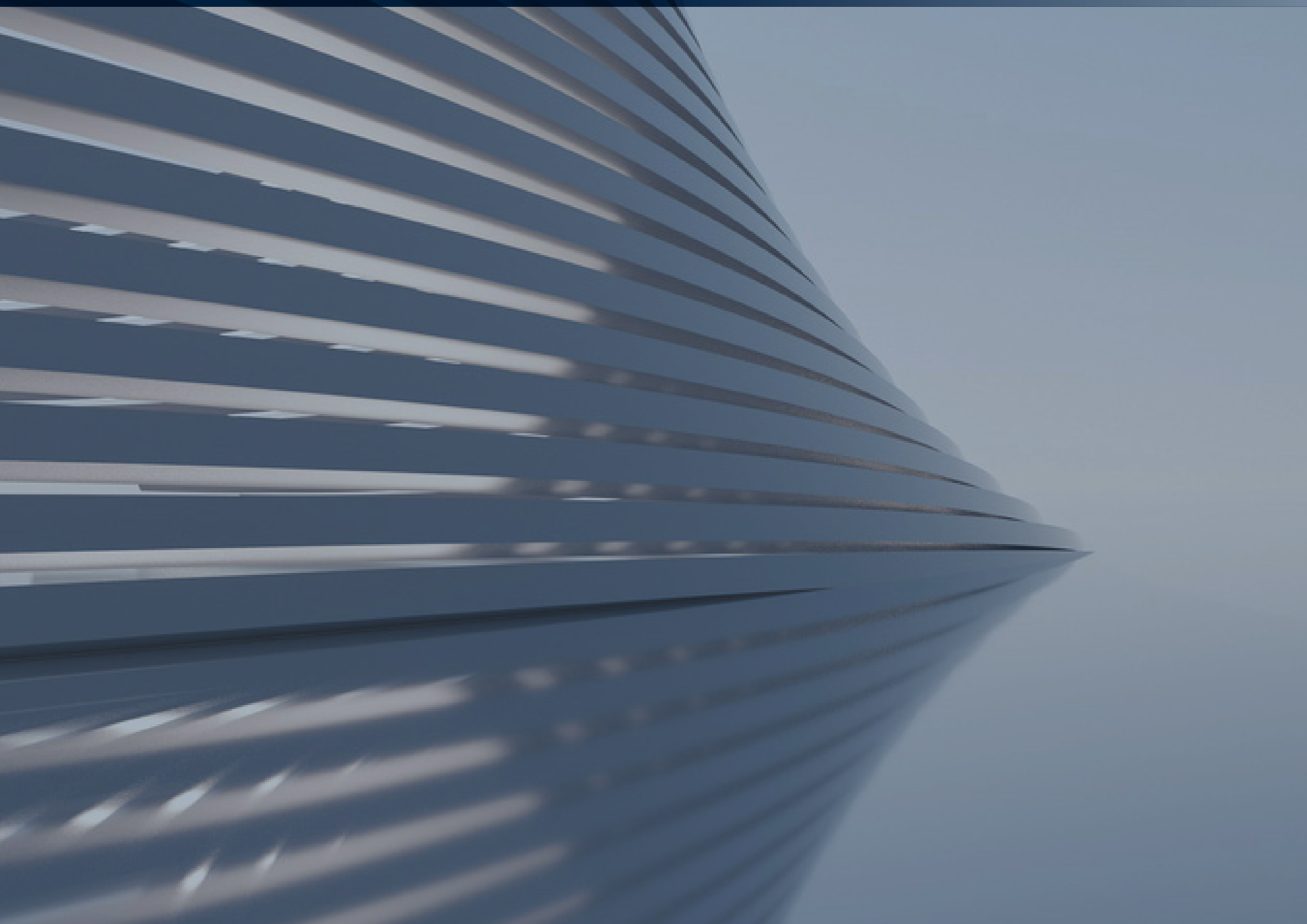
Q2 2024

INFRASTRUCTURE PULSE

EUROPE AND THE AMERICAS



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FOREWORD

JON PHILLIPS
Chief Executive Officer
GIIA

What is it that drives investor sentiment? Our biannual pulse survey reveals how global investors are feeling about markets around the world, and with that comes intelligence on which factors are driving change. A year of elections in many countries makes this year especially uncertain. Investors responding to this survey during Q2 of this year will have a far greater sense of the political landscapes by the same time next year – in markets such as the US, UK and European Union.

But some factors are more important to investor sentiment than national polls. Geopolitical tensions in Asia, the Middle East and northern Europe, and the unwinding of globalisation, affect a host of issues: supply chains, regulations on foreign direct investment and ownership structures. These, and many other issues, significantly influence investment strategies.

This survey confirms that the United States retains its position as the most attractive market for infrastructure investment, further increasing its lead since last year and receiving the highest ever score since our pulse surveys began in 2020.

The push for increased grid capacity, driven by the ongoing electrification of transport, is particularly prominent in the US. Additionally, the growing demand for data centres, with substantial power requirements, continues to fuel investment opportunities.

Investment in traditional renewable energy sources such as solar, wind, and hydroelectric power is also on the rise. However, to meet investor needs, there is a pressing case to simplify and quicken permitting processes and to establish pricing structures that are more investor friendly.

However, investors are also feeling an increase in political uncertainty ahead of November's presidential election, and what that may mean for long-term federal funding of infrastructure beyond the 2026 expiry date of bipartisan infrastructure laws, causing some to press the hold button on investment decisions until after the vote in November.

In contrast, the United Kingdom continues to languish behind its main competitors in its attractiveness to global investors. Like the US, political uncertainty has continued to be a major concern ahead of a general election, now scheduled for early July. Further, investors identify unattractive regulation – epitomised in the water sector - as a major barrier to addressing an infrastructure gap that government advisers say will need increasing amounts of private capital. The challenge for the next government is to reverse this loss of appeal, given the UK's intrinsic strengths as a major economy with a strong history of attracting private investment.

This ebb tide under the UK underscores the need for all governments to take steps to better attract investment, with the increasing costs of capital requiring policy, regulatory and funding responses that de-risk and ultimately provide competitive returns.

Within the European Union, discussions ahead of the parliamentary elections due in June have centred on competitiveness in the energy and digital transition sectors, with a focus on attracting more investment in alternative fuels, renewables and data centres, particularly in comparison to the US and China.

Implementation is a key theme. In the US and EU, while policy targets have been set, the next steps involve refining tax frameworks and regulatory regimes to provide clarity and assurance to investors.

In both the Americas and Europe there has been a significant increase in investor interest in airports, as traffic flows recover towards pre-pandemic level. In the New York area, for example, the US is at last showing how public private partnerships can transform the appeal of its ageing aviation hubs.

Later this year, the political environments in the world's largest infrastructure investment markets could undergo significant change. But all new administrations will be facing the same challenges and needing private investment to bolster public funds; GIIA will be urging governments to carefully consider 'investor appeal', and how to further develop attractive environments in which to do business.

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.

- Q1 2024 was the slowest quarter of infrastructure activity by deal value since Q1 2019, with only renewable assets remaining relatively resilient, but the appetite to deploy appears to be increasing, reflective of the continued level of dry powder allocated to the sector.
- Whilst the impact of half the world going to the polls in 2024 on markets is currently uncertain, infrastructure assets delivering stable returns during challenging market conditions continue to make them an attractive asset class.
- The last 6 months have seen global central bank interest rates remain largely flat, with Sweden and Switzerland being the only major central banks to have reduced interest rates. While the eurozone, UK and Canada central banks have given indication of likely interest rate cuts in Q3 2024, the US Fed looks less likely to announce a cut given that CPI inflation has increased since January 2024 and is sitting above the Fed's 2% target.

The following key themes have been noted in the Q2 2024 responses:

1. Infrastructure investors in the Americas have shrugged off concerns noted in recent Pulse surveys around equity and debt markets to lead the way in a return to positive sentiment. Despite no consensus on possible short-term falls in inflation or interest rates, the Q2 2024 results for the Americas show equity fundraising and debt markets improving. Overall attractiveness of the Americas for Infrastructure funds at the highest levels in the last two years of the Pulse survey.
2. The positive momentum experienced in fundraising driven by the implementation of the IRA has created divergence in sentiment to a certain extent between the Americas and Europe, with fundraising activity in the Americas up by 40% on Q4 2023 whilst Europe remained flat.
3. Germany's investment in infrastructure linked to the energy transition to reduce reliance on Russian gas has contributed to making it the most attractive country for investment in Europe.
4. The UK continues to be impacted by political uncertainty and an unattractive regulatory regime with regulation being rated as significantly less attractive than that of the US and EU. Regulatory uncertainty and high-profile debt defaults contribute to the UK water sector experiencing the most negative sentiment amongst investors. This is unlikely to improve until a balance between price rises for consumers, allowed expenditure for investment in aging infrastructure, permitted gearing levels and fair returns for investors are achieved.
5. Sustainable energy asset sentiment is strongly up since Q4 2023, back to levels last seen in Q2 2022, partially driven by current policy environment (e.g. Germany) and stabilised interest rates. In Europe there has been a flurry of developers transitioning to IPPs creating opportunities for infrastructure investors.
6. Data centres continue to be an attractive asset type due to strong demand and increasing data needs driven (in part) by strong AI investment across sectors.
7. Airports make a notable return to positive sentiment after several negative surveys. Traffic has rebounded to pre-COVID-19 levels. Edinburgh airport in the UK has been the first sizeable transaction, and a number of additional airport processes are expected to come to market in H2-24 in Europe.

8. Similarly to Q4 2023, fiber communication continues to lose attractiveness in Europe as increased network construction costs and low penetration rates challenge Altnet returns. In the US, fiber companies are hesitant to overbuild existing networks due to higher interest rates causing more rigor in decision making. Certain government programs (e.g. Broadband Equity Access and Deployment Programin the US) have created a sustained level of optimism for the sector due to government incentives.

9. Positive sentiment for deploying capital has increased in both the US and Europe regions, with >55% of respondents anticipating to deploying equity of $2bn+ over the next 12 months whilst funds looking to dispose more than 3 assets remained flat compared to the previous survey at c.35%, indicating a continuing mismatch between willing buyers and willing sellers and supporting buyers looking to PE funds and corporate carve outs for assets with "infra characteristics".

10. Supply chain concerns continue to increase, up significantly since Q4 2023 driven by ongoing geopolitical tensions in the Middle East and Europe and the related impact to global shipping routes. Near-shoring and reconfiguration of supply chains is an increasing focus across sectors.

11. European investors cited their biggest ESG challenge as cyber security, an issue which is increasingly being prioritised as part of acquisitions due diligence scopes of work and during portfolio reviews.

12. The planned investment in Infrastructure assets to reach portfolio net zero carbon has tilted strongly towards the £10bn+ bracket (20% of respondents in both regions). An increasing number of investors are rolling out specialised energy transition funds and strategies to demonstrating the appetite for energy transition / climate change resilient infrastructure and that private infrastructure investors are keen to be part of the solution to bridge the funding gap.

Sources:

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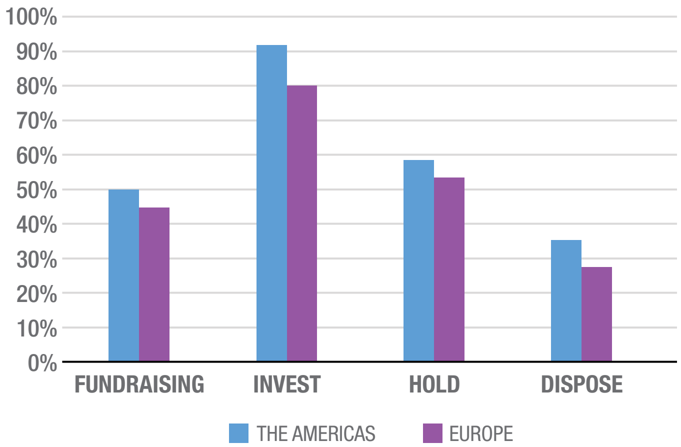
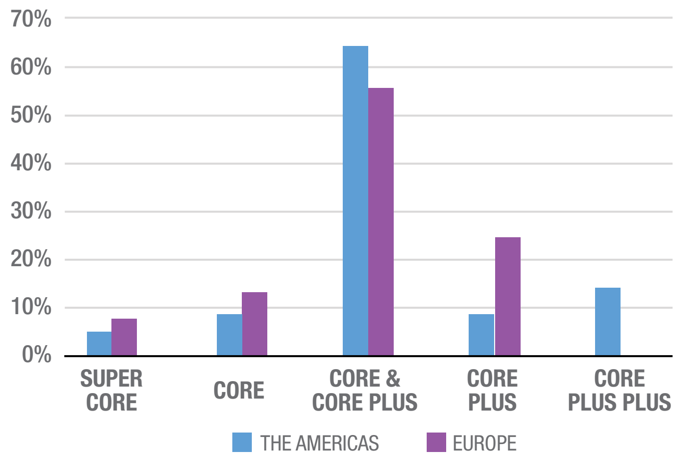
https://www.techuk.org/resource/global-power-shifts-how-the-2024-elections-could-reshape-trade-climate-and-geopolitics.html

THE BACKGROUND

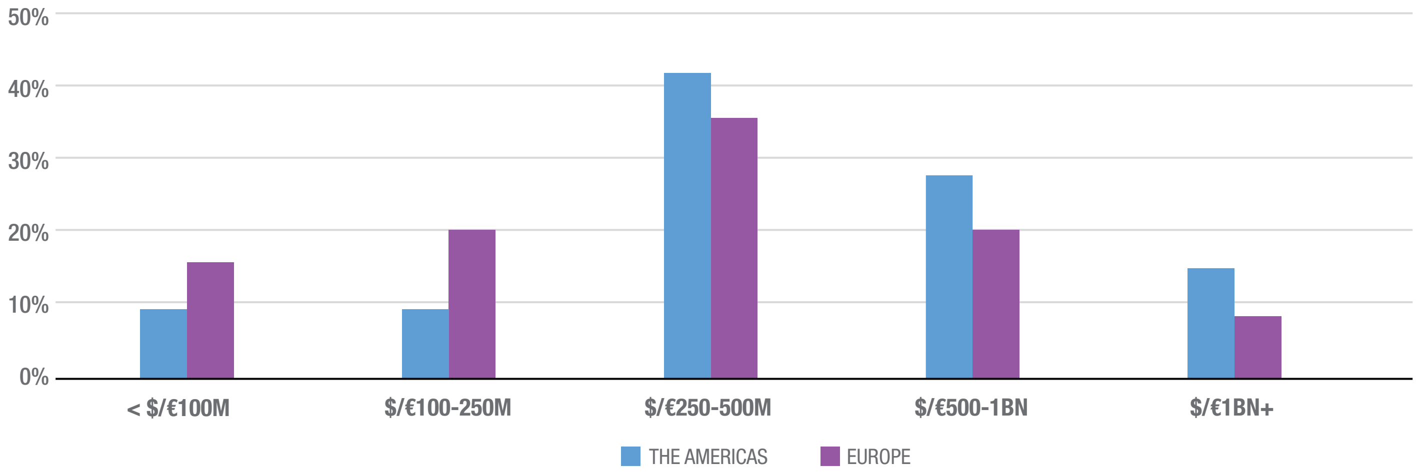
How would you describe your current focus?



How would you describe your investment criteria?

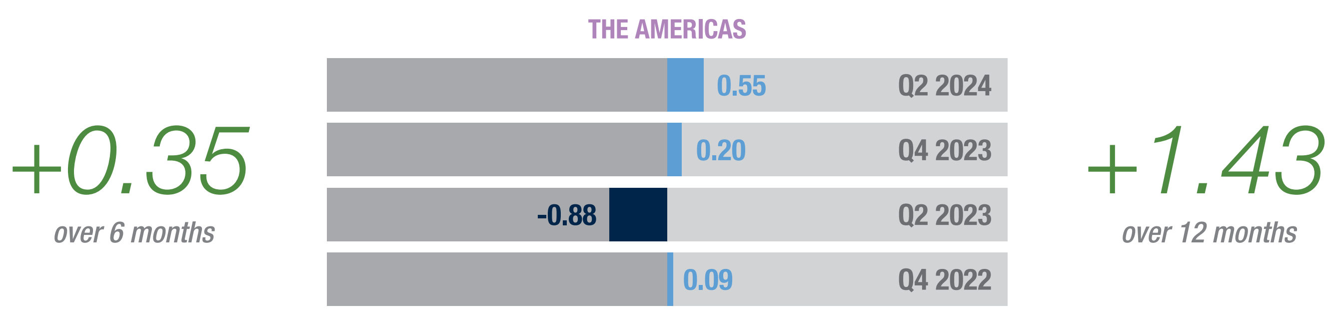


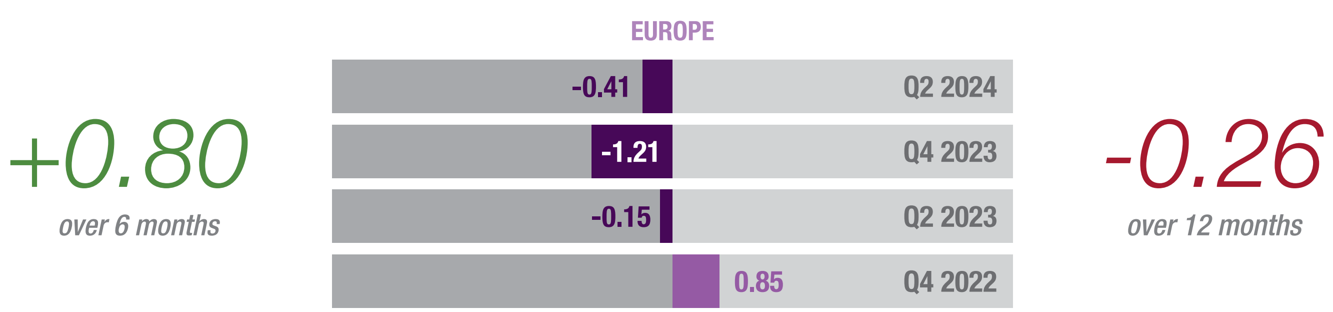
What is your target equity cheque?



FUNDRAISING, DEPLOYING AND REALISING CAPITAL

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

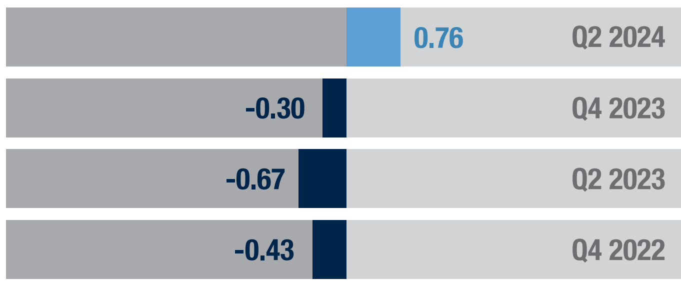




If deploying capital, how favourable do you consider the infra debt markets for current deals to be? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)

THE AMERICAS

+1.06
over 6 months



+1.43
over 12 months

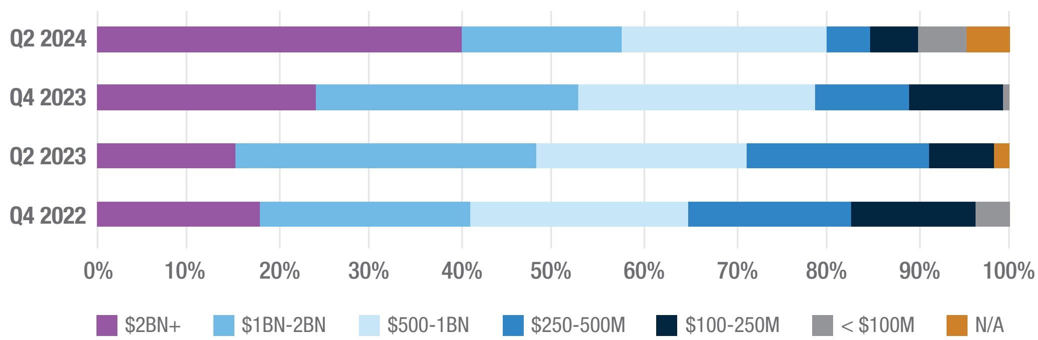
EUROPE

+0.76
over 6 months

+0.95
over 12 months

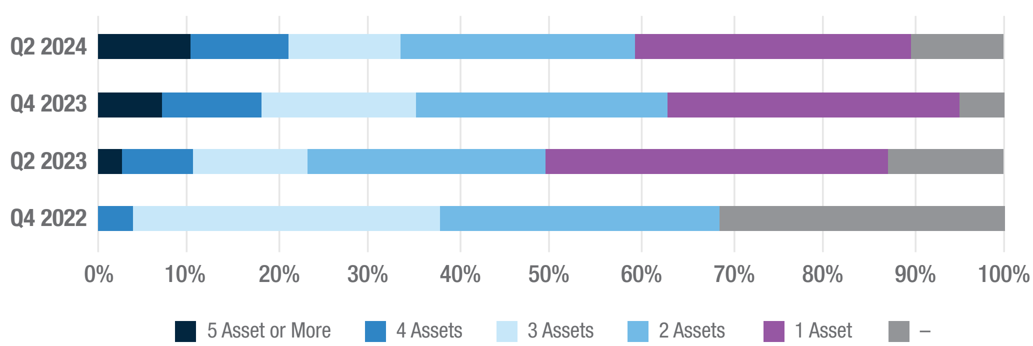
If deploying capital, how much equity do you anticipate deploying in the next 12 months?

THE AMERICAS & EUROPE



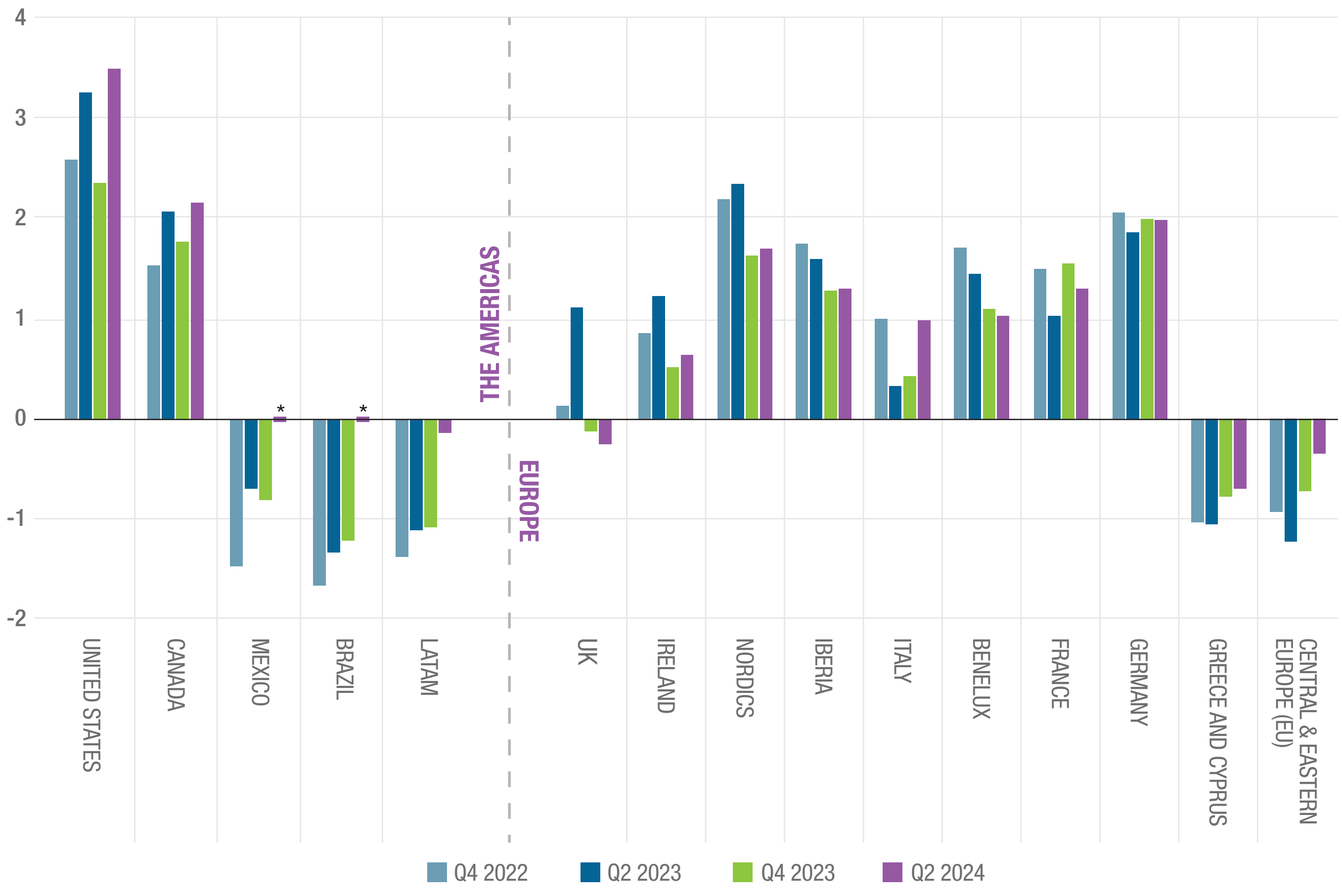
How many assets do you anticipate divesting in the next 12 months?

THE AMERICAS & EUROPE



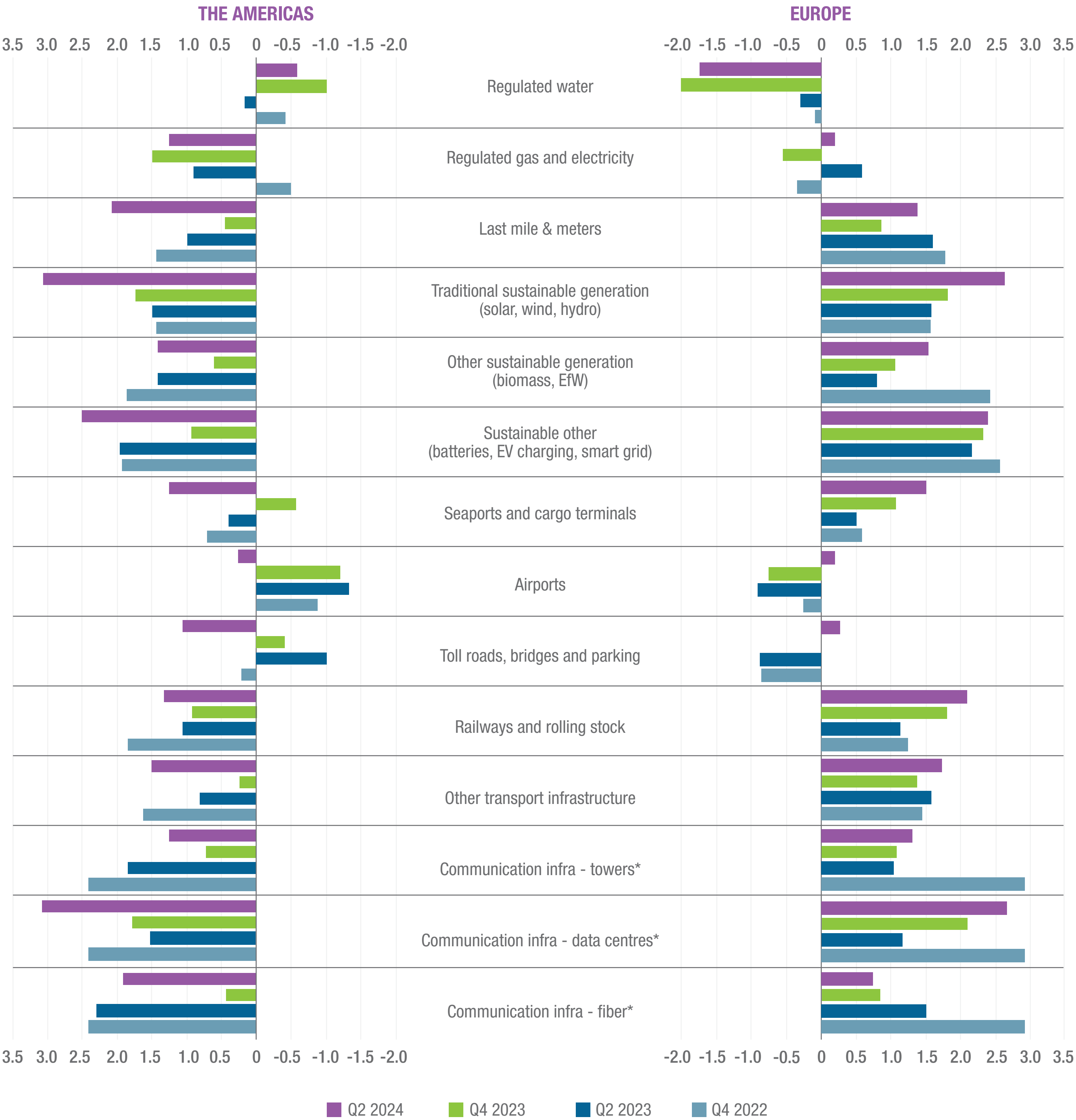
THE OUTLOOK: 2024 AND BEYOND

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)



** Mexico and Brazil had a net sentiment of 0 based on survey responses for Q2 2024.*

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

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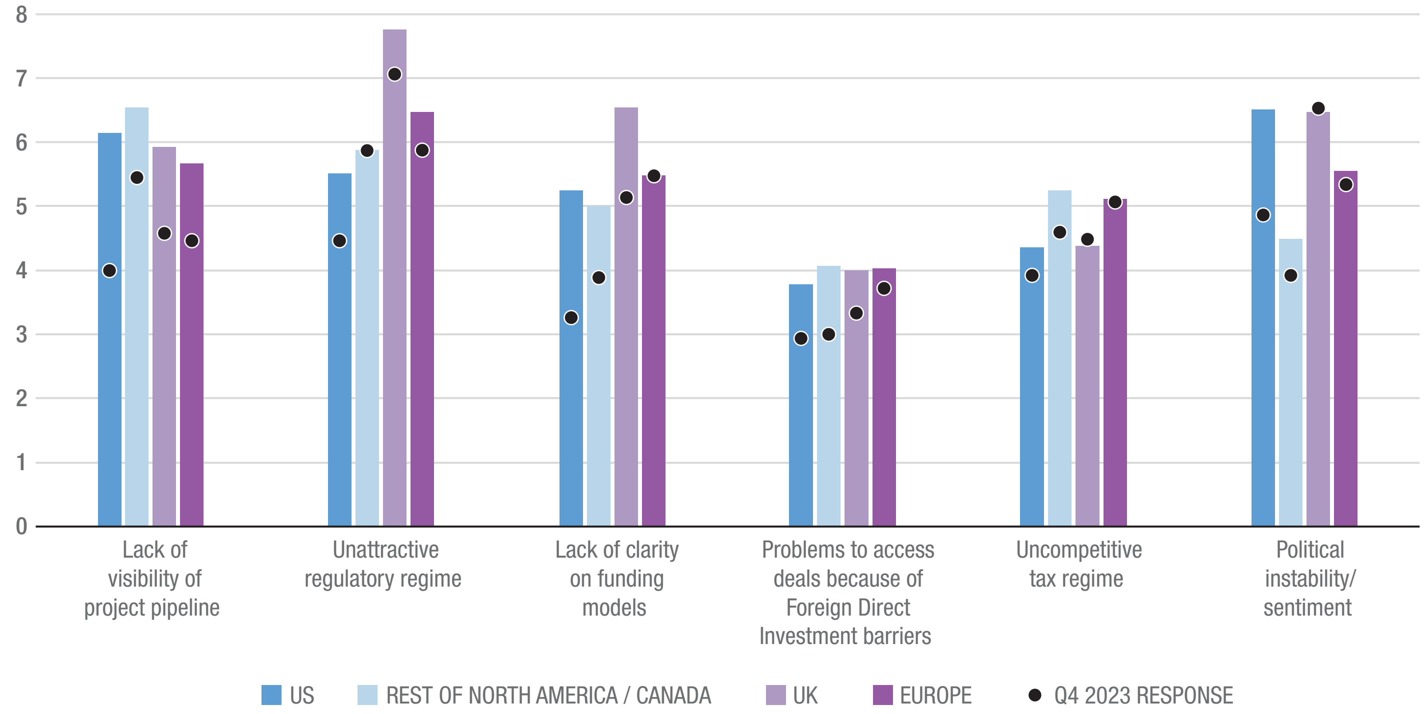
BARRIERS TO INFRASTRUCTURE INVESTMENT

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



> *"Political instability is something we consider very important to the outcomes. We are investing large amounts of money and, therefore, we want to understand the stability of the regulatory framework."*
>
> **– ANONYMOUS**

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)

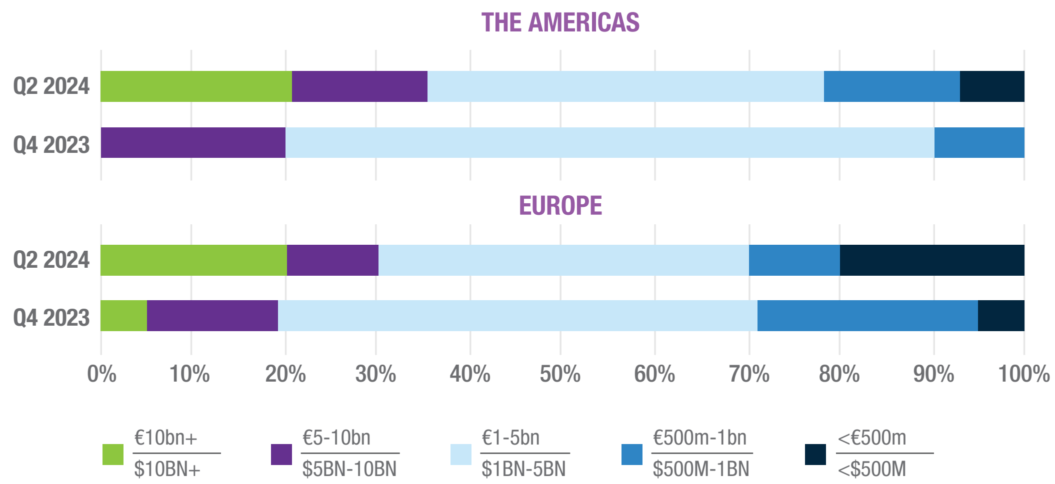
	Change	Q2 2024	Q4 2023
THE AMERICAS	+0.2	6.6	6.4
EUROPE	+0.6	7.1	6.5

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

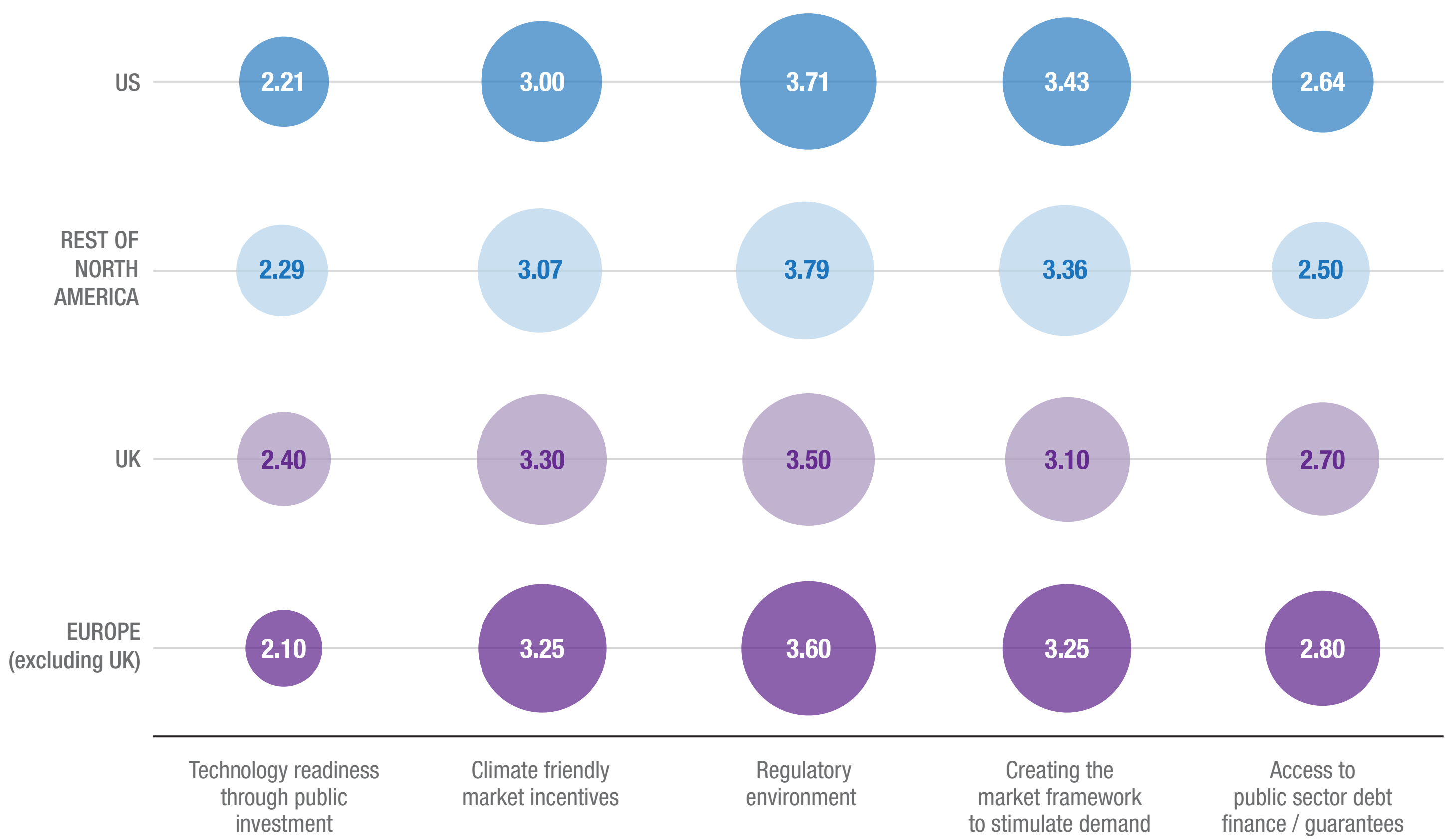
	Biodiversity	Cybersecurity	Climate change	Diversity, Equality and Inclusion	Safety	Supply chain	Ethical compliance
THE AMERICAS	3.79 ▲	4.21 ▼	4.43 ▼	3.79 ▼	4.43 ▲	4.36 ▲	3.00 ▲
EUROPE	3.80 ▼	4.50 ▲	4.15 ▼	3.60 ▼	4.00 ▲	4.45 ▲	3.50 ▲

▲ ▼ *Change in comparison to Q4 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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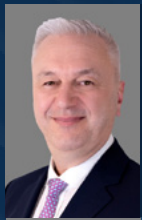
CONTACT US



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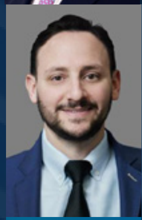

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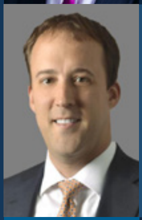

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A & M

ABOUT ALVAREZ & MARSAL

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With over 9,000 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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