UBS

The return of "animal spirits" in infrastructure

Early signs of an infrastructure fundraising and dealmaking recovery in 2024

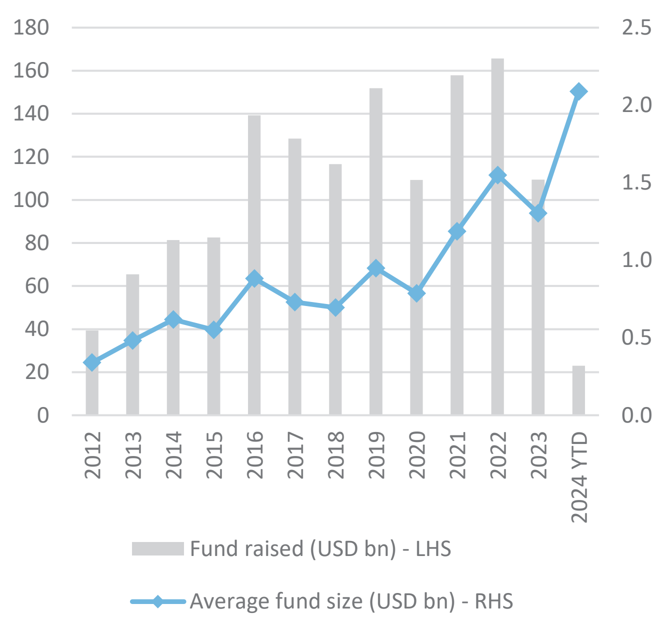
Sentiment for infrastructure was muted in 2023. Although very few investors we spoke to were outright negative on the asset class, most have taken a "wait and see" approach, especially given the denominator effect. Investors focused primarily on managing their existing infrastructure portfolios, monitoring the impact of a high-interest-rate and high-inflation environment. As such, fundraising and dealmaking slowed down significantly.

With strong public equity markets in 2023 and stabilizing inflation and interest rates in 2024, we are seeing a return of "animal spirits" – a healthy level of risk taking and market buzz that was severely lacking last year within the infrastructure industry.

Megafunds vs. sector-specific strategies

On the fundraising side, we have seen some positive announcements in the beginning of the year of successful fund closings, which has certainly improved sentiment.

Figure 1: Infrastructure funds raised and average fund size ($billion)



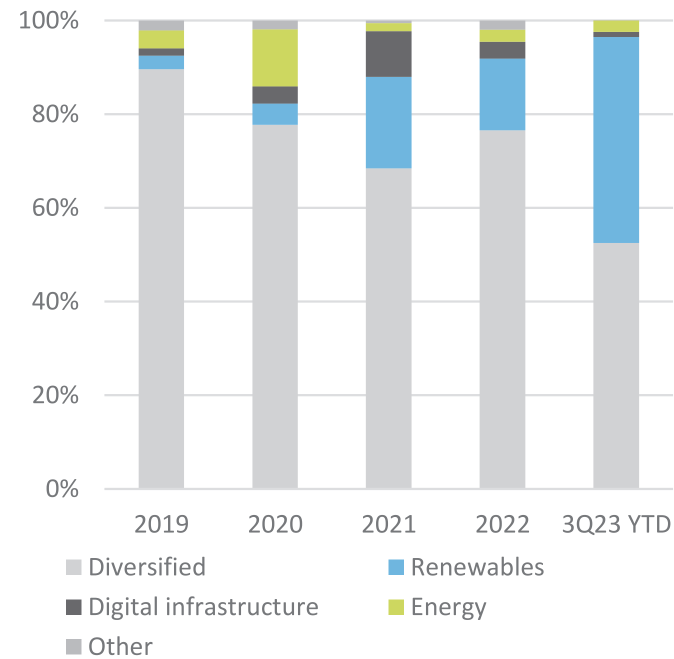
Source: Infrastructure Investor, *March 2024*

This is consistent with the results from multiple investor surveys[1], which showed approximately 40 percent of institutional investors are still looking to allocate more capital into the infrastructure asset class.

The recent fundraising activity is still concentrated across the megafunds, as the average fund size continues to creep up this past decade – rising from approximately $500 million 10 years ago to approximately $1.5 billion in the past two years, and more than $2 billion based on early 2024 data (see Figure 1).

But these large funds are not the only players active in the market. In the past several years, we have seen an increasing share of sector-specific strategies. In 2021 to 2023, sector-specific strategies accounted for 30 percent of infrastructure funds raised, compared with 10 percent back in 2019 (see Figure 2).

Figure 2: Infrastructure funds raised by sector strategy (%)



Source: Infrastructure Investor Fundraising Report, *March 2024*

In our view, this is a natural evolution of the asset class; the dominance of generalist megafunds, on one end, has also opened up more opportunities for niche strategies, on the other end, especially with some investors becoming more sophisticated and looking for unique investment themes to diversify their portfolios.

Reignition of the fundraising-dealmaking engine

In our industry, fundraising leads to deals, and deals lead to more fundraising. That mechanism, however, took a pause last year with 2023's weak fundraising, which led to a slow year for deals (see Figure 3).

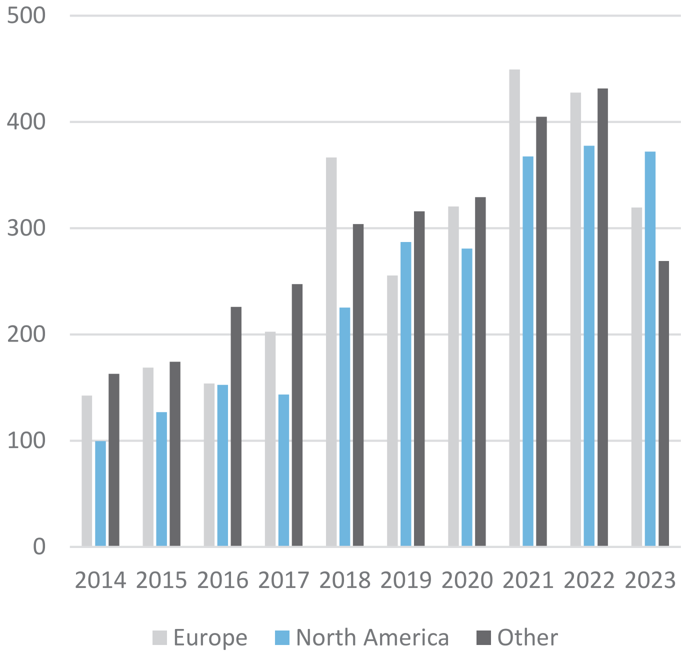
With more than $300 billion of infrastructure dry powder, there is increasing urgency to deploy capital this year. This is particularly true for strategies that raised money during the record-setting 2021 and 2022, as further delays in dealmaking would erode overall fund-life IRRs.

On the other side, sellers who have been dragging their feet due to the recent macro uncertainties are restarting their sales processes, especially for disposals that must happen for strategies near the end of their fund lives.

With the stabilization of interest rates and inflation, markets have time to adjust to the new normal. It should become easier for both buyers and sellers to underwrite transactions.

We have already seen a pick-up in multi-billion dollar deals in the market, and we are optimistic the improvements in sentiment will

Figure 3: Private infrastructure deals closed ($billion)



Source: Inframation, March 2024

drive increased activity and close the wide bid-ask spread we saw last year.

The types of deals in the market also matter. For example, offshore wind is gaining some positive momentum, with new auctions and transactions being announced. This is particularly notable, since the sector was arguably one of the most troubled verticals in 2023, with a slew of negative headlines around project delays and cost overruns. A restart in deal activity for an industry that has faced significant headwinds is another sign that the "animal spirits" and risk appetite are returning.

Spotlight on fund manager M&A

Another positive datapoint for the industry comes from the burst of M&A transactions across infrastructure managers – especially with traditional asset managers and private equity firms buying stakes in infrastructure GPs (see Figure 4).

Figure 4: M&A across infrastructure fund managers

Date	Buyer	Target	Currency	AUM (bn)
Feb-24	Vontobel	Ancala Partners (significant minority)	EUR	4.0
Feb-24	Amundi	Alpha Associates	EUR	8.5
Jan-24	General Atlantic	Actis	USD	12.5
Jan-24	BlackRock	Global Infrastructure Partners	USD	100.0
Dec-23	Investcorp	Corsair Capital's infrastructure (50%)	USD	4.8
Sep-22	Bridgepoint	Energy Capital Partners	USD	19.0
Sep-22	CVC	DIF Capital Partners	EUR	16.0
Jul-22	Searchlight Capital	Gresham House	GBP	8.3
Jul-22	Blue Owl	Stonepeak (13.5%)	USD	56.0
Apr-22	Samsung Life	Meridiam (20%)	USD	20.0
Feb-22	DigitalBridge	AMP's infra equity business	USD	5.6

Source: Media reports, Inframation, March 2024

Although this does not directly impact fundraising and dealmaking activity, it shows that industry insiders still have long-term conviction in the asset class, and it partly contributes to the healthy market buzz in what has been a somewhat overlooked asset class.

Summary

Since 2019, the infrastructure industry has been stress-tested by a global pandemic, geopolitical tensions, hyperinflation and high interest rates. Yet it has remained relatively resilient, thus reaffirming its reputation as a safe haven, which also happens to benefit from secular tailwinds, such as decarbonization, digitalization and deglobalization. We are already seeing signs that sentiment and conviction are improving, which should lead to more fundraising and dealmaking for the rest of 2024.

Note: [1] *Infrastructure Investor's Investor Report Full Year 2023,* February 2024; *Preqin Investor Outlook: Alternative Assets, H2 2023,* August 2023

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