

# Infra funds

# Buy, buy infra funds

**T**he immediate impact of debt's disappearance on private equity is to remove the leverage needed to invest. Sufficient confidence is surrounding the health of infrastructure in relation to its peer sectors, however, that infra equity funds are emerging in sufficient numbers perhaps to do without debt altogether.

BNP Paribas (BNPP) has launched Antin Infrastructure Partners, a €1bn fund designed to exploit low-risk infra opportunities predominantly in mainland Europe. The fund is for 10 years, with two one-year extensions available. All investments will be in OECD countries, with the majority euro-denominated and in EU countries.

Twenty percent of the fund is reserved for non-European investment, of which 5 percentage points must be outside North America. Traditional infrastructure sectors will dominate: transport, energy and telecoms. Social infrastructure will be included where the targeted average 15% IRR can be met, which is expected to rule out PPPs. Brownfield projects will be heavily favoured over greenfield options.

Despite BNPP's strength in infrastructure (top project finance loan lender for 2007, top 3 for H1 2008), Antin is expressly independent from the bank. As well as being managed independently, it is 60% owned by its managing partners, including founder and CEO Alain Rauscher, and Mark Crosbie. BNP Paribas Infrastructure Partners (BNPP IP) holds the remaining 40%.

Autonomy from the bank is designed to boost investor confidence in the equity-strength of the investments made. While Antin could be involved in a deal with BNPP if each were independently interested in respective equity and debt investments, the decision for Antin to invest on the equity side would be entirely from people within the fund.

A succession of infra funds have appeared on the market in the past month. Can they go it alone until the banks are done hiding?

By **Mark Kolmar**.

This contrasts with the majority of funds that operate as arms of the major investment banks. Deutsche Bank's RREEF is the closest example, but BNPP's efforts go to the extent of separating even the pay of Antin employees from the parent bank. Now more than ever, investors will be keen to see as direct a link as possible between the remuneration of fund managers and their own returns.

Antin will still take strength from the bank's backing, however. By putting €300m into the fund, BNPP has made its largest single investment into one of its funds, and its traditional conservatism has left it a good partner.

"Resilience in the current market turmoil" led Fitch to upgrade BNPP IP's rating by one notch in early October to M2+. BNPP has been affirmed at AA/F1+ with a stable outlook. The bank is now fully invested, and Crosbie describes fundraising activities as "at the friends and family stage".

Fitch refers to the bank's "overall cautious development strategy relative to peers", in supporting the ratings, and this rationale has shaped much of the structure of Antin. Both the OECD and brownfield focuses are designed to create a conservative fund.

"We want to see well established usage and an operating track record," say Rauscher and Crosbie. A more surprising example is that investment cases currently being looked at are being studied with present market conditions factored in for the life of the investment; no return to past generosity is required of either the debt markets or asset prices.

BNPP's backing enables Antin to avoid the more competitive UK market and focus on mainland Europe. Language barriers and regulatory variations will prove less of a difficulty to a fund with a network of local operations it can partner with. The UK has been the easier and more obvious entry point for most European funds to date, and it is therefore where most capital has been directed. The market is consequently highly competitive, sufficiently

# North European PE fund **EQT** has announced its own **new infra fund**

so that sellers typically hold auctions for the major assets, squeezing buyers' margins.

Antin refers to the coming BAA auctions as an example of something it will happily avoid, in favour of lower-key, less hotly contested assets that shift a little more power from seller to buyer in negotiations. Antin refers to mainland Europe as having "a lot of opportunities that arise through personal networks and relationships", in contrast with big auctions, which see competitors "bid returns away".

In this regard, the presence of ex-developer side-men Charles duPont (Bouygues, Saur) and Jean-François Marco (Bouygues, Vinci) among the team is expected to bring in a number of deals. The large European developers offer a source of deals as they often take projects on as a means to secure construction work, with little interest in holding the assets long-term. They thus look to sell the long-term assets to recycle capital that can be used short-term to garner more construction work.

An example of the potential for unusual sources of deals, key relationships playing a part, and using construction firm capital-recycling activities as a source, can be found in one of the two deals Antin has completed already. Antin has entirely taken over the Bouygues-led Bina Istra consortium's motorway deal in Croatia. Bouygues were looking to sell the asset, and inevitably an initial thought was to go to ex-head of business development, Charles duPont.

Even without duPont's presence, Antin would have been well placed, however, as Bouygues was specifically looking for a French partner, on account of benefits from a French-Croatian tax treaty. Antin insists it is this kind of specialist sourcing that will get it respectable IRRs on low-risk assets (the contract structure even provides euro-denominated returns). Forced sales by investors that bought at the top end of the last cycle are also inevitably being looked at as opportunities due to discounted prices.

While Antin has completely taken Bina Istra, it has a minority stake in its other completed deal, the Porterbrook train leasing company. Deutsche Bank and Lloyd'sTSB led the acquisition, with Antin happy to take a minority stake given board representation.

Despite the strength of the asset – Antin boasts that the deal was completed amid the September/October turmoil, without any of the parties involved suggesting pulling out – Porterbrook could indicate a question mark hanging over Antin's plans. It is perhaps surprising that given the strong intended mainland Europe focus, Antin has a UK asset on its books within its first two moves. Antin, of course, insists that strength of asset is paramount, even if it is outside its main target region, but time will tell whether sufficient assets can be sourced from mainland Europe, sufficiently easily, to support the €1bn fund.

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3i Infrastructure is displaying a balance between the most obvious targets, and taking advantage of specific opportunities available in current conditions. Regarding the high profile BAA auction that Antin balks at, managing partner Michael Queen says: "Clearly, as a UK-based infrastructure fund, this is going to be something we're looking at extremely carefully and extremely seriously. If there is a deal to be done on Gatwick, we would like to be part of it."

In the April to October period of the year, however, the fund displayed a willingness to grab less public, timely, opportunities when they arose. Of £102.9m invested in the period, £86.7m was spent on a portfolio of junior debt instruments. Bought at an average 84% of par value, the debt applies to companies that 3i Infrastructure was looking at taking an equity stake in, but the fund found yield to maturity figures of 14% on the traded debt giving better returns than equity investments.

Viridian, Thames Water, NGW/Arqiva and Télédiffusion de France were the companies involved. Queen says the "anomaly in the market . . . is a window of opportunity that will probably exist for another three to six months".

North European PE firm EQT has announced its own new infra fund this month, raising €1.2bn to invest in existing infrastructure mainly in Northern and Eastern Europe. Sponsor Investor AB provided 10% of commitments, joined by AP4, Skandia, Pantheon Ventures and Varma Mutual Pension Insurance Company. The conservatism of Antin's mainly brownfield philosophy is taken a step further by the restriction to existing infrastructure, but the net is cast a little wider in terms of sector, with social infrastructure and infrastructure-related services accompanying basic and concession-based infra.

UBS has exceeded its US\$1.5bn target for its flagship UBS International Infrastructure Fund, sparking plans for a new fund of similar size in order to exploit rapid growth in institutional allocations in infrastructure.

"We will be in the market next year again," said Steve Jacobs, UBS Global Asset Management's head of infrastructure, "because investors see [infrastructure] as uncorrelated [with other asset classes] and understand it provides returns in good and bad times". He also expresses favour for smaller funds, saying: "We kept the fund at a manageable size deliberately. We are not believers in big funds because you must go for big deals and they happen only so often."

Prudential has boasted its own oversubscription, with subsidiary M&G Investment Management's Infracapital attracting £160m more than its £750m target. Headed by Martin Lennon, Infracapital will focus on transport, regulated utilities and social infrastructure.

On Gatwick, Michael Queen says that given the size of the asset, bids are likely to come from consortia of investors. Increasingly bullish funds may find a similar tactic will allow them to move away from bank dependency in picking up their assets.