Q4 2023

INFRASTRUCTURE PULSE

EUROPE AND THE AMERICAS

ALVAREZ & MARSAL

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FOREWORD

JON PHILLIPS
Chief Executive Officer
GIIA

We are now within 12 months of elections in the world's three top markets for private investment in infrastructure – the European Union, United States and United Kingdom. Among many issues facing those seeking election is the need to address the climate change emergency and mitigate its impact on the natural, economic and social systems we all depend on.

The urgency to reach net zero means there is rising public pressure on governments to modernise infrastructure. Our recent attitudes survey of 22,000 citizens in more than 30 countries round the world, conducted by polling company Ipsos, found that most people in most countries think that infrastructure is not being built quickly enough. And in most countries, a majority think infrastructure can make an important contribution to combating climate change.

Given that pressure, there should be increasing opportunities for private capital to fill the infrastructure gap between what citizens want and governments can afford. And with elections looming, this is an opportunity for policymakers to focus on how to increase the attractiveness of their markets in what is a global race for capital.

For the US and UK in particular, 2024 represents the last chance saloon for incumbent governments to increase the attractiveness of their markets in what is a global race for capital. Meanwhile in continental Europe, we are entering an important period of implementation as agreements reached at EU level, and commitments in revised National Energy and Climate Plans, are integrated into member states' national policy frameworks.

This Pulse survey demonstrates the need for governments to better attract investment in an era in which higher costs of capital must now be matched by policy, regulatory and funding environments that de-risk and ultimately provide competitive returns.

The attractiveness of the United States continues to outstrip all other markets, thanks to the fiscal incentives of the Infrastructure Investment & Jobs Act (IIJA) and Inflation Reduction Act (IRA).

Canada remains on a par with Europe's long-term leaders including Germany (part of DACH), Denmark (among the Nordics) and France, all maintaining strong levels of attractiveness. Favourability towards the Iberian and Benelux countries has slid gently over the last four surveys but is still comfortably in positive territory.

The UK – a standard bearer for private investment for many years – drops into negative territory for the first time. Investors highlight political instability and an unattractive regulatory regime as the leading barriers to investment. Uncertainty around the UK response to the US's IIJA and IRA, and the EU's Green Deal Industrial Plan, also continues to play on the minds of investors. However, from numerous meetings and conversations we have held with policy makers to express investors' concerns, we are hopeful of steps that begin restoring faith in the UK market.

Looking across sectors, sustainable energy remains the most attractive sector in both the Americas and Europe, particularly the subsectors of solar, wind and hydropower, reflecting governments' efforts to address barriers to greater rollout.

However, the US will need to match Europe's well-developed tax and regulatory frameworks in high-growth sub-sectors such as renewables and battery storage, in order to attract the investment needed to fully realise the ambitions of the US subsidy programme. Data centres are perceived as the leading opportunity within the communications sector in both the Americas and Europe. In transport, railways and rolling stock have the most favoured outlook, while the regulated industries of water, gas and electricity have declined. Expectations among tolled roads and bridges, and airports, remain low.

In a year's time, the political environments in these biggest investment markets could look very different. Nevertheless, given the urgency of transition to net zero that we all face, GIIIA's ambition is to ensure that business environments for investors are even stronger.

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 sentiments in the sector and emerging trends.

The overall market situation continues to be more challenging for Infrastructure investors than in recent years.

- While inflation has reduced over the 12 months, particularly in the US, central banks are warning that interest rates will need to stay higher for longer, which is impacting the cost of debt funding and making fundraising more challenging;
- Credit markets are coming under further strain with longer dated Government bonds showing recent rises in yields due to concerns around ongoing budget deficits and unwinding of quantitative easing, combined with the size of future investment requirements around net zero; and
- Energy challenges have been less pressing than 12 months ago, although the ongoing Russia-Ukraine war combined with concerns of a widespread conflict in the Middle East have led to recent rises in oil prices which may feed through into higher gas and electricity prices over Winter 23/24.

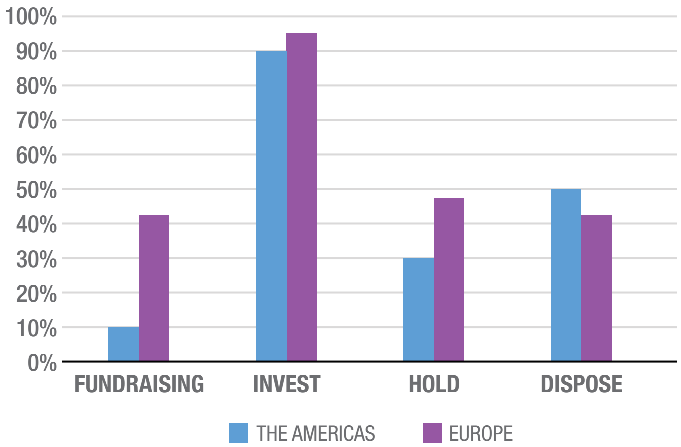
Offsetting these headwinds, the US Inflation Reduction Act is starting to have an impact on green investment and jobs in the US, creating a divergence in investment prospects between the US and Europe.

The following key themes have been noted in the Q4 2023 responses:

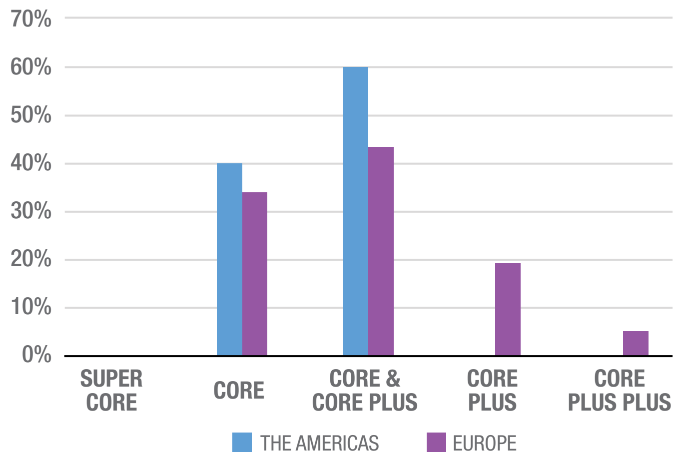
1. Sentiment around equity fundraising fell sharply in Europe, continuing a trend seen since Q2 2023. There is now a clear divergence between Europe and the US, where sentiment increased in Q4 2023 and is now in positive territory. The US continues to be a focus market for infrastructure investors due to significant infrastructure investment needs and further rollouts of Inflation Reduction Act programs.
2. Despite the further monetary tightening seen over the last 6 months, sentiment around infra debt markets edged higher in both the US and Europe and is now neutral overall, although this masks a variation in views between different infra sectors and sub-sectors. Broadly, core infra assets – in particular those with inflation-protected cash flows – remain positive about debt availability, but sentiment becomes negative for certain core plus and non-core asset specific sub-sectors – notably altnet fibre (particularly in the UK) – that are now very difficult to debt finance.
3. The UK's attractiveness for infra investors fell sharply and is now seen as negative. This is attributed to ongoing concerns around political stability (with an election looming in 2024), the absence of a clear strategic direction for certain sub-sectors (e.g water and rail) and quality of economic regulation, coupled with the fiscal stimulus for investing in other countries.
4. Germany now rates as the most attractive country in Europe for infra investment, while the US rating is lower than Q2 2023 but still strongly attractive for investment. South American and Eastern European market outlook continue to be negative.
5. In Europe, investment in regulated water is seen as strongly negative - falling significantly since Q2 2023 – due to concerns about low equity returns combined with high investment requirements to improve network performance. By contrast, interest in European sustainable generation assets increased across each of the three sub-categories.
6. In the US, the investment opportunity outlook in the next 12 months deteriorated notably for sectors such as seaports and cargo terminals, other transport infrastructure, and fibre communication infrastructure. In general, the more capital intensive sub-industries had higher declines in outlook as borrowing costs to fund capex have increased.
7. Participants noted they will be divesting more assets compared to Q2 23 with 95% of respondents indicating they will divest one or more asset. This partly reflects a narrowing of the asset price expectations between buyers and sellers, with respondents identifying at least the beginnings of a re-rating of assets prices over the last 12 months. But disposals are also being driven by funds' need for liquidity and a desire to build a track record of successful disposals, with listed funds looking to demonstrate market values in excess of NAV given shares trading at heavy discounts.
8. Respondents' assessment of the importance of ESG in investment decisions remained broadly unchanged since Q2 2023 in the US and declined slightly in Europe, despite the impact of the IRA in the US and the interest in investing in sustainable generation in Europe. This was attributed more to having a balanced perspective on investment opportunities in the current market and some pushing out of net zero commitments (e.g by the UK Government), providing certain assets with a potential longer-term future, rather than any underlying change in investor sentiment.

THE BACKGROUND

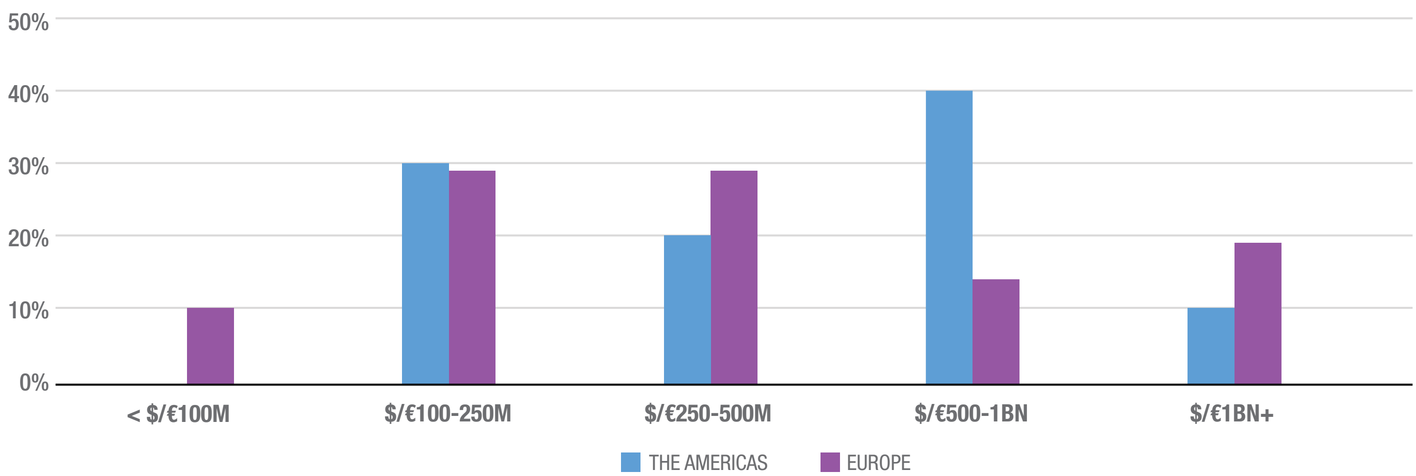
How would you describe your current focus?



How would you describe your investment criteria?



What is your target equity cheque?

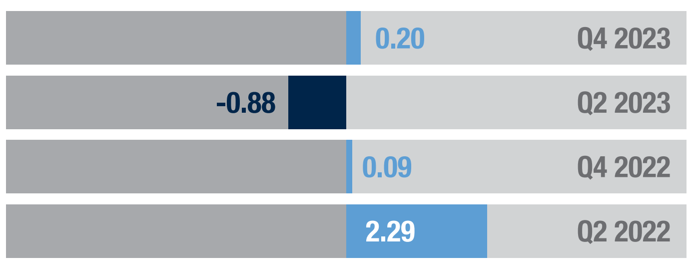


FUNDRAISING, DEPLOYING AND REALISING CAPITAL

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

THE AMERICAS

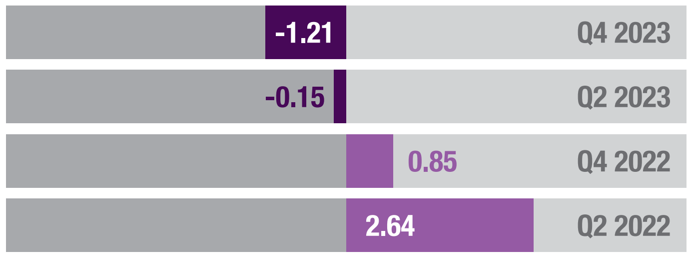
-0.68
over 6 months



+0.11
over 12 months

EUROPE

-1.06
over 6 months



-2.06
over 12 months

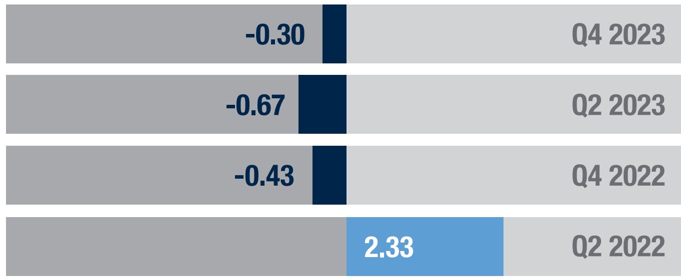
> *"There are fewer players around who can guarantee significant capital to deploy in the UK. We are seeing the impact of the historical investment from foreign infrastructure capital over the last decade, current incentives to invest in other countries, and depressed medium-term UK growth expectations weighting allocations to other countries."*

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)

THE AMERICAS

+0.37

over 6 months



+0.13

over 12 months

EUROPE

+0.19

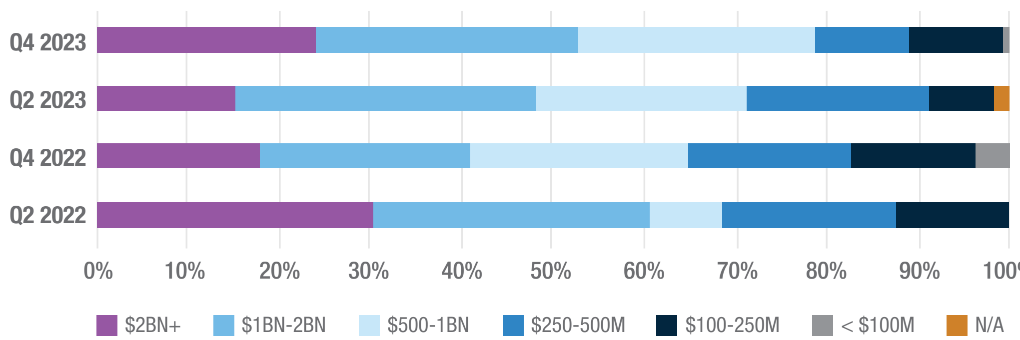
over 6 months

+0.17

over 12 months

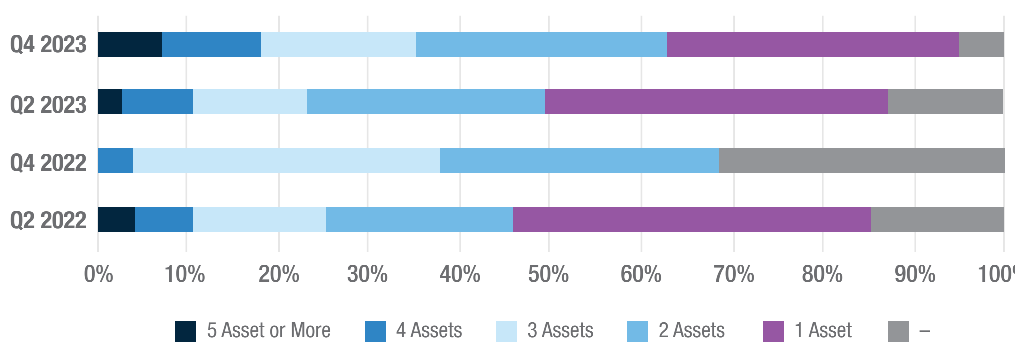
If deploying capital, how much equity do you anticipate deploying in the next 12 months?

THE AMERICAS & EUROPE



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

THE AMERICAS & EUROPE

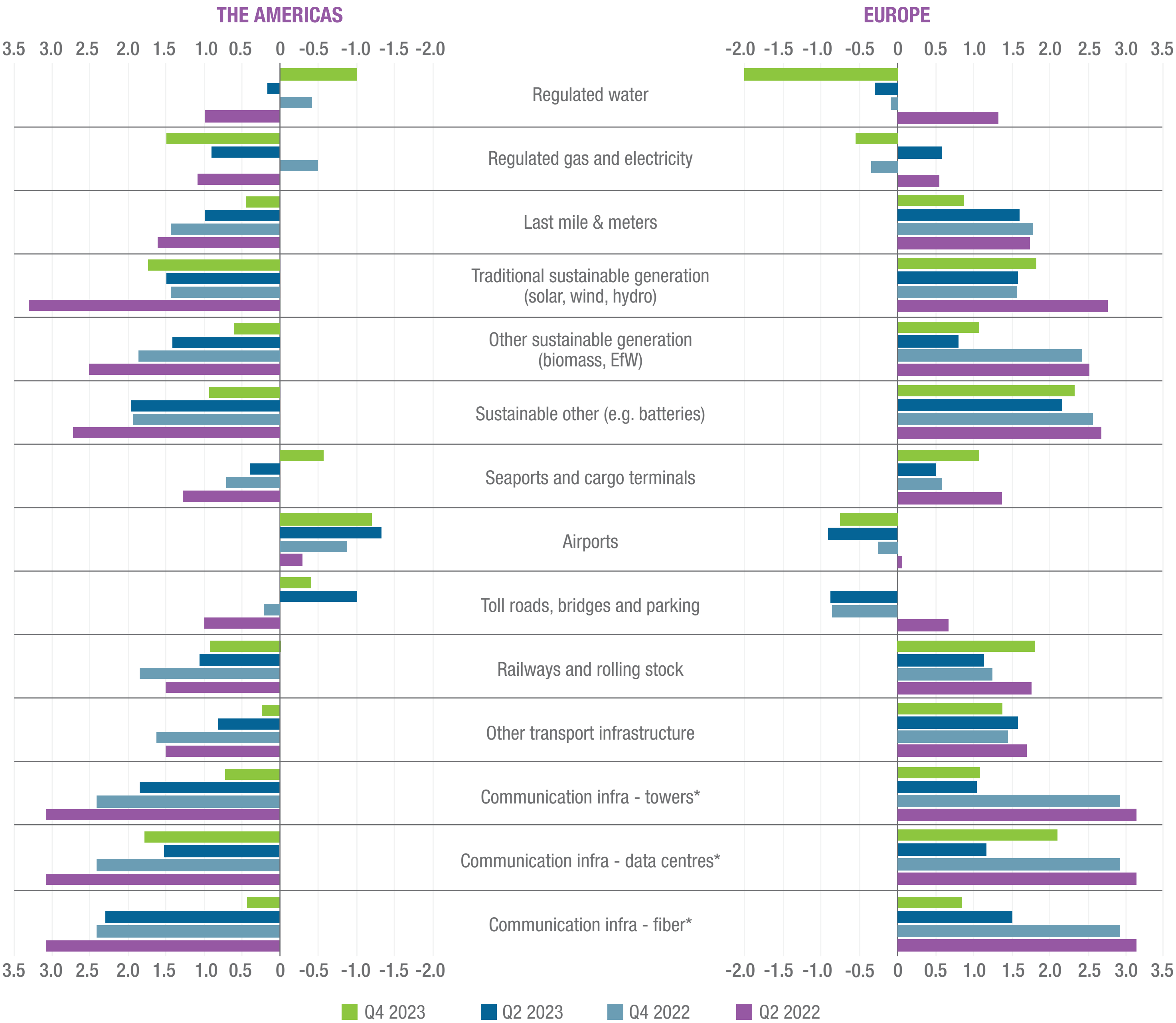


THE OUTLOOK: 2023 AND BEYOND

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)

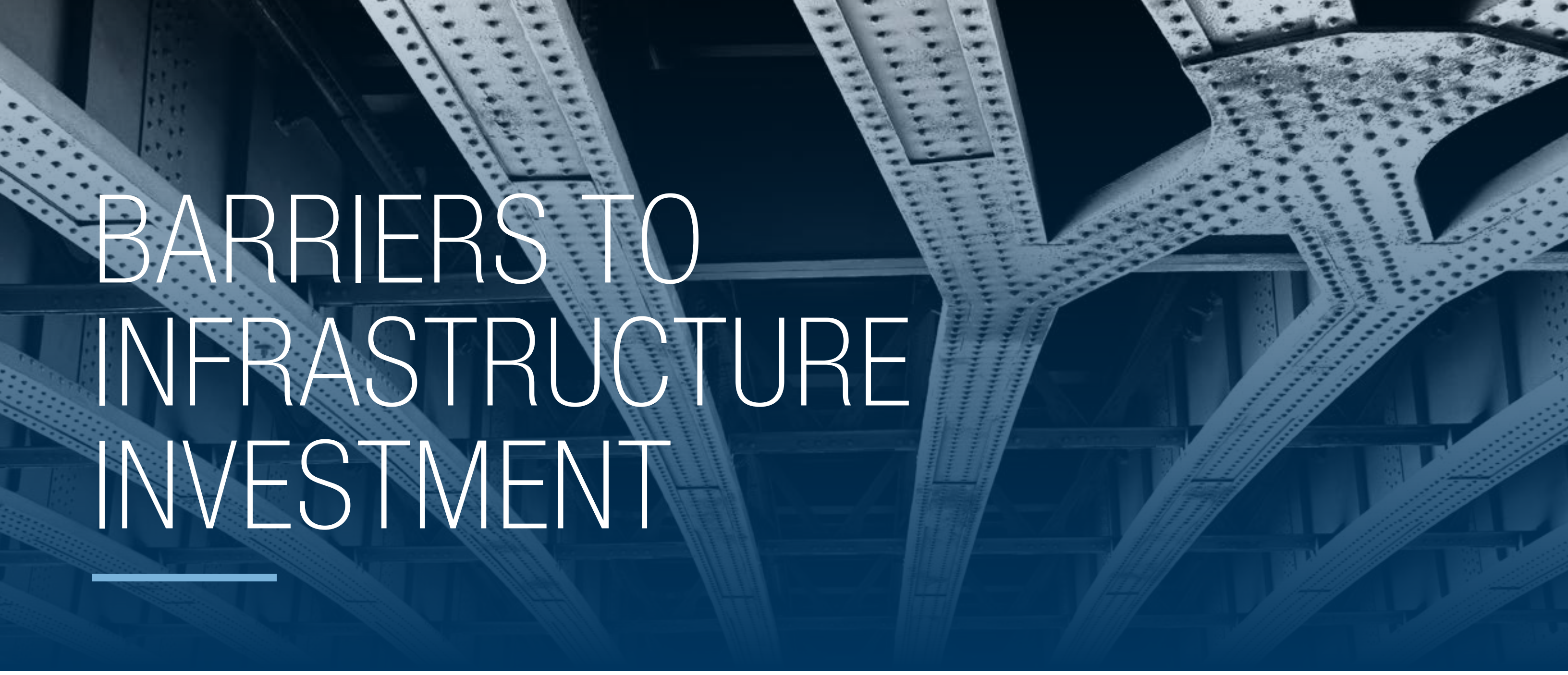
"U.S. investment interest continues to be strong, primarily driven by the Inflation Reduction Act's significant incentives for clean energy and companies' general desire to become more carbon neutral."

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)



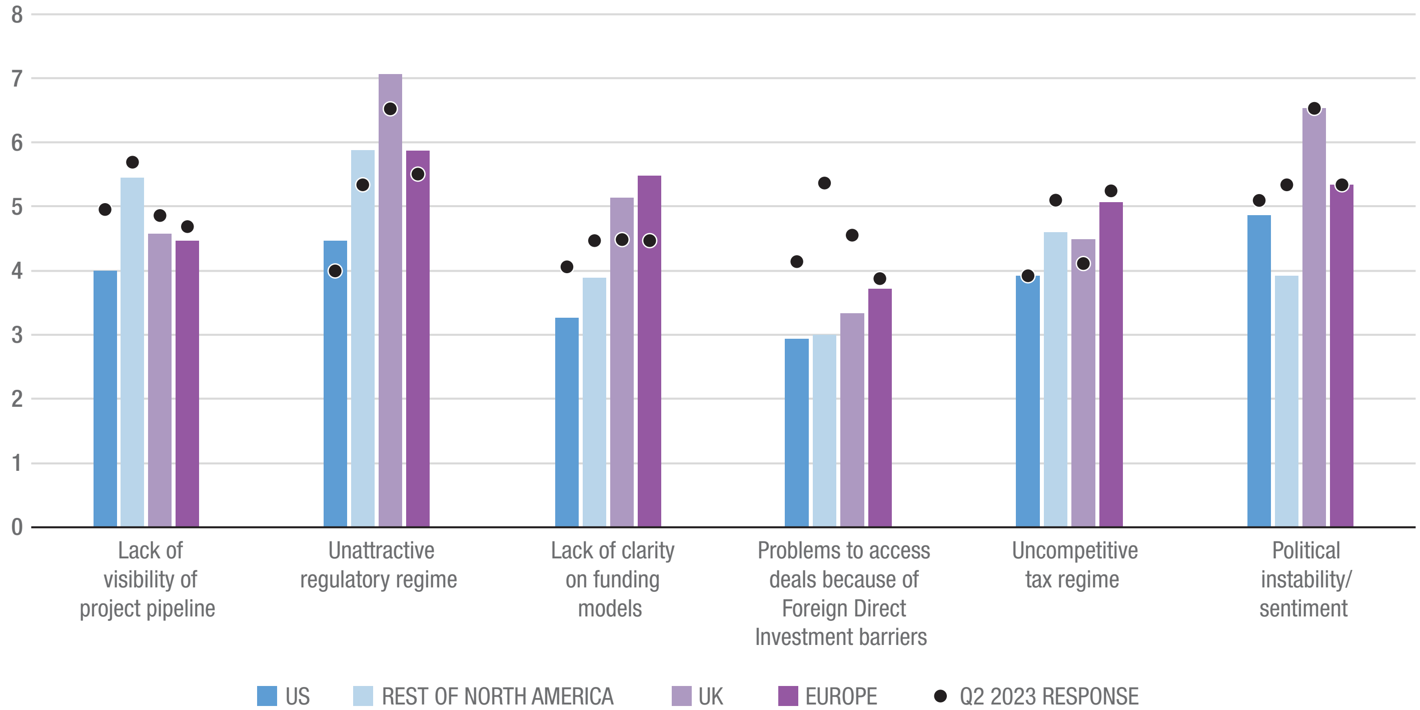
** Q4 2022 and Q2 2022 comparison data for communication infra is a combination of all three categories - towers, data centres and fibre.*

> *"The UK regulatory models for water and to a lesser extent electricity/gas are in need of reform. The cost of capital is too low, relative to the risks – capital and reputational."*



BARRIERS TO INFRASTRUCTURE INVESTMENT

Which of the following do you view as the key barriers when looking to invest? (0: Not important, 5: Somewhat important, 10: Most important)



"Instability at the top of UK Government has hopefully passed, but we are still lacking clarity on the future direction of major infrastructure sectors, with the possible exception of renewable energy."

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)

THE AMERICAS	0.0	6.4	Q4 2023
		6.4	Q2 2023
EUROPE	-0.3	6.5	Q4 2023
		6.8	Q2 2023

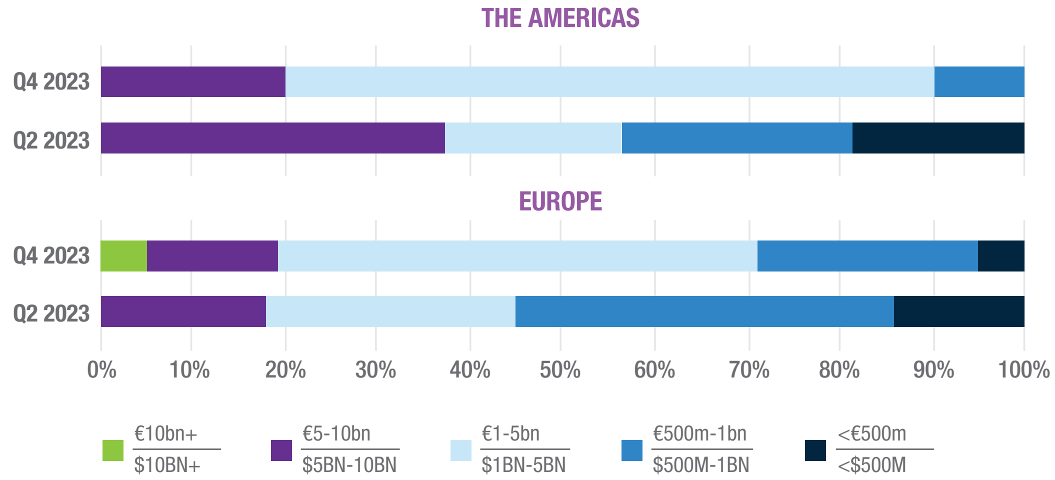
"ESG attributes remain critically important; however, other factors such as fiscal policy, geopolitics and regulatory environment are also key considerations."

Where do you see the greatest ESG challenge in the next one to two years? (1: least challenging, 7: most challenging)

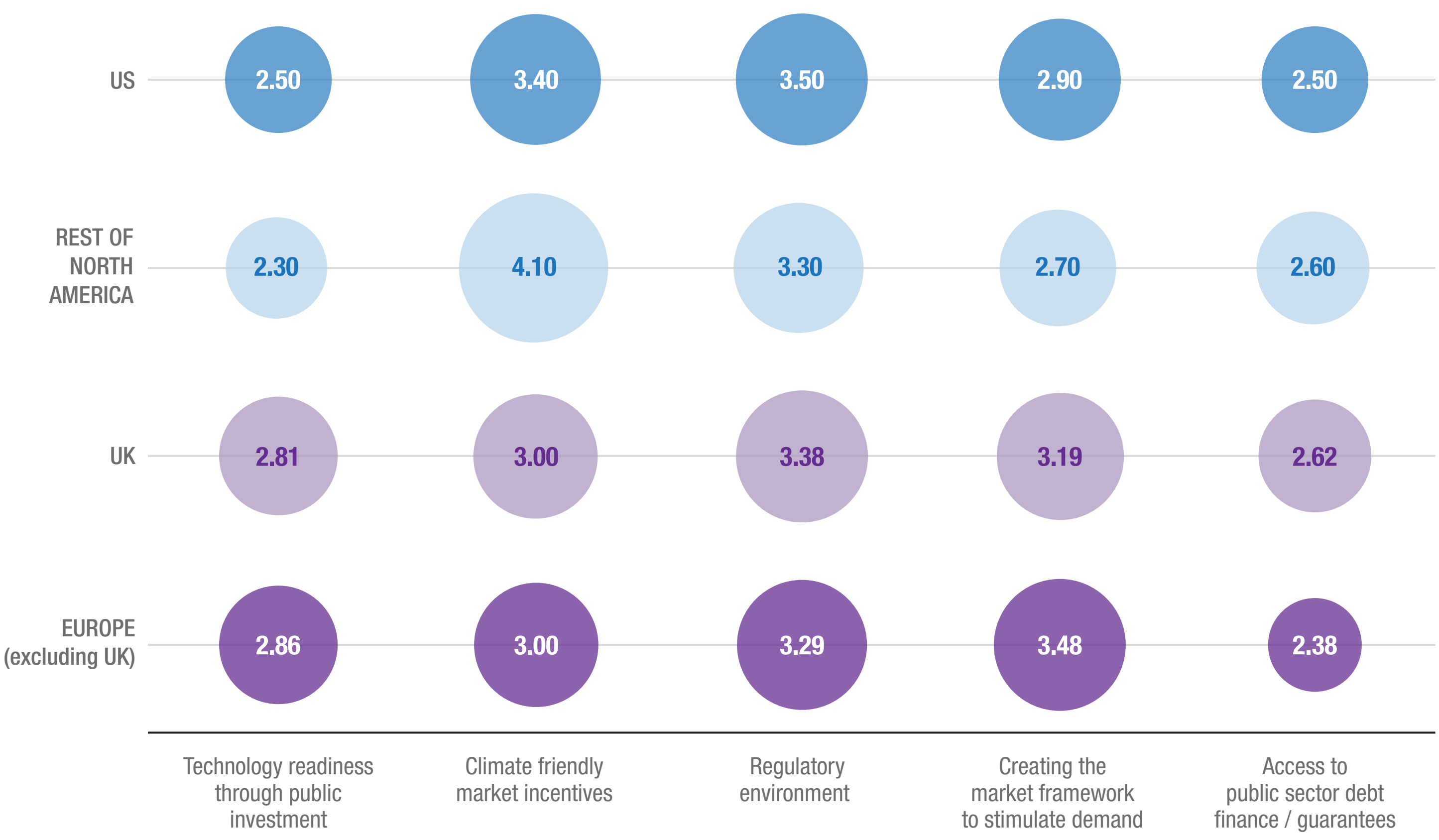
	Biodiversity	Cybersecurity	Climate change	Diversity, Equality and Inclusion	Safety	Supply chain	Ethical compliance
THE AMERICAS	3.20 ↓	5.20 ↑	5.40 ↑	3.90 ↑	3.90 ↑	3.70 ↓	2.70 ↑
EUROPE	4.19 ↓	4.48 ↑	4.76 ↓	4.19 ↑	3.48 ↓	4.05 ↓	2.86 ↑

↑ ↓ *Change in comparison to Q2 2023*

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?



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)



ABOUT THE GLOBAL INFRASTRUCTURE INVESTOR ASSOCIATION

The Global Infrastructure Investor Association (GIIA) represents the world's leading institutional investors in infrastructure and advisors to the sector. On behalf of our members, we work with governments and other key stakeholders to promote the role of private capital in delivering smart, sustainable infrastructure.

By connecting investors and advisors with policy makers and regulators, we seek to create opportunities for investment in projects and assets that improve economies, connect people, enable energy transition, protect the environment, and tackle the challenges of resilience to climate change and achieving net zero.

Collectively, GIIA members have more than $1.6 trillion in infrastructure assets under management across 70 countries in six continents.

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

Companies, investors, and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 8,500 people providing services across six 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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