



Q4 2021

INFRASTRUCTURE PULSE

EUROPE AND THE AMERICAS



ALVAREZ & MARSAL
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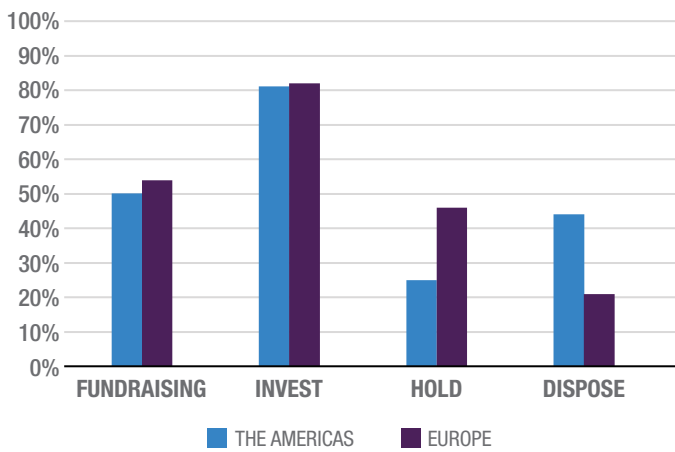
KEY FINDINGS

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. The new refreshed format has moved to a six-monthly publication and incorporates views from member interviews. As we emerge from COVID-19, explore the new normal, and head towards COP-26 we have refocused the topical questions on Net Zero and barriers to infra investment. The following key themes have been noted in the Q4-21 responses:

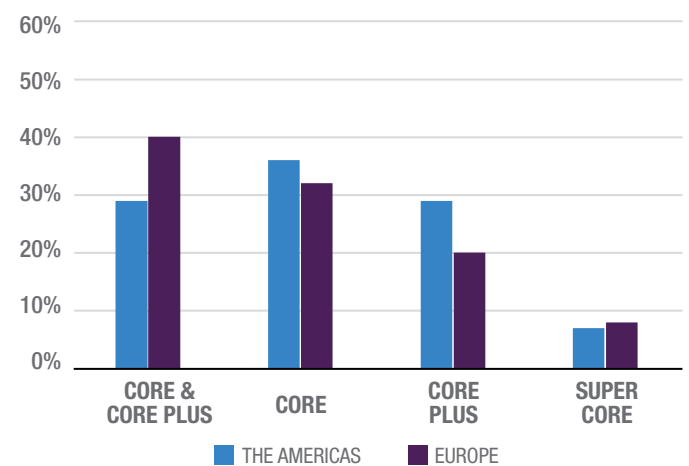
1. Whilst the fundraising environment and favourability of debt markets has increased since Q4-20 and sentiment remains very high, there has been a levelling off, indeed a modest overall decline, in the last six months. However, more funds are looking to deploy larger amounts of capital (more than 60% > \$1bn) and to realize one or more existing assets (>85%) than at any time in the prior 12 months, supporting confidence in the Infra deal cycle and a continuation of the unprecedented level of deal activity seen in the last six months.
2. There is an increasingly positive outlook for, and attractiveness of, all key European markets. Twelve months ago, the Nordics stood out from the pack, reflecting the wave of local district heating assets in the market at the time. In the latest survey, Iberia, France, and Germany all have a similarly positive outlook, attributed in Iberia to renewables and particularly solar, in Germany to gas and electricity distribution networks and district heating processes and in France to renewables and digital. The UK, whilst less positive than other markets, has shaken off the shackles of Brexit with increasing local activity.
3. Regarding the United States and Canada, investor sentiment continues to be increasingly positive, partly driven by the proposed US infrastructure bill and a desire to solve ongoing logistics challenges. Meanwhile, sentiment for areas outside of the United States and Canada is positive for the first time in several years despite ongoing uncertainty. The reasons for optimism vary by region, but are primarily due to new projects with significant private capital requirements (e.g. Mexico and other LATAM countries) or asset sales expectations from governments to the private sector (e.g. Brazil).
4. Regulated gas and electricity have turned negative for the first time, and regulated water sentiment remains muted in Europe. This is evidenced by an unattractive regulatory regime being seen as the highest barrier to investment for European investors. Respondents attribute this to general uncertainties over the “future of gas” and “real concerns around the future development of the regulatory framework across regulated sectors, particularly in the UK.” One respondent noted that “a number of US funds see gas as a bridge, while European funds see it as a problem.” Interestingly, people see Europe as more negative than America across all of the “key barriers” to investment. Americas investors believe the regulatory environment is less stringent in the United States as compared to Europe, although the expectation is that requirements around climate change initiatives will continue to increase.
5. Respondents have been consistently the most bullish about Communications infrastructure, and it remains the hottest sector with multiple processes across datacentres, telco towers and fibre. As one respondent noted, there appears to be a prevailing theme that “we must have a fibre asset in the portfolio” which has increased the level of “greenfield risk investors are prepared to take” and encouraged sellers to “market assets with a limited track record” making it “more difficult to identify the investible business plans backed by high quality management teams.”
6. Healthcare has attracted overall positive sentiment for the first time attributed to “a positive macro trend, the impact of COVID-19 and ageing populations” albeit with “geographical variances in the level of attractiveness driven by the prevailing revenue model in the respective territories.” Transport assets are back in vogue, with even airports moving back into positive territory.
7. The rise in the Sustainable Agenda continues to influence investments, with a notable increase in its importance to US investors albeit a higher proportion of European focused funds noted a commitment to achieving Net Zero by 2050 (40%). Sentiment for carbon-heavy assets, particularly midstream oil and gas assets, remains overtly negative. As one respondent noted, “the “G” of ESG has historically been the primary focus, perhaps because it was more straightforward to address. Whether COVID-19 was a catalyst is questionable but what is not is that the COVID-19 period has seen a huge shift towards the “E” with a pivot towards energy transition and Net Zero” albeit adding that “the associated technologies are nascent and the investment opportunities not yet of sufficient scale to be attractive to larger investors.” Whilst there is no direct comparison to prior periods, what is clear is that funds have a higher willingness to accept greenfield risk than they used to as evidenced by the trend towards investments in fibre roll out, energy transition and “platform” deals in the renewables space to access development skillsets.

THE BACKGROUND

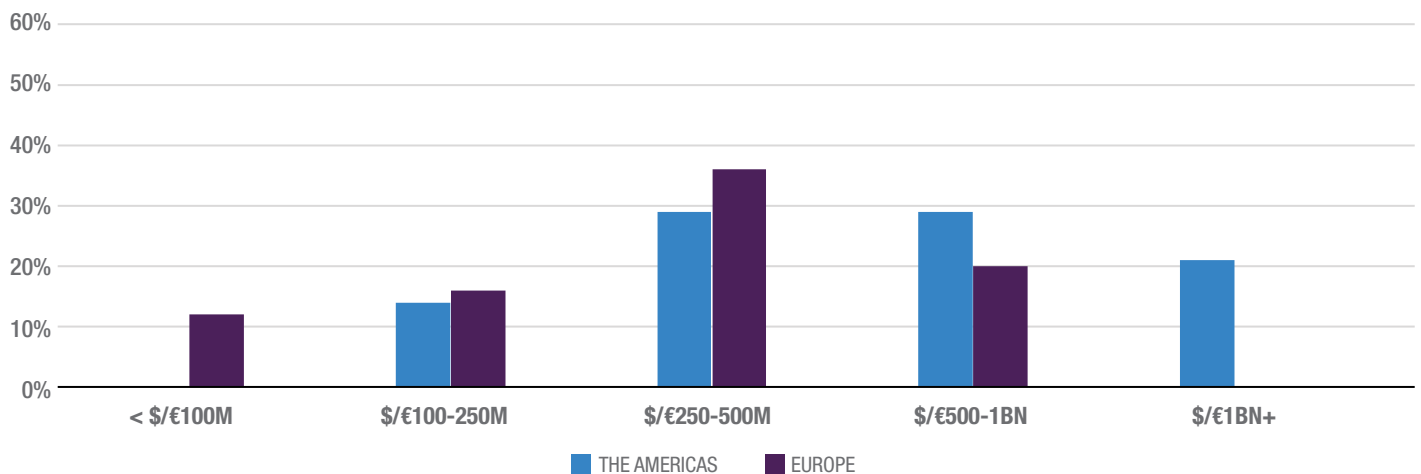
How would you describe your current focus?



How would you describe your investment criteria?



What is your target equity cheque?



FUNDRAISING AND DEPLOYING CAPITAL



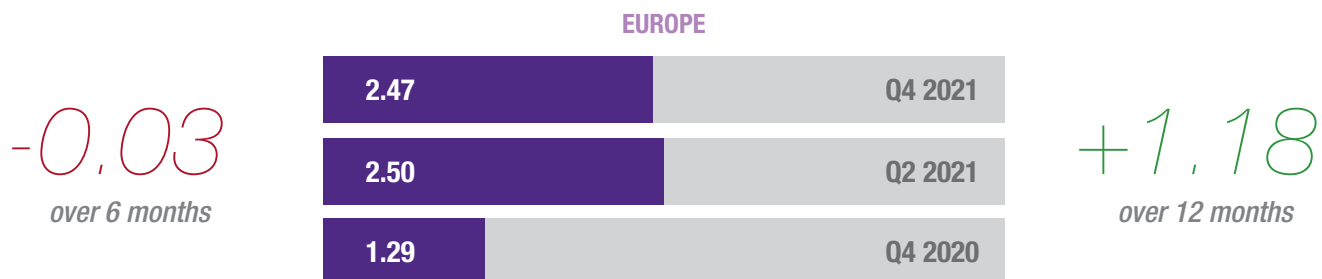
“Many of the logistical challenges we see today are not only from labour shortage but also from an infrastructure shortage. That is the problem we are trying to solve...the fundraising environment is very active.”

– AMERICAS INVESTOR

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



THE AMERICAS



EUROPE

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)

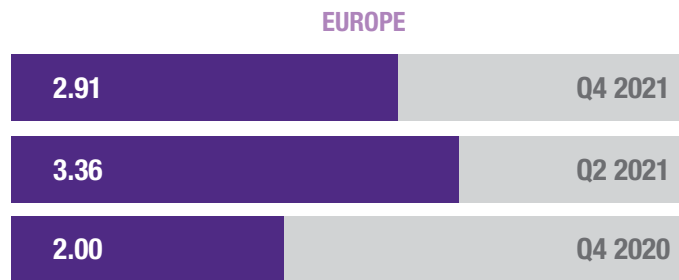
-0.41
 over 6 months



+0.54
 over 12 months

THE AMERICAS

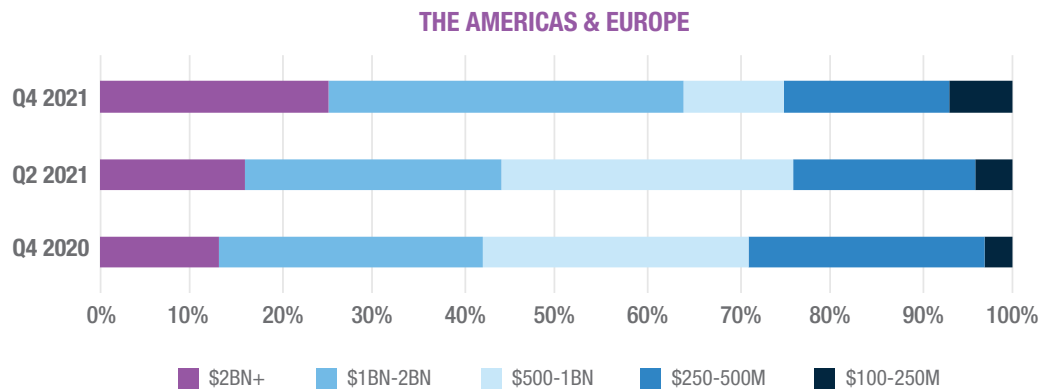
-0.45
 over 6 months



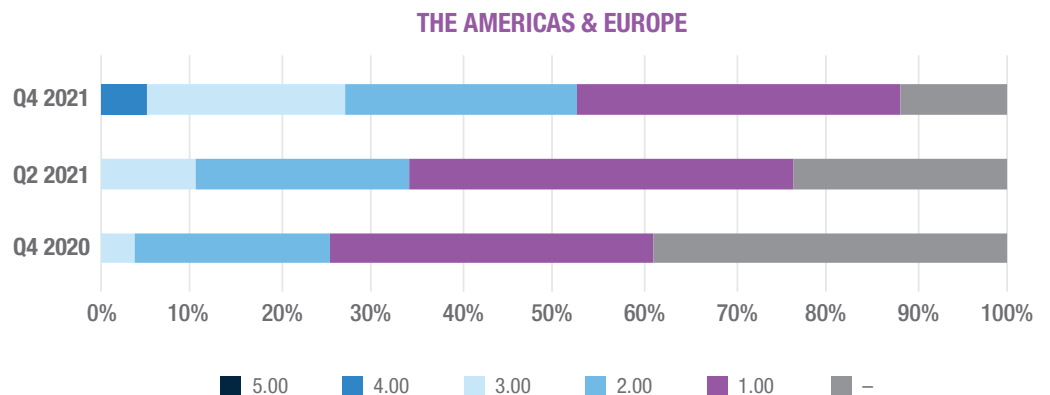
+0.91
 over 12 months

EUROPE

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

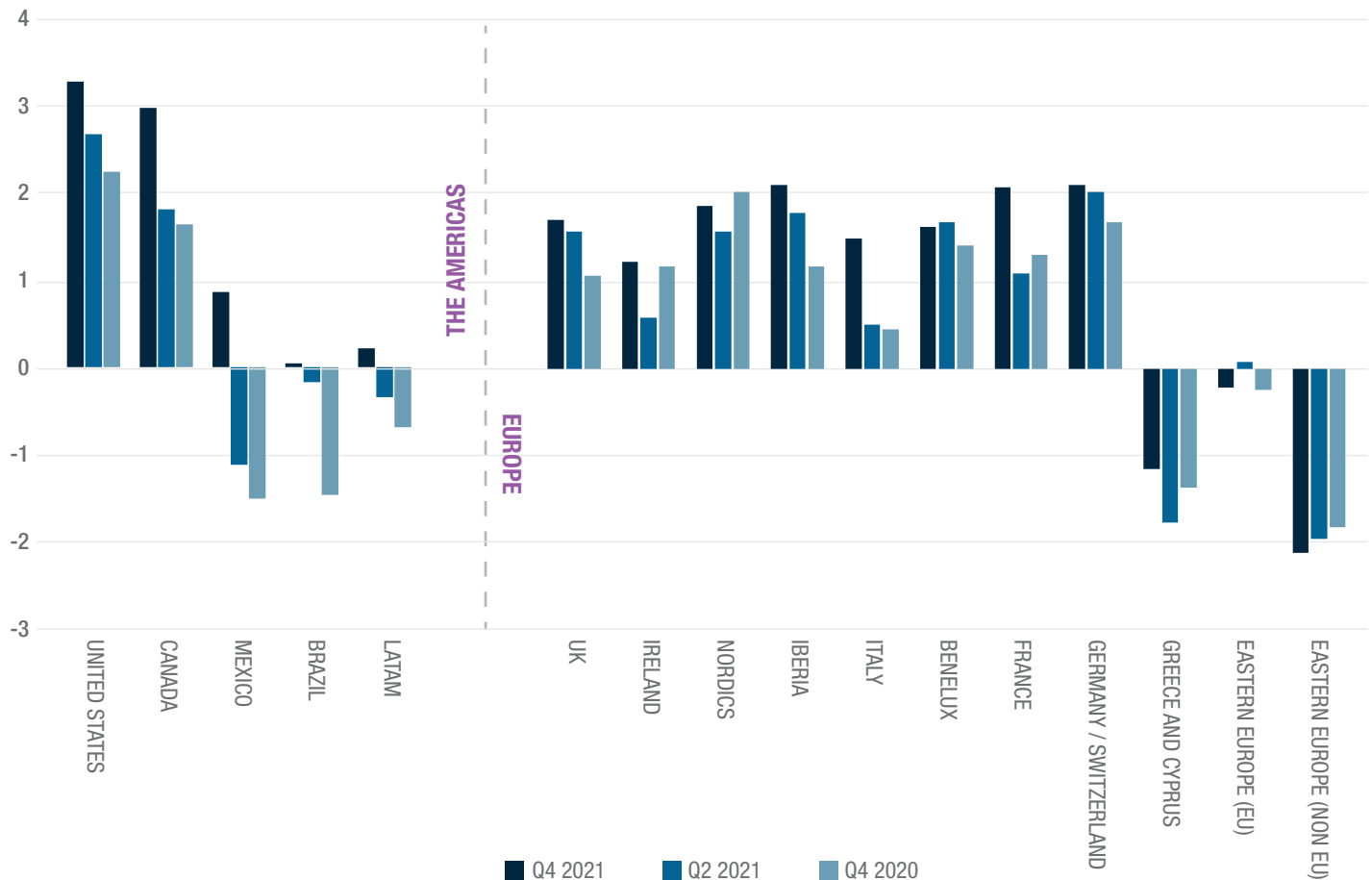


How many assets do you anticipate divesting in the next 12 months?

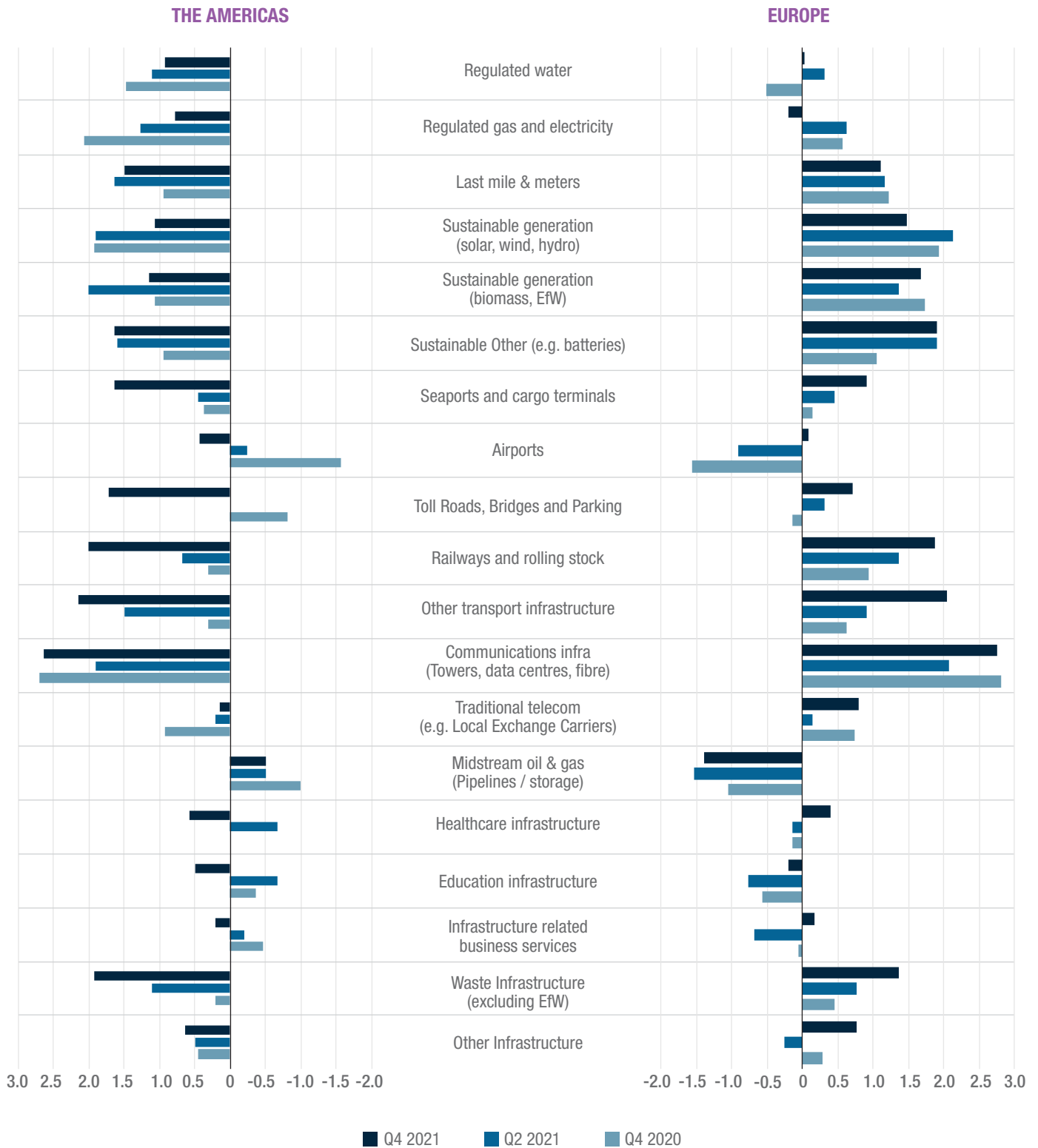


THE OUTLOOK: 2022 AND BEYOND

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)

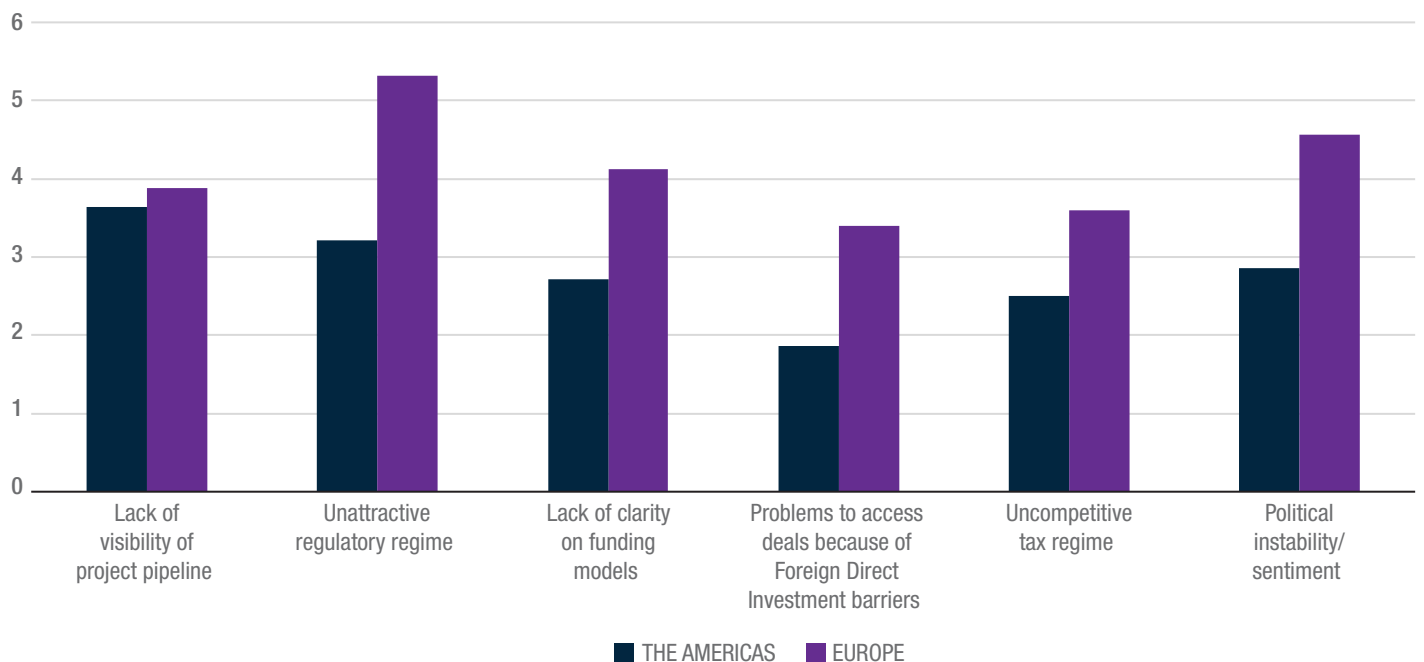


What is your / your fund(s) outlook for overall infrastructure opportunities for your fund(s) in the following sectors in the next quarter? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)



BARRIERS TO INFRASTRUCTURE INVESTMENT

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



“Regulation has become politicised, and there are real concerns around the future development of the regulatory framework across regulated sectors, particularly in the UK.”

– EUROPEAN INVESTOR

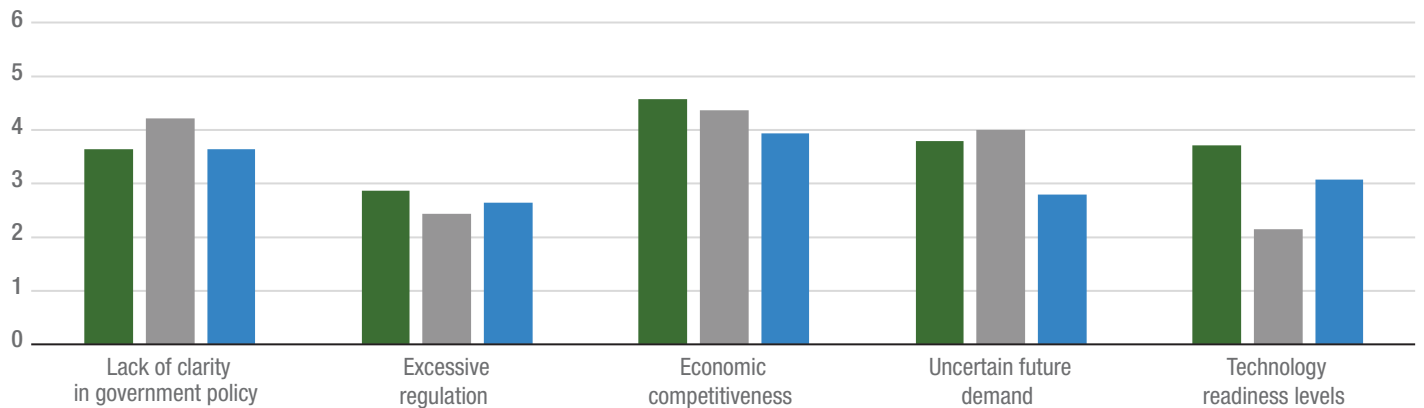
“There are more political headwinds than there used to be for foreign investors.”

– GLOBAL INVESTOR

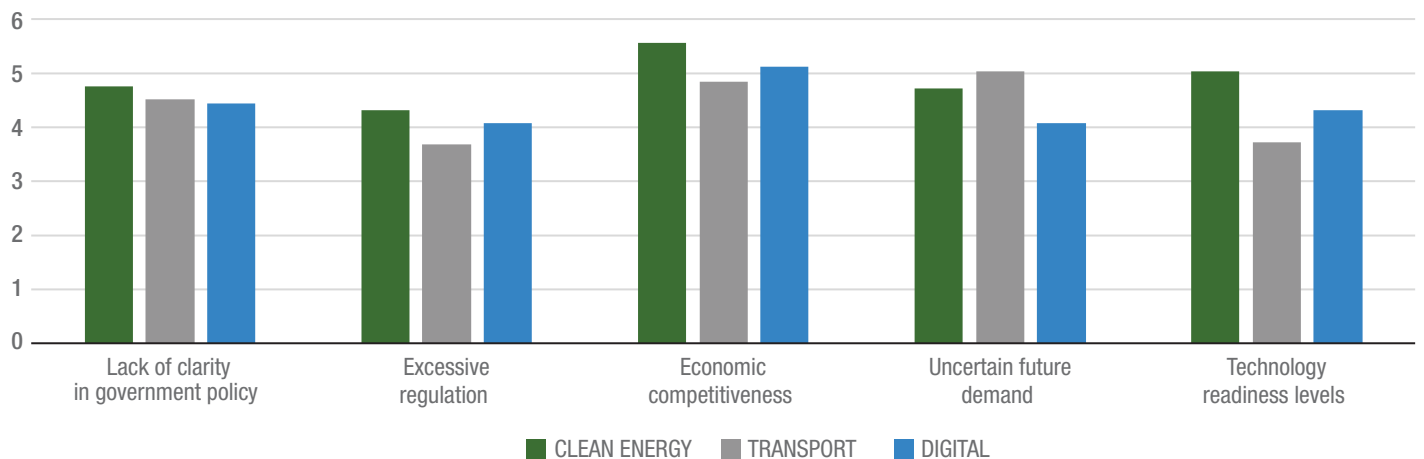
ESG AND THE ROAD TO NET ZERO

Which of the following aspects is most significant as a barrier to investment in clean energy/transport/digital at present? (0: insignificant, 5: somewhat significant, 10: very significant)

THE AMERICAS

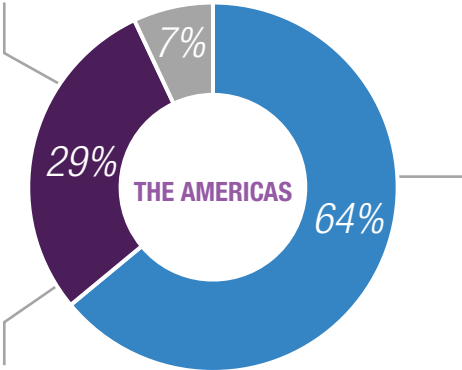


EUROPE



Which of the following statements best describes your investment strategy over the next 30 years?

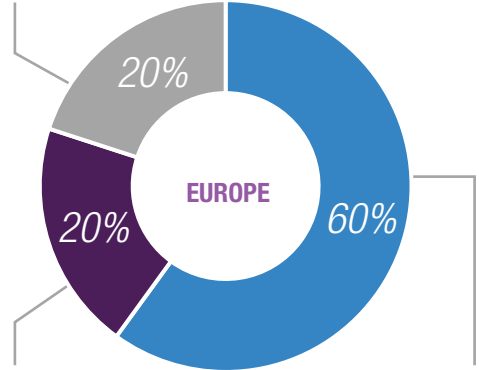
We have a commitment to zero carbon emission in our fund earlier than 2050



We have a commitment to zero carbon emission in our fund by 2050

We do not currently have any specific zero carbon emission commitments in our fund

We have a commitment to zero carbon emission in our fund earlier than 2050



We have a commitment to zero carbon emission in our fund by 2050

We do not currently have any specific zero carbon emission commitments in our fund

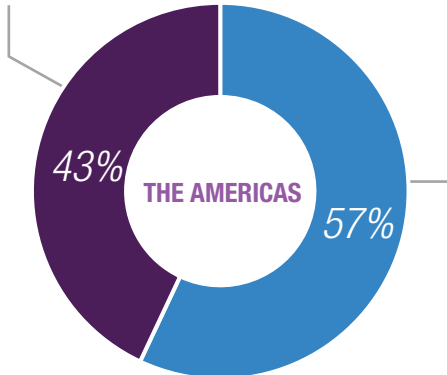


"I think there is a single direction of travel on ESG. Europeans are further down the track in talking about it and committing to ESG. We see it in our LP investor base meetings and the questions they ask. What drives change is what commitments are being made in the next five years. We are focused on investing responsibly within the environment."

- GLOBAL INVESTOR

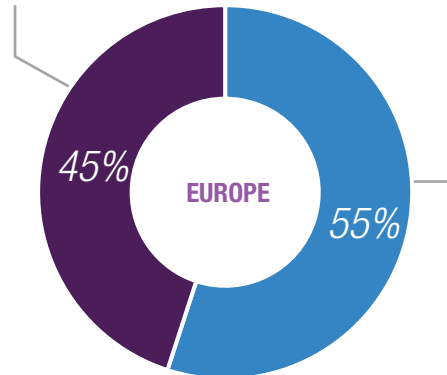
Which of the following statements best describes your investment strategy over the next 5 years?

Fund will have a balanced brownfield / greenfield strategy



Fund will focus on brownfield but will consider greenfield investments

Fund will have a balanced brownfield / greenfield strategy



Fund will focus on brownfield but will consider greenfield investments

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)

+0,4

THE AMERICAS



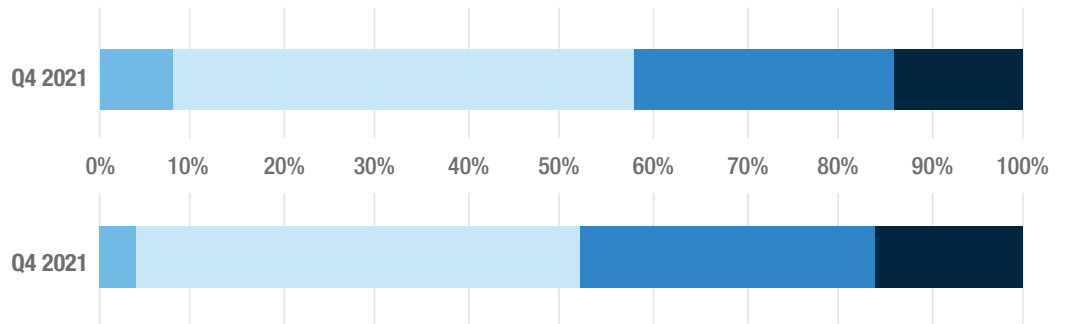
EUROPE

+0,0



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?

THE AMERICAS



EUROPE





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 \$1tn in infrastructure assets under management across 66 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.

www.alvarezandmarsal.com

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ABOUT ALVAREZ & MARSAL

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With over 5,000 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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