FUNDRAISING TRENDS IN 2018

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What have been the major trends over 2018 in infrastructure fundraising?
Overall, fundraising for unlisted infrastructure funds picked up significantly in 2018 after a slow Q1. In particular, according to Preqin, $37bn was raised in Q3 2018, which is the highest quarterly total during the past five years. However, a smaller number of funds raised the capital bringing the average fund size in Q3 2018 to a record $1.9bn and 122% of target size. In contrast, the number of completed infrastructure deals has fallen for the third successive quarter, while the average transaction size has increased over the same period. This is a clear sign that sourcing attractive assets is increasingly difficult and commands higher prices. More specifically, unlisted infrastructure managers are finding it difficult to deploy capital in this environment and still hit their desired return thresholds.

In 2015, you said that investors were looking to deploy larger amounts of capital with fewer managers while increasing their appetite for more specialized strategies and geographies. Has this changed in recent years?
That observation is still valid and the effect on fundraising is even more noticeable. This is a trend that we see repeatedly across various asset classes as they mature, and it is gaining momentum in infrastructure. Investors are highly selective and tend to concentrate their investments on fewer firms, hence the record amount of capital raised by a relatively small group of fund managers. While this is a natural progression, fuelled by an investor's desire to focus on managers perceived as high quality, it becomes increasingly difficult for other managers in the space to attract capital. This means that managers must be able to articulate their differentiation, e.g. unique investment focus, strategy or geography.

With record levels of dry powder, how confident are GPs in achieving fundraising targets?
The combination of (i) a clearly differentiated strategy; (ii) a good track record of sourcing, developing, executing and exiting deals; and (iii) close relationships with key investors is critical to achieve fundraising targets. The infrastructure asset class still has ample room to grow as the need for infrastructure development and improvement across the globe is immense. Many investors are drawn to funds with similar risk/return characteristics; however, there is room for additional offerings across the risk/return spectrum.

Have you seen particularly innovative deals or structures emerge in 2018?
Certainly, in particular with staple and GP-led restructuring transactions. For example, the highly successful F2i III €3.6bn staple transaction clearly demonstrates that sophisticated investors are attracted to quality assets managed by experienced managers, even when the geographic focus could be perceived as riskier from political and/or economic standpoints versus other OECD countries.

ABOUT CAPSTONE PARTNERS

Founded in 2001, Capstone Partners is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms from around the world.

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