



Q4 2022

INFRASTRUCTURE PULSE

EUROPE AND THE AMERICAS



ALVAREZ & MARSAL
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KEY FINDINGS

The Infrastructure Pulse, compiled by Alvarez & Marsal in collaboration with the GIIA, is a survey designed to provide a regular temperature check of sentiment in the sector and emerging trends.

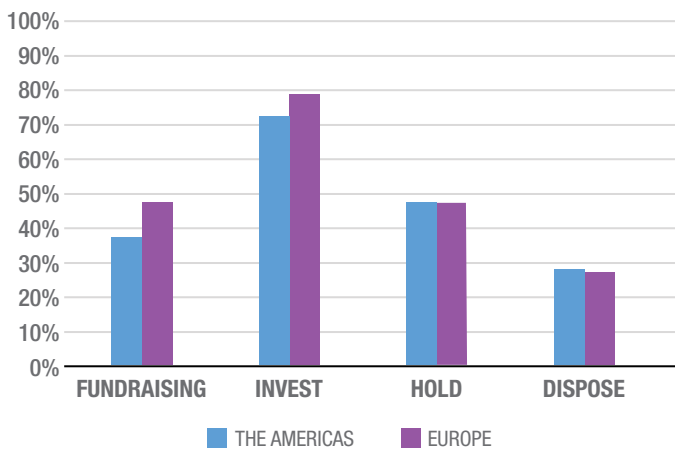
Geopolitical challenges and market uncertainty have not diminished and continue to be major considerations for funds making decisions on how and where to deploy capital. Persistent inflationary pressure, the knock-on effects of the Russia-Ukraine war, and a growing European energy crisis, now exacerbated by a cut in OPEC production, present a challenging landscape in which to find stable opportunities. In the meantime, significant capital investment will be required despite higher interest rates to meet marketplace expectations. Respondents continue to push their environmental, social and governance (ESG) agendas and indicate their willingness to invest heavily to reach Net Zero goals over the next five years.

The following key themes have been noted in the Q4-22 responses:

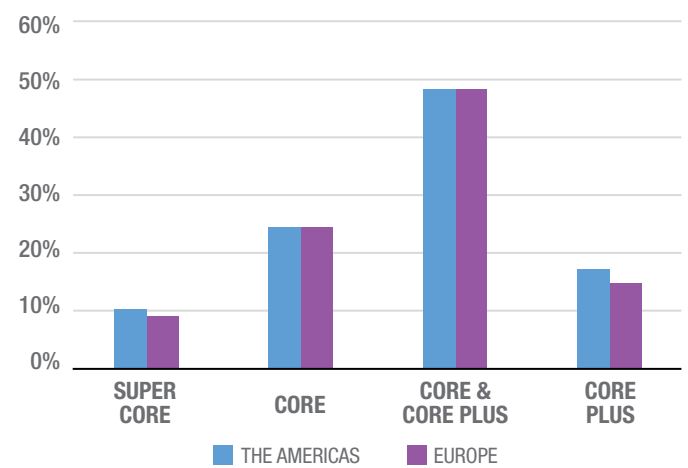
1. Against a backdrop of the tightening by the Fed in the U.S, and rising bond yields signalling further interest rate rises in the UK and Europe, respondents have noted that they're experiencing significantly less favourable debt markets compared with previous surveys. Infrastructure debt markets have become unfavourable for the first time in our survey history, likely driven by the debt syndication market being extremely challenged.
2. Infrastructure investors noted a distinct decline in the fundraising environment from Q2-22 to Q4-22. The fundraising environment has moved from highly favourable to neutral, particularly for Americas investors.
3. Overall market sentiment declined with participants indicating they will be divesting fewer assets in the next 12 months (30% had no disposal plans) and more respondents signalling lower levels of capital deployment than in the Q2-22 survey. Whilst this signals reduced medium term deal activity compared to record highs seen in the last 12 months, Q4 activity remains more buoyant than traditional private equity, albeit there is some evidence of transactions taking longer to close.
4. Respondents highlighted high inflation as the key issue facing portfolio companies across both Europe and the US with European investors also citing the energy crisis and Americas investors more worried about supply chain delays. When it came to assessing new investment opportunities, respondents were unequivocal across all markets that high inflation was the most significant challenge.
5. Predictably, the infrastructure investment outlook in Eastern Europe is negative while it is generally positive across the rest of Europe and North America. Whilst attractiveness has declined across all markets compared to Q2-22, infrastructure investors highlighted a sharp reduction in sentiment towards the U.K driven by the ongoing political instability, a score last seen at the height of the Brexit political stalemate. The South American investment outlook overall, and for Brazil and Mexico in particular, also turned decidedly negative.
6. The most attractive industries continue to be communications, sustainable energy generation and battery development for the coming electric vehicle revolution. Regulated gas and electricity moved from only slightly attractive in Q2-22 to decidedly unattractive in both regions. Whilst in Europe this is partly driven by the weighting of these assets towards the UK, where in addition to political instability respondents highlight an unattractive regulatory regime as a barrier to investment, there is no denying the wider challenge facing such "core" infrastructure assets when debt returns are approaching the mid-single digit equity returns where these assets have recently transacted.
7. Whilst the ESG scores have reduced compared to recent surveys, likely driven by the response to Russian aggression in Ukraine, and the pressure this has put on energy supplies, assessing ESG factors has become more second nature and just one of the key factors to consider when making investment decisions in both the Americas and Europe. Cybersecurity and climate change continue to be seen as the biggest ESG risks. There is also general agreement across all regions that governments can best encourage investment in clean energy, transportation and digital through climate friendly market incentives, improved regulatory environments and creation of the right frameworks to stimulate demand. Approximately 40 percent of respondents expect to invest between \$1 billion and \$5 billion over the next five years to achieve zero carbon emissions in their portfolio, down from 50 percent in Q2.

THE BACKGROUND

How would you describe your current primary focus?



How would you describe your investment criteria?

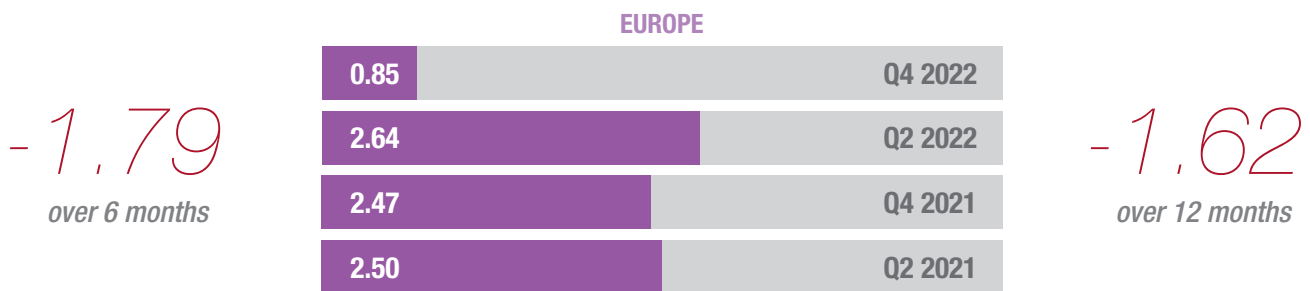
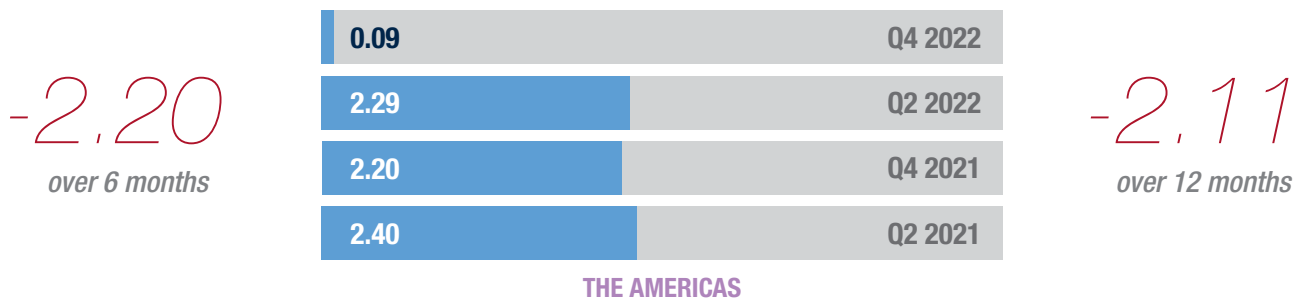


What is your target equity cheque?



FUNDRAISING, DEPLOYING AND REALISING CAPITAL

If fundraising, how favourable is the current equity fundraising environment? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)

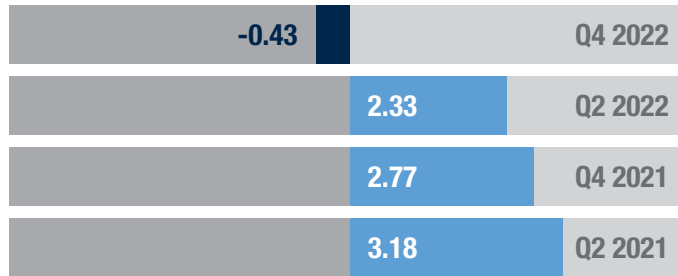


“Some investors are scaling back the size of their commitments because public market valuations have declined. Many LPs are rebalancing their portfolios which in some cases has caused smaller allocations to new fundraising in private markets.”

– GLOBAL MULTI-STRATEGY INVESTOR

If deploying capital, how favourable do you consider the infra debt markets for current deals to be?
 (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)

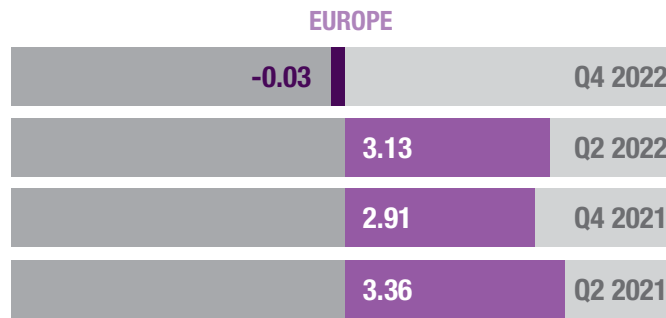
-2.76
 over 6 months



-3.20
 over 12 months

THE AMERICAS

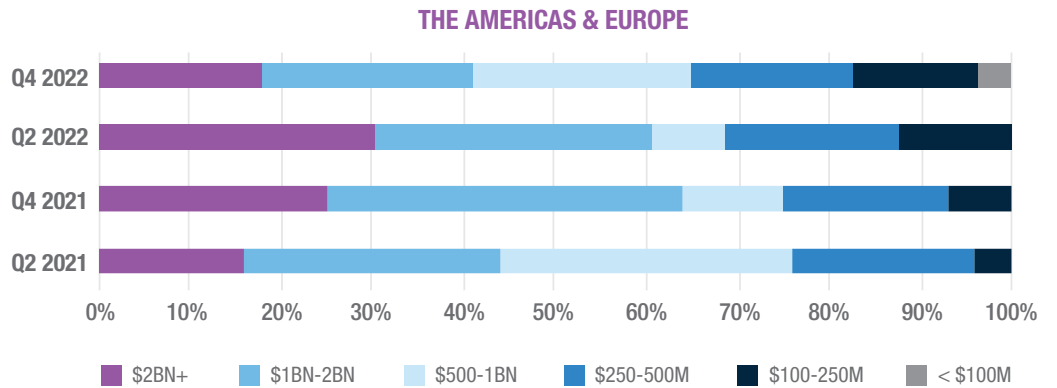
-3.16
 over 6 months



-2.94
 over 12 months

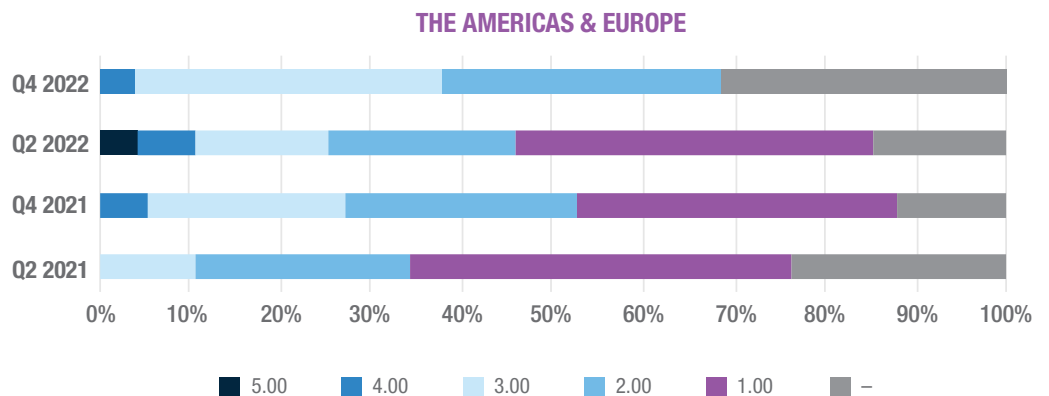
EUROPE

If deploying capital, how much equity do you anticipate deploying in the next 12 months?



THE AMERICAS & EUROPE

How many assets do you anticipate divesting in the next 12 months?



THE AMERICAS & EUROPE

THE OUTLOOK: 2022 AND BEYOND

Which of the current macro-economic trends do you consider to be having the most significant impact on your current asset portfolio and your assessment of new investment opportunities? (1: least impact, 5: most impact)

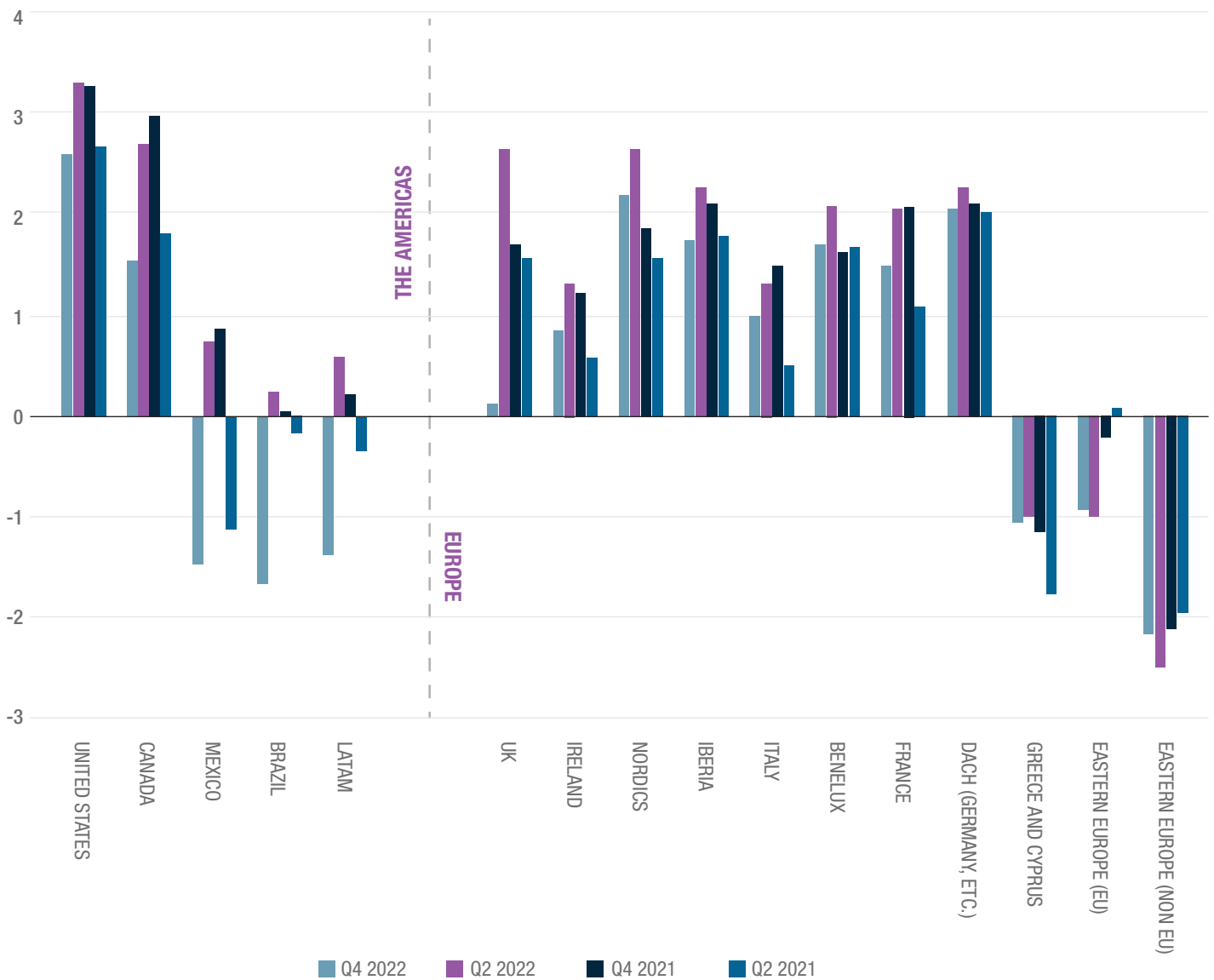
| | THE AMERICAS | | EUROPE | |
|---|-------------------------|------------------------------|-------------------------|------------------------------|
| | CURRENT ASSET PORTFOLIO | NEW INVESTMENT OPPORTUNITIES | CURRENT ASSET PORTFOLIO | NEW INVESTMENT OPPORTUNITIES |
| High inflation | 3.45 | 3.82 | 3.50 | 3.71 |
| Availability and cost of debt financing | 2.36 | 2.91 | 2.50 | 2.64 |
| The energy crisis | 3.05 | 2.95 | 3.68 | 3.57 |
| Skill and labour shortage | 2.77 | 2.45 | 2.50 | 2.46 |
| Supply chain delays / blockages | 3.36 | 2.86 | 2.82 | 2.61 |



“Historically inflation curves were relatively flat. Pre-covid central banks were successful in managing inflation within narrow bands around target levels. Variations were not significant enough to valuation models to require dynamic modelling. This doesn’t hold today, forecasting is much more challenging, as is the impact of getting it wrong on valuation, and needs the same attention as assessment of other valuation variables when making investment decisions.”

– GLOBAL INVESTOR

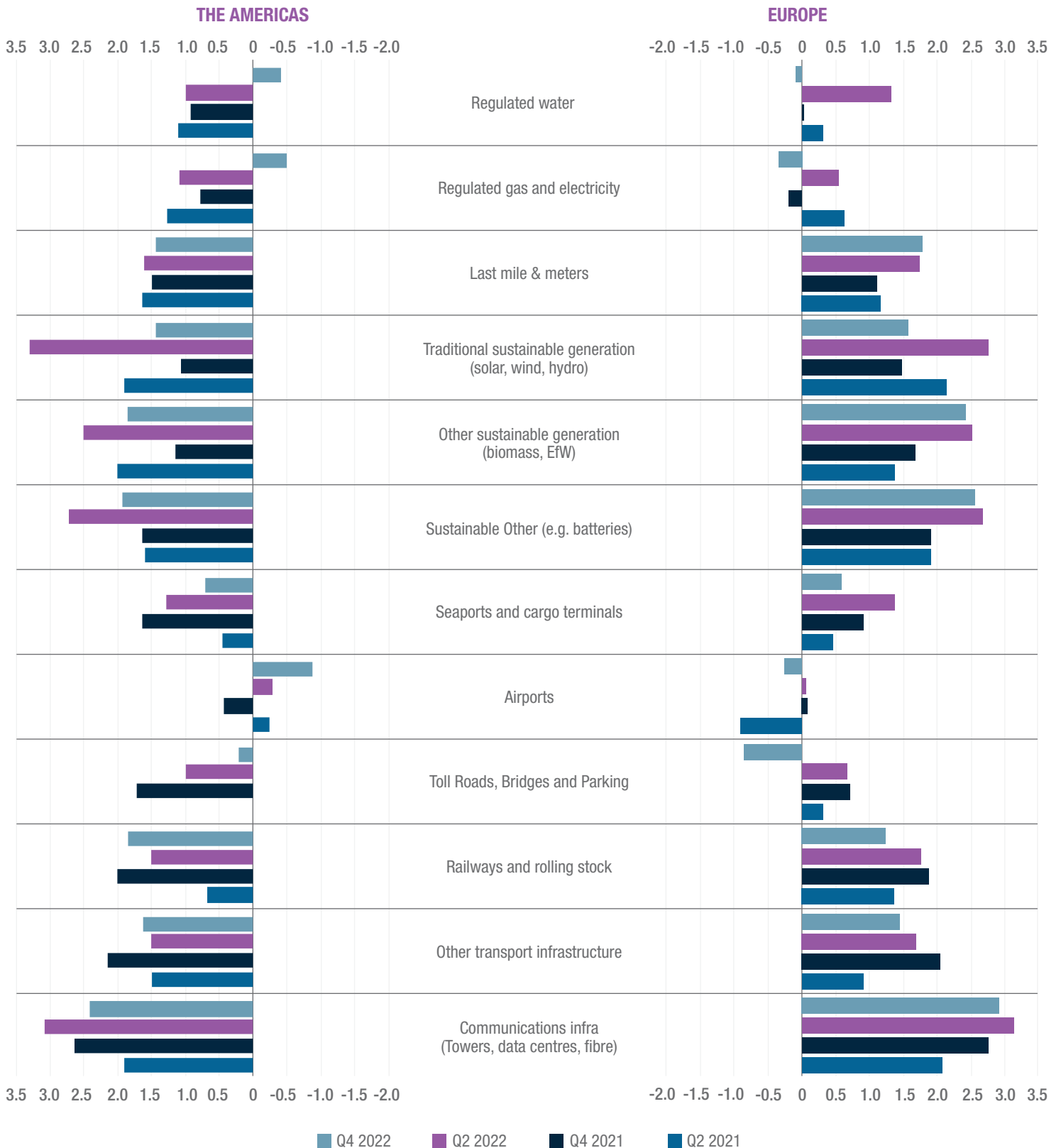
What is your outlook for the attractiveness of, and opportunities for, your fund(s) infrastructure investment in the following countries in the next quarter? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)



“The Latin American countries have seen a political shift to the left. This has reduced our interest in infrastructure investment in Latin America for the time being and we have indicated that to our LPs in our latest fundraising efforts.”

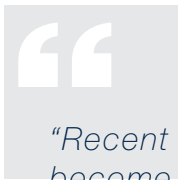
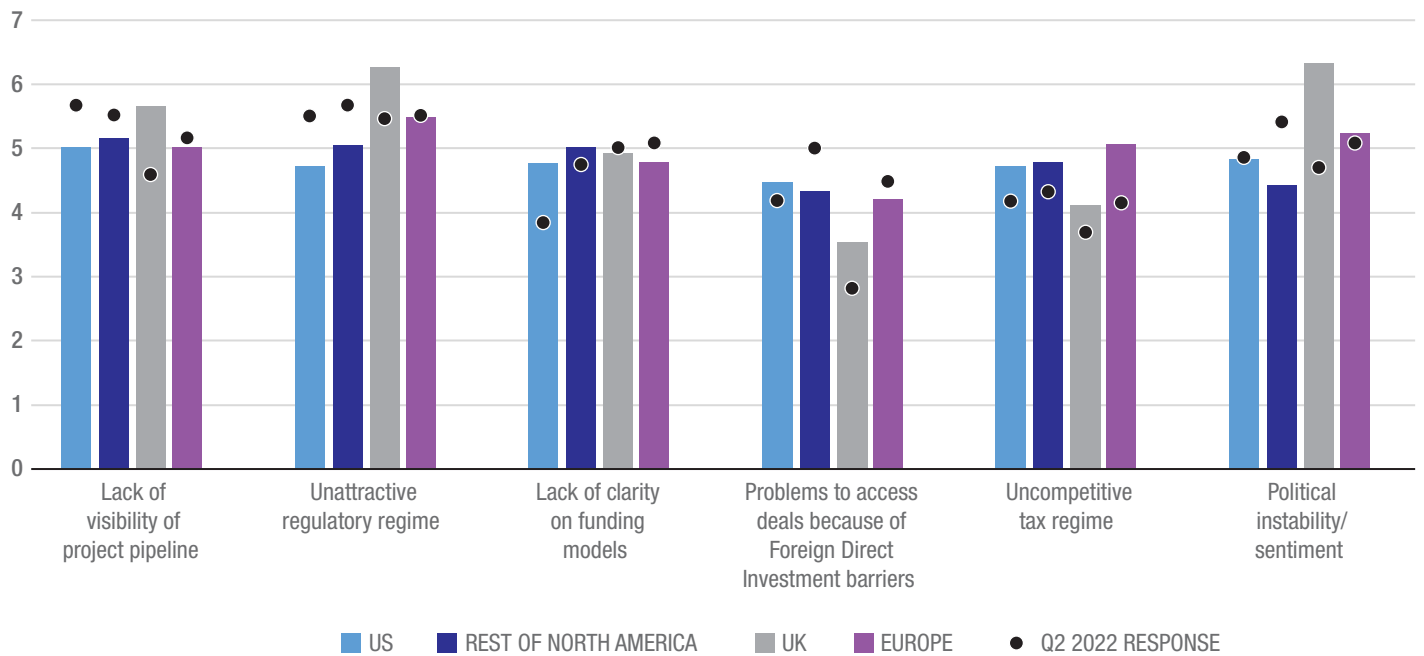
– GLOBAL MULTI-STRATEGY INVESTOR

What is your / your fund(s) outlook for overall infrastructure opportunities for your fund(s) in the following sectors in the next 12 months? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)



BARRIERS TO INFRASTRUCTURE INVESTMENT

Which of the following do you view as the key barriers when looking to invest?



“Recent political uncertainty and a view that the regulatory environment has become very challenging is reducing the attractiveness of UK assets and UK core regulated assets particularly.”

– GLOBAL INVESTOR

ESG AND THE ROAD TO NET ZERO

How important is ESG to you (or your LP's) and how strongly does it influence your investment decisions? (0: not considered, 5: balance of factors, 10: primary factor)

-1.0

THE AMERICAS



EUROPE

-1.0



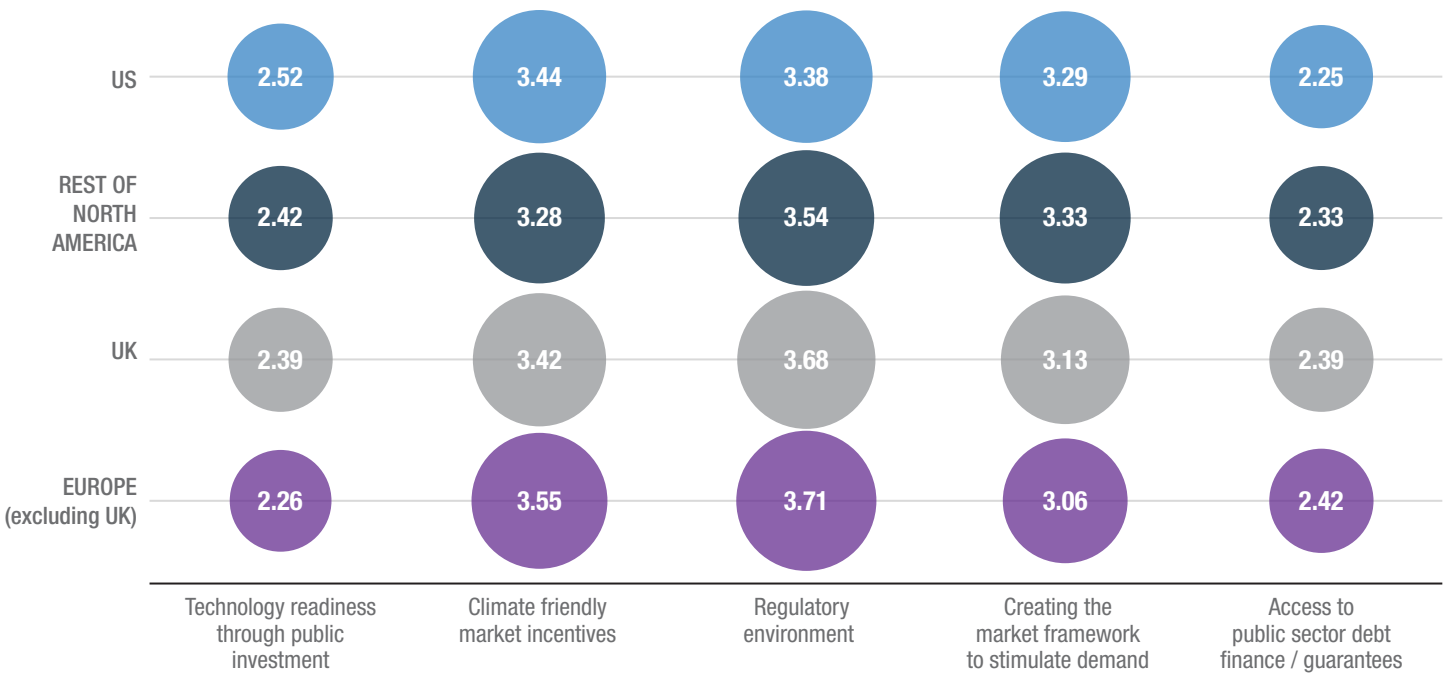
"Funds assessment of ESG factors has matured and they are more advanced and comfortable with ESG reporting requirements and needs of their LPs. I'd describe it as becoming more second nature, rather than less important."

- GLOBAL INVESTOR

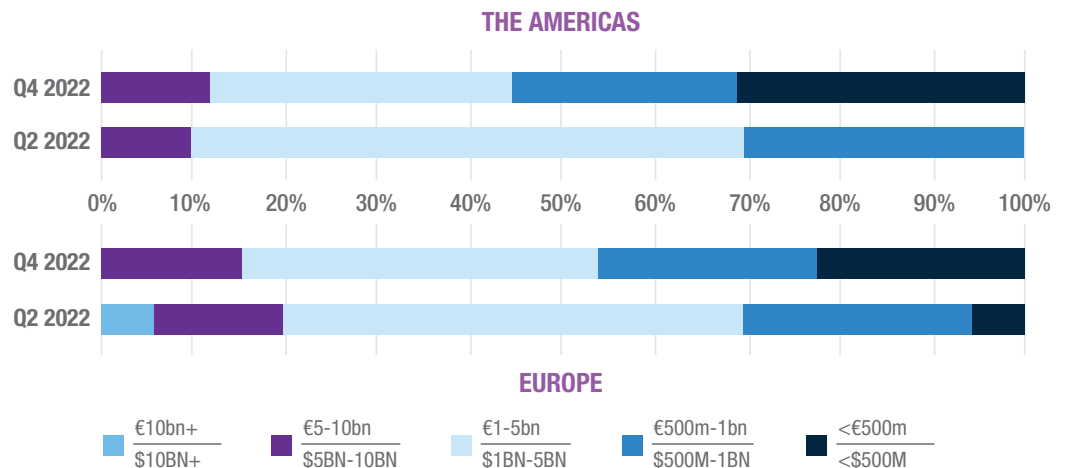
Where do you see the greatest ESG challenge in the next one to two years? (1: least challenging, 5: most challenging)

| | | | | | |
|--------------|--------------------|--------|---------------------------------|---------------|----------------|
| THE AMERICAS | 2.24 | 2.68 | 2.80 | 3.32 | 3.96 |
| EUROPE | 2.45 | 2.71 | 2.97 | 3.06 | 3.81 |
| | Ethical compliance | Safety | Diversity, equity and inclusion | Cybersecurity | Climate change |

Which of the following do you think governments should be most focused on in order to encourage greater investment in clean energy/transport/digital at present? (1: least focus, 5: most focus)



How much investment do you expect to make in existing or new infrastructure assets over the next 5 years to achieve zero carbon emissions in your portfolio?





ABOUT GLOBAL INFRASTRUCTURE INVESTOR ASSOCIATION

Global Infrastructure Investor Association (GIIA) is the membership body for the world's leading institutional investors. On their behalf, we work with governments and other stakeholders to promote the role of private investment in providing infrastructure that improves national, regional and local economies. Collectively, GIIA members have more than \$1.3 trillion in infrastructure assets under management across 70 countries.

www.giia.net



ABOUT ALVAREZ & MARSAL GLOBAL INFRASTRUCTURE INVESTORS GROUP

A&M's Global Infrastructure Investors Group helps infrastructure funds, corporates, private equity, sovereign wealth funds, and family offices with comprehensive infrastructure support to deliver strategic and practical bottom lines for maximizing the utilization and value of assets. From inception of fund structuring to deal execution, portfolio optimization, through project delivery and asset disposal, our unrivalled team of transaction experts is dedicated to providing an integrated breadth of service and senior leadership across the entire infrastructure investment lifecycle.

Our deep-rooted projects expertise, combined with reputable due diligence capabilities and operational excellence, are unparalleled within the transaction services market. We offer guidance on clients' most critical project challenges and drive performance in all areas of infrastructure investments, including acquisition and vendor due diligence, risk mitigation, capital efficiency, project execution, financial modelling and cost rationalization. With a global network of more than 3,000 private equity and capital projects professionals across the U.S., Europe, Latin America and Asia, our robust team is comprised of transaction advisory specialists, tax and accounting experts, engineers, former industry operators and C-suite executives, all armed with next-level infrastructure insights to guide you in your next deal.

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ABOUT ALVAREZ & MARSAL

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With over 6,500 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M's restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what's really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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