity or debt, or a combination of the two?

% of respondents



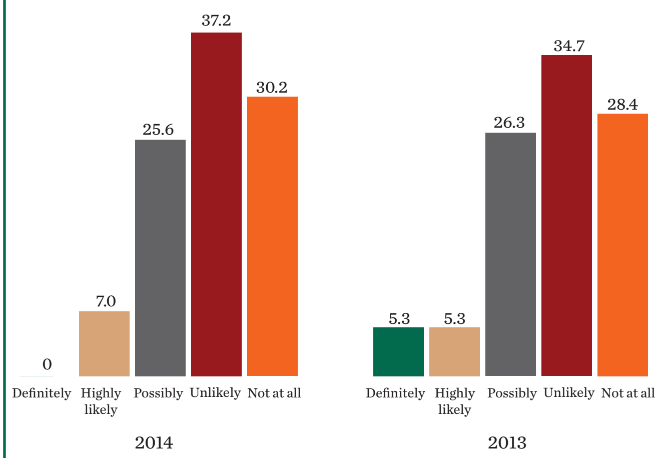
9. Are you interested in acquiring infrastructure loans from banks?

% of respondents



11. Are new regulations (such as Solvency II and IORP II) likely to affect your current or future allocations to infrastructure?

% of respondents



interested in acquiring such loans from banks, surging from 51.1% in the 2013 survey.

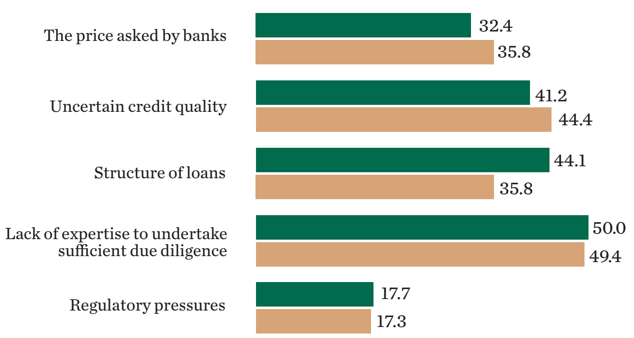
The reasons cited as to why it is hard to buy infrastructure loans from banks showed no major changes between the two years, however. Half of respondents gave a lack of expertise to undertake sufficient due diligence as one of the main stumbling blocks to taking on these loans – in both surveys (figure 10). This was the most frequently cited obstacle, with structure of the loans coming in second at 44.1% in the 2014 poll.

New regulations such as Solvency II and IORP II now appear to be having less effect on institutional investors' expected future allocations to infrastructure. This year, 32.6% of those responding to the survey said the new rules would definitely affect their current or future allocations to the asset class, or were highly likely to, or possibly would (figure 11). By comparison in 2013, 36.9% gave these responses.

Finally, among types of infrastructure assets on offer, airports and ports now seem more popular than a year ago, while interest in renewables and water companies has declined slightly. In this year's survey, 72.7% of respondents said they were interested in, and invested in, airports, and 68.2% cited ports as interesting investments (figure 12).

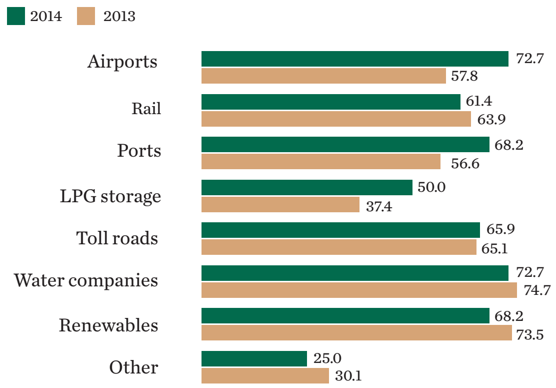
10. What are the main impediments to acquiring infrastructure loans from banks?

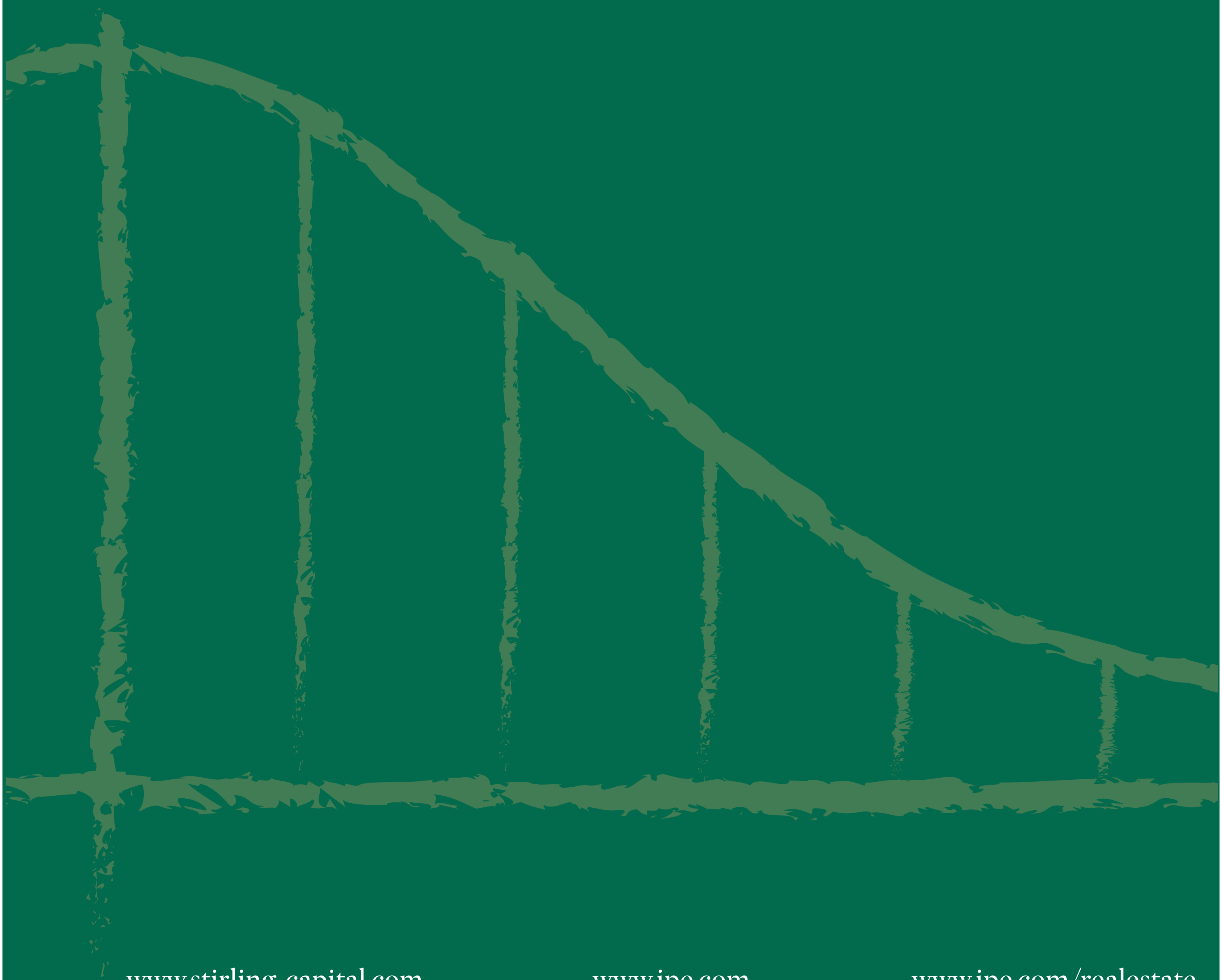
% of respondents



12. Which of the following types of assets are you invested in and interested in?

% of respondents





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