Infra funds – pride before the fall

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Since the beginning of time, the masses have been enthralled by building higher and bigger… a hubristic trait that usually ends badly and is repeatedly played out in the infrastructure funds space. This is why our quarterly report on fundraising by global infrastructure funds has so many in the industry predicting doom.

Analysis of closed-ended, unlisted infra funds published by *IJInvestor* hints that 2019 – having got off to a flying start with $20.6 billion raised in Q1 – could be on track to match last year's high of $104 billion:

- Q1 2018 – $25.4 billion
- Q2 2018 – $23.4 billion
- Q3 2018 – $39.9 billion
- Q4 2018 – $14.8 billion

Granted, final closes in the first quarter of this year have not matched performance in Q1 2018 coming in a good $5 billion lower, but there's a lot more on the cards.

Right now, we have the likes of Brookfield out in the market fundraising for its eye-watering $17 billion Brookfield Infrastructure Fund IV; while Macquarie's MEIF6 has hit its €6 billion hard cap and final close is anticipated shortly; and Antin IP is well progressed on Antin Infrastructure Partners IV with €5-6 billion in commitments; meanwhile Morgan Stanley is back in the market to raise North Haven Infrastructure Partners III, targeting $4 billion.

A level below that – but still pretty chunky – there is a plethora of funds in the market looking to raise around $1 billion.

Among them you have Equitix Fund V which is weeks away from its £1 billion hard cap; while Actis Long Life Infrastructure managed its expectations (target) down from $2 billion to $1.5 billion and has a shade more than $1 billion already raised; and Mirova Core Infrastructure Fund II is in the final furlough for its €1 billion vehicle.

And that's just the tip of the iceberg – a close view of the forthcoming market which (adding it all up) envisages around $37 billion being raised in the near term.

That's not the worst of it…

The *IJInvestor* database is currently tracking 364 infra funds that are in fundraising mode with a combined target of $284.3 billion… all of it targeting infrastructure and energy through equity and debt. And that's not including open-ended funds.

Browsing the *IJInvestor* database, you can see how fundraising has evolved – more like spiralled – over the last decade:

- $21.9 billion – 2009 – by 33 funds
- $35.1 billion – 2010 – by 58 funds
- $25.6 billion – 2011 – by 59 funds
- $41.6 billion – 2012 – by 86 funds
- $61.3 billion – 2013 – by 97 funds
- $71.6 billion – 2014 – by 93 funds
- $98 billion – 2015 – by 88 funds
- $80.1 billion – 2016 – by 77 funds
- $75.1 billion – 2017 – by 72 funds
- $104 billion – 2018 – by 72 funds

That's $634.8 billion amassed over 10 years with a fairly steady upward trajectory, and a couple of dips along the way. As to the number of funds, there is the accepted reality that more money is being raised by fewer funds.

Adding the amount raised by infra funds over the last 10 years to our Q1 2019 figures and the amount being raised at the moment, that gives you a cool $939.7 billion, and half of that is yet to be deployed.

In a hiatus

Let's not bore on about stretching the definition of infrastructure as this is overly-well-trodden territory. And – after all those stats – it's futile to bang on about the wall of cash while also pointing out that there aren't enough assets to target… without disappearing down the core-plus-plus rabbit hole.

We're approaching a tipping point between caution and daring (for want of a better word… which might be stupidity).

Buyers are facing the perfect storm of constrained deal flow, and an oversupply of capital… yet a reluctance to pay too much and veer too far away from core infra.

To date funds have largely erred on the side of caution and have been willing to walk away from deals where the price has gone through the roof, or returns have underwhelmed to the point of exit. Good examples of these are sales of stakes in Yorkshire Water, Newcastle Airport and Alpha Trains.

So, what's going to give first – the pressure to deploy or the cautious reserve of investors?

We all know the answer to that and are all looking forward to a parade of outrageous acquisitions of questionable assets at ludicrous prices for the foreseeable future.

What could go wrong?