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## What are infrastructure funds?

*By Kelly DePonte, Probitas Partners*

Infrastructure investing is a relatively new sector within institutional investors' portfolios and has been growing dramatically over the last five years. Though a few of the largest and most sophisticated investors have devoted the necessary resources to develop direct investment programmes, most investors in the sector commit through professionally managed funds, much as they do in private equity and opportunistic real estate.

Despite some similarities to private equity and real estate structures, at their heart, infrastructure investments are very different. Before discussing infrastructure funds in detail, it is necessary first to take an in-depth look at the infrastructure sector as a whole.

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 with natural gas transmission) or are done under long-term concessions with public sector entities through public private partnerships (PPPs). Though most of the largest closed-end funds and publicly listed vehicles 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 by project structure, industry sector and stage of development.

In very broad terms there are two basic types of investment structures within the infrastructure sector relevant to institutional equity investors – PPPs and private investments.

Historically, governments around the world have shouldered the burden of infrastructure finance through a variety of public-financing structures, either with pay-as-you-go user fees or with taxes. However, stretched public finance capacities, together with recognised 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.

Over the last several years, PPPs have also been used to generate revenue for local governments by contracting long-term concessions to private entities to operate currently

**Defining  
institutional  
infrastructure  
investing**

**Project  
structure**

*Public private  
partnerships*

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existing facilities (most often toll roads and airports) in exchange for large front-end payments. The private operators also take on the responsibility for maintaining the assets over the life of the concession.

PPPs were pioneered in Australia, Canada and the UK, and have been increasingly adopted globally. The US has been slower to adopt the model in part because PPP policies are not set nationally but on a state-by-state basis. In certain jurisdictions, labour unions have fought against PPPs due to fears over their potential impact on unionised labour (a concern that will be addressed in more detail later) but overall PPPs have picked up momentum due to the focus on infrastructure investing in current economic stimulus programmes.

### *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 trends more towards private investment in projects such as natural gas transmission lines and wind farms; independent projects also exist in areas such as transport 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.

### **Industry sectors**

There are several industry sectors, each with their own set of dynamics, which fall into the infrastructure space:

- **Transport:** This sector, focused on toll roads, tunnels, bridges, airports, and other forms of transport, has been the sector that has dominated transaction activity and headlines. Though many recent transactions in the sector have been brownfield investments, opportunities are available in all stages of development. Revenue in this sector is driven by user fees, either paid directly as with toll roads or buried within other revenue streams as with airports. The scale and long-term nature of these projects make them 'classic' infrastructure transactions.
- **Water and waste:** Water and waste management, traditionally the province of state and local governments, is another area that has been outsourced more regularly over the last few years. Many countries have started to use PPP structures to finance needed investment in these critical sectors and many large companies are focused on providing these services. Revenue for these services is also driven by user fees.
- **Energy:** The energy sector is quite broad and several areas of investment here clearly fall outside the bounds of infrastructure investing. However, areas such as natural gas transmission lines, natural gas storage and the operation of wind farms are often thought to fall within the sector. Additionally, in the publicly traded indices that have

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been created to track infrastructure performance, there is often a heavy allocation to publicly listed electricity utilities.

- **Social infrastructure:** Social infrastructure transactions cover a wide range of projects most of which operate as PPPs, and are more prevalent in Europe than they are in the US. Revenue in this sector is driven by payments received directly from the government entity involved. These projects either provide or support the delivery of public sector services, examples of which are provided below:

- *Education:* Under typical education-related transactions, 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.

- *Social or public housing, land & area development:* Several central governments have encouraged the use of concession models in pilot PPP public or social housing projects. Joint ventures allow the local governments to retain control over planning and development while utilising the private partners' available resources and expertise.

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

- *Prisons:* Projects in this sector have focused on DBFO transactions, and have led to noticeable gains in decreased construction times and costs. Operations have been more controversial and have run into a few problems.

### Stage of development

Historically, risk-return in the infrastructure space was characterised in terms of the stage of development of an infrastructure project, with brownfield representing the lowest risk and lowest return at one end of the spectrum, and greenfield at 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 stabilised 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

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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 investments:** These investments are into new projects that have yet to be constructed that will not generate cash flow until completed. 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 stabilised, 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 organise projects as well as operate them.
- **Private equity or opportunistic infrastructure investments:** Opportunistic private equity-style investments are a newly defined stage of infrastructure investment, focused on projects with significant operational or regulatory issues that need to be addressed before a project can be turned around or optimised. Successful pursuit of this strategy typically requires a high degree of operating and deal structuring skill, and often requires specific regulatory knowledge. These types of investments are usually of a shorter duration, with the project sold or transferred once the turnaround is completed. A number of traditional infrastructure investors focused on brownfield investments consider this type of investment wholly private equity and not infrastructure at all.

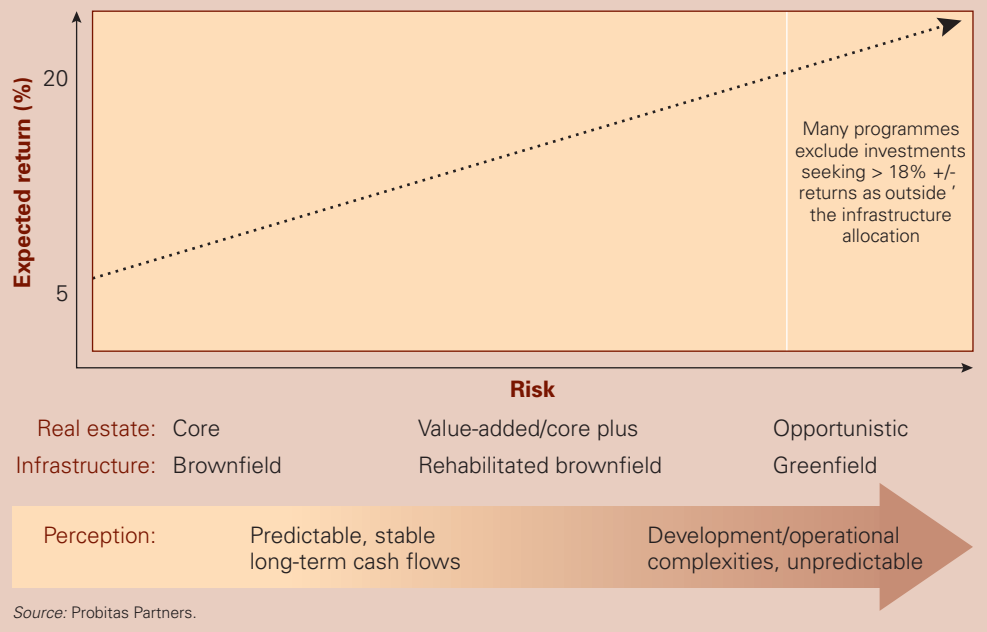
### Infrastructure investment strategies: risk-return spectrum

While the definitions of the stages of infrastructure development (outlined above) 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 infrastructure funds have disproven the simplified notion 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 significant 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 illustrated in Figure 1.1. In general, brownfield investments are equated with core real estate investments, with both intended to generate a degree of steady current income as well as some capital gains. Greenfield investments are seen to be more akin to opportunistic real estate investments, with a higher degree of risk compensated for by higher capital gains. A number of institutional investors investing in infrastructure actually consider funds targeting returns in excess of 18 percent as *de facto* private equity funds, too heavily focused on capital gains for returns rather than current income, and exclude such investments from their infrastructure allocations. Others include a private equity or opportunistic infrastructure component to bolster the overall returns of the allocation, and

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Figure 1.1: **Traditional infrastructure risk-return profile**



typically reflect this expanded definition of infrastructure as they establish the benchmark for infrastructure investments.

As discussed above, simply categorising infrastructure investment risk via these three broad stages fails to define properly 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 altogether.
- **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, and 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

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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-life asset, inflation can detrimentally impact profitability. This risk can be mitigated contractually through inflation adjustment clauses, or in certain instances, through contracts that hedge key operating costs. In certain PPP contracts that are poorly structured, however, these risks can be borne in part, or totally, by the project. In any case, steeply rising user fees driven by steeply rising inflation can negatively impact usage and revenues.
- **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 are not as easily categorised 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 programme targeting these more proprietary opportunities in the development stage.

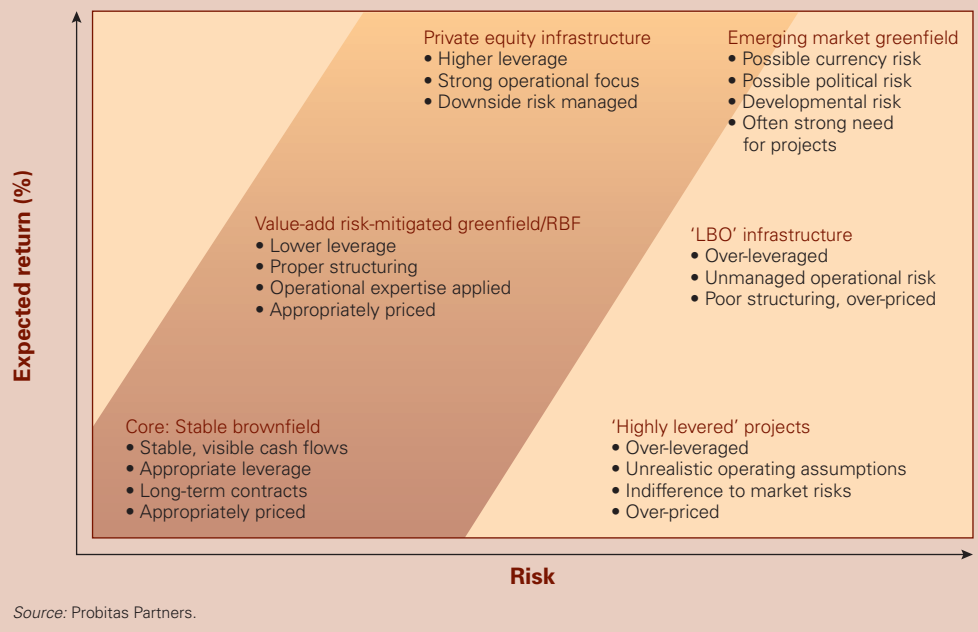
Though most of these opportunities will go to formal bid, investors involved early in the process will gain insight and knowledge of the specific priorities on the project that will give them a material advantage in the process, and will provide them a better ability to negotiate contracts and influence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

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 with labels like brownfield or greenfield that have failed to reflect properly the real risk represented by an investment opportunity.

Figure 1.2 illustrates a more realistic 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

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Figure 1.2: **Infrastructure risk-return profile**



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.

## Opportunities in the infrastructure fund market

Though there are a large number of different strategies in the market at the project level, the options that are available to investors, unless they are investing directly, are determined by what is available in the fund market. Table 1.1 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 attracted the most capital.

There are a number of similarities among 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 is a significant number of smaller funds focused on investing in emerging markets 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 sponsors, limiting their ability to provide cornerstone capital commitments, working

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Table 1.1: **The ten largest infrastructure funds, as of July 2009**

Rank	Fund name	Firm name	Location	Year	Amount (\$ m)
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	€4,635
5	Global Infrastructure Partners I	Global Infrastructure Partners	New York	2008	5,640
6	KKR Infrastructure Partners	KKR	New York	In market	4,000
6	Macquarie Infrastructure Partners II	Macquarie Funds Management Group	New York, Sydney	In market	4,000
6	Macquarie Infrastructure Partners	Macquarie Funds Management Group	Sydney	2008	4,000
6	Morgan Stanley Infrastructure	Morgan Stanley	New York	2008	4,000
10	Highstar Capital III	Highstar Capital	New York	2007	3,500

Rankings based upon currency valuations in July 2009.

Source: Probitas Partners.

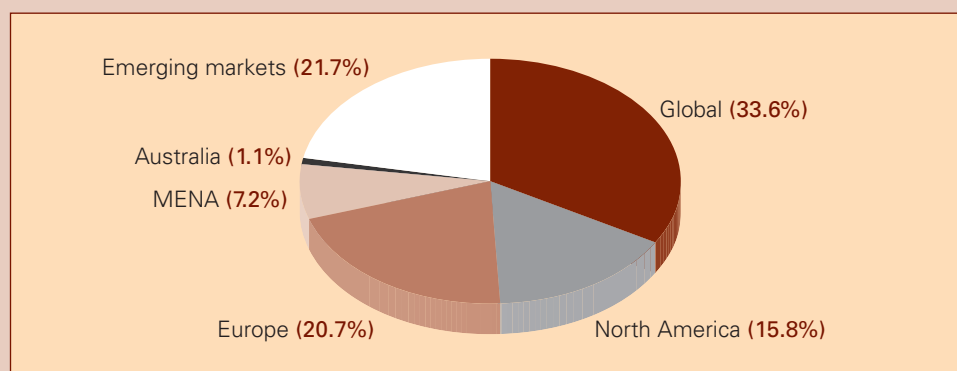
capital and pre-specified portfolios to attract investors, make their sponsorship much less attractive to those fund managers who have been able to build quality track records over the last several years.

- **Brownfield and rehabilitated brownfield investment strategies:** Most of these funds target brownfield or rehabilitated brownfield investments and are rarely involved in greenfield transactions. A certain number of these funds, though, do pursue opportunistic investments that require substantial repositioning or restructuring of regulated businesses that require operational expertise to reposition or grow.
- **Focused on equity investments:** All of these funds are focused on equity investments as are nearly all funds in the sector. In late August 2009 there was one fund in the market focused on raising debt for infrastructure funds as well as a few others that focus on a mix of equity and debt, but debt-focused vehicles have not been a priority for investors. There are also a few funds that are focused on secondaries, but these funds define secondaries very differently from the private equity and real estate markets. Funds with a secondary focus in infrastructure concentrate on buying greenfield or rehabilitated brownfield projects after they have been completed and de-risked.



## What are infrastructure funds?

Figure 1.3: **Infrastructure offerings by geographic focus, as of August 2009**



Source: Probitas Partners.

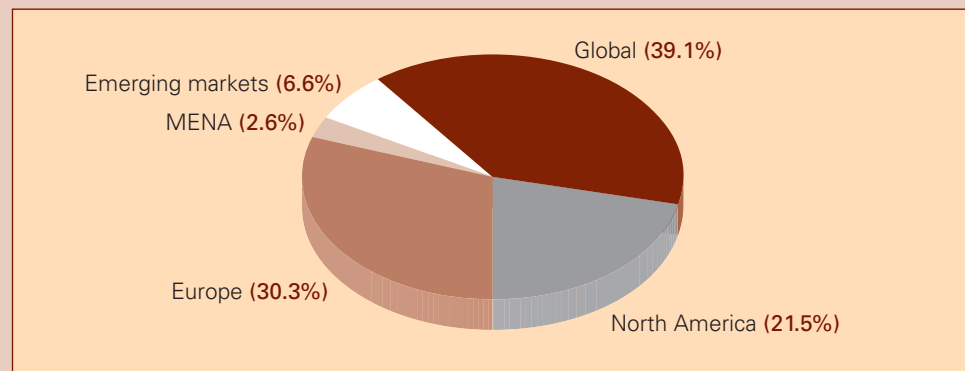
Besides these large vehicles, a number of smaller funds in the market were also in the market at the same time, many with either a narrow industry sector focus (such as airports or water plants or renewable energy) or with a particular geographic focus. As of mid-2009, nearly 100 closed-end funds were in or were about to come to market seeking over \$100 billion in commitments, along with 11 funds of funds targeting over \$3 billion. As detailed in Figure 1.3, of these funds, 36 percent target developed markets (either North America or Western Europe) mainly focused on brownfield assets, while 34 percent are globally focused (again mainly in developed markets and brownfield assets), with 22 percent focused on emerging markets in Asia, southern Africa and Latin America. (In most emerging markets there is considerably more focus on greenfield projects, and these markets tend to have greater currency risk and potential political risk.) The remaining capital (~8 percent) is focused either on the Middle East/North Africa (with most of these funds targeted on the energy sector) or Australia, which is an extremely developed though small market.

The funds that are in the market currently, however, may not reflect investors' interests as much as they do fund managers' hopes. A different picture emerges when one reviews funds actually invested in by institutional investors. When totaling the amounts for funds that had final closes from 2007 through the first half of 2009, summarised in Figure 1.4 below, there is much less interest in the emerging markets and an even heavier concentration on developed countries. On a combined basis, the emerging markets and MENA attracted just over 9 percent of total funds raised. Also, a number of the emerging markets-focused funds in the market, as of August 2009, had been fundraising for some time and seemed to be having trouble achieving final closes. The number of these funds did not seem to reflect a dramatic swing in investor sentiment.

One other new area of infrastructure investing that is not evident on these charts is the fund of funds approach. In the past there have been very few such vehicles, with only one having closed over the last two years. There are, however, now 11 infrastructure funds of funds currently seeking funding, most of which are following globally diversified strategies. In the past, many investors – especially those focused on brownfield investing with

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Figure 1.4: **Geographic dispersion, infrastructure funds closed 2007–June 2009**



Source: Probitas Partners.

a lower risk-return profile – have felt that the additional level of fees involved in a fund of funds on these assets made them unattractive. It will be interesting to see how this market segment develops over the next few years.

### **Types of funds: fund duration**

Unlike the private equity market, there is no clearly established standard for fund duration today, with different vehicles handling duration in differing ways. As highlighted in the project descriptions earlier in this chapter, pure brownfield strategies are often driven by underlying concessions that can last for up to 50 years while greenfield projects have a much shorter build phase which can naturally lead to a sale of the project to a brownfield investor once it is completed. The main fund structures in use are described below.

#### *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 and often seek to continue their 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 stabilised (generating higher IRRs than if the intent was to hold them to ultimate maturity), while other projects with naturally longer maturities are often 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, stabilised role.

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In some cases the transfer between affiliated shorter-term funds and longer-term vehicles has caused significant conflict issues for fund sponsors. As a result, funds that include such features appear to have either lost institutional support because of the risk of fiduciary liability or gained much greater scrutiny and now include significantly greater limited partner protections in the event of these transfers.

Still, no standard method has yet emerged to address the most difficult conflict issue: pricing positions upon transfer 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. While some evolving structures include opt-outs at the end of the fund life for shorter-term investors others seek to offer shorter-term investors a contractual right of realisation while reserving the opportunity for longer-term investors to stay with the assets over 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 realisation of an asset.

### *Open-ended or evergreen structures*

Favoured by certain investors as a natural vehicle for long-tailed assets, open-ended vehicles create policy and legal difficulties for those whose alternative programmes prohibit them from investing in partnerships without a fixed and limited duration. Exit mechanisms for open-ended vehicles that provide liquidity to investors after a set period can be 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. These structures tend to be favoured by a number of very experienced investors in countries such as Australia and Europe. Ultimately, the nature of these structures provide 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 incorporate a lower fee and carry structure that contemplates a very long-term hold by investors. As a result, this has become a more attractive structure for investors who intend to match liabilities in the 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 (NAV) 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 have 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 it is clear some

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### *Pricing of infrastructure funds*

are dissatisfied with attributes of most of the structures that currently exist, but there is no consensus around a preferred approach going forward.

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 (that is, 2 percent management fee and 20 percent 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 percent. Institutional investors are increasingly taking the position that the return profile of this style of infrastructure investing does not justify this level of fees and carry, and many are pushing for other lower cost structures.

As discussed in the section on the risk-return spectrum of infrastructure investing, various funds have very different profiles. 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 utilise 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 percent will be justified in charging higher fees, while opportunistic strategies targeting returns of 20 percent 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. There are some important nuances of infrastructure fee structures to consider.

- **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 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-life calculate and pay carry on a valuation basis as opposed to a distributed cash basis. 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.

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In any negotiation concerning a Limited Partnership Agreement (LPA), 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 opportunistic 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. For example, a deep bench of experienced professionals is necessary 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 stabilised brownfield assets.

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.

## Summary

The infrastructure fund market is still in the early stages of its development. Many of the fund structures and terms currently available are based upon private equity or opportunistic real estate examples, but the sector is beginning to develop its own structures reflecting its unique risk-return profiles. The risk-return profiles within infrastructure are also quite diverse, which suggests that as the sector develops 'one size will not fit all', and different fund structures, terms and durations will be created to match investors' desires and fund managers' investment strategies. □

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