

PERSPECTIVES 2020

Three key findings from our LP Perspectives Study 2020

Will the asset class grow further? What strategies do LPs prefer? And what keeps them up at night? Get a sneak peek at what 146 investors have to say on these questions.

Now in its eighth year, Perspectives is *Infrastructure Investor's* annual study of institutional investors' approach to alternative asset classes.

Specifically, it provides a granular view of the alternatives market, both current and future, by gathering insight on investors' asset allocation, propensity to invest and performance predictions.

For this 2020 study, our Research & Analytics team surveyed 146 institutional investors. Participation in Perspectives is anonymous, with the findings amalgamated.

Ahead of a full reveal alongside our February 2020 issue, here are three key findings infrastructure practitioners should be aware of:

1. Plenty of room for growth

A majority of the surveyed LPs said they are underallocated to the asset class. In fact, infrastructure was second only to private debt when it comes to investor underexposure. That means, of course, that the majority of respondents plan to invest more in infrastructure. It also means infrastructure, alongside private equity, is the asset class where investors are most keen to increase the number of GP relationships. The not so good news? First-time funds will have a hard time being heard, with 54 percent of respondents saying they do not plan to invest in these funds when it comes to infrastructure.

In 2019, a strong \$93 billion was raised for closed-ended unlisted infrastructure funds. That total was below 2018's record-breaking \$104 billion, partly because only one of the two mega-funds in market - Global Infrastructure Partners' fourth flagship vehicle - reached a final close last year (Brookfield's fourth global fund is due to close imminently). Regardless of the dip, 2019 shows that infrastructure's momentum is here to stay.

2. Open mind on structures and strategies

Open- or closed-ended funds, that is the question. This time, though, it turns out LPs are more divided than ever on which is better, with 41 percent opting for unlisted, closed-ended funds, 39 percent preferring open-ended structures and 20 percent

saying they could go either way. Perhaps that's not surprising. With \$14 billion raised during the first phase of Blackstone's open-ended debut vehicle, this structure has certainly received its fair share of renewed attention.

But LPs are not just keeping an open mind on structures. When asked what strategies (super-core, core, core-plus, value-add, opportunistic or infrastructure debt) they choose to invest in infrastructure, respondents showed a markedly opportunistic approach to the asset class.

3. Regulation keeps investors up at night

When asked directly what worries them, regulation clearly comes up as investors' greatest concern, with 36 percent of respondents highlighting it as such. Again, that's not entirely surprising, considering the regulatory flashpoints taking place across the world, whether it's Ofwat's push for record cuts to allowed returns (stay tuned for a final decision from the UK watchdog on Monday), or the uncertainty surrounding Australia's frankly chaotic energy policy, evidenced by the "extreme anxiety" marginal loss factors are causing renewable energy investors.

Regulation is followed closely by worries about a frothy market, on the minds of 34 percent of our surveyed LPs. As Jason Clatworthy, Jay Moody and Hiral Bhatt, of Alvarez & Marsal Taxand wrote in a recent guest article on why education might be the next big infrastructure sector, "traditional infrastructure assets are being purchased for EBITDA multiples that can only be described as eye-watering".

Political instability and rising interest rates round out the list of concerns.

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