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The rise and rise of infrastructure funds

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The continued launch of billion dollar funds shows the undiminished appetite for owning infrastructure

> "The top twenty infrastructure funds alone now contain over US$130 billion of assets under management."

Source: KPMG International analysis, 2008.

All the emerging markets are investing heavily in their infrastructure; developing airports, shipping ports, roads, sewers, schools, hospitals, railways and communication networks in a bid to compete effectively. Meanwhile in more developed countries, much infrastructure is reaching the end of its useful life and needs replacing.

Traditionally owned and developed by the state, infrastructure is now so costly that it is proving beyond the pockets of the public sector. The OECD estimates that a massive US$70 trillion is required for infrastructure development worldwide and there is wide acceptance of the need for private sector involvement sometimes through Public Private Partnerships (PPP) and Private Finance Initiatives (PFI). However, such projects are still in the early stages in many countries, although we are increasingly seeing direct sales of equity to the private sector.

As a long lasting asset, infrastructure is an attractive proposition particularly for pension funds looking for longer-term yields. Virtually every large bank now has an infrastructure fund while financial institutions, in search of more cross border deals, are finding these funds a useful way to move into new markets.

Within infrastructure there are further micro markets for renewable energy such as wind, water and hydro. These will help to meet both environmental demands for cleaner energy as well as providing a hedge against increasingly costly carbon-based fuels.

The credit crisis does not yet appear to be unduly affecting the rise of global infrastructure funds, with the combined worldwide total reaching US$312 billion in 2007, leaping from US$225 billion in 2006, and almost two thirds of this coming from new entrants. The top twenty funds alone now contain over US$130 billion of assets under management.[1]

The progress has been particularly rapid in Europe. In January 2003 there were just ten funds but by July 2007 this number had risen to 58. And the value of European acquisitions had grown from less than US$2 billion in 2003 to over US$44 billion in 2006. It appears that the appetite for such instruments is still strong, as demonstrated by the recent 2008 launch of funds from ING (US$2 billion) and Morgan Stanley (US$4 billion).[2]

[1,2] KPMG International analysis, 2008.

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