PROBITAS PARTNERS

Investing in Infrastructure

Summer 2009

PROBITAS RESEARCH™

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Introduction

Probitas Partners is a leading independent knowledge, innovation and solutions provider to private markets clients. It has three integrated global practices that include placement of alternative investment products, portfolio management and liquidity management. These services are offered by a team of employee owners dedicated to leveraging the firm's vast knowledge and technical resources to provide the best results for its clients.

> **probity** (prō′bĭ·tē)
> *n. [from Latin probitas: good, proper, honest.] adherence to the highest principles, ideals and character.*

On an ongoing basis, Probitas Partners offers research and investment tools on the alternative investment market as aids to its institutional investor and general partner clients. Probitas Partners compiles data from various trade and other sources and then vets and enhances that data via its team's broad knowledge of the market. Accurate data is elusive in private markets. Probitas Partners shares this data in an effort to improve professionalism, consistently raise the bar on professional services, and assist all participants in their investment, portfolio management and fundraising endeavors.

In 2007, when we first published a white paper on institutional investment in infrastructure, relatively little had been written about the issues institutional investors face in integrating private funds focused on infrastructure into their portfolios. In two years, much has changed; this white paper updates the previous white paper and discusses current issues institutional investors face today. Included within this infrastructure white paper is our matrix of selected infrastructure funds, some in or thought to be coming to market over the next 12 months. A few important user notes on the listing:

- The list does not track funds smaller than $100 million or €70 million, as these are not often targeted by institutional investors;
- Information is collected from various data sources, but dynamically and accurately tracking when funds are launched and when they are finally closed is a difficult business. We constantly interact with investors and other industry sources in an effort to keep the data updated, and Probitas Partners appreciates receiving any corrections or updates which will help keep this listing as up-to-date as possible;
- Information on private equity real estate funds is captured separately in our *2009 Funds in Market & Real Estate and Hard Asset Deskbook*;
- Probitas Partners relies upon its knowledge of the investment pace of previous funds, informal discussions with institutional investors and general partners, and its knowledge of emerging managers. Specifically, we do not seek confirmation of these estimates with general partners in order to avoid SEC public offering prohibitions.

For the same reason, Probitas Partners does not include in this listing information on funds it is currently offering; qualified investors seeking information on Probitas Partners' placed funds should contact Probitas Partners directly in order to have the most complete picture of all institutional funds currently in the market.

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Key Trends for 2009

- **Governments increasingly support infrastructure programs in order to stimulate their economies**
  - Looking to repair and rebuild worn out infrastructure while creating jobs
  - Seeking to sell developed Brownfield assets as well as assets needing significant capital improvements in order to generate or conserve cash
- **Evolution of infrastructure fund model from highly leveraged Brownfield investment to more diversified models; driven by stronger operating and deal creation skills**
  - Model of over-leveraging Brownfield assets for high returns is under strain (Babcock & Brown, ALLCO)
  - Investors looking to manage risk by seeking fund managers with more operating and deal creation experience
- **More investors establishing separate, dedicated infrastructure allocations, programs and investment teams**
  - Investors are moving from reconnaissance on the sector to methodically committing resources to infrastructure
  - Fundraising in 2009 will be negatively impacted by the lack of liquidity in the market for all alternative investments, but we expect investor interest to rebound as public markets stabilize
- **Increased potential for new spinout and spinoff teams**
  - Experienced teams will look to spin-out from now weakened sponsors as the benefits of sponsorship has dramatically lessened
  - Investors increasingly favor independent teams with attributable track records and operational deal creation skills
- **Investor interest in geographies is shifting**
  - U.S. increasingly seen as the most interesting market for infrastructure investment driven by demand for projects and increased governmental support
  - Asia showing moderate investor interest as growth prospects moderate; in Europe investors are being more selective as the market became generally over-bid the past three years

Overview

Infrastructure investing has become an increasing area of focus among institutional investors and among various governmental agencies that are likely to be future sources of infrastructure deal flow.

For many newer institutional investors, infrastructure investing remains in a state of flux as it shifts from being a niche sector to becoming an independent asset class. Although there are a wide array of research papers available that cover the infrastructure sector in general, the focus of this updated white paper is on how institutional investors are approaching the market.

In the midst of the current maturation of institutional infrastructure investing, a full set of investment "best practices" has yet to develop. Long-standing and new investors continue to evaluate offerings against their existing portfolios, direct and co-investment objectives. The differences in investor approaches and infrastructure experience create some interesting conflicts, (even within the same investment vehicles), between investors with goals of near-term liquidity versus long-term exposure to these longer-lived assets.

The U.S. market, in particular, is the scene of increased investor interest and great expectations for new investment opportunities. Strained public debt markets, a growing urgency to address both new and deferred infrastructure needs, and government support through new economic stimulus programs are causing public entities to seek third-party capital for a growing universe of infrastructure projects.

Defining Institutional Infrastructure Investing

Infrastructure investing covers a wide range of different project types with different risk/return profiles. These investment opportunities are capital intensive and are either in heavily regulated industries (as in the energy sector) or are done under long-term concessions with public sector entities through Public-Private Partnerships ("PPPs"). Though most of the largest closed end funds focused on infrastructure are diversified to some degree by project type and geography, it is useful to review in some detail the various sectors individually.

Public-Private Partnerships

Historically, governments around the world have shouldered the burden of infrastructure finance through a variety of public-financing structures, usually offset by pay-as-you-go user fees or by taxes. However, stretched public finance capacities, together with recognized limitations on the public sector's effectiveness in managing projects pre- and post-completion, have created a growing trend of governments turning to the private sector for help. As a result, Design, Build, Finance and Operate ("DBFO") PPPs have emerged as one of the most important models to close the infrastructure-funding gap, not only for new projects but also for existing assets with large deferred maintenance needs. Besides simply providing a source of financing, many governments also look to the private sector for the experience necessary to improve productivity and service performance outcomes for infrastructure.

The major types of projects covered by PPPs include:

- **Transportation:** PPPs have played an increasingly central role in addressing the pressing need for new and well-maintained roads, tunnels, bridges, airports, ships, ports, railways, and other forms of transportation. Historically, transportation has represented more PPP transactions than any other sector. The ability to identify the DBFO elements of discreet transportation assets has facilitated the use of PPP's in transport projects. In addition, the growing acceptance of user fees for transportation assets allows for easy cash flow reconciliation. The scale and long-term nature of transportation projects are also well served by PPPs.

- **Water and Waste:** Water and wastewater management, traditionally the province of state and local governments, represents another fast-growing area for PPPs. Many countries are faced with increasing demands for clean water while the process of dealing with waste products amidst environmental concerns is becoming more complex.

- **Education:** PPPs can deliver substantial innovation to education infrastructure and service delivery. Under typical education PPPs, the private sector invests in the school infrastructure and provides related non-core services (school transport, food services cleaning, and so on) under contract while the government continues to provide core services, namely teaching.

- **Hospitals:** In recent years, a number of countries have aggressively moved to diversify the sources of healthcare funding by using PPP arrangements to meet the growing demand for healthcare infrastructure. Typically, a private consortium designs, builds, and operates a hospital or healthcare facility and leases it back to the relevant government entity.

- **Public Housing, Land and Area Development:** Several central governments have encouraged the use of concession models in pilot PPP public housing projects. Joint ventures allow the local governments to retain control over planning and development while utilizing the private partners' resources and expertise.

- **Defense:** PPP projects in the defense sector include equipment maintenance and installation, supply chain integration and operational support, depot maintenance, specialized military training, and real estate management. The projects typically are designed to overcome fiscal constraints, manage life-cycle costs, and reduce pressure on military personnel.

- **Prisons:** PPP projects in this sector have led to noticeable gains in construction times and costs for new projects as private sector expertise has been brought in, though the outsourcing of running prison facilities has been controversial at times.

PPPs were pioneered in Australia, Canada and the U.K., and have been increasingly adopted globally. The U.S. has been slower to adopt the model in part because PPP policies have heretofore not been set nationally, but on a state-by-state basis. In certain jurisdictions, labor unions have fought

against PPPs due to fears over their potential impact on unionized labor (a concern that will be touched on later in this paper), but overall PPPs have picked up momentum due to the focus on infrastructure investing via current economic stimulus programs.

Private Infrastructure Investments

Though discussion of infrastructure investments often focuses on high profile PPPs, there are infrastructure projects that are purely private transactions without government support or contracts, operating in industry sectors that are heavily regulated. The energy sector in particular tends more towards private investment in such projects such as natural gas transmission lines and wind farms, but there are also independent projects in areas such as transportation and waste management.

The returns in private investments tend to be heavily driven by capital gains rather than current income. Some investors that focus on PPPs as core infrastructure assets consider investments made in private investments — typically via operating companies versus individual assets — to be purely private equity investments, and not infrastructure at all. Others find the private investment approach interesting given its higher return profile, especially as part of a diversified portfolio of infrastructure assets.

Risk-Return Spectrum

Historically, risk-return in the infrastructure space was characterized in terms of the stage of development of an infrastructure project, with Brownfield representing the lowest risk and lowest return on one end of the spectrum, and Greenfield on the other end of the spectrum with the highest risk and highest return. Specifically, the stages were defined as follows:

Brownfield Investments: Refers to well established cash-flow generating assets, such as fully operating and stabilized toll roads. They are perceived to be one of the lowest risk assets for infrastructure investing. The typical Brownfield investment profile is perceived to be akin to a long-term bond, with an immediate and sustainable current coupon and a term of 15 to 30 years or more, with much of the overall return driven by current income.

Rehabilitated Brownfield Investments: This structure is effectively a blend of Brownfield and Greenfield risks and returns, typically involving projects that need significant capital for repairs and maintenance while simultaneously generating some element of current income from operations. An example of a Rehabilitated Brownfield investment would be the purchase of concession rights for an operating toll bridge that, though currently generating cash flow, requires significant immediate capital improvements for major retrofitting or expansion.

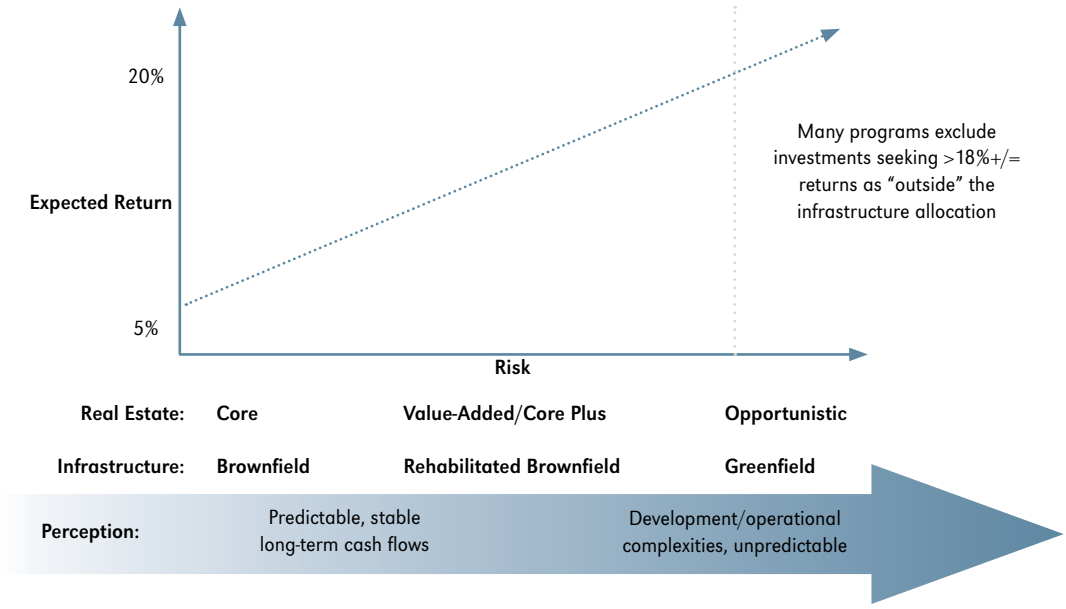
Greenfield and Private Equity Infrastructure Investments: These investments are either new projects that will not generate cash flow until completed or turnaround opportunities. Often these investments include design and build risk, as well as operating risk. These types of investments are often sold to other investors once the project is completed and stabilized, or is turned around and has begun to generate consistent cash flow. Greenfield

investments typically require deal-generating skills that go far beyond bidding in auctions, and the ability to create and organize projects as well as operate them. Private Equity Infrastructure investments include capital committed to projects with significant operational or regulatory issues that need to be addressed before a project can be turned around or optimized; a strategy that typically requires a high degree of operating and deal creation/complex negotiation skill.

While the definitions of the stages of infrastructure development remain valid today, the notion that they categorically define risk has been proved a falsehood after the recent collapse of the financial markets, and the simultaneous devaluation and performance failures of many of the infrastructure assets acquired over the past three years. Specifically, many of the Brownfield infrastructure investments acquired over the past several years during a period of aggressive bidding and leveraging by certain global infrastructure funds and Sovereign Wealth Funds (and other institutional investors via direct or co-investments) have disproven the simplified theorem of a stage defined risk-return spectrum. Theoretically "safe" Brownfield investments in assets like toll roads have in some cases proved to be riskier than rehabilitated Brownfield or Greenfield investments when too aggressively underwritten, or leveraged. In fact, some of the Brownfield deals completed in the past few years may represent complete losses as the current values of the underlying assets are dwarfed by the outstanding debt.

A simplistic picture of the risk-return profile for infrastructure investments looks more like the spectrum of risks and returns applied to most institutional real estate portfolios, as described in Chart I. A number of institutional investors investing in infrastructure actually consider funds targeting returns in excess of 18% as de facto private equity

Chart I Traditional Infrastructure Risk/Return Profile



Source: Probitas Partners

funds, more heavily focused on capital gains for returns rather than current income, and exclude such investments from their infrastructure allocations. Others include a Private Equity Infrastructure component to bolster the overall returns of the allocation, and typically reflect this expanded definition of infrastructure as they establish the benchmark for infrastructure investments.

As discussed above, categorizing infrastructure investment risk via these three broad stages fails to properly define the risk/return profile of individual projects. A Greenfield investment is not necessarily riskier than a Brownfield or Rehabilitated Brownfield project; it depends significantly upon the risks and how the transaction is structured. Ultimately, the risk/return profile of each investment is a function of the structure of the investment and how that structure allocates and addresses a number of important risks, including:

Leverage: The risk in any project, beyond some nominal level, is inherently increased by the addition of financial leverage. Interestingly, since Brownfield projects are generally considered more stable, they are usually easier to leverage aggressively to generate higher returns on invested equity. However, any project that is highly leveraged inherently has less financial and operational flexibility, and for projects whose returns are generated through user fees as described below, the combination of flawed revenue forecasts (or unanticipated economic down turns) and too much leverage can significantly increase risk and ultimately reduce or eliminate returns.

Elasticity of Demand: For those projects whose returns depend upon user fees, the demand for those services during the life of the contract drive the ultimate investment return. Even for a Brownfield toll road whose use characteristics are presumed to be well-known (thus perhaps less risky than a Greenfield project), the availability of non-toll alternatives now or in the future, or the impact of either soaring fuel prices or steeply rising tolls on traffic can reduce actual revenue. As a result, a Greenfield social infrastructure project with well-defined contractual structures and availability payments may be inherently less risky than a toll road whose revenue streams are driven partially or completely by user fees.

Inflation: As with any long-lived asset, inflation can detrimentally impact profitability. This risk can be mitigated contractually through inflation adjustment clauses, or in certain instances, through contracts hedging key operating costs. In certain PPP contracts that are poorly structured, however, these risks can be borne in part, or totally, by the project.

Political Risk: This is a broad area of risk, covering such issues as rejection of contracts, changing tax laws, currency risk (where the currency of the country where the project is located differs from the currency of the fund), political instability, or potential civil strife. Thus, projects in emerging market countries are generally perceived to have a higher degree of risk than those in developed economies — though at times, political problems can negatively impact projects in the developed world as well.

Additional risk factors that do not fit as neatly into a category are the mitigating impact of proprietary deal flow and contractual risk assignment. In the Greenfield arena, fund managers have more of an opportunity to

assist public sector entities in developing opportunities at an early stage, providing advice on how a project might be structured and helping to define the risks in a design, build and operate environment. To be involved in these situations requires not only a background in these key disciplines, but also a marketing program targeting these more proprietary opportunities in the development stage.

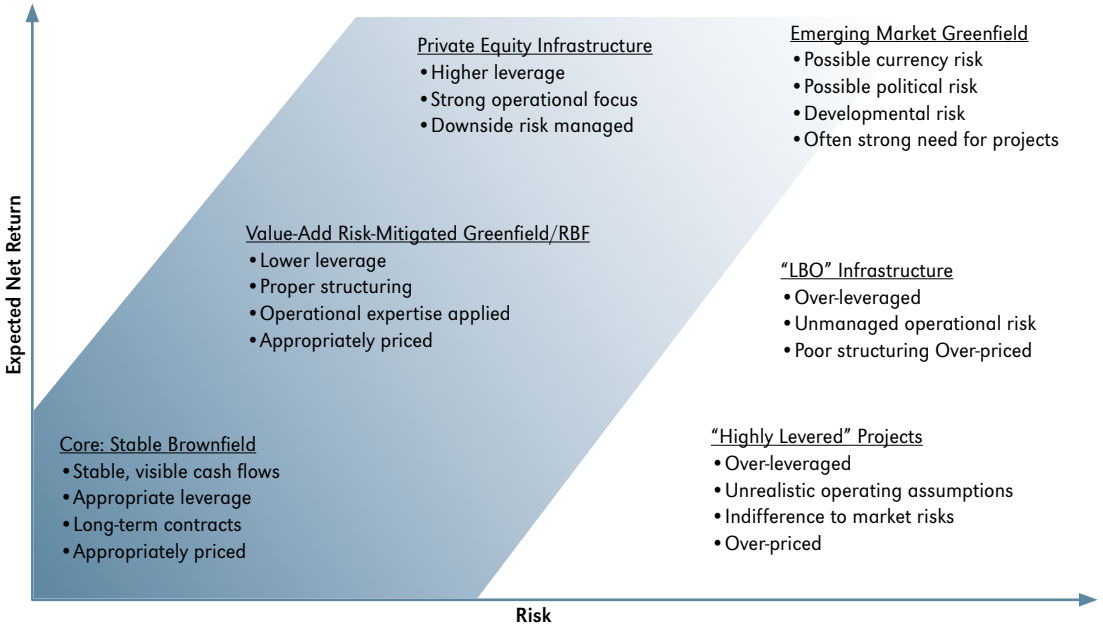
Though most of these opportunities will go to formal bid, investors involved early in the process will gain insight and knowledge of the specific priorities on the project that will give them a material advantage in the process, and will provide them a better ability to negotiate contracts and influence risk mitigation as part of their bid. In many Brownfield investments, contracts are essentially established as part of an auction process that is focused on generating the highest bid for a concession, with potential buyers bidding on a basic structure which is not as negotiable and is more likely to include a number of bidders with strong financial skills, but not necessarily strong operating backgrounds resident on their teams.

Any particular infrastructure project can contain all of the risks noted above. But in Greenfield projects they are typically addressed in a specific structure designed by the sponsor to manage risks and enhance returns. The construction of the allocation of risks and the assignment of returns determines the actual risk/return profile of a transaction. The underlying risk of a project has historically been over-simplified under a label like "Brownfield" or "Greenfield" that failed to properly reflect the real risk represented by an investment opportunity. In the more enlightened investment community going forward, investors have come to appreciate that a fund sponsor constructing a portfolio of projects is ultimately building a portfolio of risks and related pro forma returns that require a balancing of all these factors in order to develop an aggregation of investments that are meant to perform well as a whole.

Thus, the following Chart II illustrates a more modern view of the risk/return spectrum for institutional investors taking into account the array of risks, mitigating techniques and the resulting potential returns in each of the strategies. Depending upon the bundle of risks that are assumed on any project and how they are mitigated, Greenfield projects can clearly be within an appropriate risk/return band — and be less risky than an over-levered Brownfield asset overseen by managers with little operational infrastructure experience.

As discussed below, Greenfield and Rehabilitated Brownfield transactions also offer more of an opportunity for a manager to define and negotiate terms that impact risk and return in ways that are unavailable in most hotly competed for Brownfield auction transactions where the terms are well-established, and bidders are required to take a defined set of risks and price them, rather than define the risks and then determine which of them they want and at what return, and which they prefer to lay off or not accept at all.

Chart II Infrastructure Risk/Return Profile



Source: Probitas Partners

This more realistic view of risk and return is likely to have a material impact on institutional investors' portfolio construction going forward. We expect to see portfolios diversify away from a Brownfield focus in response to heightened competition for a limited universe of Brownfield opportunities resulting in less attractive yields, instead into an expanding universe of experienced managers in the Rehabilitated Brownfield and Greenfield spaces that can generate higher — sometimes materially higher — returns with the same or only modestly higher risk, and in recognition that in any event, new assets need to be constructed to meet current and future service needs of a growing global population.

Bond-Like is Not Riskless

Many new investors to infrastructure (and several more experienced investors) learned painfully over the past twenty-four months that while stabilized high-quality assets can generate "bond-like" return performance, such assets are not guaranteed or riskless. In periods of market turmoil, very low probability events can nonetheless come to bear (evaporation of debt capital, dramatic decline in user traffic, skyrocketing energy costs, etc.) that can cause stable assets to under perform, or even become distressed, if aggressively leveraged or poorly operated.

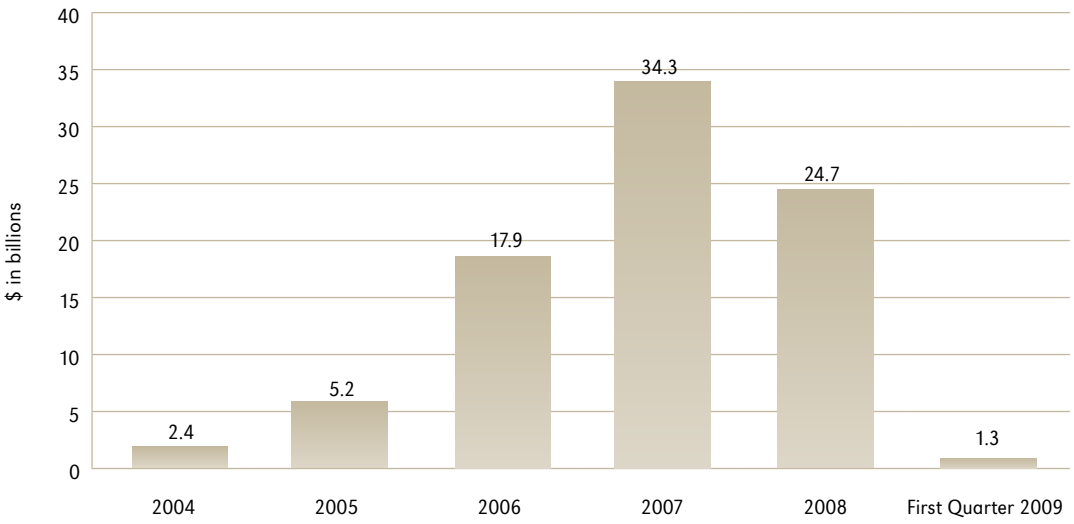
Similarly, as assets mature, while their cash flow may become even more seasoned, they are increasingly at risk from disruptive technologies or changes in use that, while not envisioned at inception of the investment, may make the asset less valuable or valueless 25 years later (e.g., flying cars eliminate the need for roads and bridges).

Some investors still believe that stable, monopolistic investments matched to their long-term liabilities mean they can rest easy for the next 30 years. But history has taught us that is not the case, even for the poster children of "uber stable assets" (like the Golden Gate Bridge or Chicago Skyway). Instead, what we now know is that manager selection, that focuses on requisite risk evaluation and mitigation skills and ongoing active management skills, remains the route to achieving hoped-for performance regardless of the apparent stable nature of any infrastructure investment.

Drivers of Institutional Infrastructure Investment

Over the last five years the fundraising market for private infrastructure funds has expanded dramatically due both to increasing interest from investors globally and a steady supply of projects seeking funding. The combination of these forces, coupled with abundant and inexpensive debt, drove closed-end infrastructure fundraising to a new high in 2007, as detailed in Chart III. Fundraising in 2008 fell from 2007's all time high after a strong start at the beginning of the year and continued to be very weak into the first quarter of 2009. The decline was not due to falling investor interest in the sector, but rather to the economic troubles and public stock volatility that plagued the market since September 2008, causing many investors to hold back from making commitments to illiquid assets until the markets stabilize. The drivers of supply and demand are further expanded upon in this section.

Chart III Global Infrastructure Fundraising



Source: Private Equity Intelligence, Private Equity Analyst, Probitas Partners

The Motivation to Invest

Institutional investors, especially pension and superannuation plans, are attracted to infrastructure investing for a number of reasons:

- **Asset/Liability Matching:** For those investors who have significant long-term liabilities, it allows them to match those long-tailed liabilities to long-lived, stable, high-quality assets. Few assets can be as long-lived as contractual maturities on infrastructure concessions and investing in infrastructure can lessen reinvestment risk.

- **Current Income:** Though the total life of many infrastructure projects is quite long, Brownfield and Rehabilitated Brownfield assets generate significant amounts of current income, both mitigating risk and attracting investors looking for an asset backed alternative to fixed income investing.

- **Inflation Protection:** Many infrastructure assets include inflation adjustment clauses in their pricing mechanisms, mitigating return dilution caused by inflation. For that reason, a number of investors place infrastructure in inflation-linked allocations along with such assets as timber and commodities.

There are other strategic motivations as well. For public sector pensions, investing in local infrastructure projects can boost local economies and help achieve public policy goals (e.g., increasing local employment) while at the same time safely investing pension dollars in assets that offer attractive risk/return profiles. Taft-Hartley Plans in the U.S. seem to be looking favorably on infrastructure investing as a way potentially to boost job prospects for members in construction and post-construction operating trades while achieving similar investment goals.

Infrastructure and Economic Stimulus Programs

Besides the increasing recognition of the attractive attributes associated with infrastructure investing by investors, over the last five years, the supply of infrastructure investment opportunities has been increasingly driven by the need for governments in developed countries to upgrade existing infrastructure while balancing their budgets. In the developed world, where most infrastructure projects have historically been funded by the government, stress on government budgets and credit ratings over the last 20 years has led to a situation where many infrastructure assets have been under-maintained and have deteriorated significantly. Collapsing bridges and electrical blackouts have caught the public's attention and have led to a situation where in the U.S. alone, engineers estimate that spending needs to rehabilitate deteriorating infrastructure exceed $2.2 trillion.

Over the last year the focus on infrastructure has both changed and intensified. In the current economic environment, many government agencies are backing infrastructure programs in order to stimulate their economies. Rehabilitated Brownfield and Greenfield investments are natural targets for stimulus programs as they inherently increase employment levels via

new construction and subsequent operation. Since they are project oriented, the effect on employment growth is temporary. While this does not permanently add to government employment, it theoretically achieves the goal of economic expansion by gaining the benefit of the Multiplier Effect as workers and suppliers spend earnings in the broader marketplace. Ultimately, most of these projects have long-term positive economic impacts, for example in increasing transportation efficiency and lowering costs.

The U.S. and Chinese governments have recently announced major stimulus programs in which infrastructure has a large part, while various governments in the E.U. continue to administer existing programs. Japan has announced a domestic infrastructure program as well as grants for neighboring countries.

In many cases, how money from stimulus programs will be deployed remains unsettled. In the U.S., for example, money being allocated by the Federal government to infrastructure is to be invested not only at the Federal level but also by the various states — and those states have significant leeway in deciding how the funds will be spent. Funds to be allocated are also going into projects that are in various states of planning.

It is significant, however, that these stimulus programs are not intended to replace private sources of capital in the market, but in most cases are meant to work alongside them in order to maximize the effect on the economy. Certain jurisdictions have been slow to formally adopt PPP programs because of concerns about how they will impact organized labor (a topic that is discussed in more depth later in this paper). But these stimulus programs and a consensus on the need for broad economic stimulus have given additional impetus to the adoption of PPPs

The current economic situation is also having an impact on Brownfield PPPs. Governments with attractive and well-maintained assets are increasingly considering selling concessions on them in order to generate cash to alleviate budget concerns. Though prices for these assets have declined modestly as the availability of debt has ebbed and the auction markets have modestly cooled somewhat, in many cases sales of such assets are one of the few options available to states to generate large amounts of cash.

Institutional Portfolio Considerations

Most institutional investors divide their portfolios into separate allocations that are meant to ensure proper diversification. Investments that do not clearly fit into an established allocation can have difficulty finding a home in an investor's portfolio. The following discussion covers various portfolio issues relevant to infrastructure investments.

The Issue of Portfolio "Fit"

A number of institutions, mostly from Europe, Canada and Australia, have included infrastructure investing in their portfolios for a decade or more. A majority of institutional investors, however, have recently launched infrastructure initiatives or are just beginning to evaluate the sector.

For most investors new to infrastructure investing, the hurdle issue is, "Where does it fit?" Even if an institution is leaning towards eventually setting up a separate infrastructure allocation, "toehold" positions are often done as a means of market reconnaissance, and these early investments are placed, at least on a temporary basis, into existing portfolio sector allocations. The existing allocation options most used for this approach are private equity, real estate or fixed income, but the risk/return profile of the spectrum of infrastructure investments does not perfectly overlap with the profiles of any one of these sectors.

We believe that infrastructure assets originate more like private equity transactions in the initial origination and structuring phases and, in the case of Rehabilitated Brownfield and Greenfield assets, the DBFO phase. In contrast, infrastructure assets behave more like long-duration alternative fixed income assets or long-term leased real estate assets in the operations and maintenance phase or the post-completion phase, and when properly structured are inflation-protected as well. Private Equity Infrastructure investments in the sector, on the other hand, act more like private equity buyouts.

The key determinants of risk relate to contractual structure and timing. Assets that are through initial structuring and formation, and are in the operating and maintenance phase (with consecutive quarters of stable operating history meeting or exceeding plan) are clearly more mature and less risky than assets that are in an early phase of validation (except where the structure of the deal includes availability payments or other forms of guaranteed payments). Assets that exist but require significant efforts to turn around performance are again in a different category.

Interestingly, the ultimate answer to where infrastructure "fits" for new investors is often colored dramatically by orientation. If the private equity team within an institution is asked to administer the infrastructure allocation or determine appropriate benchmarks and design a program, there is often an expectation of high teens-plus returns and shorter holding periods, more akin to private equity returns. This results in a bias towards higher-return oriented investments capable of generating such returns in shorter time frames. On the other hand, if the real estate team is given the same task, the performance expectations are often high-single-digit or low-double-digit returns, more akin to core real estate returns. The result can be a greater focus on investments in existing, stabilized assets with lower volatility, favorable risk sharing and risk mitigation arrangements and more rigorous contractual definition with resultingly lower overall returns.

While infrastructure investments can share attributes of private equity, real estate and fixed income assets, its proper characterization probably lies somewhere inbetween existing allocations for most institutional portfolios. As we hypothesized in our first infrastructure white paper, most investors with sufficient time to study the space will come to recognize the unique nature of infrastructure investing and create, or migrate to, a stand-alone asset allocation with dedicated and experienced professionals. This hypothesis is proving out based on responses to our surveys of investor sentiment covered later in this paper.

A recent derivative of a dedicated infrastructure allocation and team is the establishment of an inflation-linked or similarly-monikered program that can include assets such as commodities, timber, and infrastructure. A number of U.S. state funds have adopted this type of allocation including Oregon, Florida, CalSTRS and others. Each of these programs has unique nuances but is generally a "pocket allocation" that doesn't naturally fit into other portfolio allocations today. But the common feature is some inflation-hedging element, or some current return element that behaves differently than other allocations in periods of economic stress.

Many infrastructure concessions include the contractual right to adjust tolling rates over time based upon a relevant inflation index, providing a degree of revenue protection in a rising inflation rate environment that is not a normal feature of fixed income bonds. This feature makes many infrastructure investments attractive for such an allocation, and institutional investors interested in such programs are building teams with some degree of infrastructure expertise dedicated to this sector. By establishing these broader, catch-all allocations, however, most of these institutions are signaling, at least for the time being, that they are not establishing a dedicated infrastructure allocation and team.

Benchmarking

The history of infrastructure funds is relatively short and shallow compared to that of private equity or real estate funds. As a result, no source comparable to Venture Economics, Cambridge Associates, or NCREIF providing return comparisons for these funds has yet developed. Private Equity Intelligence, an on-line service that tracks individual fund performance through publicly available listings and Freedom of Information Act requests, has begun to track the performance of individual infrastructure funds. But that database remains at this point sparsely populated, mostly by funds that remain at a very early stage of implementation.

In the public markets, a few indices designed to track infrastructure returns offer a view of comparable investment performance. For example, Macquarie Bank and FTSE have combined to create a number of jointly provided indices covering infrastructure globally and in various regions. However, these indices are heavily weighted towards publicly-traded electric, gas and water utility companies that are not necessarily representative of the infrastructure sector in general. In addition, certain indices include "infrastructure linked" companies, such as publicly traded construction companies that generate substantial revenue from infrastructure projects, in their indices as well. None of these indices (either on a direct or adjusted basis) has won broad support as a benchmark from the more experienced infrastructure investors with whom we spoke and who responded to our surveys.

A few experienced investors have set their return benchmarks on an absolute basis, looking for returns of at least 8% to 10% in the sector. Others prefer benchmarks that are inflation-linked (e.g., 400 basis points over inflation), clearly reflecting the purpose of infrastructure in their portfolios. It should be noted that most of these investors tend to focus on investments in developed

countries. The risk/return profile — and thus appropriate benchmark — for funds focused in emerging market countries would obviously be quite different.

Given current investor focus on infrastructure opportunities with long-lived assets generating some amount of current income, we believe that both absolute and inflation-adjusted benchmarks are likely to become increasingly important. We also believe that as the market continues to mature and a deeper base of historical results is developed, "vintage year" analysis of returns for managers will become a more meaningful relative performance measure.

Publicly Traded Infrastructure Investment

To date, most institutional investors have invested in infrastructure through alternative investment programs via private partnerships, co-investments or, less typically, via direct investments into projects. Certain investors also invest in the sector through publicly traded vehicles, though this is much rarer.

Several issues face investors pursuing publicly traded infrastructure investments:

- **Allocation Definition: In Which Bucket Does It Belong?:** Investment mandates for internal or external managers of an investor's publicly traded portfolio can be very broad; there is a likelihood that some of the most heavily traded infrastructure positions may already be in an investors' public portfolio. That is especially true if public utilities are deemed to be infrastructure investments, as they are in many of the existing indices or mutual funds in the sector. If the definition is expanded to cover "infrastructure linked" investments such as construction companies, it can exacerbate the overlap. For this reason, most investors do not have separate publicly traded infrastructure programs.

- **Thin Trading:** Utility stocks are often included in infrastructure indices or mutual funds, they are typically very liquid and their pricing is robust. Though there are public infrastructure vehicles that are heavily traded, there are a fair number of listed though lightly traded vehicles, often on minor exchanges. This creates two problems:

  - **Market Volatility:** Stocks that are thinly traded are often volatile and subject to increased pressure in difficult markets. Though there is a public price for the stock, it can be subject to price pressure driven by overall market activity as well as technical trading issues quite separate from underlying valuation parameters.

  - **Lack of Liquidity:** Investors with large positions in a thinly traded stock may have difficulty exiting a position, and pent up demand for exits can exert downward pressure on price.

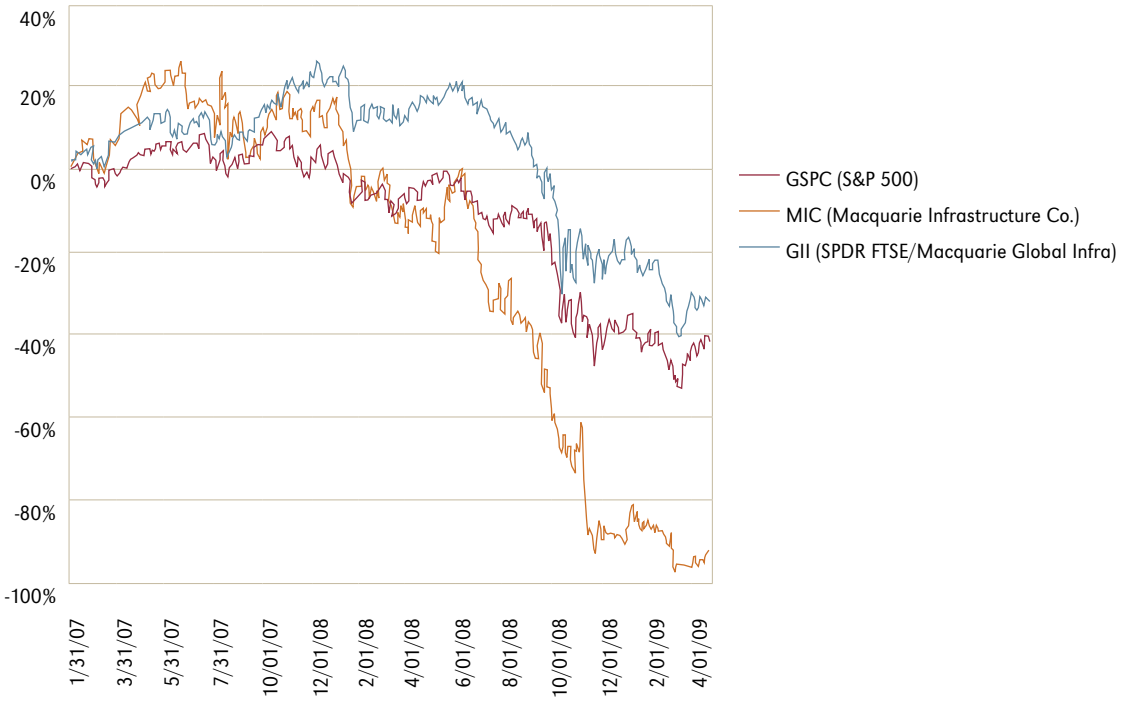
- **Sponsored Vehicles and Their Issues:** There are a number of publicly traded funds that are part of a fund family consisting of both public and private vehicles. Two major issues arise with these vehicles:

- **Potential Conflicts of Interest:** Historically, a number of publicly traded funds have purchased significant assets from privately held sister funds controlled by the same sponsor. This raises issues of potential conflicts of interest between management and investors not only in the pricing of assets but also regarding fees; many infrastructure vehicles have fee structures which allow management (and thus their sponsors) to collect asset acquisition and disposition fees, and with inter-fund transactions these fees can be charged on both sides of a transaction.

- **Sponsor Difficulties Effecting Vehicle Valuation**: Recently, Babcock & Brown, an Australian based infrastructure firm that has sponsored a number of publicly traded infrastructure vehicles, has gone into administration as it has not been able to service its corporate debt. These difficulties have dramatically impacted the trading value of the funds sponsored by Babcock & Brown, no matter the performance of their underlying assets, and has resulted in a scramble among those vehicles that are able to separate from their sponsor.

As one would expect, the performance of any particular publicly traded vehicle can differ widely. The previous chart tracks the performance of the FTSE/Macquarie Global Infrastructure 100 Index ("Global Infrastructure 100," that includes a heavy weighting of utilities) to the Macquarie Infrastructure Company ("MIC," containing a wide variety of infrastructure investments)

Chart IV S&P 500 vs MIC vs GII

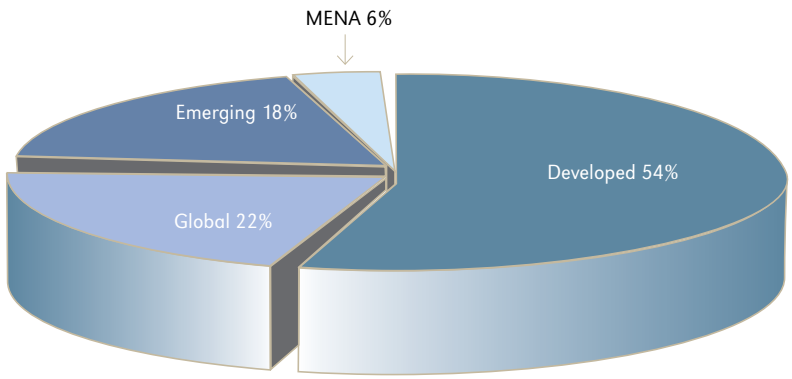


Source: Yahoo Finance

with the returns of the S&P 500 to provide a broad corporate comparison. The roughly two-year time period of the comparison was chosen because the Global Infrastructure 100 was only founded in January of 2007. (Most infrastructure indices are relatively new creations.) Though both MIC and the Global Infrastructure 100 performed well when compared to the S&P 500 in 2007, MIC began to significantly underperform beginning in the Spring of 2008, falling to roughly 90% of its January 2007 valuation. This volatility and steep decline is not what one normally thinks of in the infrastructure sector where current income is meant to provide stability, but this performance reflects both underlying structures of investments as well as the market's current perception of the manager.

Investors interested in publicly traded infrastructure fund investing need to be aware of all these factors when deciding whether to pursue such a strategy, how to treat an allocation and how to properly balance exposures across their entire portfolio. We expect that because of these issues, most programs will chose not to have a separate allocation for publicly traded vehicles, but will focus predominantly on private fund structures as they look to develop expertise in the sector.

Chart V Geographic Distribution of Funds in the Market



Source: Private Equity Intelligence, Probitas Partners

Fund Investment Considerations

Only a handful of the largest and most mature investment programs have dedicated direct and co-investment teams that execute on infrastructure investments. These large investors are often well-staffed, with well-compensated teams, and compete directly with the largest infrastructure funds — either alone or in consortia — for the largest infrastructure investments that come to market globally. Most investors who approach infrastructure investing for the first time do so necessarily through private fund structures, even if their ultimate goal is to set up active co-investment or direct investment programs.

Large limited partners have been frustrated that they have been unable to get the benefit they seek from their scale in investing in infrastructure funds. They remain motivated to garner more control, to get local benefit to satisfy their local social mandates to the extent possible, to deal proactively with labor issues that benefit their constituency, and to achieve better net returns in exchange for larger commitments. But achieving these goals has proved challenging. Many of the largest institutional investors were successful in gaining access to very large co-investments that brought down their management fee and carry dilution in the fund in which then invested. But unfortunately, many of the deals in which they co-zinvested have proved to be economically challenged. Further, they have found that between the costs of fielding a competent team to execute a co-invesment and direct strategy (estimates are 1.5% management fee equivalent, as discussed below), and the dead deal costs associated with many of the high-profile deals they pursued, that the costs of administering a co-investment and direct program are greater than anticipated, especially in light of lackluster returns.

All of these factors have several large programs reconsidering their co-investment and direct investment programs. Many are acknowledging the value and benefit of local players or fund sponsors who are able to deliver proprietary deal sourcing and a depth of operating and other skills only available on a much larger professionals team.

Since the vast majority of institutional investors today, and likely into the near future, will invest in infrastructure through traditional fund vehicles, this discussion focuses on issues that impact fund investing in infrastructure. Much of the analysis here is based upon information collected as part of our Probitas Partners Survey and follow up discussions with some of the largest active investors, all of which is included in detail later in this paper.

Infrastructure Fund Landscape

As of the Spring of 2009, nearly 80 closed-end funds were in or coming to market seeking over $90 billion in additional commitments. As detailed in ChartV, of these funds 54% target developed markets (either North America or Western Europe) mainly focused on Brownfield assets, while 22% are globally-focused (mainly on developed markets and Brownfield assets, with 18% focused on emerging markets in Asia, Southern Africa and Latin America. The remaining capital (6%) is focused on the Middle East/North Africa with most funds targeted on the energy sector.

Table I lists the ten largest infrastructure funds either raised to date or currently in the market to give an indication of what types of vehicles have been most popular in the market.

There are a number of similarities amongst these large funds:

Most Are Focused on Developed Countries: Most of the capital currently being committed is directed at the European and North American markets, even within those funds that have global investment mandates. However, it should be noted that there are a significant number of smaller funds focused on investing in India and the Middle East.

Sponsored Vehicles: Most of the largest funds in the market are or were sponsored by large financial institutions, and many of these funds are run more like a division of an investment bank than an independent fund manager. The difficulties experienced at financial institutions over the last year have made sponsorship less attractive, especially as investors prefer independent vehicles. Constrained balance sheets at financial

Table I Ten Largest Infrastructure Funds, March 2009

Rank	Fund Name	Firm Name	Location	Year	Amount ($MM)
1	GS Infrastructure Partners II	GS Infrastructure Investment Group	New York	In Market	7,500
2	Macquarie European Infrastructure Partners III	Macquarie Funds Management Group	London; Sydney	In Market	€5,000
3	GS Infrastructure Partners	Goldman Sachs Private Equity Group	New York	2006	6,500
4	Macquarie European Infrastructure Partners II	Macquarie Funds Management Group	London; Sydney	2007	€4,600
5	Macquarie Infrastructure Partners II	Macquarie Funds Management Group	London; Sydney	In Market	6,000
6	Global Infrastructure Partners I	Global Infrastructure Partners	New York	2008	5,640
7	Macquarie Infrastructure Partners	Macquarie Funds Management Group	Sydney	2008	4,000
7	Morgan Stanley Infrastructure	Morgan Stanley	New York	2008	4,000
7	Citi Infrastructure Partners	Citicorp	New York	2008	4,000
10	AIG Highstar Capital III	AIG Investments – Infrastructure	New York	2007	3,500

Source: Probitas Partners
Rankings based upon currency valuations in March 2009

sponsors, limiting their ability to provide cornerstone capital commitments, working capital and pre-specified portfolios to attract investors, make their sponsorship much less attractive to those fund managers who have been able to build quality track records over the last several years. Given all of this, we expect that the importance of sponsored vehicles will continue to decline.

Brownfield and Rehabilitated Brownfield Investment Strategies: Most of these funds target Brownfield or Rehabilitated Brownfield investments and are rarely involved in Greenfield transactions. Certain of these funds do pursue Private Equity Infrastructure investments that require substantial re-positioning, typically in regulated businesses that require operational expertise to reposition or grow.

Besides these large vehicles, there are also a number of smaller funds in the market (see Appendix II, page 54, for a detailed listing). Most of these funds have either a narrow industry sector or geographic focus. As the market develops, we are likely to see the creation of more independent funds staffed by professionals spinning out of sponsored funds, pursuing a variety of more focused strategies and geographies.

Fund Duration

There is no clearly established standard for fund duration today, and different vehicles handle duration in differing ways.

Traditional Private Equity Fund Structures with Ten-Year Maturities: These structures are the most common in the market today and have won broad acceptance from newer investors. Experienced investors with more mature portfolios often complain that such vehicles seem inappropriate for investments whose underlying maturities may be 15 to 30 years. These more mature investors often seek to continue exposure to contractually well-defined and stable assets for as long as possible. To address this issue, some vehicles are now offering 12-year or 15-year maturities (or longer), providing a more efficient holding period for assets with inherently long durations.

Hybrid Structures: These structures were designed to invest across the infrastructure risk/return spectrum, aggregating investments with both shorter and longer maturities. Greenfield investments can be sold once they are completed and stabilized (generating higher IRRs than if the intent was to hold them to ultimate maturity), while other projects with naturally longer maturities are often either transferred in some way at the end of the life of the vehicle to limited partners focused on long-tailed returns, sold to other investors, or transferred to vehicles affiliated with the firm and sponsor, with longer durations and moderated economics to reflect a more passive, stabilized role.

In some cases the transfer between affiliated shorter-term oriented funds and longer-term affiliated vehicles has caused significant conflict issues for the fund sponsors. As

a result, funds that include such features appear to have either lost institutional support because of the risk of fiduciary liability in the case of such obvious conflict, or gained much greater scrutiny and now include significantly greater limited partner protections in the event of such transfers.

Still, no common methodology has emerged to address the most difficult conflict issue: pricing of positions upon transfers to affiliated entities when some investors want to continue their exposure and others want to cash out. Some newer funds have set up sales mechanisms to affiliated vehicles with some element of third-party validation buying a portion of the transferred asset. Other evolving structures include opt-outs at the end of the fund life for shorter-term investors and similar structures that seek to offer shorter-term investors a contractual right of realization while reserving longer-term investors the opportunity to stay with assets they know for a longer horizon. Given the divergent interests of new and mature investors in having shorter and longer-term holds, respectively, this will continue to be an issue that fund sponsors will seek to address with greater flexibility for both parties at the realization of an asset.

Open-Ended or Evergreen Structures: Favored by certain investors as a natural vehicle for long-tailed assets, open-ended vehicles create policy and legal difficulties for others whose alternative programs prohibit them from investing in partnerships without a fixed and limited duration. Exit mechanisms for open-ended vehicles that allow investors liquidity after a set period are sometimes impacted by the same pricing issues that affect hybrid vehicles. Many funds that include an open-ended structure have been targeted at retail investors who seek a bond-alternative with some upside potential, though these structures are also favored by a number of very experienced investors in countries such as Australia and Europe. Ultimately, by the nature of these structures, they provide for a current income for new investors, mitigating or eliminating the J-curve, often lower fees compared with closed-end funds, and liquidity potential via a redemption facility. Most of the open-ended structures carry a lower fee and carry structure that contemplates a very long-term hold by investors. This has resultingly become a more attractive structure for investors who intend to match liabilities long-term, but who still seek a liquidity option for unforeseen circumstances.

A major issue for open-ended structures that charge carried interest is how that carry is calculated. Since they are not publicly traded and they are geared towards holding assets for a very long period, any carry paid to the management on an interim basis has to be done on the basis of a Net Asset Value calculation. The mechanics of such a calculation and the mechanics of a distribution waterfall can vary significantly from fund to fund, with some being much more investor friendly than others.

None of the approaches noted above has become the dominant investment structure in the market and the different structures available reflect the differing needs, desires and sophistication of investors, as well as the varying natural maturity structures of investment opportunities. Interestingly, in talking with experienced investors we found dissatisfaction with attributes of most of

the structures that currently exist, but no consensus around a preferred approach going forward.

Liquidity

An important issue for investors is how they will deal with the ultimate liquidity of their fund investment if, at the end of a partnership's stated life, a significant number of positions remain in portfolio. Most private equity funds allow for extensions of a partnership's life for one to three years in one fashion or another. But these extensions are meant to deal with small, tag-end positions that may not be ready for exit, rather than a larger portfolio of naturally long-lived assets. The Hybrid and Open-ended structures described above are meant to address this issue directly, but have failed to gain wide acceptance, especially with newer investors, because the structures are inconsistent with many institutional investors' current preferences or delegations of authority. Other liquidity alternatives are:

Sales to Other Sponsors or Buyers: General partners can always elect to sell positions in their portfolios. Potential purchasers of these positions include:

Strategic Acquirers: Depending upon the sector, there may be strategic acquirers looking to build their base of assets or contracts in order to gain scale for which certain positions may represent attractive acquisitions.

Sophisticated Primary Investors: Many of the primary investors active in the market are large, sophisticated investors — such as public pension plans — with strong appetites for cash generating contractually defined investments that are likely to be the type of positions held in a fund at the end of its life. A number of these investors already have active co-investment and direct investment programs that make excellent targets for such sales.

Specialist Vehicles: A number of specialist vehicles exist (such as publicly traded vehicles or specialist secondary funds) that actively look to purchase positions in the current market that fit their portfolio needs. Given the cash flow profile of more mature investments, we continue to believe that structured or securitized vehicles will be created in the future targeting acquisition of these types of assets as the market matures.

Secondary Sales by Individual Investors: The sale of partnership positions, as distinct from the sale of underlying transactions in a portfolio, is always an option for investors in a fund. However, since infrastructure is a relatively new asset class, secondary sales of partnerships have been limited. As the primary market develops and deepens we expect that the secondary market for these interests will deepen as well, with likely interest coming from both sophisticated primary investors and specialist vehicles described above.

The open-ended fund structure may actually provide a more effective liquidity alternative. Given that most open-ended funds are intended to hold stabilized long-lived assets, theoretically, those yield-driven assets are easier to finance and enjoy an active and ready market regardless of economic downturns. While there may be some pricing discount, and leverage may be more expensive or relatively less available in time

of stress (like the current market), the typical long-term stabilized assets should offer better saleablity and better leveragability, providing better liquidity for redeeming investors than most other asset classes and vehicles. Whether that is true or not, will be borne out by this current market.

In the future, we believe that hybrid and open-ended structures are likely to become more important as the transfer pricing issues are addressed. We expect that the development of deeper private and public markets for these long-term assets will provide an increasing number of liquidity options both for fund managers and individual investors

Pricing

Many of the private infrastructure funds currently offered in the market are priced roughly in line with the "2 and 20" private equity pricing model (2% management fee and 20% carry). Many of these funds are currently focused on Brownfield investments in the developed markets, and without large amounts of leverage that raise their risk profile are most likely to generate overall returns in the range of 10% to 12%. Institutional investors are increasingly taking the position that the return profile of this style of infrastructure investing does not justify the level of fees and carry, and many are pushing for other lower cost structures.

As we covered previously in the section on the risk/return spectrum of infrastructure investing, various funds have very different profiles. We believe that as the market develops further, differentiated manager pricing will evolve as it has, for example, in the real estate markets. Funds strongly focused on Brownfield investing in the developed markets generating large portions of their return from current income will utilize structures more in line with fees and carry on Core real estate funds. On the other hand, those funds creating significant value by pursuing proprietary deals in the Rehabilitated Brownfield and Greenfield spaces targeting returns of 15% to 18% will be justified in charging higher fees, while Private Equity Infrastructure strategies targeting returns of 20% and above will more closely follow the private equity model.

In addition to the headline numbers, the implementation details of these fund economic structures are important to understand the true net economic impacts for a fund investor. The important nuances of infrastructure fee structures include:

- **Calculation basis for management fees:** Certain structures charge fees based upon fund NAV as opposed to the private equity model where fees are charged on the commitment amount during the investment period and on the cost basis of outstanding investments thereafter. Though such a structure can result in lower management fees early in a fund's life, it does provide an incentive to the fund manager to deploy capital rapidly no matter the environment, and as the NAV of the fund grows so does the amount of fees being paid on a percentage basis compared to the original commitment;

- **Acquisition and disposal fees:** In structures more akin to the real estate

industry, certain funds charge acquisition and disposal fees, or even financing fees, that are for the account of the fund manager, not the fund, thus driving up investor costs and distorting alignment of interest;

- **Preferred rates of return or hurdle rates:** Certain funds provide preferred rates of return for investors that are more attractive than others while others provide for a hurdle rate that investors must achieve before the fund manager receives any carry;

- **Carry calculation and distribution methods:** Certain vehicles that are longer lived calculate and pay carry on a valuation basis instead of a distributed cash basis, and investors need to be comfortable both with carry calculations and "high water mark" or clawback provisions on these structures. Funds that charge management fees on NAV are on a de facto basis charging a carry through that structure.

In any negotiations concerning a Limited Partnership Agreement, investors should seek a package of terms that accomplish an alignment and motivation to achieve the announced strategy, not just simplistically "2 and 20" or a lower fee and carry result. That is especially so in infrastructure fund investing and investors need to review in detail the complete package of terms and governance provisions that are being presented.

Investors who insist on fee and carry structures lower than "2 and 20" for Private Equity Infrastructure strategies may give up outstanding returns by investing with less-proven managers (those willing to accept below market terms), simultaneously increasing their risk. Similarly, investors who seek to gain value-added exposure via managers focused on Rehabilitated Brownfield and Greenfield strategies who add value at origination or via operational expertise would be short-sighted to insist on fees appropriate to a passive Brownfield fund strategy because value add strategies are inherently more staff intensive: you need a deep bench of experienced professionals to properly staff a multi-billion dollar value added fund, whereas you may need a smaller, less diverse team of senior professionals to more passively manage stabilized Brownfield assets.

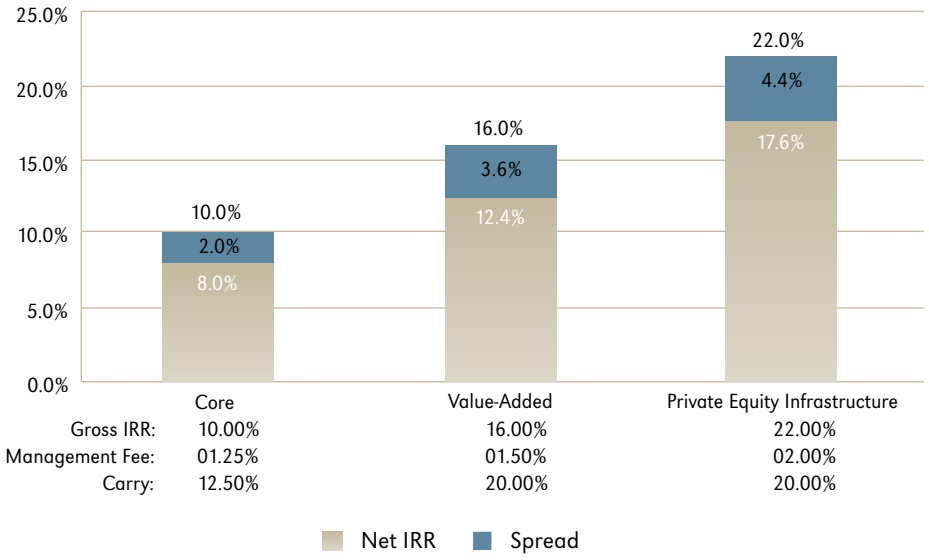
Chart VI provides, on a simplistic basis, comparative Gross and Net IRRs for a series of funds with different risk/return profiles and different fee structures demonstrating the wisdom of not being overly restrictive on management fees for higher-returning strategies.

There is no single "right" or "market" fee and carry structure today for infrastructure funds; a single, uniform structure simply does not reflect the varied risk/return profiles found in various vehicles employing various strategies. Investors need to gain comfort with the investment manager and strategy of a fund on which they are performing due diligence, and they must also be comfortable with the package of terms and conditions being presented to ensure alignment of the parties and an ability to appropriately staff and execute the manager's strategy.

Available Fund Manager Capabilities

The pool of experienced managers within the infrastructure sector remains exceptionally thin relative to the opportunity. The largest share of talent continues to come from the investment banking world, where most professionals gained experience arranging debt financing for large infrastructure projects around the world. Not surprisingly, with most of the experienced personnel coming from the investment banks, many of the recently funded vehicles are investment bank-sponsored funds that sought third-party capital. There remain relatively few truly independent vehicles doing infrastructure investing. But that is changing with the stress on many financial institution sponsors and the clear preference by increasingly

Chart VI Fees for Infrastructure Funds, Net IRR as Function of Fund Type and Fees



Source: Probitas Partners

sophisticated investors for independent, aligned platforms.

In selecting a fund manager, investors need to focus on the following:

Investment Backgrounds: Infrastructure investment is a rapidly growing area, and many of the funds active in the sector continue to be first-time vehicles. There are relatively few investment professionals in the sector that have attributable equity investment track records (much less good performance given recent investment experience). As indicated above, most of the professionals focused on infrastructure investing today have backgrounds as debt investors or arrangers in the sector. Ultimately, investors will have to vet each team in the context of their announced strategy and the skill that they bring collectively to execute that strategy.

Quality of Track Records and Attribution: Since the infrastructure sector is rather new, few investment professionals have long track records and the track record of many professionals is currently being negatively affected by the global economic down turn. In addition, investment professionals spinning out of financial sponsors often find it difficult to get formal attribution from their previous employers. The combination of these two factors means that investors will be required to dig more deeply than usual in the diligence process, and will need to make hard decisions based upon team skill set and references rather than audited track records.

Operational Experience: Though investment professionals with specific equity investment experience in the sector are few, most general partners bring operational and financial expertise in the sector. Those with longer and varied backgrounds in the sector, through different cycles and in different geographies or areas of specialization, are more likely to have the requisite skills and experience to perform well in the future.

Sourcing/Deal Creation Experience: Brownfield deals, given their scale and involvement of public entities, are likely to continue to be predominantly offered via auctions. The opportunity to create value in infrastructure investments via proprietary sourcing remains very limited. Greenfield and Private Equity Infrastructure deals, and Rehabilitated Brownfield deals to a lesser extent, are much more susceptible to value creation at inception, with an ability to develop deal flow that is much more proprietary. In addition, by being involved early in the process in developing Greenfield deals, managers with the right skill set can negotiate contractual protections in projects that materially mitigate risk. Quality managers who understand how to work with public and private entities to develop investment opportunities, or those skilled at best leveraging the public market process to create advantage for their investors, will be able to demonstrate relatively outsized returns via this skill set. Investors need to assess the need for these skills in light of the announced strategy and compare it with the talents assembled to achieve the goals.

Sponsored vs. Independent Vehicles: A number of large financial organizations have extensive histories in infrastructure fund sponsorship, but their sponsored vehicles also face potential conflicts of interest that concern investors. Of special concern is team stability: investment professionals at a number of large sponsored

vehicles are employees instead of partners, with no vested stake in the carry of the fund or even a direct measurable nexus in their compensation to the fund's performance. Additional conflicts of interest exist where sponsoring entities generate significant fee revenue from originating, financing, selling or managing underlying investments, especially when such entities have competitive investment vehicles, or affiliated vehicles into which assets are transferred. Ultimately, the greatest concern for investors considering a sponsored vehicle is how will the management of long-term assets be handled if the team leaves or is fired? While investors can cease funding additional capital commitments during the investment period under most LPAs, that doesn't address the issue for the decade or more that follows where linking the team's compensation to the performance of the underlying assets is theoretically part of the important contract between the parties ensuring long-standing alignment of interests.

The Importance of CoInvestment and Direct Investment

As discussed above, new and established investors' goals and objectives for infrastructure investments vary widely. At the simplest level, an investor seeking exposure to a stable cash flow from an inflation-hedged, long-tailed asset may find infrastructure inherently interesting to match with similar maturity liabilities and be willing to pay the fee and carry of a fund structure to gain such exposure.

Large institutions with more experience in the sector and the resources to build large internal teams may only look at fund investing today as a means of enhancing co-investment deal flow in order to expand exposure at a reduced cost, or in the earlier days of a program development, gaining some leverage from the fund's investment team as a stepping stone to a more independent direct investment program. But geographic familiarity and unique industry and local or regional knowledge and relationships will likely continue to play an important role in asset formation. Unique geographic and industry knowledge and relationships and skill on the part of fund managers can benefit even the most seasoned institutional investor teams, and potentially vice-versa where local public-sector pension plans can bring their governmental contacts to bear in developing deal flow.

However, most institutional investors lack the resources either to underwrite or make timely commitments in co-investments. Even those with co-investment capabilities often lack the specific infrastructure experience and capabilities required to diligence and evaluate infrastructure co-investments in a timely manner. As a result, only a small — albeit growing — universe of very large institutional investors actually have the capability to execute infrastructure co-investment opportunities on their own.

For smaller and medium-sized funds, or larger funds new to the sector, providing co-investment opportunities to larger limited partners in a fund can be beneficial. By having a ready and willing source of capital in the form of existing fund limited partners, the fund sponsor effectively has a larger check book than represented by the fund alone, and can more effectively negotiate and win larger transactions without having to seek co-investment from non-affiliated

investors or from competitive infrastructure funds. This can create benefits for all limited partners of the fund.

Lastly, given the growing expertise resident on many investment staffs at institutions likely to participate in co-investments, their participation may enhance the quality and performance of fund transactions. Given many of these co-investors' direct investment capabilities, they may actually be a source of new investment opportunities for the fund. This may be especially true in this new environment where pension funds and other government-affiliated pools of capital may enjoy unique access or influence in originating investment opportunities from their related governmental brethren.

Though the impetus for creating co-investment and direct investment programs for these large investors was to increase net returns by decreasing fees paid externally, a number of them are finding that is not necessarily the case. A few of the larger direct and co-investment investors have recently shared that their cost of properly staffing such efforts is equivalent to a management fee on deployed capital of roughly 1.5%. That, plus the relatively high dead deal expenses in a very competitive Brownfield market (often several million dollars on a transaction), illustrate the high cost to properly staff and execute on co-investment and direct strategies. In addition, several large institutional co-investors participated in syndicates that aggressively bid for Brownfield assets that were highly priced and highly levered once purchased, and are facing losses. This highlights the fact that saving on fees does not necessarily generate superior net returns if the wrong investment decisions are made by the in-house team.

The Influence of Organized Labor

Organized labor impacts infrastructure investing in the developed world in several ways, and trade union-linked pension and superannuation plans are becoming increasingly important as investors.

Trade Unions in the Construction Trades: The construction trades, even in the U.S. where the importance of organized labor in the private sector has been declining, are heavily unionized. These unions see the advent of increased infrastructure investing as an opportunity for their members for increased employment via Greenfield and Rehabilitated Brownfield investments.

Trade Union Pension and Superannuation Plans: These pension plans (governed in the U.S. by the Taft-Hartley Act) are natural investors in long-term assets, and a number of them are either active investors in infrastructure or are considering investments in the sector. Many of them perceive private infrastructure investing as relatively friendly to organized labor because of the potential for creating jobs in the construction trades in addition to the ability of the sector to create attractive returns for pensioners' money.

Public Sector Pensions: To date, some of the largest investors in infrastructure have been large public sector pensions. Many of the members of these pension plans are members of unions, and the boards and investment committees of these plans are often composed of a combination of union representatives, management and government officials. Certain of the beneficiaries of these plans are also employed

directly in infrastructure operation (as toll booth operators, for example).

The primary focus of the pension plan managers is their fiduciary responsibility to their beneficiaries. They are tasked with generating the necessary returns to provide the promised benefits to plan participants. However, typically they are unwilling to make investments that in some high profile manner are perceived to undermine the current interests of their beneficiaries (i.e., result in job export or loss).

Just as the risk/return profile of Greenfield and Brownfield investments are very different, they are also perceived differently by some members of organized labor. Greenfield investments are clearly perceived positively as potential new job creators. Brownfield privatizations are typically more controversial, as established assets with long operating histories are either sold outright or contracted through concessions with private operators. As one would expect, Rehabilitated Brownfield projects are a mix of both of these, with some degree of new construction job creation due to extensive repairs, followed by the transfer of the assets or concessions to the private sector. Global infrastructure investment patterns and trends over the last 20 years suggest that in the realm of public projects, Rehabilitated Brownfield and Greenfield projects are likely to exceed Brownfield privatization and concessions in both number and amount of funds deployed over time.

The U.K. experience with labor protection standards offers one of the more meaningful case studies for the effect of privatization on labor employment. As a matter of public policy, the government of the U.K. has made it clear that the potential to bring improved value for money in public services with greater quality and innovation in infrastructure projects should not be at the expense of labor. As a result, the government has formalized labor protection standards that require private operators to offer jobs with compensation and benefits that are comparable to the public sector. However, comparability in the U.K. does not constitute guaranteed employment, as the private sector is left to its resources to evaluate workers and seek productivity improvements in the DBFO elements of infrastructure projects. In the U.K. to date, the government has generated greater efficiencies through PPPs while continuing to pursue a strategy of enhanced worker protections and ensuring fair and reasonable treatment in infrastructure projects.

So far, the situation in the U.S. has not produced a unified approach. PPP rules are being put in place on a state-by-state basis, and in many cases are still evolving. At the same time, certain Taft-Hartley and public pension funds have taken it upon themselves to adopt forms of Responsible Contractor ("RCP") Policies covering infrastructure investing for specific-fund investments that they are pursuing. Though RCP provides a generally labor-supportive framework, it is not uniform and remains subject not only to negotiation but interpretation in implementation. As a result, different infrastructure vehicles can find themselves subject to different self-imposed restrictions regarding their use of labor depending upon whom they have accepted as investors and what specific RCP language they agreed to abide by. This is a concern for many fund managers, and should be of concern

to investors as well if the fund's adopted RCP language results in a competitive disadvantage compared with other competitive funds.

Infrastructure Investor Survey Summary

During the first half of September 2008, Probitas conducted a survey to gauge investor interest, opinions and perspectives on investing in infrastructure funds. We received responses from 218 senior investment executives from public and corporate pension plans, fund-of-funds managers, family offices, endowments and foundations, consultants and advisors, insurance companies and other agencies. The survey was completed just as the current turmoil in the capital markets began, but does reflect investor opinion in what was the beginning of a difficult market.

The complete results of the survey are detailed in Appendix I, but the following summarizes the top-line findings from the survey on investor preferences, perspectives and practices:

- **High Level of Interest in the Sector:** Though infrastructure investing is a relatively new activity for the majority of institutional investors, especially in the U.S., respondents to the survey are extremely interested in the sector. Some 36% of survey respondents already had active infrastructure investment programs in place and almost 50% confirmed that they were either actively considering infrastructure investing or would opportunistically do so in the future.

- **Most Place Infrastructure in Separate Allocations as Programs Mature:** When asked where they would place infrastructure within their portfolios, a majority of respondents stated that they would put it in a separate allocation specifically for infrastructure investments, rather than as part of their private equity allocations. Active investors who have made several investments are more likely to have separate allocations, showing that a rapidly growing number of investors now have dedicated resources devoted to the infrastructure sector.

- **Stable and Increasing Allocations:** 29% of respondents said that they would increase allocations to infrastructure in 2009 while 35% reported that they would continue to allocate similar amounts. 27% said that their allocations in 2008 would be opportunistic, based upon both market conditions and available investment options. Only 5% of respondents said that they planned to decrease future commitments to the sector.

- **Mid-Teens Return Expectations:** The vast majority of investors expect net returns in infrastructure to be in the range of 10% to 15%, with a slight majority favoring the 10% to 12% range. Interestingly, for investors with active infrastructure investment programs, expectations are somewhat lower than the overall responses, with 47% of active investors expecting returns in the 10% to 12% range, clearly reflecting a focus on Brownfield investments. Respondents who placed infrastructure investments in their private equity allocations have higher expectations, with 22% of these

investors anticipating returns above 19%, reflecting as well a greater interest in opportunistic strategies.

- **Preference: Global, Then North American and European:** When asked if they had a preference for infrastructure funds with specific geographical investment mandates, 66% cited a bias towards global infrastructure funds with significant allocations to OECD countries, with funds focused on North America preferred by 31% of respondents and Europe following at 23%. Interest in funds strictly focused on emerging markets trail significantly but has grown since last year's survey.

- **Fund Duration Preferences Remain Mixed:** Investors were asked if they had a preference for the fund's structure or life. One-fifth of the respondent base were indifferent to the underlying fund's term and structure while 30% prefer a 10-year fund term, typical of private equity funds. Among experienced investors, the next strongest preference was for hybrid 10-year vehicles structured to deal with both shorter-term and longer-term investment opportunities, with funds with 12 to 15 year lives and evergreen vehicles following in attractiveness. We would expect in the future that there will continue to be much more variety in fund duration than there is in the private equity market, with structure more heavily linked to specific investment strategy.

The Current Economic Environment

The focus of this paper has been on the longer-term trends affecting infrastructure investing and institutional investors. As mentioned briefly at various points, infrastructure return performance is not immune from the current global recession.

- **Pressure on Commitments to Illiquid Assets:** Commitments to infrastructure funds have slowed dramatically since September of 2008, as they have for all illiquid asset classes, as institutional investors focus on their immediate liquidity needs and look for stabilization in the publicly traded markets. We anticipate increased commitments to infrastructure funds in the second-half of 2009 as the market stabilizes and the recession ends.

- **Increasing Distress on Over-levered Assets and Financial Sponsors:** Though nowhere near as distressed as the large buyout market, there are projects and funds that are having difficulty, especially in cases where their financial sponsor is in distress, as has been the case with Allco and Brown & Babcock. This has been a surprising development to certain institutional investors who thought that infrastructure investing was a low risk endeavor, regardless of asset price, level of leverage and investment structure. As a result, we expect to see increasing due diligence focus on these issues by investors as they come back to the market.

- **Increasing Distressed Investment Oppor-tunities:** As in the private equity market, these distressed situations present interesting buying opportunities for certain fund managers who have the skill set to turnaround and de-lever a project. We do not at this point see the development of infrastructure funds focused totally on distressed as we see in the private equity and real estate sectors as the market dynamics are fundamentally different.

- **Lack of Leverage and Certain Transactions Failing to Complete:** Debt for leverage has been difficult to find in all markets since last summer, though the infrastructure market was much less affected than private equity in the first half of 2008. Now, however, we are beginning to see the same sort of problems crop up as occurred in private equity earlier. The most prominent example is the recent collapse of the Chicago Midway Airport transaction as the required debt could not be secured by the winning consortium. That being said, activity has not ceased; there are a number of interested bidders pursuing another airport concessions, for Gatwick in the U.K., though it is likely to be more conservatively financed.

- **Increasing Support from Economic Stimulus Programs for PPPs:** Though the global recession is affecting investor commitments to the sector, economic stimulus programs introduced in many countries are increasing acceptance and support of PPP programs and are likely to permanently increase interest in the sector while increasing investment opportunities.

CONCLUSIONS

Infrastructure investing as a recognized allocation within institutional investors' portfolios is a recent but growing phenomenon for the majority of investors, especially in the U.S. It has gained significant momentum for three reasons:

- Strong demand by institutional investors (especially pension plans) for current income generating, long-term assets that better match their long-term liabilities;
- A need for governments globally to find alternative financing methods to build, maintain and operate public sector infrastructure; and
- Increased recent government support for infrastructure programs as part of economic stimulus programs.

We believe that these forces continue to drive the movement towards dedicated infrastructure allocations (either directly or as a core component of inflation-linked allocations) within institutional investors' portfolios, and that this movement will continue, driving a number of longer-term trends:

- Evolution of infrastructure fund investing from highly leveraged Brownfield models to more diversified models driven by stronger operating skills;
- Increasing number of funds available with varied strategies, with increasing numbers of spinout and spinoff teams seeking independence from financial sponsors;
- Terms and conditions will continue to vary but will rationally coalesce around fund strategies and risk/return profiles; and
- Political support for PPPs as part of economic stimulus programs will generate long-term positive impacts for the sector.

APPENDIX I:

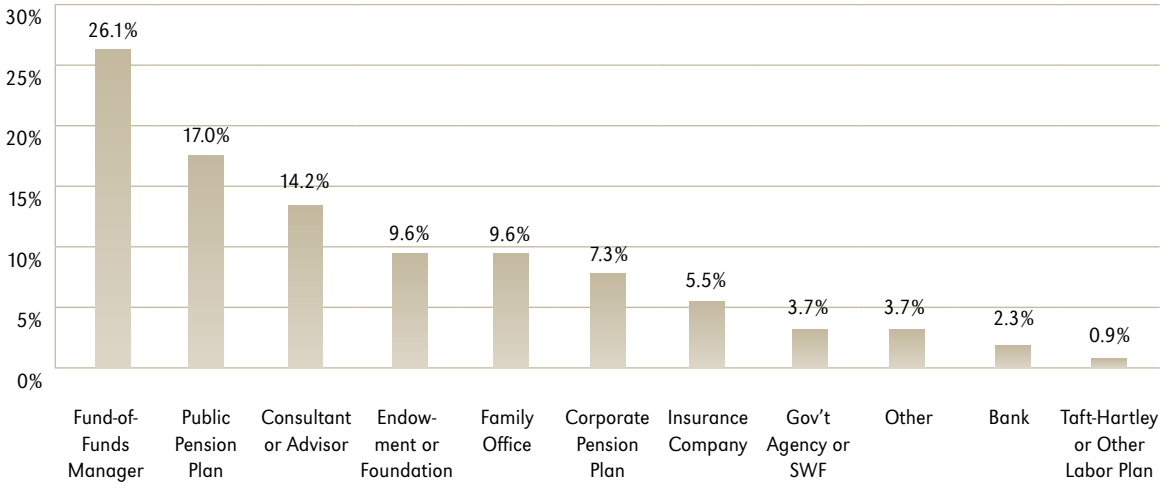
Probitas Partners' 2008 Institutional Investor Infrastructure Survey

During the first half of September 2008, Probitas conducted an online survey to gauge investor interest, opinions, and perspectives on investing in infrastructure funds. We received responses from 218 senior investment executives from public and corporate pension plans, fund-of-funds managers, family offices, endowments and foundations, consultants and advisors, insurance companies and other agencies. The survey was completed just as the current turmoil in the capital markets began, but does reflect investor opinion in what was the beginning of a difficult market.

Profile of Respondents

The first series of questions in the survey created a profile of the respondents in order to provide context to the results.

Chart I Respondents by Investor Type
"I represent a..."

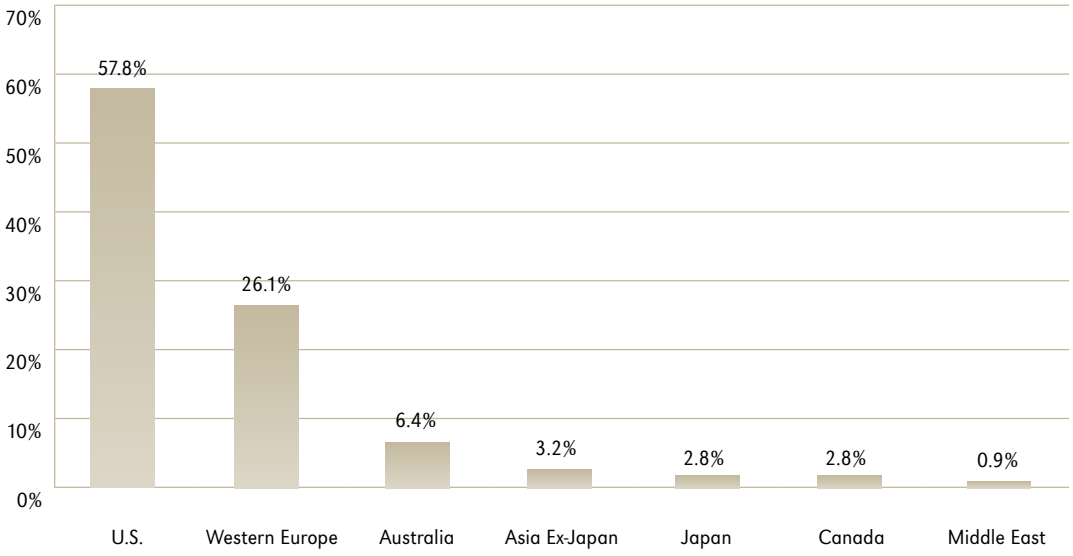


Source: Probitas Partners

Respondents represented a wide range of types of institutional investors including public and corporate pension plans, family offices, advisors and consultants, fund-of-funds (FoFs), endowments and others.

Fund-of-funds managers led in responses at 26.1%, followed by public pension plans at 17.0%. Interestingly, consultants/advisors constituted the third largest respondent set.

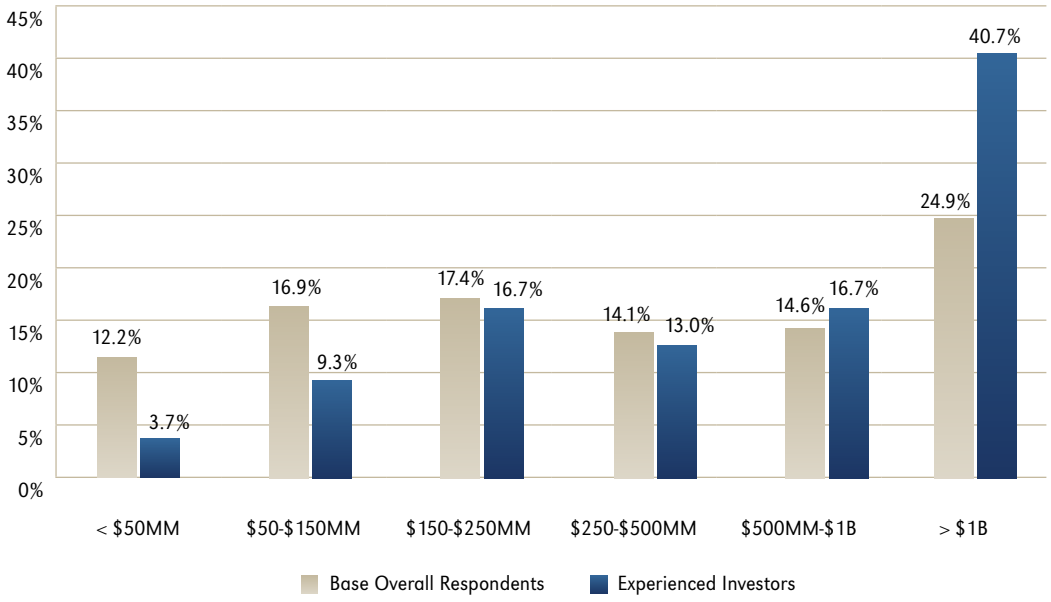
Chart II Respondents by Location of Firm's Headquarters
"My firm is headquartered in..."



Source: Probitas Partners

Institutional investors from the U.S. made up the dominant share of respondents at 58%, followed by Western Europe at 26%, with smaller percentages from Australia, Asia, and Canada. U.S. investors are newer to the asset class, and though 43.9% of the investors from Western Europe, Canada and Australia designated themselves as active investors in infrastructure (with a designated infrastructure program active for more than one year), only 17.3% of U.S. respondents identified themselves as active investors.

Chart III 2009 Private Equity Allocation Targets
"In 2009, we are looking to commit across all areas of alternative investment..."

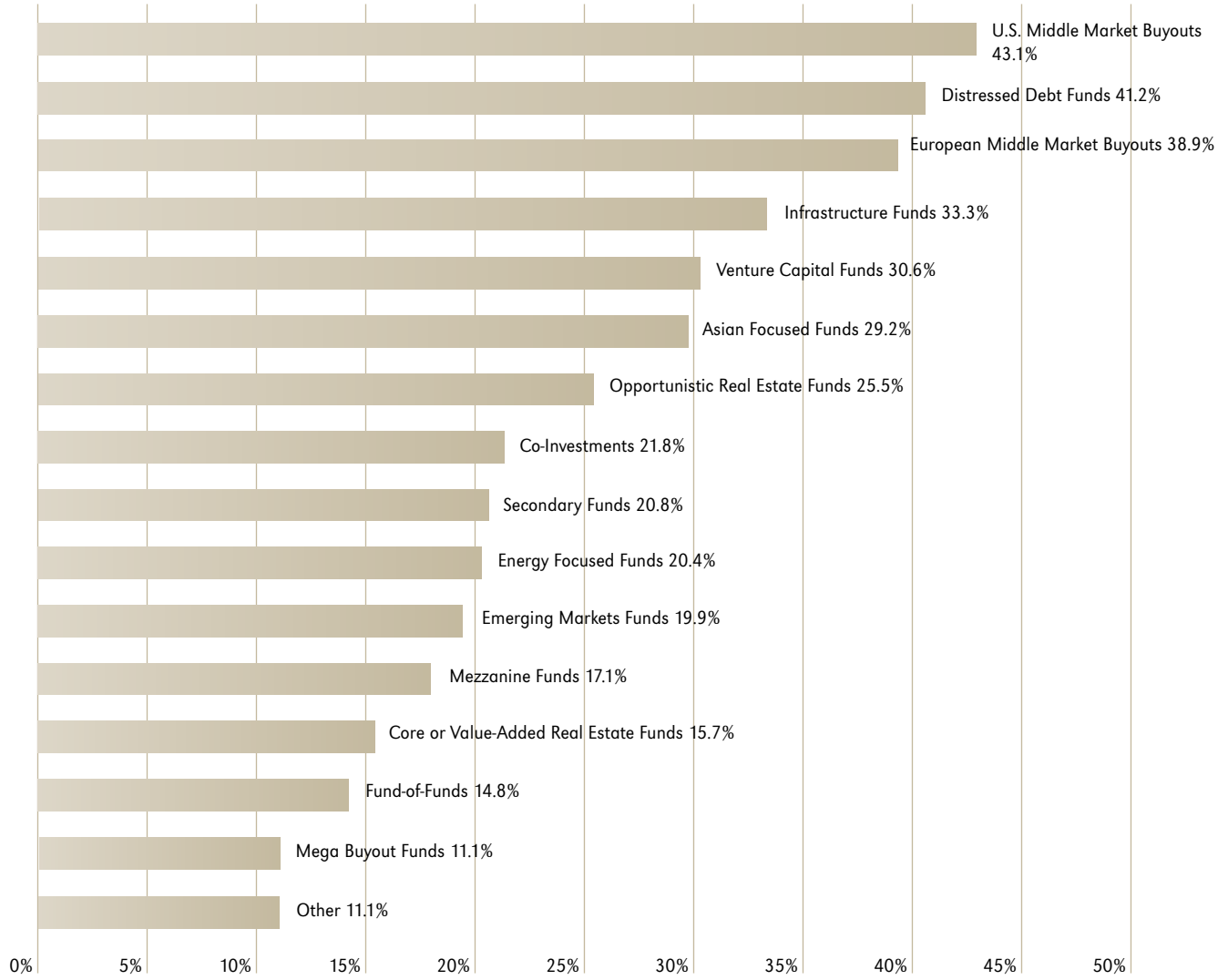


Source: Probitas Partners

When asked about their targets for private equity allocation, overall investor responses were fairly well spread across different size segments. However, the concentration of larger investors from respondents who are experienced, active infrastructure investors is notable. Many of these larger investors are also Public Pension Plans.

To get a better sense of sector attractiveness, we asked investors to identify up to four sectors that they planned to focus on in 2009.

Chart IV Targeted Sectors in 2009
"During 2009 I plan to focus most of my attention on investing in the following sectors (choose no more than four)..."



Source: Probitas Partners

In line with the preponderance of U.S. respondents, U.S. middle market buyouts were the leading response, closely followed by distressed debt funds. European middle market buyouts (ranked third) and infrastructure funds (ranked fourth) now precede venture capital funds as core investment areas of many U.S. and European institutional investors. Also of note is the high level of interest in Asian-focused and opportunistic real estate funds. In comparison, mega-buyout funds, which attracted large commitments from investors over the last several years, now register minimal interest from respondents.

For those respondents who identify themselves as active investors in infrastructure, it is actually the leading area of interest, with 60% identifying it as their top sector, with secondary funds and European middle market buyouts tied for second place at 32.7% of respondents. This result is likely impacted by the fact that a number of these respondents are solely focused on infrastructure investing as part of a dedicated allocation to the sector. Nevertheless, this statistic demonstrates an active investment audience for infrastructure funds that are in or coming to market.

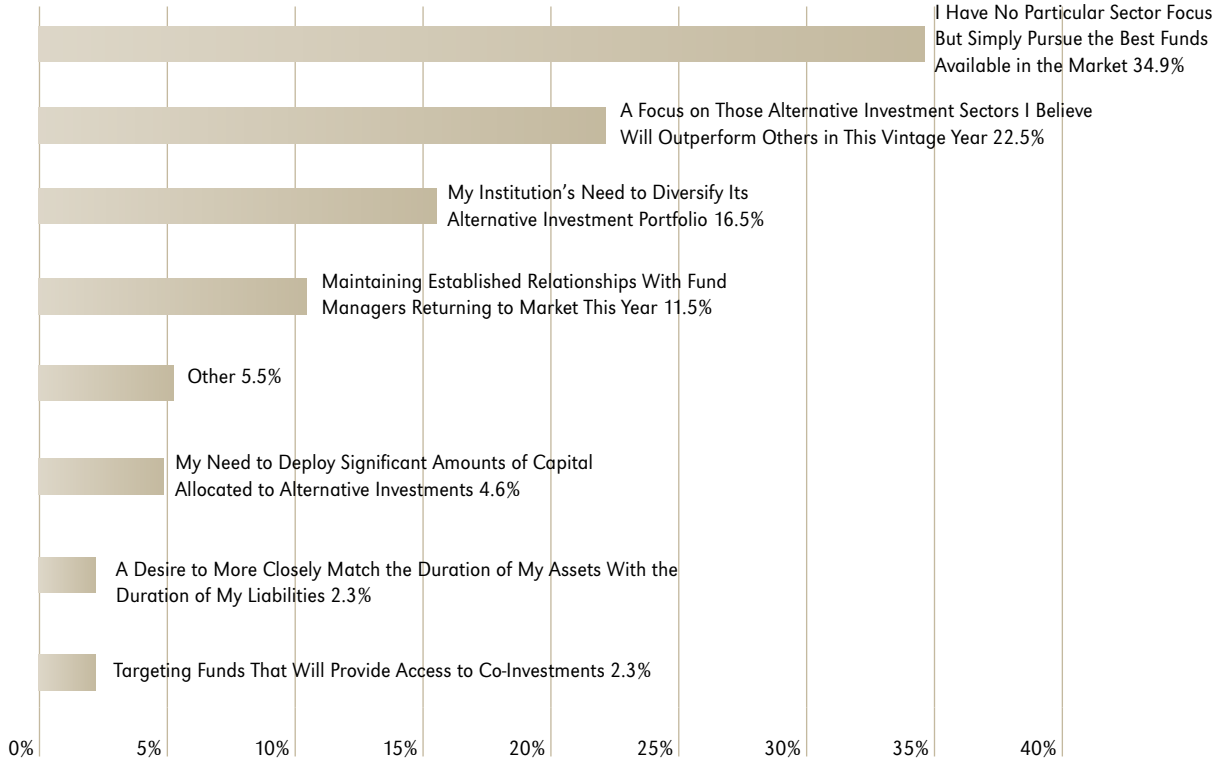
Investors were next asked to explain their reasons for tactical sector focus. More than one-third reported that they did not have any single compelling driver, but that they would simply pursue the best opportunities available in the market. The next most popular response given by just under a quarter of respondents was a focus on alternative investment sectors that they believed would outperform others in this coming vintage year, which in this year's survey trumps investors' needs for portfolio diversification.

Plans for Infrastructure Investing

The next section of the survey focused specifically on investors' specific plans for infrastructure investing.

Over 36% of respondents to the survey are either active investors in infrastructure or have just begun a program to invest in the sector, with another 29% opportunistically making investments in the sector. A further 20% are considering making an allocation to

Chart V Drivers for Sector Target Focus
"My sector investment focus in 2009 is being driven by..."

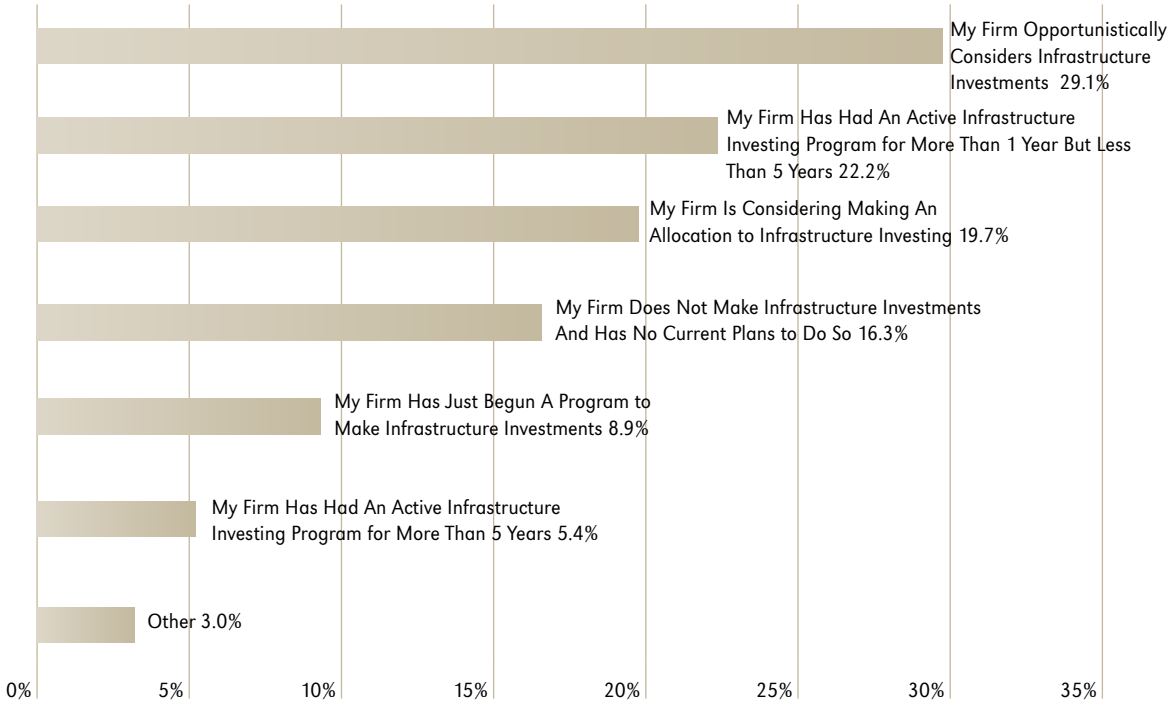


Source: Probitas Partners

the sector, while only 16% have no plans to make infrastructure investments. (It needs to be noted that other investors with no plans to invest in infrastructure may simply not have responded to the survey at all.) Public Pension Plans are more likely to have active infrastructure investing programs and be experienced investors while endowments and foundations are much more likely to invest opportunistically in the sector.

Nearly 40% of survey respondents place infrastructure investments in their own separate allocation, nearly 15% more than on our survey conducted in 2007. One quarter still place infrastructure investments in their private equity portfolios (which was actually the leading response in our 2007 survey), while most other investors place their infrastructure investments either in their general alternatives or real estate portfolios. However, among experienced, active investors, the percentage of investors with a specific infrastructure allocation increases dramatically to 66%. Given that investors in Europe, Canada and Australia are generally more experienced in the sector, it is not surprising that the percentage of these investors have separate infrastructure allocations. Endowments and foundations on the other hand are much more likely to place infrastructure investments in their real estate allocations.

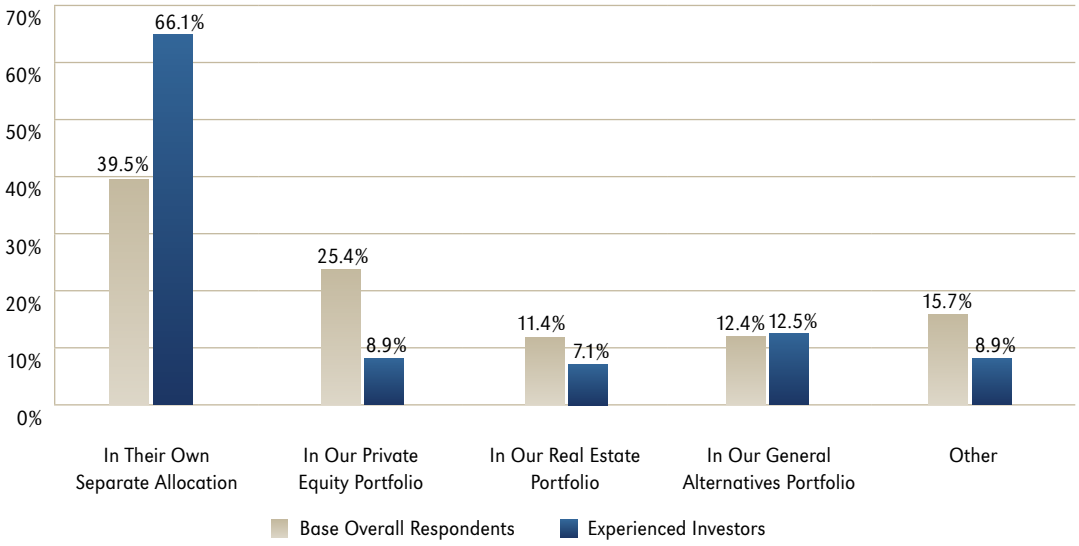
Chart VI Plans for Infrastructure Investing
"As far as infrastructure investing is concerned..."



Source: Probitas Partners

As investors explore infrastructure and begin to hire dedicated investment staff, we have observed that they tend to migrate to a dedicated infrastructure allocation. Indeed, the results to this question seem to reflect a market where the majority of investors have just recently gone through the early stages of transition to greater in-house specialization. Of note, a number of responses in the Other category stated that infrastructure investments at their firm would be placed in a Real Assets allocation. Though not common at the moment, an increasing number of investors are creating a category of this sort to contain investments in timber and commodities as well as infrastructure, though the definition of what a Real Asset is varies significantly between investors.

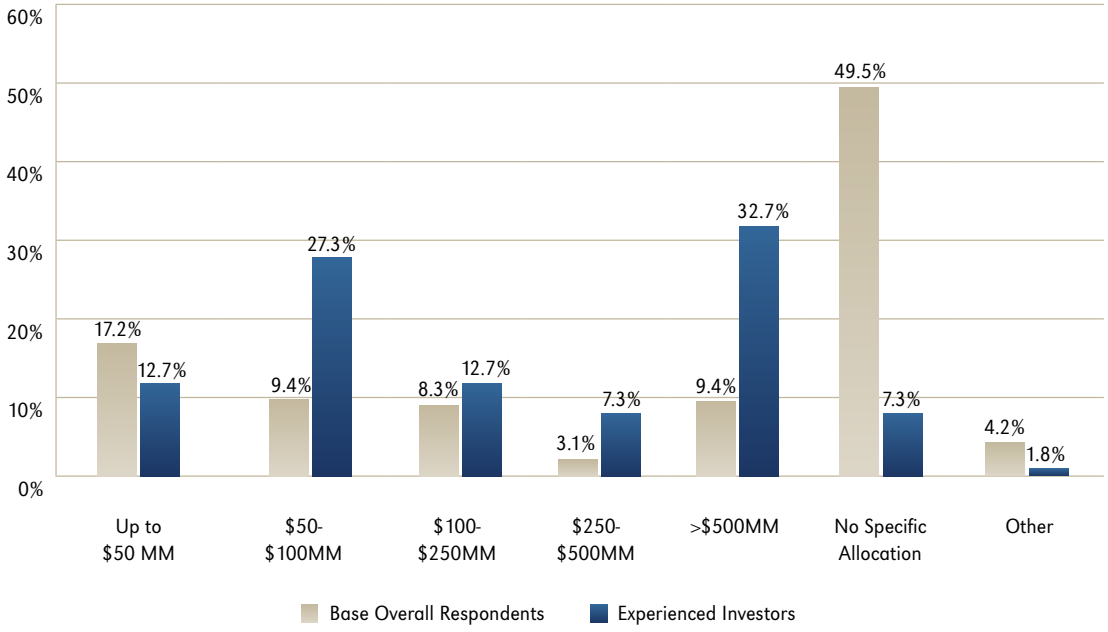
Chart VII Categorizing Infrastructure
"Within our portfolio, infrastructure investments are or will be placed..."



Source: Probitas Partners

Given the fact that so many investors either invest opportunistically or are in the early stages of setting infrastructure allocations, it is not surprising that half of respondents had no specific allocation to infrastructure investments for 2009. A clearer allocation picture emerges in Chart VIII, when focusing on the results reported by experienced investors, with 40% of those investors having allocations of $100 million or less, and 50% of those respondents having allocations of $250 million or more.

Chart VIII 2009 Infrastructure Allocations
"For 2009, our allocation to infrastructure commitments is..."

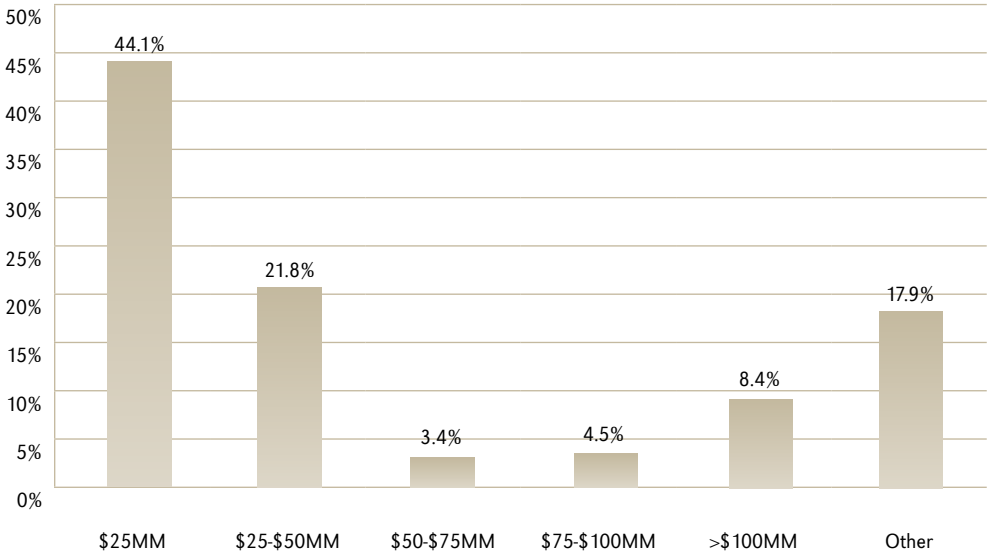


Source: Probitas Partners

Chart IX examines investors' average investment commitments to infrastructure funds. 44% of respondents chose $25 million as their average commitment size. However, a number of large respondents to the survey routinely invest more than $100 million in infrastructure funds, a trend more pronounced among experienced investors, with fully one-third of experienced investors committing on average above $500 million for each investment.

Exactly half of respondents had no specific allocation to infrastructure investments for 2009.

Chart IX Average Commitments
"Our average commitment to any infrastructure fund is..."



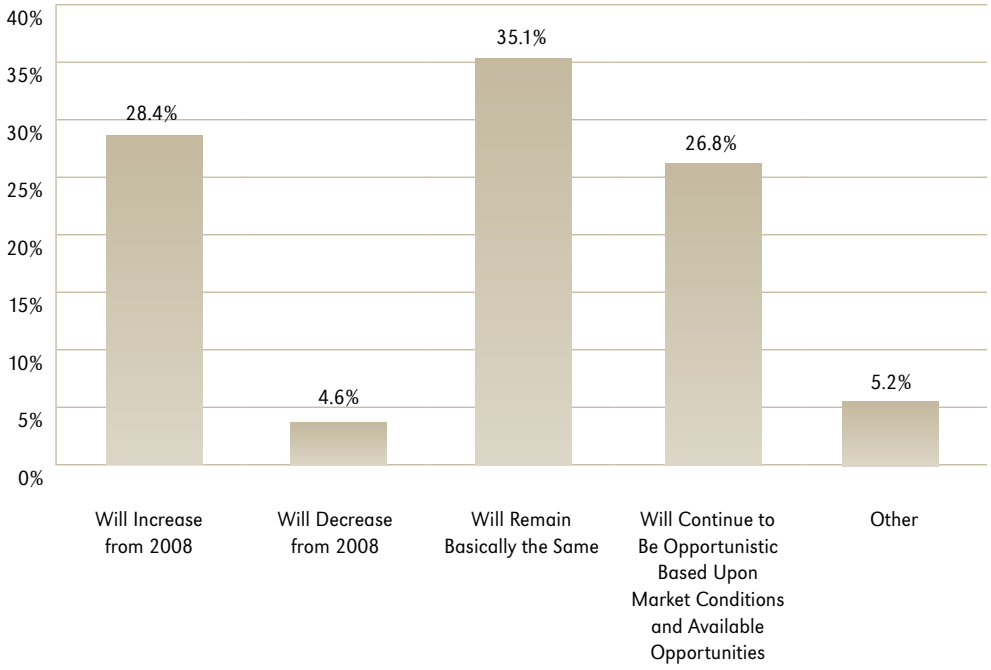
Source: Probitas Partners

To establish investment appetite over the short term we asked respondents if they expected changes in their 2009 outlook on the sector.

Investors were optimistic going forward: 28.4% stated that their appetites would increase, 35% said that it would remain the same, with another 27% reporting that they would continue to be opportunistic based upon market conditions and available options. Though not reflected separately in the graph below, 36% of active investors reported that their appetite was likely to increase next year.

It is also notable that just 5% of all respondents felt that their future allocations would decrease, reflecting general overall optimism about this investment sector.

Chart X 2009 Appetite for Infrastructure
"I believe that my firm's appetite for infrastructure investments in 2009..."



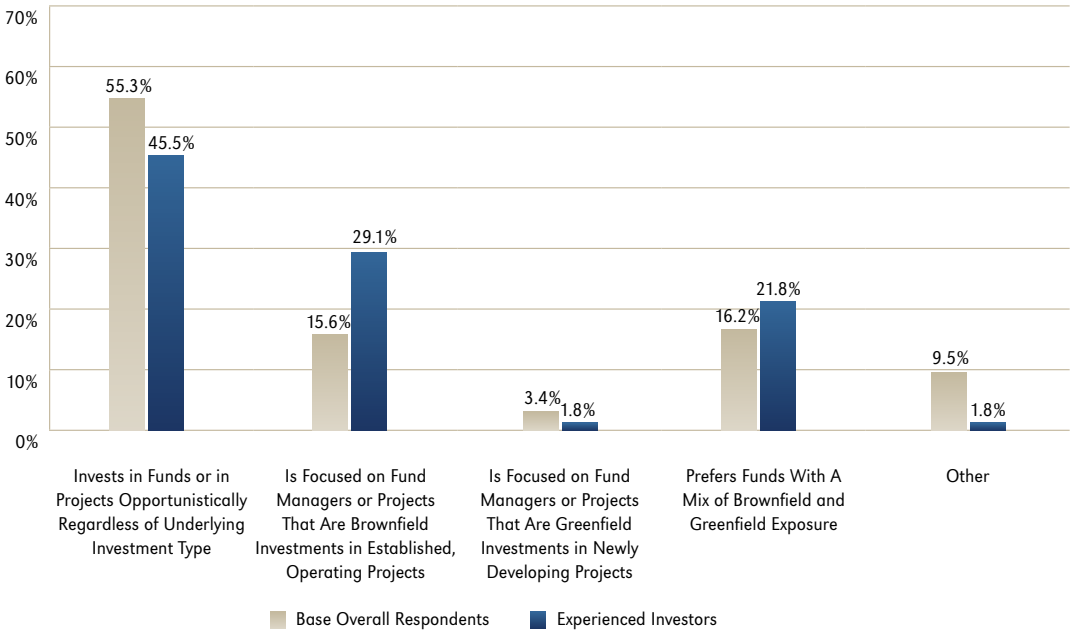
Source: Probitas Partners

The vast majority of investors are interested in pursuing infrastructure funds opportunistically. Interestingly, the more experienced, active investors prefer Brownfield investment over pure Greenfield investment by a large margin but also favor funds that have exposure to both kinds of investment. Pure Greenfield strategies at this point attract the least interest.

In the next question, we asked investors what specific infrastructure sectors were most appealing to them. Though many investors, especially those who are more experienced, were interested in specific sectors such as energy and power, transportation or water and waste management, most respondents invested opportunistically without focusing on sector.

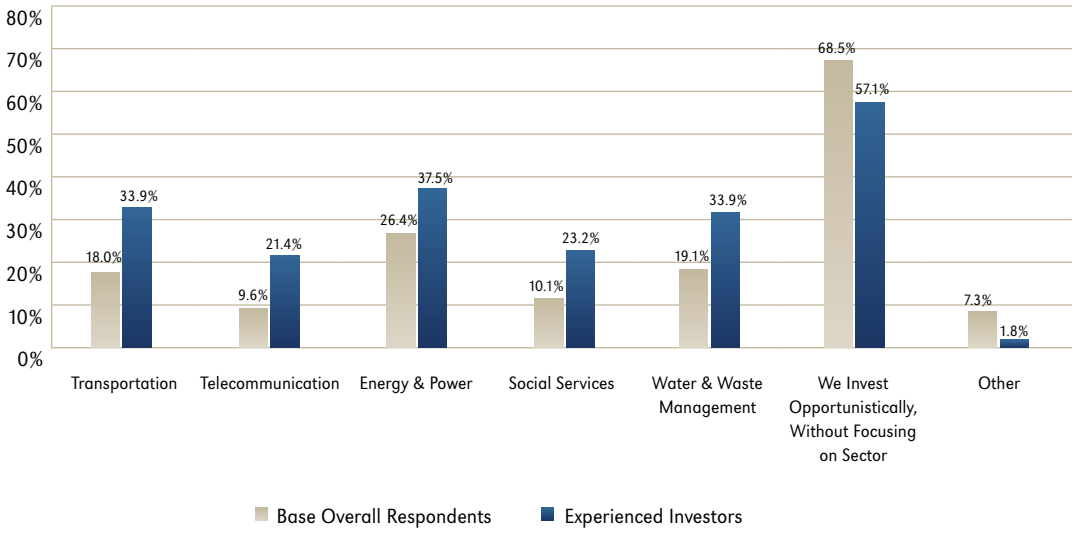
Next, investors were asked their target returns for infrastructure. Although the vast majority hovered in the range between 10-15% per annum, more experienced investors tended to target 10-12% returns, which likely reflects their increased interest in Brownfield investments. Newer investors tended to target higher returns, and endowments and foundations that tend to invest only opportunistically in the sector have higher return expectations than other investors.

Chart XI Investment Strategy
"In terms of infrastructure investment strategy, my firm..."



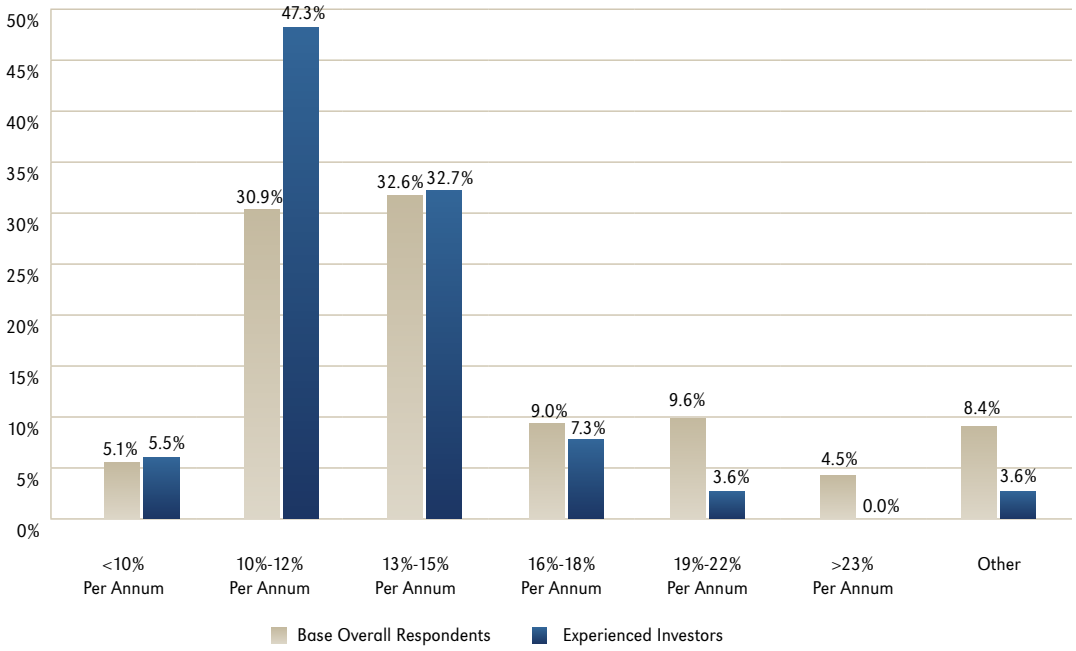
Source: Probitas Partners

Chart XII Specific Infrastructure Sectors of Interest
"Within infrastructure, my firm is actively interested in investments or funds focused on:"



Source: Probitas Partners

Chart XIII Targeted Returns for Infrastructure
"Our targeted returns for infrastructure investments are ..."



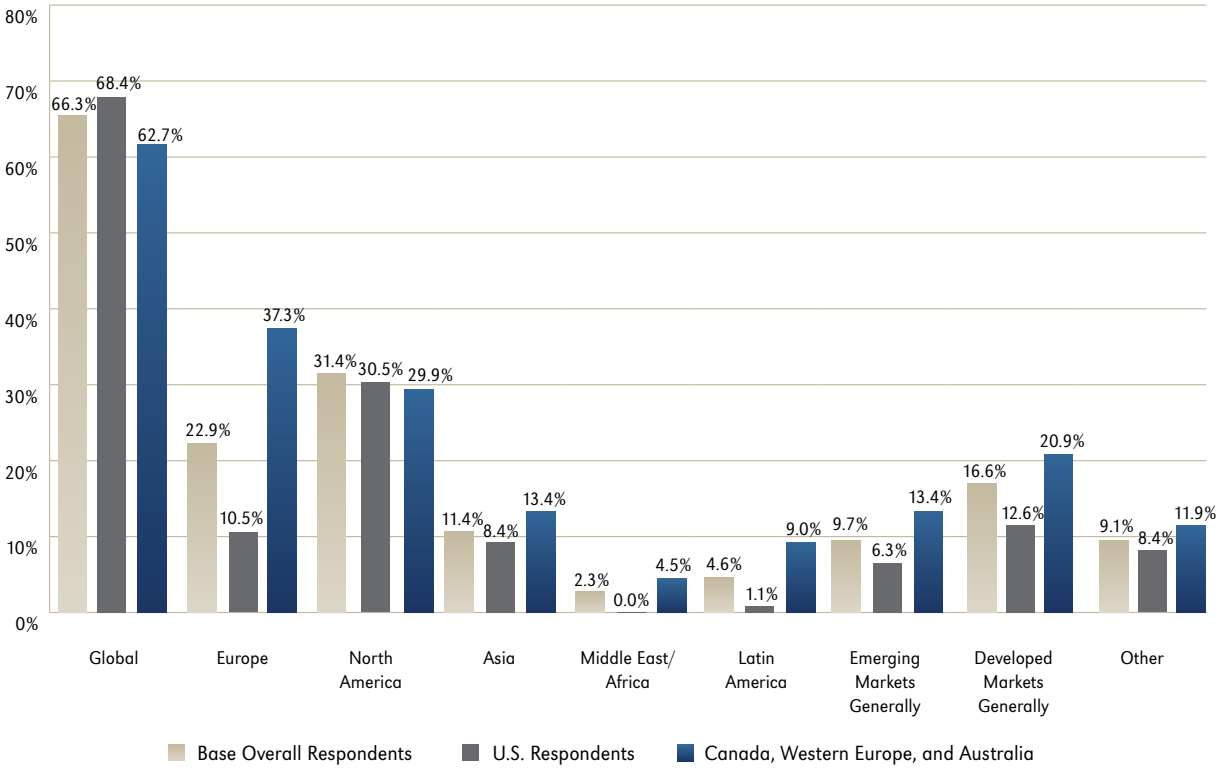
Source: Probitas Partners

Investors were asked if they had a preference for a particular geographic area. The vast majority of the respondents to the Survey were from North America and Western Europe, and the results reflect this bias. A majority of respondents favored Global Infrastructure funds, followed by strong interest in North America. The interest in North America was quite strong even among non-North American respondents, most of whom were from Western Europe, though unsurprisingly Europeans have a strong interest in their home markets as well.

There was relatively little interest in investing in the Emerging Markets by respondents to our survey, though as can be seen by the Funds in the Market report attached at the end of the survey, there are a significant number of funds in the market targeting various geographies within the sector. One contributing reason for this weak reported interest is that Emerging Markets funds tend to be focused on Greenfield investing, while respondents overall were more focused on Brownfield or mixed Brownfield/ Greenfield funds.

The interest in North America was quite strong even among non-American respondents.

Chart XIV Geographic Focus
"My firm invests in infrastructure funds with investment mandates focused on ..."



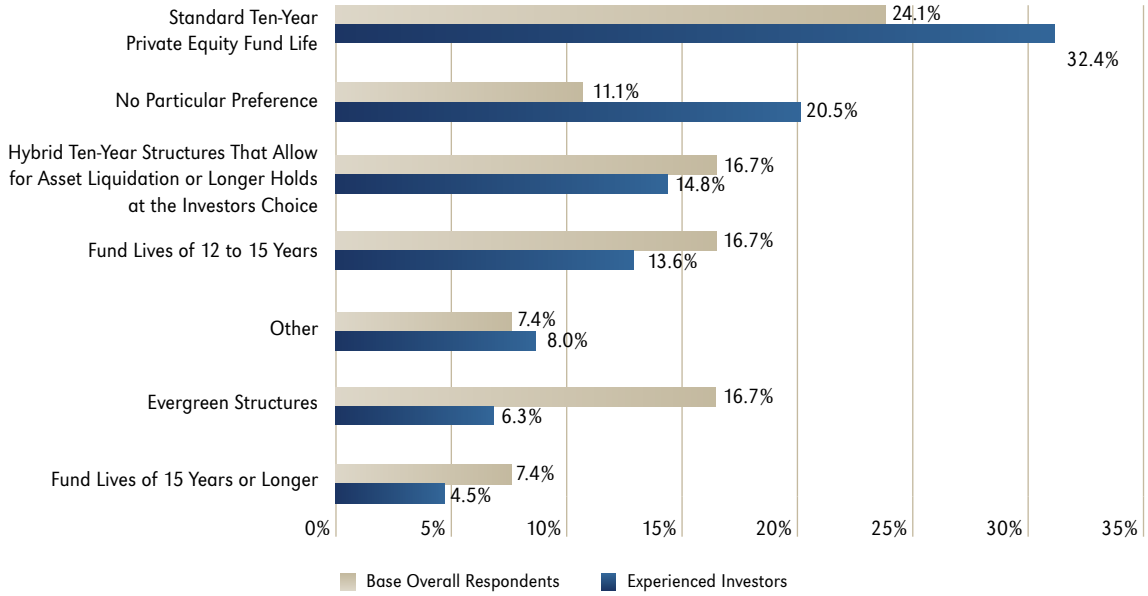
Source: Probitas Partners

Investment Structures

Many infrastructure projects are naturally long-lived, with Brownfield investments, for example, often being structured as a 30-year concession to operate a specific asset. Greenfield projects also have long-term maturities, but there is often a natural break in the investment process after a project has been completed for it to be resold to another party interested in long-term operations but not construction. Given the various needs and desires of institutional investors and the differences in natural life times of underlying assets, there is a much wider range of maturity options in infrastructure fund structures than there is in private equity or real estate.

In the following question, investors were asked if their particular preference was for the structure or life of an infrastructure investment vehicle.

Chart XV Preferred Term and Fund Structures
"The preferred term of the private infrastructure vehicles we invest in is ..."



Source: Probitas Partners

Though investors are aware of the potential conflicts that could arise when an asset with a natural life of 15 years or more is included in a 10-year vehicle, forcing it to be sold part way through that life, a majority of both overall and experienced respondents preferred the "Standard 10-year Life" structure. Though many of these investors were interested in hybrid terms and structures that could address these issues, an optimal structure is yet to be determined. For overall respondents, "No Preference" was the second leading response, followed by "Hybrid 10-Year Structures" and "Fund Lives of 12 to 15 Years." These responses were very similar to the results of last year's survey, though "No Preference" was the leading response by a slight margin in 2007.

The overall results here were quite different from those of the self-described "experienced, active" investors, as noted above. For experienced investors, after the "Standard 10-Year Life," the next popular responses were "Hybrid 10-year Structure," "Fund Lives of 12 to 15 Years" and "Evergreen Structures," all tied at 16.7%. The interest in Evergreen Structures was almost three times as high among experienced investors as it was among overall responses, though interestingly among investors with specific infrastructure allocations Evergreen Structures only ranked 5th among the choices, of interest at just over 11% of respondents.

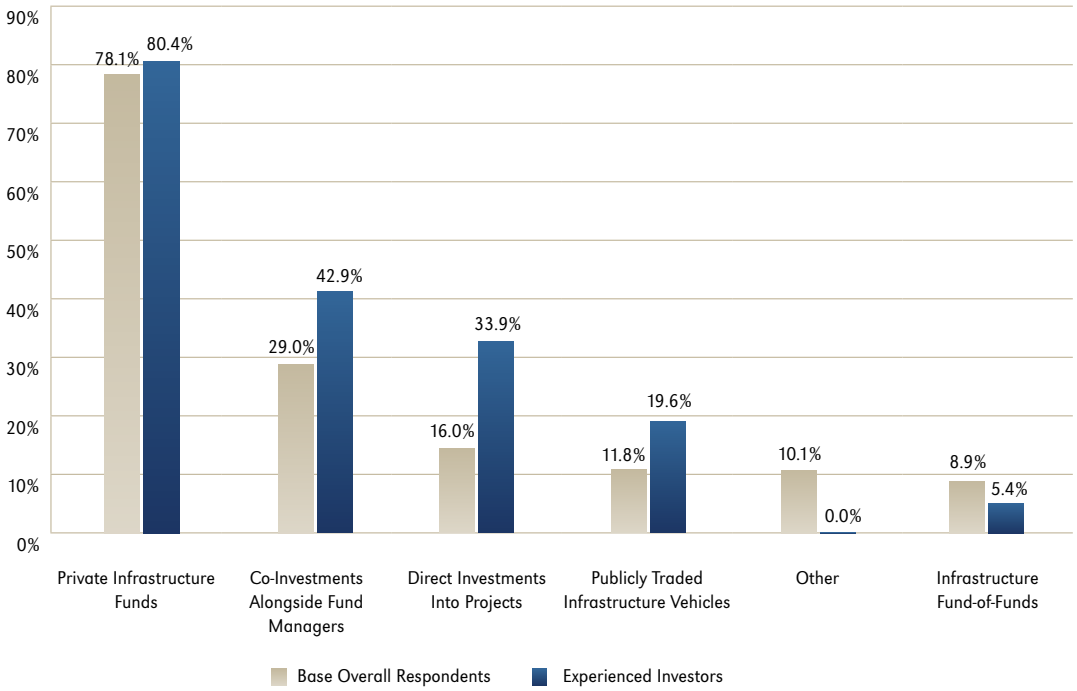
Institutional investors can acquire exposure to infrastructure through a variety of vehicles including private funds, publicly-listed and traded funds, dedicated secondary funds, co-investments or through doing direct investments.

As was the case with many other questions in the survey, there was a distinct difference between the overall responses and the responses from experienced investors. Only two categories, Private Funds and Co-Investments, were identified by 25% or more of investors as structures in which they had invested. Interestingly, 34% of experienced investors had invested directly in projects separately from Co-Investments, an activity that is time and staff resource intensive and that would be extremely unusual in the private equity market. Certain of these institutional investors focus almost entirely on Direct Investments and rarely invest in funds, a strategy unusual in private equity.

When looking at the 10 largest infrastructure funds, another way in which the infrastructure market is different from private equity or real estate is the preponderance, especially among the larger funds, of vehicles sponsored by financial institutions. For many institutional investors, sponsored vehicles raise complex questions of potential conflicts of interest.

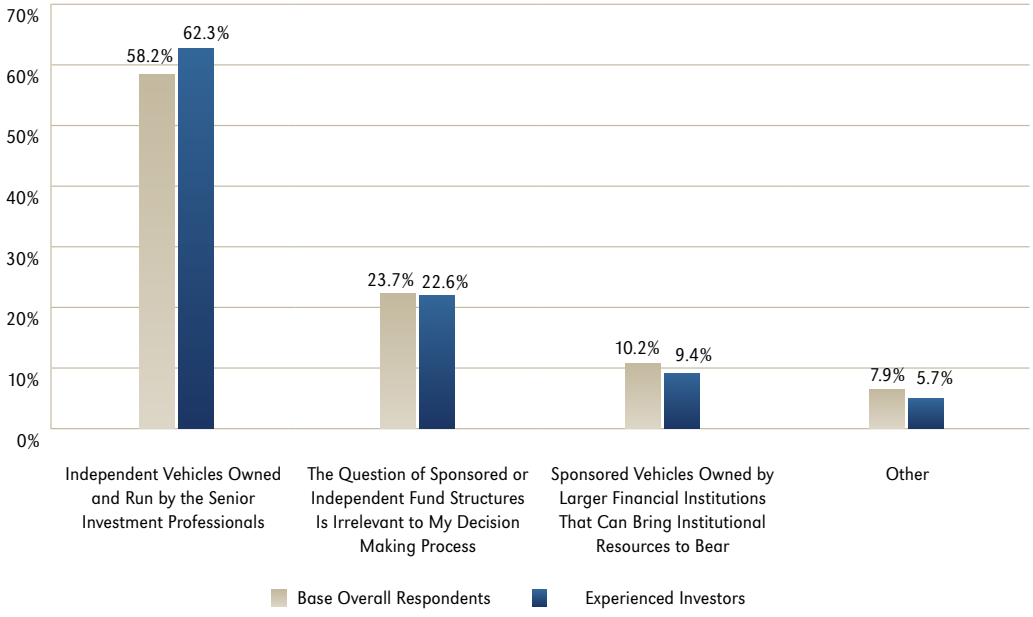
As detailed in the responses in Chart XVII, the preponderance of sponsored vehicles in the market is more a reflection of the products being offered rather than a desire of investors. Roughly 60% of overall and experienced investors would prefer investing in independent funds while only 10% of respondents prefer sponsored transactions.

Chart XVI Investment Structures
"As far as investment structures, my firm invests in (mark all that apply) ..."



Source: Probitas Partners

Chart XVII Specific Infrastructure Fund Structures
"Concerning fund structures, I would prefer investing in ..."

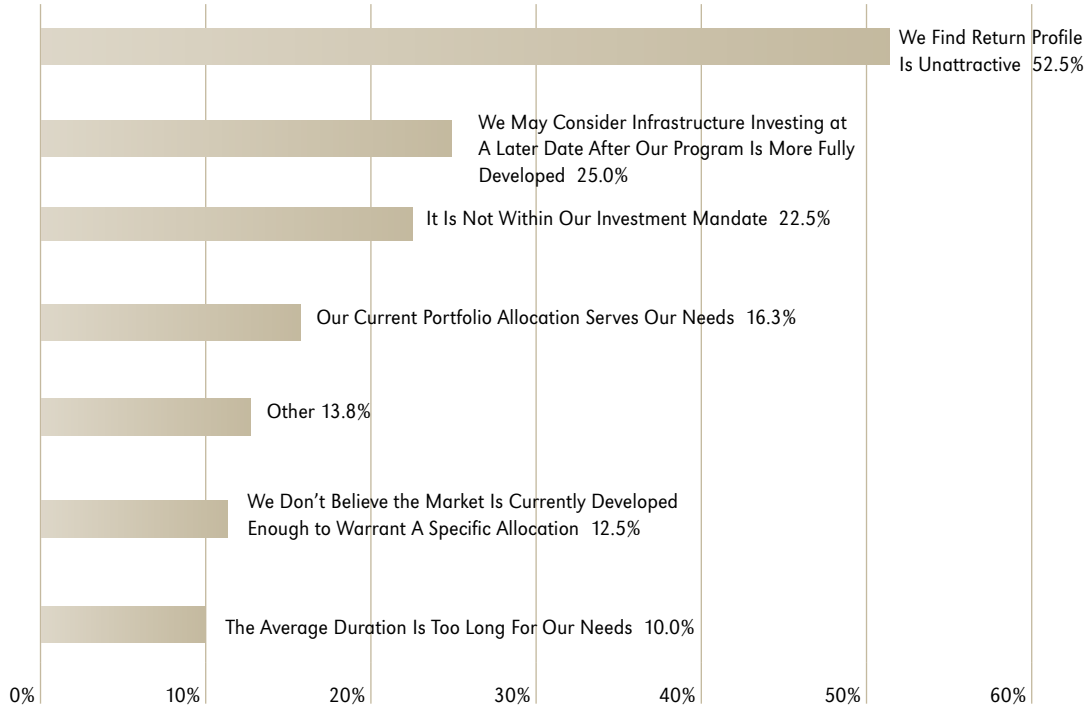


Source: Probitas Partners

Reasons for Not Investing

Lastly, the survey asked respondents who were not active in infrastructure investing why that was so. Half of the respondents found the return profile of infrastructure investing unattractive, though a quarter of respondents would consider investing in infrastructure at some time in the future once their overall investment programs became more fully developed. The rest of the responses, besides a simple statement that infrastructure investing was not within the respondent's investment mandate, were fairly scattered.

Chart XVIII Reasons for Not Investing in Infrastructure
"My firm isn't interested in infrastructure because (mark all that apply) ..."



Source: Probitas Partners

APPENDIX II:

Probitas Partners does not include information on funds it is currently offering in this listing; qualified investors seeking information on Probitas Partners' placed funds should contact Probitas Partners directly in order to have the most complete picture of all institutional funds currently in the market.

Investors interested in information on Private Equity funds may request a copy of Probitas Partners Private Equity Deskbook by emailing info@probitaspartners.com.

Infrastructure Funds in or Coming to Market

Funds in Market or Thought to be Coming to Market Over the Next 12 Months

As of April 2009

Fund Size (MM) in $U.S. Unless Marked

Fund/Parent	Current	Last	Web Site	Year Founded	Offices
Infrastructure Funds					
ABN AMRO Global Infrastructure Fund II	€ 2,000	N/A	www.fortisinvestments.com	1994	Amsterdam; London
Actis Infrastructure Fund II	1,000	N/A	www.act.is	2004	London
ADCB Macquarie Infrastructure Fund	1,000	N/A	www.macquarie.com.au	2000	Sydney
ADIC UBS Infrastructure Fund I	600	N/A	www.ubs.com	2008	Zurich
African Energy Infrastructure Fund	500	N/A	www.fpcq.com	1990	Johannesberg
Alinda Infrastructure Fund II	3,000	3,000	www.alinda.com	2005	New York; London
Alterna Core Capital Asset Fund	1,000	N/A	www.alternacapital.com	2007	Westport, CT
AmKonzen Water Infrastructure Fund	320	N/A	www.konzengroup.com	2008	Singapore
Ampere Equity Fund	€ 500	N/A	www.evelop.com	N/A	Utrecht, Netherlands
Antin Infrastructure Fund	€ 1,000	N/A	www.antin-ip.com	2008	Paris
Asian Giants Infrastructure Fund	750	N/A	www.ampcapital.com.au	1998	Sydney

Fund Size (MM) in $U.S. Unless Marked

Fund/Parent	Current	Last	Web Site	Year Founded	Offices
Aviva European Renewable Energy	€ 500	N/A	www.avivainvestors.co.uk	2008	London
Axis Infrastructure Fund	500	N/A	www.axisbank.com	1994	Mumbai
Bank of Ireland Infrastructure Fund	€ 300	N/A	www.biam.ie	2008	Dublin
Barclays Integrated Infrastructure Fund	£1,000	N/A	www.barclays-private-equity.com	1996	London
Blackstone Infrastructure Fund	£2,000	N/A	www.blackstone.com	1985	New York
Brookfield Americas Infrastructure Fund	1,500	N/A	www.brookfieldinfrastructure.com	N/A	New York
Bunyah GCC Infrastructure Fund	150	N/A	www.instratacapital.com	2007	Bahrain
Carlyle Riverstone Renewable Energy Infrastructure Fund II	1,200	685	www.carlyle.com	2006	New York
Central American Mezzanine Infrastructure Fund	150	N/A	www.empglobal.com	2005	Washington, D.C.
Challenger Mitsui Emerging Markets Infrastructure Fund	1,200	N/A	www.challenger.com.au	2008	Sydney; Tokyo
Citigroup Infrastructure Investors	4,000	N/A	www.citigroupai.com	2007	New York
CPG China Toll Road Fund	1,000	N/A	www.cpgcapitalpartners.com	2009	Singapore
Cube Infrastructure Fund	€ 1,000	N/A	www.natixis.com	2008	Paris
CVC European Infrastructure Fund	€ 2,000	N/A	www.cvc.com	1981	London; Paris; Luxembourg; Brussels; Milan
Darby Mexico Infrastructure Fund	200	N/A	www.darbyoverseas.com	1994	Washington, D.C.
DIF Infrastructure Fund II	€ 500	N/A	www.dif.eu	2005	Schipol, Netherlands
Emerald Infrastructure Development Fund	€ 750	N/A	N/A	2008	Belfast
Eredene Capital India Infrastructure Fund	300	N/A	www.eredene.com	2006	London
European Kyoto Fund	€ 500	N/A	www.natixis.com	N/A	Paris

Fund Size (MM) in $U.S. Unless Marked

Fund/Parent	Current	Last	Web Site	Year Founded	Offices
European Renewable Energy Fund	€ 250	N/A	www.platinafinance.com	2002	London
EUROFIDEME 2	€ 250	N/A	www.natixis.com	N/A	Paris
Fondi Italiani Per Le Infrastructure	€ 2,000	N/A	www.f2isgr.it	2007	Milan
Fortis Clean Energy Capital Fund	€ 400	N/A	www.fortisinvestments.com	2008	London
GS European Infrastructure Fund	€ 3,000	N/A	www.gs.com/pe	2006	New York; London
GS Infrastructure Partners II	7,500	6,500	www.gs.com/pe	2006	New York; London
Gulf One Infrastructure Fund I	2,000	N/A	www.gulf1bank.com	2006	Bahrain
Henderson Infrastructure III	£800	£584	www.hendersonprivatecapital.com	1985	London
HSBC Environtmental Infrastructure Fund	500	N/A	www.hsbc.com	2008	London
India Infrastructure Advantage Fund	1,000	N/A	www.icicibank.com	N/A	Mumbai
IDFC India Infrastructure Fund	1,200	N/A	www.idfc.com	2004	Mumbai
Indochina Infrastructure Holdings	500	N/A	www.indochinacapital.com	1999	Ho Chi Minh City, Vietnam
ING European Infrastructure Fund	€ 1,000	N/A	www.ingrealestate.com	N/A	London
JP Morgan Asian Infrastructure Fund	1,500	N/A	www.jpmorgan.com/infrastructure	2006	Hong Kong; Singapore; Mumbai
Kagiso Infrastructure Empowerment Fund	ZAR 650	N/A	N/A	2008	Claremomt, South Africa
KKR Infrastructure Fund	4,000	N/A	www.kkr.com	2008	New York
LamdaStar Infrastructure Partners	1,500	N/A	www.lamdastar.com	2009	New York
Latin Power & Infrastructure IV	800	393	www.conduitcap.com	1994	New York
Macquarie European Infrastructure Fund III	€ 5,000	€ 4,600	www.macquarie.com.au	2000	Sydney; London

Fund Size (MM) in $U.S. Unless Marked

Fund/Parent	Current	Last	Web Site	Year Founded	Offices
Macquarie Global Infrastructure Fund III	500	AUD 490	www.macquarie.com.au	2000	Sydney
Macquarie State Bank of India Infrastructure Fund	1,500	N/A	www.macquarie.com.au	2000	Sydney; Mumbai
Macquarie Infrastructure Partners II	6,000	4,000	www.macquarie.com.au	2000	New York; Sydney
Macquarie Renaissance Infrastructure Fund	1,500	N/A	www.macquarie.com.au	2000	Sydney; Moscow
MENA Infrastructure Fund	500	N/A	www.dubaiic.com	2005	Dubai
Mubadala Infrastructure Partners	500	N/A	www.mubadala.ae	2008	Abu Dhabi
Network European Infrastructure Partners	€ 100	N/A	www.finint.it	1980	Conegliano, Italy
Pan African Infrastructure Development Fund	1,000	N/A	N/A	2005	Pretoria
Piramal Healthcare Fund	200	N/A	www.nicholaspiramal.com	2008	Mumbai
PSource China Infrastructure	200	N/A	www.psourcecapital.com	2009	London
Q India Fund	500	N/A	www.quantumamc.com	2006	Mumbai
Rabo Bouwfonds Communication Infrastructure Fund	€ 375	N/A	www.bouwfonds.com	2006	Hovelaken, Netherlands
Raising Africa Infrastructure Fund	500	N/A	www.natixis.com	2008	Paris
RBS Infrastructure Fund	€ 1,000	N/A	www.rbsam.com	2009	London
RREEF North American Infrastructure Fund	500	N/A	www.rreef.com	N/A	New York; Sydney; London
Santander Infrastructure II	€ 1,500	N/A	www.santanderprivateequity.com	2004	Madrid
Saratoga Asia Fund II	330	N/A	N/A	1998	Jakarta
SC - IL&FS Asia Infrastructure Growth Fund	1,000	N/A	www.standardchartered.com	N/A	Singapore

Fund Size (MM) in $U.S. Unless Marked

Fund/Parent	Current	Last	Web Site	Year Founded	Offices
Transport Infrastructure Investment Company Fund	€ 500	N/A	N/A	2008	Lisbon
Troika Infrastructure Fund	1,000	N/A	www.troika.com	2006	Moscow

PROBITAS
PARTNERS

San Francisco
425 California Street
Suite 2300
San Francisco, CA 94104

Tel 1 415 402 0700
Fax 1 415 402 0052

New York
1251 Avenue of the Americas
Suite 2390
New York, NY 10020

Tel 1 212 403 3662
Fax 1 212 403 3537

London
Dudley House 1st Floor
36-38 Southampton Street
Covent Garden
London WC2E 7HF

Tel 44 20 7845 5400
Fax 44 20 7240 3339

Hong Kong
21/F ICBC Tower
Citibank Plaza
3 Garden Road
Hong Kong, China

Tel 852 2273 5143
Fax 852 2273 5999