Q4 2024

# INFRASTRUCTURE PULSE

## NORTH AMERICA, EUROPE AND AUSTRALIA

ALVAREZ & MARSAL

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# FOREWORD

The Infrastructure Pulse survey, compiled by Alvarez & Marsal in collaboration with the Global Infrastructure Investor Association (GIIA), offers a unique insight into market sentiment among the world's leading infrastructure investors. Launched in 2020, it provides a six-monthly 'temperature check' of the sentiment of investors towards the environment for fundraising, the outlook and prospects for markets and industry sectors, the impact of barriers to investment, and emerging investment trends.

Investor members of GIIA are asked to respond to an online survey that contains a series of closed-ended questions. Interviews are also conducted with selected respondents to secure additional qualitative insights and capture anonymised quotes, which further build a picture of the investor mood.

We have made some changes to the questions to increase the response rate. We have also added Australia and New Zealand while removing some countries of less interest to the majority of our members, so that we focus more on our core markets.

The findings are shared with governments, regulators, policy makers and industry stakeholders, enabling better decision making that leads to business environments in which private investors can help to close the world's infrastructure funding gaps.

GIIA is the membership body for the world's leading infrastructure investors and advisors to the sector. Its members have more than $2 trillion of assets under management in 68 countries across six continents.

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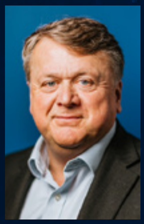
# INTRODUCTION



**JON PHILLIPS**
*Chief Executive Officer*
*Global Infrastructure Investor Association*

In a year of elections around the world, it is fascinating to see how the political uncertainties have played on the minds of infrastructure investors, who of course seek long-term consistency and stability in policy and regulation.

This survey was taken shortly before both the U.S. Presidential election and the UK Government's first budget, as well as while the new European Commission was still taking shape. Indeed, the President-elect will only take up power in early January. So it is to be expected that – while the political swings in the world's three largest infrastructure investment markets vary between significant and dramatic – the findings of this survey act less as an indicator of immediate responses in investor thinking and more as a post-elections starting point from which to measure the impact of future changes in the investment landscape, as new governments settle in.

With perceptions of a neck-and-neck race between Democrats and Republicans at the time of the survey, the U.S. results reflect an uncertain environment during the long run-up to the election. Since then, conversations with members and market reaction more generally suggest we will see a strong upturn in sentiment next year. In the meantime, this has allowed Australia – a much smaller market with ambitious energy transition plans - to move into pole position as the world's most favoured investment destination. President-elect Trump's emerging policy intentions may cause further short-term uncertainty, but the strength of the US economy and unarguable case for infrastructure modernisation provide strong underlying momentum for continuing investment.

In Europe, the Parliamentary elections in June saw gains for right-wing parties, though more centrist, pro-EU political groups continue to have a majority. Worse for investor sentiment during the autumn were disputes within the German coalition government on how to revive the economy, and political instability in France following national elections in July, leading to a new government in late September. Both episodes have knocked investor confidence, allowing ever-steady Nordic countries to become Europe's most favoured destination. Spain's strong economy continues to drive up sentiment towards Iberia. But it is Italy that most catches the investor eye, growing steadily in favourability over the last four surveys, buoyed in part by recent deal activity in the digital sector.

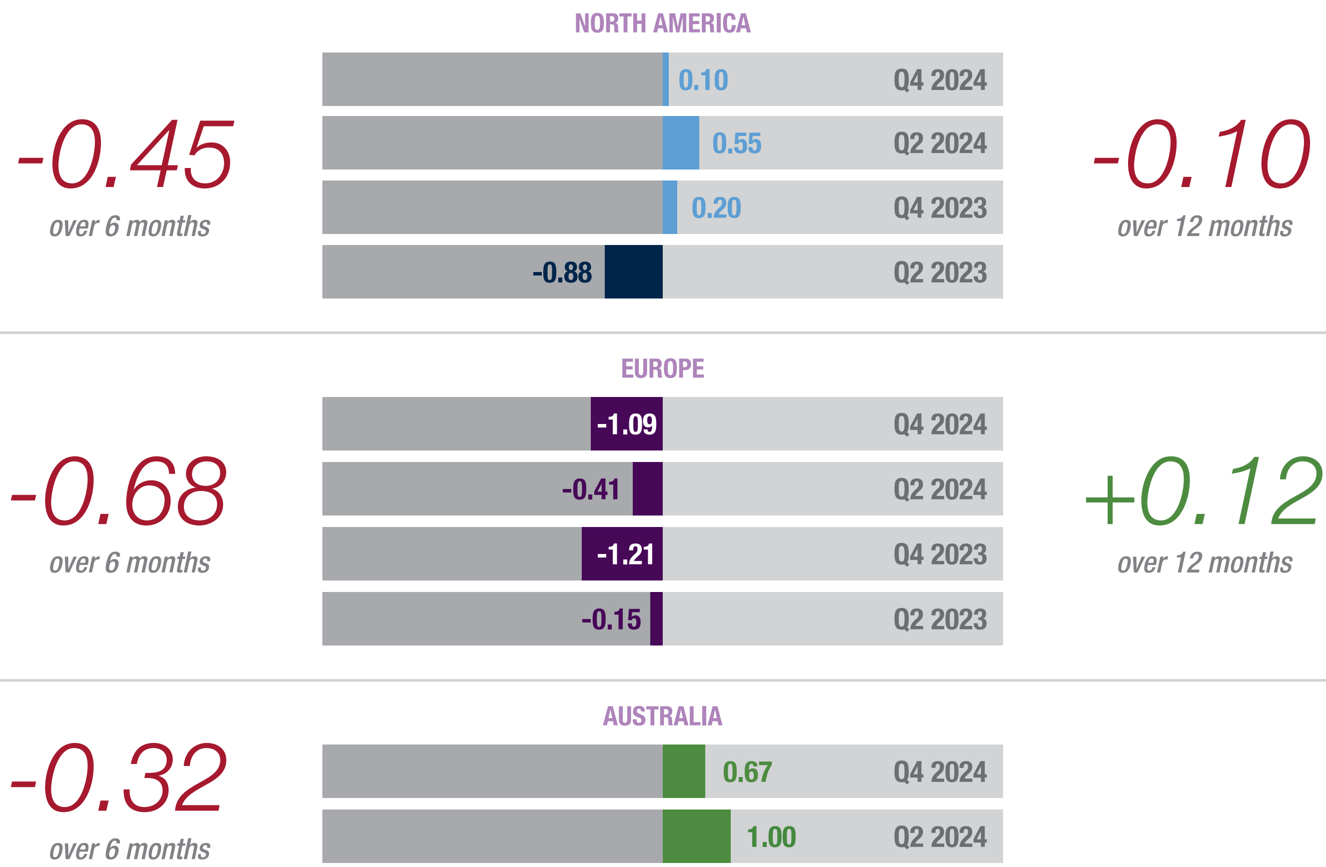
Regulatory uncertainty over the water industry – where some 30 of our members are invested – is the prime factor that will continue to hold back sentiment towards the United Kingdom, at the least until Ofwat publishes its final price determinations, due in December. The new Government will be hoping that a series of recent headline measures – planning reform, a successful renewables auction round, support for CCUS clusters, an infrastructure-focused Budget, a 10-year infrastructure strategy and a wider review of water regulation – will combine to move the dial next year.

Within industry sectors, it is sustainable energy generation and batteries, with the fair wind of energy transitions around the world, to which investors are most favourable. Digital infrastructure, driven by the fast-growing importance of AI, follows close behind. Ports and cargo terminals, together with railways and rolling stock, are the most attractive assets in the transport sector. However, the recovery in global air traffic passengers to pre-Covid levels has yet to flow through to sentiment towards airports, while the apparent unpopularity of regulated water in Europe is almost entirely driven by the UK's privatised water sector. The latter is further demonstrated by investors' views of the barriers to investment, where an unattractive UK regulatory regime towers over all other obstacles. The UK and some European countries also have work to do, to reduce perceptions of political instability which currently weighs heavily on investor minds.

# RAISING CAPITAL

- The fundraising environment sentiment has deteriorated over the six months since our Q2 2024 survey, while remaining relatively flat vis-à-vis our previous Q4 2023 report.
- Distributions to Paid-In Capital (DPI) continues to be a metric of increased focus among Limited Partners (LPs) as they exit investments and consider future fund allocations.
- Significant macroeconomic changes over the past six months include declining inflation and central banks beginning to cut interest rates, albeit with an emerging view that inflationary pressures have yet to be tamed and that interest rates will remain higher for longer. These two factors have been further fuelled by an inflationary budget in the UK and an expectation of looser fiscal policy following the Trump presidential victory in the US. The long-term impact of this year's elections in many parts of the world and escalating geopolitical tensions have continued to create a challenging fundraising environment. However, we anticipate the fundraising environment will improve in 2025 as inflation and interest rates continue to fall and as the impact of elections become clearer.
- Europe's fundraising environment remains the least favourable among the large private infrastructure investor geographies, while investors have indicated that Australia represents the most favourable geography.

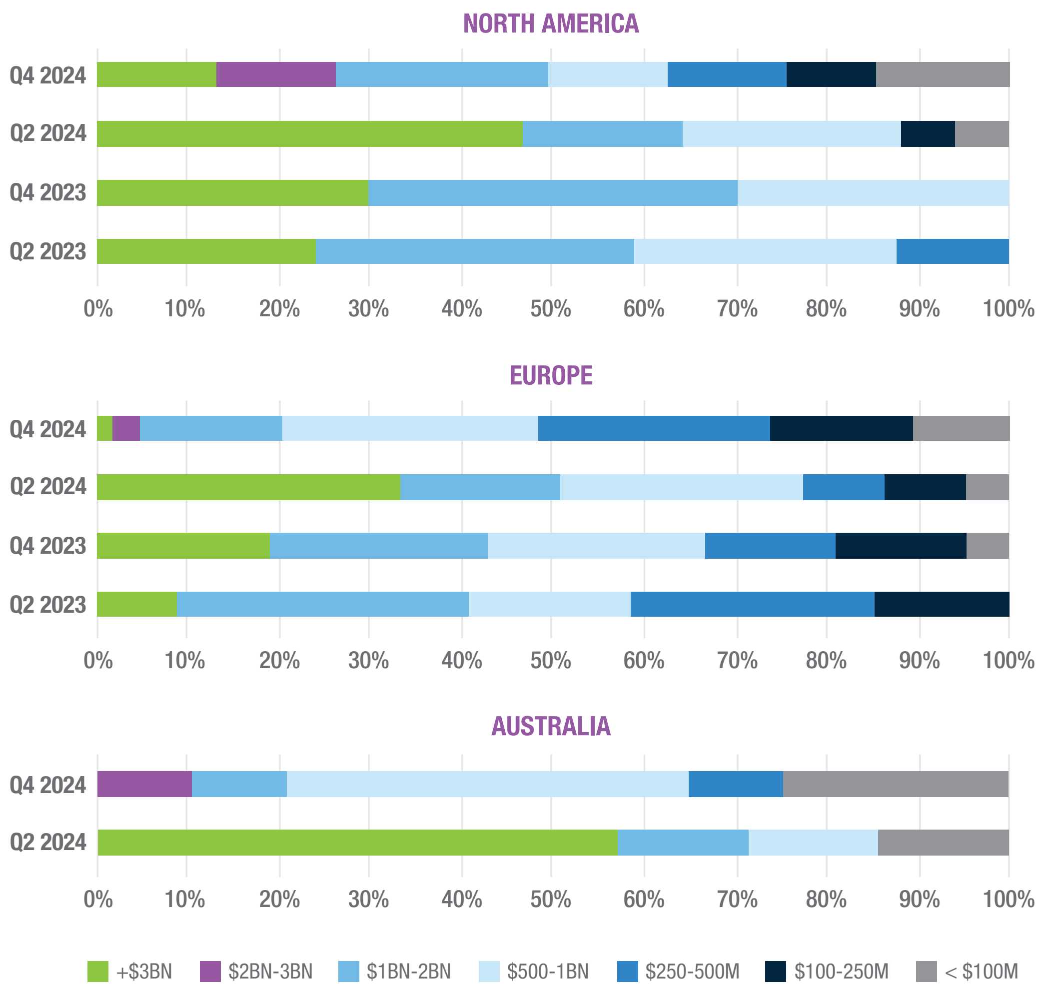
**If fundraising, how favourable is the current equity fundraising environment?**
**(-5: extremely unfavourable, 0: neutral, 5: extremely favourable)**



# DEPLOYING CAPITAL

- Anticipated capital deployment rates over the next 12 months have declined compared to Q2 2024 across all territories, with an increasing number of respondents pointing to more cautious levels of deployment in each of Europe, North America and Australia.
- After some improvement in outlook in Q2 2024, following a reduced level of deal activity in FY23, it is clear that respondents consider that the ability to deploy capital at acceptable rates of return remains challenging.  Respondents point to a combination of factors including:
  i. Continuing valuation gaps between buyers and sellers
  ii. More uncertainty regarding the ability to earn expected returns if policy moves away from subsidizing net zero investment
  iii. Challenging fund raising in FY23 reducing short term deployable capital
  iv. Unwillingness to incur deal costs until greater deal certainty exists in an uncertain deal market which is extending transaction timelines and the ability to deploy capital quickly
  v. A continuing shift away from core assets towards energy transition and digital assets which often have smaller initial deal tickets as funds build a platform
- Commentators are pointing to an expected improvement in overall deal activity in 2025 as head winds around inflation and interest rates reduce but it appears that infrastructure investors remain cautious.

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

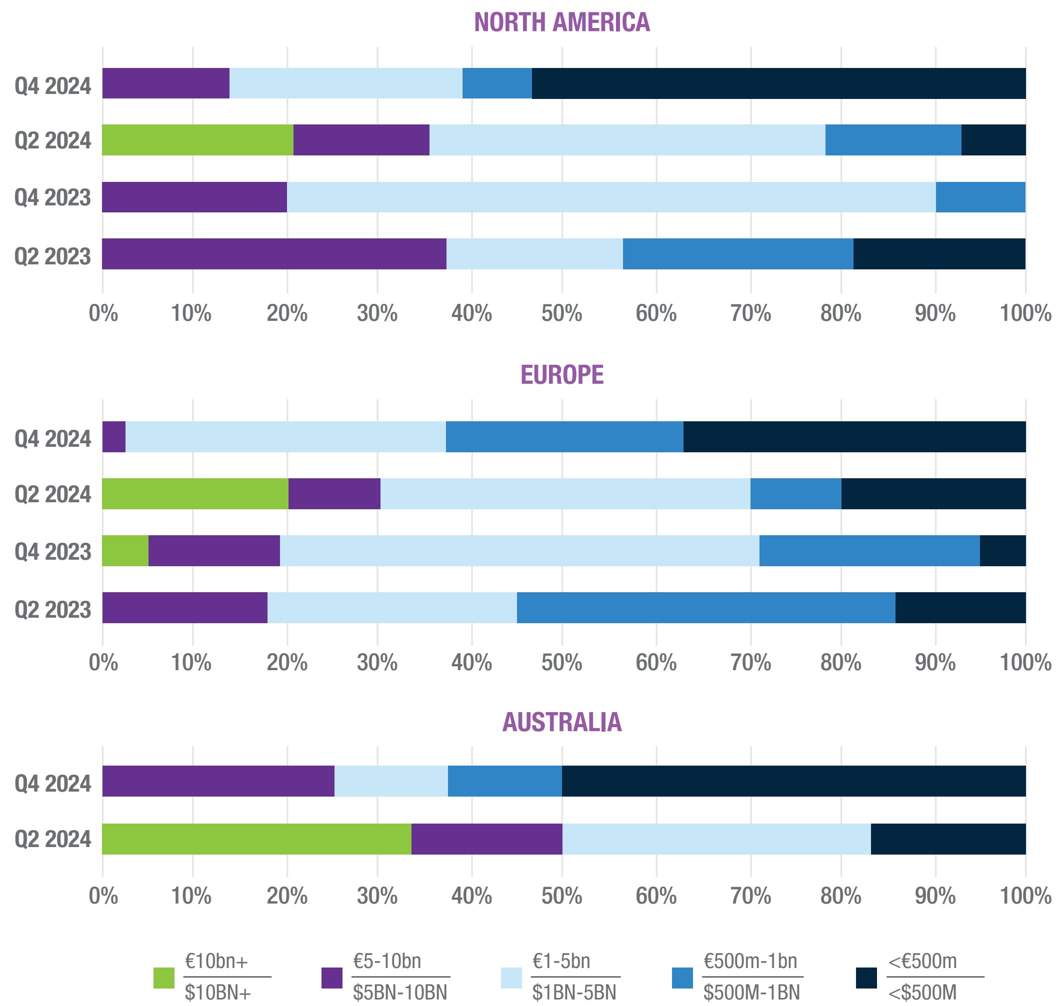


# DELIVERING NET ZERO

*"There are ample investment opportunities in the energy transition space. Our energy transition fund saw significant interest and had a very large first close this year. Investor demand for the net zero theme is strong. However, compared to prior periods some investors are moving into other infrastructure strategies while putting less ESG focus on their investments. For example, there is renewed interest in natural gas fired power generation assets to meet the expected growing need for power in the US. Investors' net zero focus is still very much driven by the investor (and their LP base) profile."*

**– GLOBAL INFRASTRUCTURE INVESTOR**

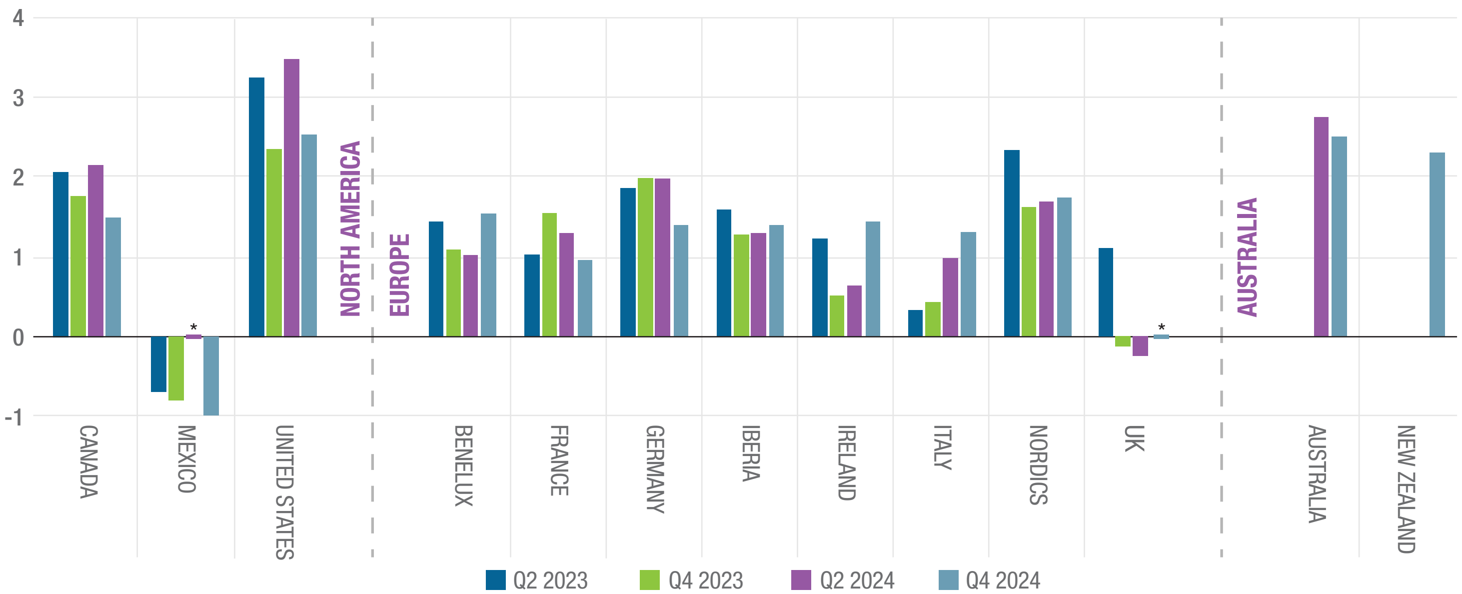
**How much investment do you expect to make in existing or new infrastructure assets over the next 5 years to achieve zero carbon emissions in your portfolio?**



# REGIONAL OUTLOOK

- The outlook for investment opportunities and attractiveness remains most favourable in the United States. However, the US – together with other North American countries - has had the largest six-month decline compared to any other global regions. This likely reflects the timing of this survey just before the Presidential election and uncertainties surrounding a perceived 'too close to call' result, which turned out not to be so close after all.
- This investor pulse was also taken before the new UK Government's first budget on 30 October, which delivered some good news for infrastructure spending. The preceding first months of the Government appear not to have improved the perceived attractiveness of the UK compared to our Q2 2024 survey, conducted during the previous administration.
- France and Germany have seen drops in outlook, most probably linked to ongoing political turmoil in both countries. This has worsened since the survey was undertaken, with the collapse of the German coalition government on 7 November.
- Investors' outlook towards other European states has improved, benefitting from the uncertainty in the three major economies. The Nordic countries have re-attained their position as the most favourable region for investment.
- Australia's outlook has remained favourable and stable over the past six months, consistent with its relatively stronger fundraising environment.

**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 had a net sentiment of 0 based on survey responses for Q2 2024. The UK had a net sentiment of 0 based on survey responses for Q4 2024.*

> *"Given the uncertainty around investing in the UK, France and Germany we have focused our attention on sourcing deals in the Nordics, which we have always seen as a stable and attractive investment environment, but also have begun to look at finding opportunities in other countries. It's not a question of these countries being more attractive than previously per se, it's more a relative assessment by our investment team and IC."*
>
> **– EUROPEAN FUND**

# SECTOR OUTLOOK

- The Sustainable Generation and Data Centres sectors continue to enjoy the most favourable outlooks in all geographies. Decarbonization policies are driving sentiment in Sustainable Generation, with a number of funds carving out separate energy transition strategies. Data Centres continue to be attractive assets due primarily to AI-driven data demand.
- In Australia, respondents' outlook on the broader Communications sector continues to be strong, although sentiment has dropped slightly in the last six months. Opportunities in energy transition are also proving attractive to investors.
- The worst performing sector is Regulated Water, driven by the UK industry which in 2024 has faced large fines for operational failures and continues to suffer from large debt burdens and the financial struggles of the largest water company. Investors are waiting for the final determinations from the regulator Ofwat (due in December), which will dictate spending plans and permitted price increases for the next five years, and in turn set the course for future sentiment.
- Despite there being a number of airport transactions in the market in Europe, sentiment towards airports in the North America and Europe remains muted. Whilst traffic volumes are back to pre covid levels at many airports, respondents attribute this muted interest to ESG demands of many LPs, reducing the number of funds which can make a case for investment in airports due to their environmental impact.

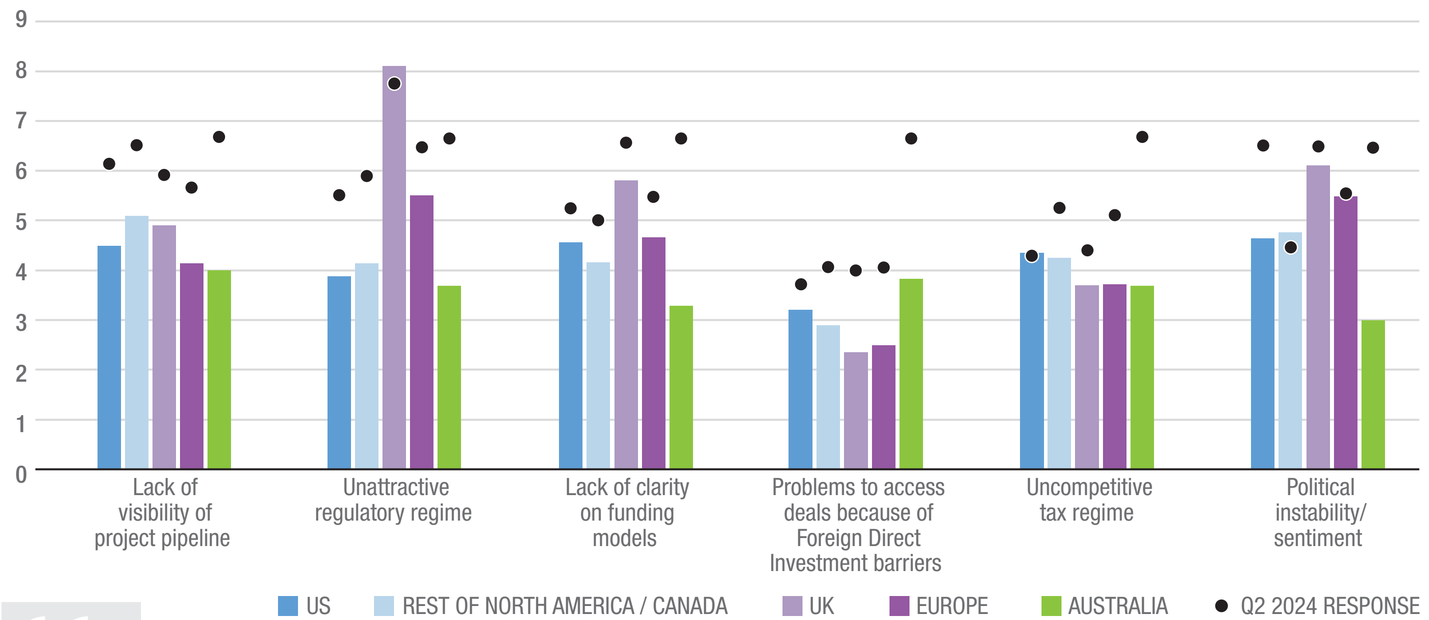
**What is your / your fund(s) outlook for overall infrastructure opportunities for your fund(s) in the following sectors in the next 12 months? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)**

# BARRIERS TO INVESTMENT

- Respondents' views of investment barriers by geographic region remain similar to the Q2 2024 results with the exception of Australia, which improved significantly on (i) visibility of project pipeline, (ii) regulatory regime, (iii) clarity on funding models, (iv) competitiveness of tax regime and (v) political stability.
- The unattractiveness of the UK's regulatory regime continues as a stand-out barrier to investment. Ofwat's final determinations, due in December, present the UK with an opportunity to begin to turn the tide and put the water sector on a more favourable footing.
- Interviews with respondents indicated that political instability, and its flow-through impact on future direction of regulation, taxes and support for funding of infrastructure capital projects, was the key barrier for investors with long term investment horizons. Investors want certainty that an investment thesis based on a set of parameters at the time of investment won't be torn up following a change of government. Interestingly political instability was less of an issue in North America, suggesting that respondents were comfortable that, whoever won the race for the White House, there would be no fundamental change to the infrastructure policies implemented by the Biden administration.

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

***Note:*** *The level of importance attributed to all barriers appears to have reduced since our last Infrastructure Pulse survey in Q2 2024. This is explained by a simplification of the design of the survey to increase the response rate, rather than by any significant change in investor viewpoint. The comparisons between different barriers remain as important as ever.*




*"We invest for a 20-25 year horizon and being comfortable that our investment thesis will hold for that period is key. We need certainty that five years hence we are not going to be subject to a series of court challenges or fundamental changes to the regulatory environment."*

**– EUROPEAN FUND**

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## 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 $2 trillion in infrastructure assets under management across 68 countries in six continents.

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## 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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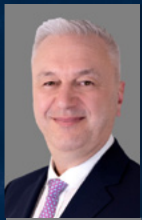
## CONTACT US

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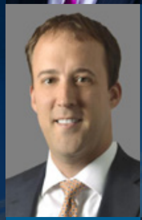

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## ABOUT ALVAREZ & MARSAL

Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

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