KEYNOTE ADDRESS
- Dennis Kwan, **MVision**

Tom Carr: What trends have you seen in infrastructure fundraising over 2017?
Dennis Kwan: There have been three notable trends within the infrastructure industry this year:

Infrastructure fundraising is being increasingly dominated by a few large managers:
Earlier this year, Global Infrastructure Partners III (GIP III) closed on $15.8bn, which made it the largest private infrastructure-dedicated fund ever raised. This also made the first half of 2017 the second best fundraising half-year on record. However, if we take GIP III out of the picture, H1 2017 was one of the weakest performing periods in the past five years.

Additionally, Blackstone Group announced back in May that its global flagship Infrastructure I fund is targeting a staggering $40bn. If the fund hits its target, it will be more than double the size of any infrastructure-dedicated fund in the market.

Market perception is that investors commit to larger managers with the belief that the larger funds have the proven track record and are equipped with the capabilities and resources to identify and secure attractive deal opportunities.

Investors favour global strategy over regional-focused funds:
Global funds had a 20% share of the fundraising market back in 2015. At the end of 2016, funds with a global scope had secured 26% of the capital raised and there is no indication that this trend will have discontinued in 2017.

As the market share of global funds has been growing in recent years, fundraising momentum for regional-focused funds has been impacted. Investors tends to favour a global strategy over regional-focused funds, which allows the fund manager to have the ability to manoeuvre between different geographies and finding best relative value on infrastructure assets on a global basis.

Growing interest in Asian infrastructure investments:
The Asian region provides a compelling investment environment for institutional investors, with a unique combination of developed and emerging economies. Strong fundamentals underpin the growing demand for real assets including infrastructure, such as rapid urbanization and the push for sustainable development, attracting both global and regional players to invest in the region.

The unlisted infrastructure market in Asia was a difficult place to raise capital a couple of years ago as most of the managers were raising their first Asia-dedicated vehicle. This shows that Asia is a relatively young market for infrastructure investment. However, in the past two years, Asian infrastructure funds have grown to earn a position in some of the more experienced and sophisticated institutional investors' portfolios, as these investors diversify away from the developed markets and invest in the region to capitalize on the Asia growth story. There is clear scope for the asset class to develop in the coming years.

TC: Do you think larger funds coming to market is a positive development for the industry? How does this affect smaller/newer managers' fundraising strategy?
DK: On face value, having larger funds coming to market does attract more capital to the asset class and allows more investors to get exposure to infrastructure. Upon a closer look, we see that the increasing popularity of the asset class is partly driven by a few large-ticket institutional investors. For instance, Saudi Arabia's Public Investment Fund made an anchor commitment of $20bn to Blackstone Infrastructure I fund, which easily makes it the largest single contribution of any investor to an infrastructure fund. The asset class appeals to large public institutional investors such as sovereign wealth funds and public pensions due to its ability to deliver strong risk-adjusted returns, downside protection and low correlation to other asset classes.

It is worth noting that, according to research by Preqin, since 2013, funds raising less than $1bn spend, on average, over a third longer on the road than funds raising more than $1bn. While the interest in the asset class is here to stay, it remains a challenge for newer or smaller managers to capture the capital from the large institutional investors, as these investors often have a substantial amount of capital to be allocated and there is only a handful of large infrastructure managers that have the size and platforms to capture these demands.

TC: What are the key things investors are looking for in managers to which they are considering making commitments?
DK: Investors look for managers with a proven track record to deliver solid, repeatable and quality performance. They would also like to see a stable and cohesive team that has a consistent investment philosophy and strategy that is being executed in a disciplined manner across all working levels. On governance, investors want to see an institutionalized approach to the full lifecycle of the investment, from sourcing, deal execution and value creation to exit. Also, particularly in the infrastructure space, investors like managers that have the ability to identify investment opportunities that deliver strong risk-adjusted returns with downside protection, while maintaining discipline to pricing

TC: Do you expect to see more investors enter the infrastructure industry? Is infrastructure a good fit for certain new types of investors' portfolios?
DK: The increasing capital inflow to the asset class will continue so long as the managers remain disciplined in their deployment to return to the market within a set timeframe. The market outlook for the infrastructure asset class in the near future remains positive.

Sovereign wealth funds, public pension funds, insurance companies and, to a certain extent, some foundations are natural investors in infrastructure. The long-term nature of infrastructure investments along with the yielding component are well aligned with their investment objectives and horizon. Infrastructure projects are large scale in nature, which also allows these large institutional investors to deploy a significant amount of capital.

TC: Are there any innovations/ disruptions in the infrastructure market you expect to see going forward?
DK: Consumer behaviour has undergone rapid change in recent years thanks to the latest technology and this will play an important role in infrastructure planning and management. The underlying considerations of infrastructure planning have changed. It has been the conventional wisdom over the past few decades that larger populations lead to more roads, bigger generation capacity and more transit. These are all macro solutions and applicable internationally. However, the pattern has begun to change in recent years, particularly in emerging markets. In Africa, solar technology has developed to take away the demand for investments in electricity distribution. In Asia, rising affluence and a rapidly expanding middle-class population have led to great demand for international air travel. And across the globe, governments are considering how new technologies including renewable generation, smart cities, energy storage, driverless cars and others will influence future demand for infrastructure.

TC: Do you expect government plans for infrastructure spending, such as in the US and UK, to create significant deal flow for the industry?
DK: The private sector is well incentivized to explore infrastructure investment opportunities in the UK. In late 2016, the UK Government set out a plan to invest over £500bn in infrastructure, according to the National Infrastructure and Construction Pipeline. The pipeline is considered the largest and most comprehensive ever, covering projects across the country including transport, broadband, flood defence and housing. This shows that the industry has worked with the UK Government to unlock the potential in the asset class in the UK. In the US, the Trump government is in discussion to deploy federal funding to create $1tn worth of overall infrastructure investment over the next 10 years, with a focus on public-private partnerships and permit reform. However, this is still in discussion stage. In the near term, investors may choose to pick a global manager that can gain access to deals internationally while keeping the door open for the US should any favourable policy develop.

TC: Do you expect Brexit to have any impact on the infrastructure market in Europe/UK?
DK: Albeit there is uncertainty around the outcome of Brexit, the infrastructure market in the region should remain an attractive foreign investment destination:

- The National Infrastructure and Construction Pipeline will increase infrastructure spending. There is also an initiative for a permanently higher share of GDP to be spent by the government on strategic economic infrastructure.
- Major infrastructure financing continues to look attractive to deal makers as interest rates continue to stay at a low level.
- Legal and governance frameworks remain robust in the UK. The system is known to be fair, transparent and independent of political influence. International investors know and trust the system well.

TC: Do you expect the unlisted infrastructure fund industry to continue to grow going in to 2018? If so, where do you expect the growth to come from?
DK: 2016 and 2017 have set many records for the unlisted infrastructure industry, thanks to the increasing demand from international investors and record-high deal volume and distributions. There is little evidence to suggest that the industry would slowdown in the near future, as demand for global infrastructure spending is likely to amount to trillions of dollars over the next decade.

A lot of the growth is expected to be coming from large sovereign wealth funds and public pension funds. According to Preqin, approximately 67% of investors are below their target allocation to infrastructure. This shows that the asset class is still relatively young with good potential to grow. Investors should determine their allocation to infrastructure investment through listed or unlisted structures according to their liquidity preferences, sensitivity to short-term price volatility and risk appetite for the underlying asset.

TC: What are some of the overarching themes/trends in infrastructure going into 2018?
DK: The increasing competition for infrastructure assets has driven up competition and price levels. As a result, managers are looking into higher-risk markets, projects and sectors. We have seen growing appetite for greenfield projects in the developed markets, while managers continue to look for brownfield opportunities in emerging markets.

There are also institutional investors that have moved from fund investments to co-investments and direct investments into infrastructure assets.

Finally, there is growing interest in Asian infrastructure investments. Expanding domestic demand is a major policy goal for many governments in Asia, where they need to make the transition from export-based economies to domestic consumption- and investment spending-driven economies. Underdeveloped infrastructure in many Asian countries necessitates significant additional spending in order to match the pace of urbanization and to support growth. In view of this fast-paced urbanization, significant infrastructure spending will be required to fund projects targeting clean-energy technology, transportation, housing, communications and water facilities, and to ensure that the region achieves its full growth potential.

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