

3i's acquisition of EISER Global Infrastructure Fund portfolio

Alexandra Dockreay

19/01/2017

On 22 December 2016 EISER agreed to sell the portfolio of the mature EISER Global Infrastructure Fund to a new 3i-managed fund vehicle, funded by existing limited partners (LPs) and new pension fund capital. Fund managers are increasingly finding solutions to allow LPs of closed-ended funds to stay invested, at a time when high liquidity means reinvestment risk is not welcomed.

The 10-year EISER Global Infrastructure Fund launched in 2007 and has two one-year extension options. It raised €1.1 billion (\$1.17 billion) capital. Of its 10 assets, the fund had [divested two UK PFI schools project portfolios](#) in 2012 to listed fund HICL, then in 2016 EISER [sold Societa Gasdotti Italia](#) after an auction.

In 2014 *IJGlobal* reported that [EISER had abandoned a fundraising for a second €1 billion infrastructure fund](#) after the first close, citing a changing market with investors seeking “to go direct”.

A competitive portfolio sale

EISER began to seek a disposal solution for the first fund's six remaining assets in the second half of 2015. An amend and extend was an option explored but not selected.

Hafeez Ahmed, a founding partner and CFO of EISER, says: “There was a competitive process and 3i emerged as the top bid, in terms of valuation and viability and being able to provide a real opportunity for our investors to decide to stay with the assets to have a reinvestment/rollover option. There were other fund managers and other pension funds... including those from the UK {in the competitive process}.”

By around February 2016, 3i was more exclusively engaged in the process, and on 22 December 2016 [3i and EISER reached commercial close](#).

3i established a new fund vehicle, named 3i Managed Infrastructure Acquisitions LP. By the end of the first quarter 2017, it is due to own five out of the six remaining assets of the EISER fund.

The vehicle has approximately £700 million (\$861 million) of capital committed to it, to fund the acquisition of the portfolio equity, with a substantial amount of capital also reserved for funding potential accretive acquisitions for the assets and refinancing costs.

3i has put in £36 million and gained commitments from Dutch pension fund ABP's manager APG Asset Management and Danish pension fund manager ATP to cover the full £700 million. Dependent on the amount the EISER fund LPs decide to reinvest in the coming weeks, APG and ATP's shares will be diluted.

Infrastructure heavyweight APG is managing an allocation of 3% of its pension fund's capital for infrastructure. APG has

invested roughly €9 billion to date in the asset class, and in a couple more years there's potential for €4-5 billion more. This portfolio investment offered APG a chance to deploy a sizeable amount of capital, and in doing so negotiate higher governance rights and lower fees.

Given APG's significant internal human resource, Ron Boots, head of European Infrastructure, at APG Asset Management, points out the capability they have demonstrated to achieve due diligence for entire portfolios in certain timelines. Last year APG provided capital for a [continuation vehicle for Arcus Infrastructure Partners'](#) maturing first fund.

Boots says: "These [types of deals] really have worked well. We have worked with 3i and ATP on buying EISER's portfolio, and on the Arcus {continuation} structure, and I think there will be more to come. When we started with investing in infrastructure as an asset class in 2005 there weren't that many infrastructure funds. Clearly a lot of them have been raised since then, meaning some are now coming close to the end of their formal lives, be they 10 or 15 years. So {managers} need to come up with a plan: sell {assets} one-by-one, maybe roll forward or other creative things."

[Ardian is in the process of auctioning](#) its second infrastructure fund portfolio, while DIF for its second fund has been exploring options for a sale to a single buyer or a continuation fund.

The portfolio

The five assets the 3i fund vehicle is acquiring are:

- 100% of Belfast City Airport in Northern Ireland, which served 2.5 million passengers in 2015
- 100% of independent electricity distribution and gas transportation networks operator ESP Utilities Group in the UK
- 49% of Autovias de Peaje en Sombra which holds two long-term shadow toll road concessions in Spain (Autovia del Noroeste and Autovia del Turia)
- 49% of Concesiones de Intercambiadores de Transporte, which holds two long-term concessions for intermodal transport interchanges in Spain (Moncloa bus terminal and Plaza Elíptica bus terminal in Madrid)
- 25% of waste treatment and disposal business HERAmbiente based in Bologna, Italy

Including the assets' debt, *IJGlobal* has learned from a source that the "proportional enterprise value" of the entire acquired portfolio is about £950 million.

The one asset remaining in EISER's fund for the time being is Aste, which owns two Spanish thermal solar plants. The value of these was heavily reduced by Spain's retroactive tariff cuts in 2013, and their financings were restructured in 2015 and 2016.

Bernardo Sottomayor, partner in 3i's infrastructure business says: "From both ours and EISER's perspective, the bulk of the value of this asset actually lies on the international arbitration case that was brought by EISER and a number of foreign investors in renewables against the Kingdom of Spain. It is an ongoing arbitration with an uncertain outcome.... Given the context it proved very difficult to agree commercial terms with EISER so we ended up leaving it out."

EISER's Ahmed says: "We've been moving into the emerging markets for the last several years. We have a debt product in sub-Saharan Africa and we have a satellite office in Johannesburg. ... In Europe, we continue to work with groups more from a bespoke managed account perspective." In South Africa EISER advises a renewables debt fund Green Africa Power, while in Europe it has some undisclosed economic infrastructure focused mandates.

Advisers

Advisers 3i include Evercore Partners, Macquarie, Fried Frank and Linklaters. EISER's advisers were Park Hill and Weil Gotshal & Manges.

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