Q2 2023

INFRASTRUCTURE PULSE

EUROPE AND THE AMERICAS

ALVAREZ & MARSAL

LEADERSHIP. ACTION. RESULTS.℠

FOREWORD

JON PHILLIPS
Acting Chief Executive Officer
GIIA

Infrastructure investors have warned for some time about the stifling effects of rising prices, higher borrowing costs and skills shortages. This new study brings their concerns into sharp relief.

Our latest six-monthly Pulse survey, which gleans sentiment directly from investors which manage a total of nearly $1 trillion in infrastructure assets around the world, shows they are less optimistic about opportunities than they were 12 months ago in almost every market and sector.

They are also more concerned about the environment for raising funds and debt than at any other time in the study's three-year history.

Our Q2 2023 report shows the US, Canada, and large parts of northern Europe emerging as the most desirable investment destinations, whilst the likes of the UK, France and Italy find themselves some way behind.

In the UK in particular, respondents continue to cite an 'unattractive regulatory regime' and 'political instability' as considerably bigger brakes on investment as compared to the rest of Europe and the Americas.

That said, and despite myriad challenges faced, our members here at the Global Infrastructure Investor Association continue to invest at scale.

The number of respondents planning to deploy $1 billion or more in equity over the coming 12 months across Europe and the Americas has risen since our Q4 2022 survey to almost one in two.

As returns on deposits and bonds improve, investors are looking to rebalance their portfolios, shifting away from lower yielding 'core' assets towards higher yielding 'core plus' strategies. The numbers planning to divest has risen accordingly.

Within those changing strategies, we are seeing an increased focus on net zero considerations, decarbonisation and the energy transition. Sustainable energy generation and sectors related to it, as well as digital and communication assets, are in demand.

The Inflation Reduction Act has buoyed the appeal of the US, with some four in 10 respondents expecting to dedicate at least $5 billion each to net zero investment in that market over the next five years, more than twice as many as in Europe.

As the US, some EU states, the UK and India head towards elections, policymakers must work with investors to unlock the infrastructure improvements needed to facilitate a net zero, growing global economy.

That means both building on successes to date in spurring investment in cutting-edge technologies and shoring up investment in more traditional networks that we all depend on day to day. It's notable with regards to the latter that respondents now highlight regulatory reform as their number one ask of governments.

With the investment landscape so uncertain, policymakers must be proactive in encouraging private sector investment. Streamlining regulatory processes, improving project pipelines and providing long-term, stable frameworks will all help secure the private investment needed to stimulate economic growth and meet the pressing infrastructure needs of citizens.

KEY FINDINGS

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

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

- Inflation and central bank interest rates are close to their peaks for the current economic cycle which is impacting investor appetite for capital deployment and making fundraising more challenging;
- Credit markets came under further strain with the March collapse of Silicon Valley Bank in the US and Credit Suisse in Europe;
- Economic growth continues to be sluggish both in the US and Europe, but major economies have for now avoided entering recession; and
- Energy challenges have ebbed somewhat, especially in the Americas, which has greater energy independence than Europe and is less impacted by the Russia-Ukraine war and, as a result, the inflation cycle in the US is around 6 months ahead of Europe.

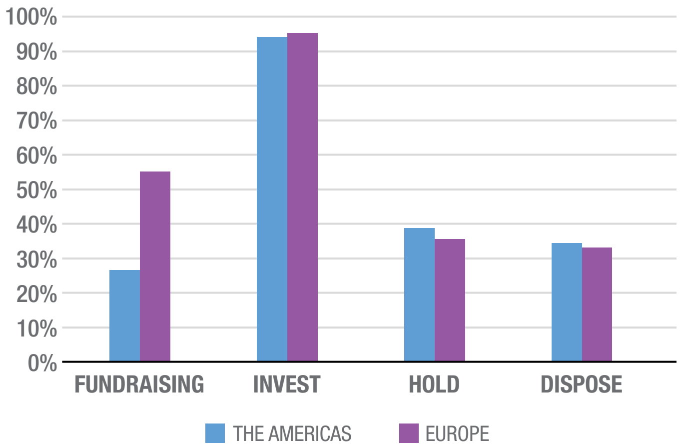
Offsetting these headwinds, the US Inflation Reduction Act is having an impact on green investment and jobs in the US whilst also impacting trade relations with the EU and China.

The following key themes have been noted in the Q2 2023 responses:

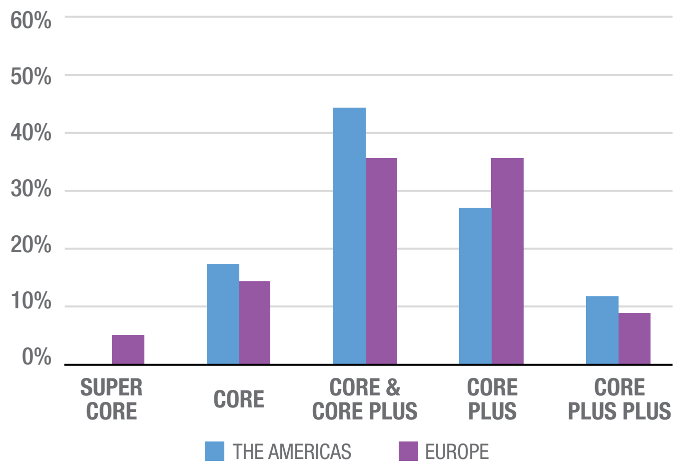
1. Interest rates continued to rise in the US, UK and Europe which is mirrored in a further deterioration in the fundraising environment compared to Q4 with a majority of respondents now considering it to be negative in both the EU and the UK.
2. Debt financing concerns jumped 50 percent in the Americas from Q4 2022 to Q2 2023 and cost of debt has overtaken inflation as a key concern for infrastructure investors across both Europe and the US for both new investments and current portfolios. This has driven a pivot away from traditional "core" assets, as the "maths doesn't work" with a single digit cost of equity.
3. Participants noted they will be divesting more assets compared to Q4 2022 with 85% of respondents indicating that they will divest one or more assets. This is accompanied by an increase in capital to be deployed in the next 12 months indicating a potential rebalancing of portfolios or that the gap between seller and buyer pricing expectations is narrowing. As the latter has played out there has been a noted extension in transaction process timelines, and buyers increasingly looking for cost coverage to de-risk the acquisition due diligence process.
4. The energy crisis continues to have a larger impact in Europe than in the US but has declined since Q4 2022 as the stabilisation of European gas supplies and the passing of winter has led to a notable decrease in energy prices. Skill and labour shortages have replaced supply chain delays on both sides of the Atlantic as a key macro-economic investment concern, along with the continued inflationary environment.
5. US and Canada had the highest improvement in investor attractiveness across all the markets compared to Q4 2022 and the Nordics remained resilient as the most attractive European destination. In Europe, Italy; France; and Benelux saw a decline in investor sentiment while South American and Eastern European market outlook continue to be negative.
6. Investor sentiment towards the UK remains inconsistent. Whilst the value of Sterling is lowering asset values for overseas buyers, the UK's political and regulatory environment is seen as challenging.
7. Communications infrastructure, which has been consistently the hottest sector in recent surveys has seen a reduction in attractiveness. This reflects a combination of increased construction costs and supply chain constraints (manpower and raw materials) impacting network deployment which combined with stubbornly lower than expected penetration rates has led to some altnets struggling for capital, accelerating the long anticipated consolidation of the sector in the UK.
8. Investors in North America are starting to see positive impacts from the Inflation Reduction Act of 2022, for example in the strengthening pipelines of renewables developers. Investors expect the package of Net Zero policies and incentives to be strongly favourable for investment in North America, with a likely shifting of funds and resources away from Europe. This can be seen in the significant growth in expected investment values on page 10.

THE BACKGROUND

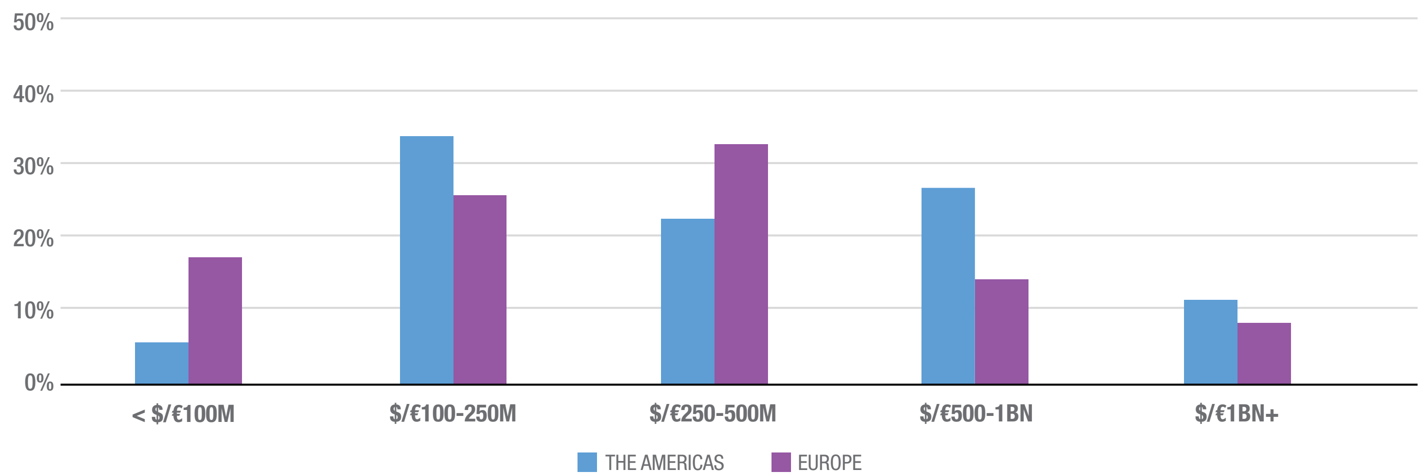
How would you describe your current focus?



How would you describe your investment criteria?



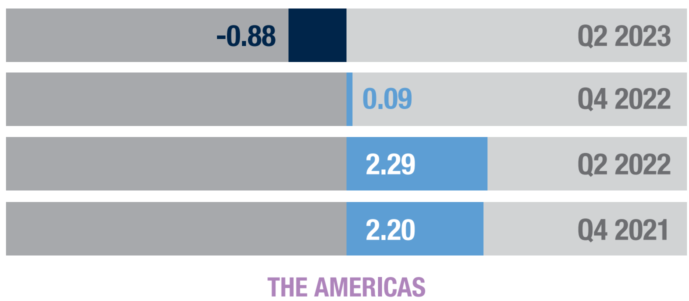
What is your target equity cheque?



FUNDRAISING, DEPLOYING AND REALISING CAPITAL

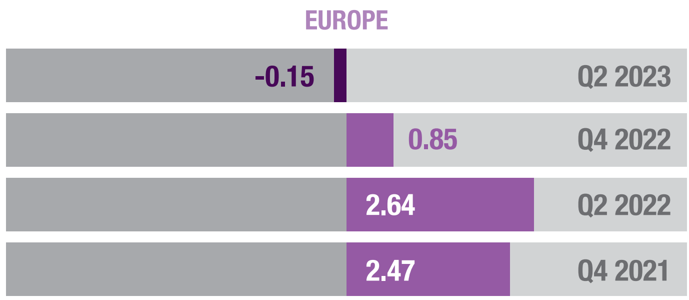
If fundraising, how favourable is the current equity fundraising environment? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)

-0.97
over 6 months



-3.17
over 12 months

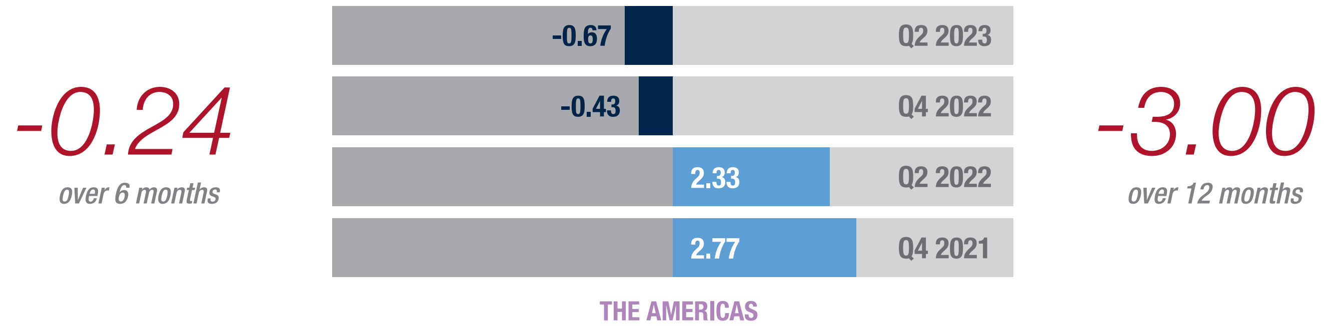
-1.00
over 6 months

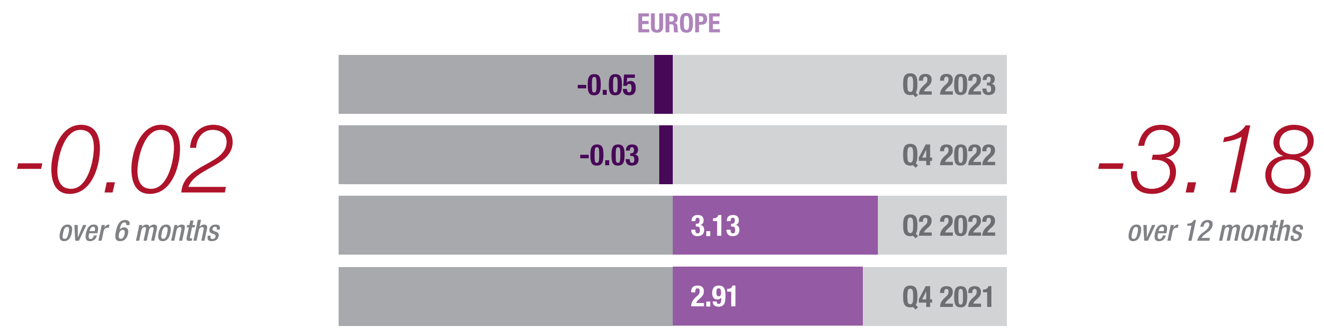


-2.79
over 12 months

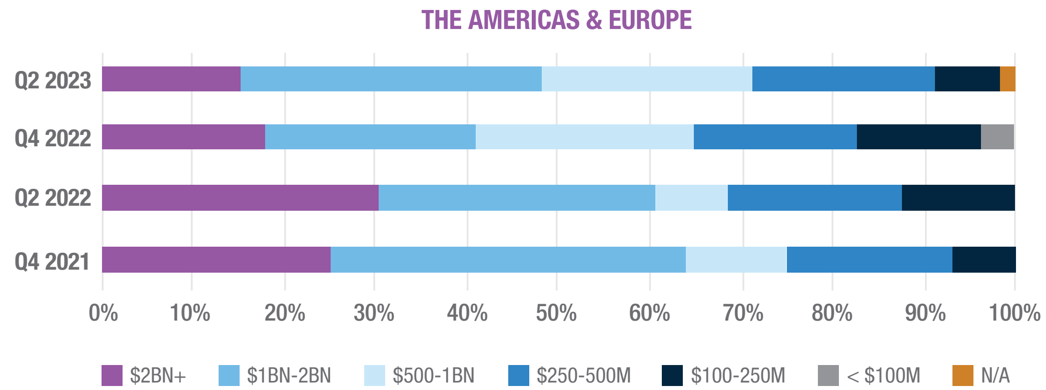
> *"The timeline for fundraising is longer than in the last few years, but we were a bit spoiled being able to raise a fund in nine months in the past."*
>
> – AMERICAS INFRA FUND INVESTOR

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)

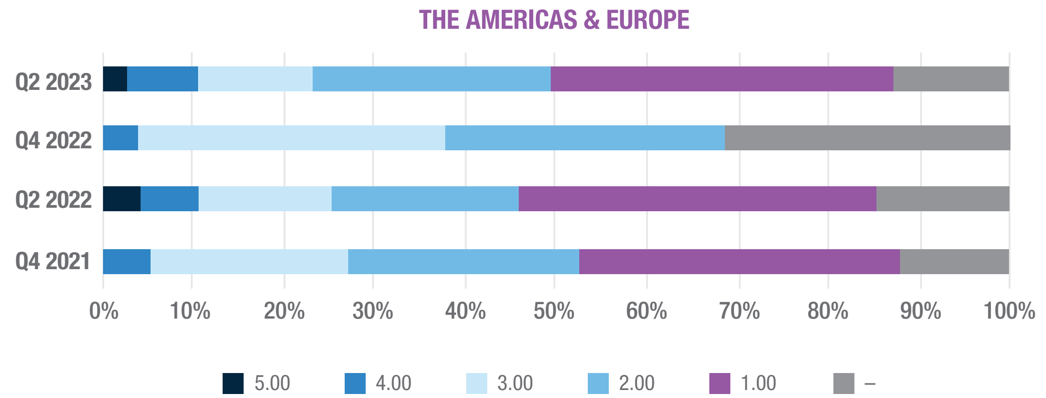




If deploying capital, how much equity do you anticipate deploying in the next 12 months?



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



THE OUTLOOK: 2022 AND BEYOND

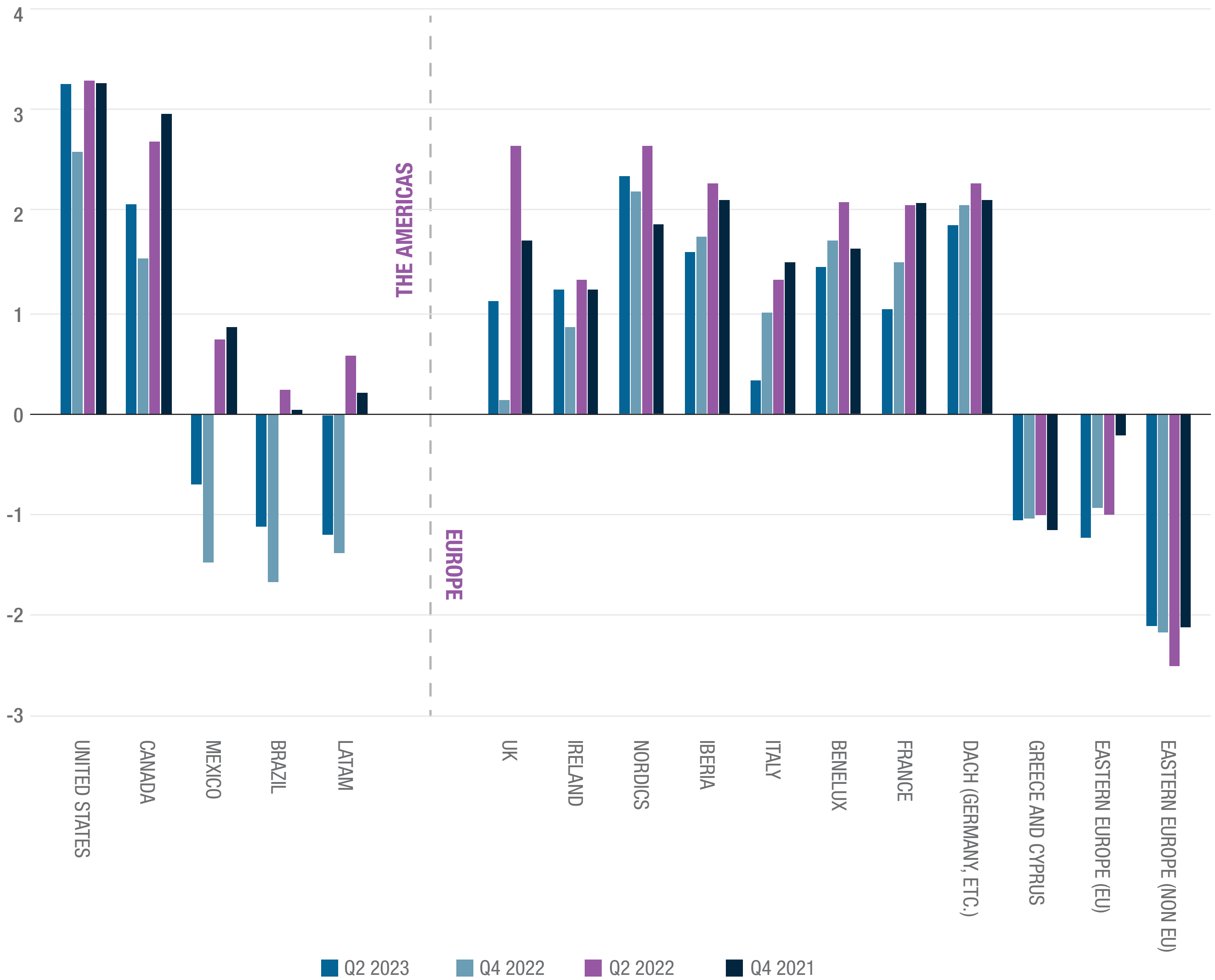
Which of the current macro-economic trends do you consider to be having the most significant impact on your current asset portfolio and your assessment of new investment opportunities? (1: least impact, 5: most impact)

	THE AMERICAS		EUROPE	
	CURRENT ASSET PORTFOLIO	NEW INVESTMENT OPPORTUNITIES	CURRENT ASSET PORTFOLIO	NEW INVESTMENT OPPORTUNITIES
High inflation	3.45 –	3.82 –	3.20 ⌄	3.60 ⌄
Availability and cost of debt financing	3.82 ^	3.82 ^	3.30 ^	3.50 ^
The energy crisis	2.36 ⌄	2.18 ⌄	3.10 ⌄	2.90 ⌄
Skill and labour shortage	2.91 ^	2.64 ^	2.70 ^	2.70 ^
Supply chain delays / blockages	2.45 ⌄	2.55 ⌄	2.70 ⌄	2.30 ⌄

^ ⌄ *Change in comparison to Q4 2022*

> *"Debt finance for Core assets is no problem. For everything else we are looking to the non-bank lenders and debt funds."*
>
> – EUROPEAN PENSION FUND INVESTOR

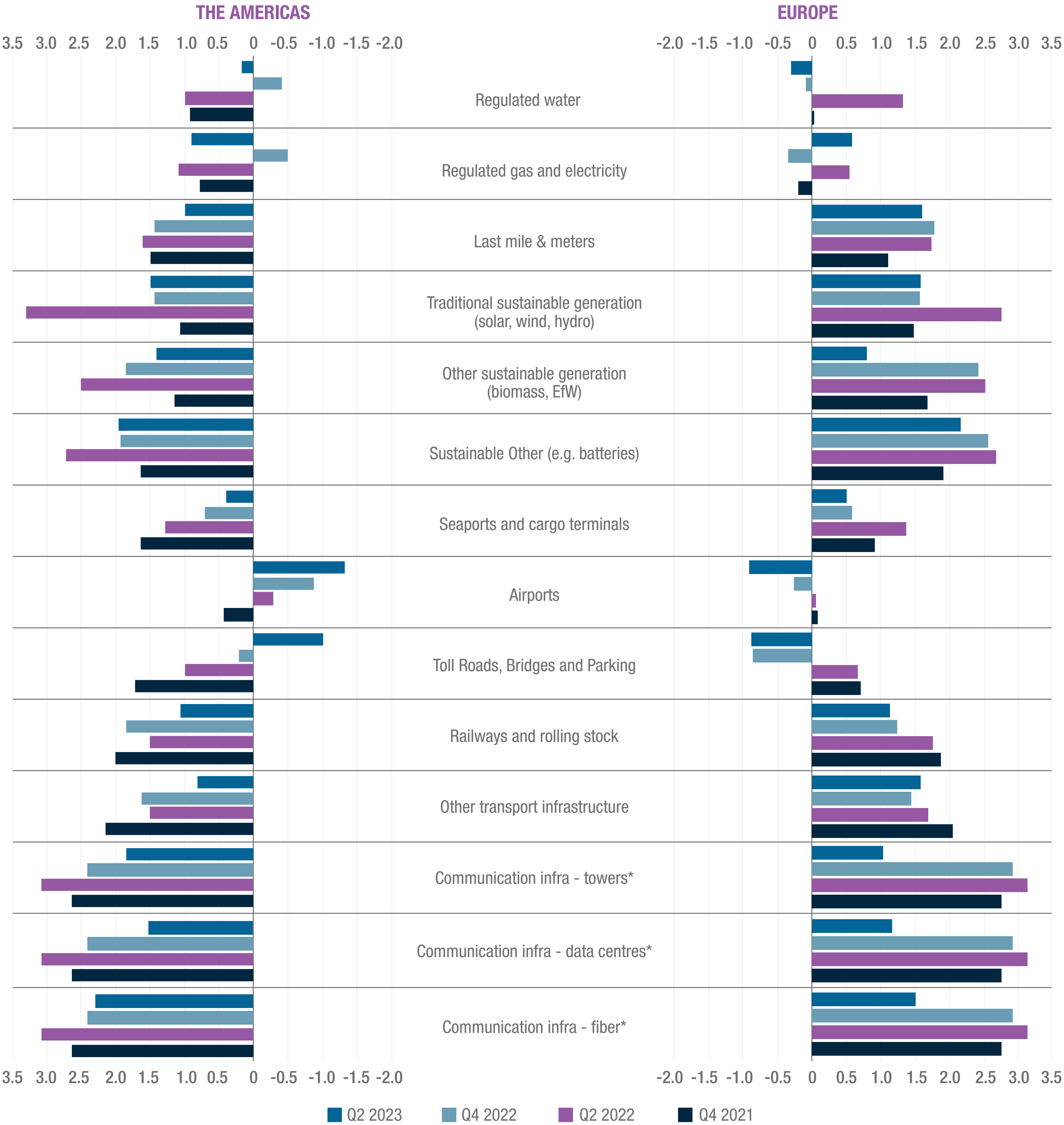
What is your outlook for the attractiveness of, and opportunities for, your fund(s) infrastructure investment in the following countries in the next quarter? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)



"With cost of debt at around 7% and single digit equity returns for core assets, we expect short term activity to be focused on core plus sub sectors. There is no evidence yet of core equity returns being adjusted."

– EUROPEAN INFRA FUND INVESTOR

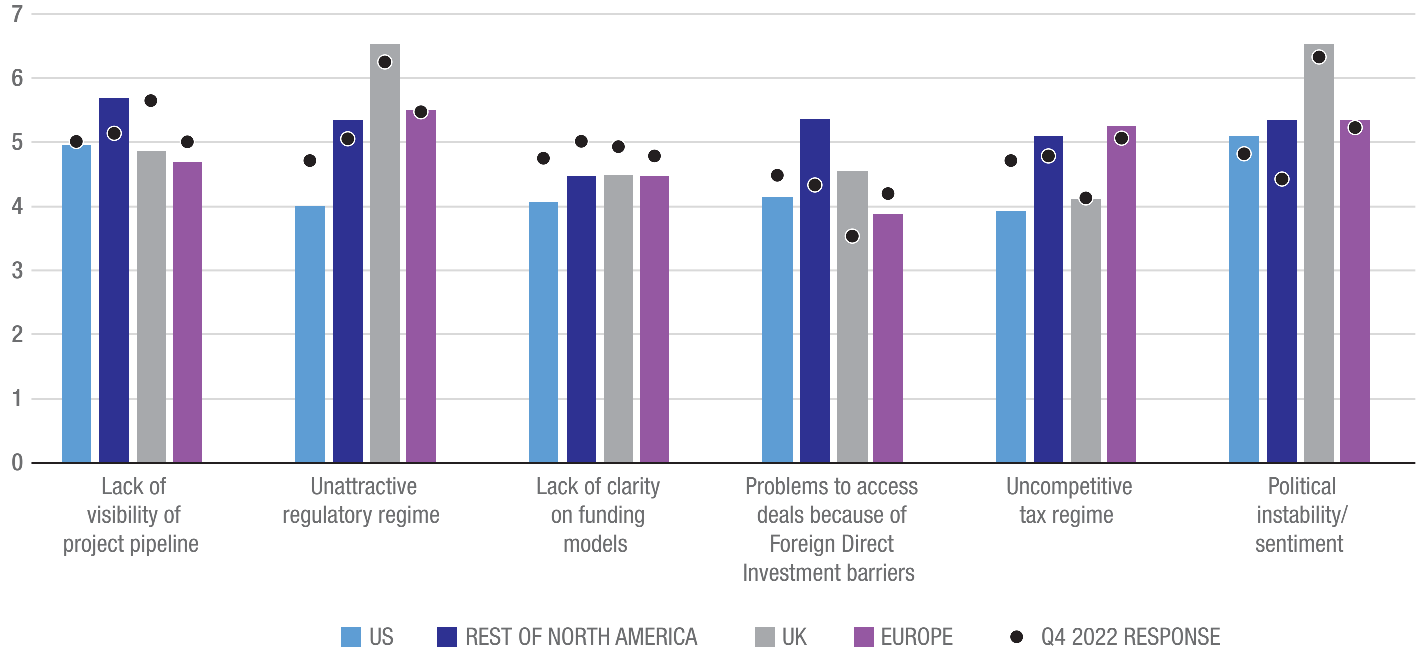
What is your / your fund(s) outlook for overall infrastructure opportunities for your fund(s) in the following sectors in the next 12 months? (-5: extremely unfavourable, 0: neutral, 5: extremely favourable)



** Q4 2022, Q2 2022, Q4 2021 comparison data for communication infra is a combination of all three categories - towers, data centres and fiber.*

BARRIERS TO INFRASTRUCTURE INVESTMENT

Which of the following do you view as the key barriers when looking to invest? (1: least challenging, 7: most challenging)



"For investors based outside the UK there is a perception that the UK regulatory environment is challenging, particularly the water sector."

– INFRASTRUCTURE CORPORATE 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)

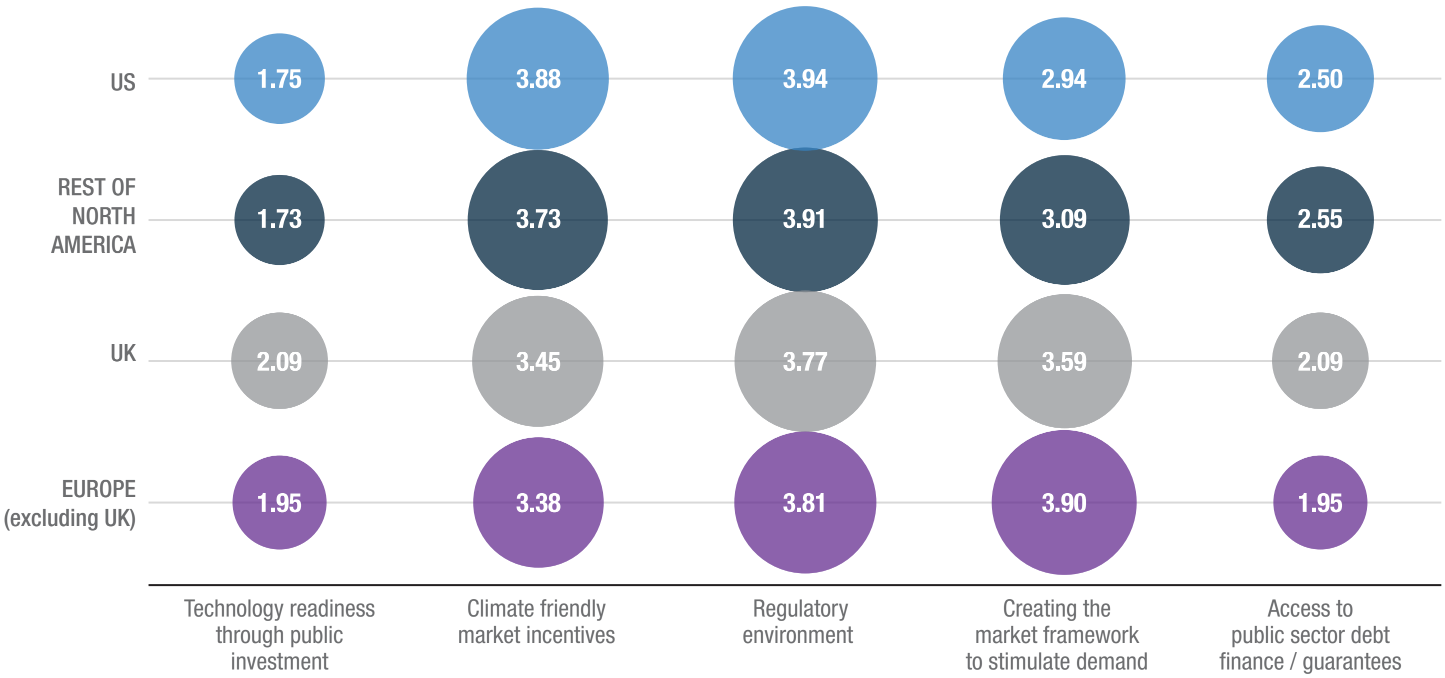
		Q2 2023	Q4 2022
THE AMERICAS	-0.1	6.4	6.5
EUROPE	-0.2	6.8	7.0

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	3.50 –	4.19 ↑	5.00 ↑	3.81 ↑	3.63 ↑	5.19 –	2.69 ↑
EUROPE	4.27 –	3.82 ↑	5.00 ↑	3.59 ↑	3.59 ↑	5.09 –	2.64 ↑

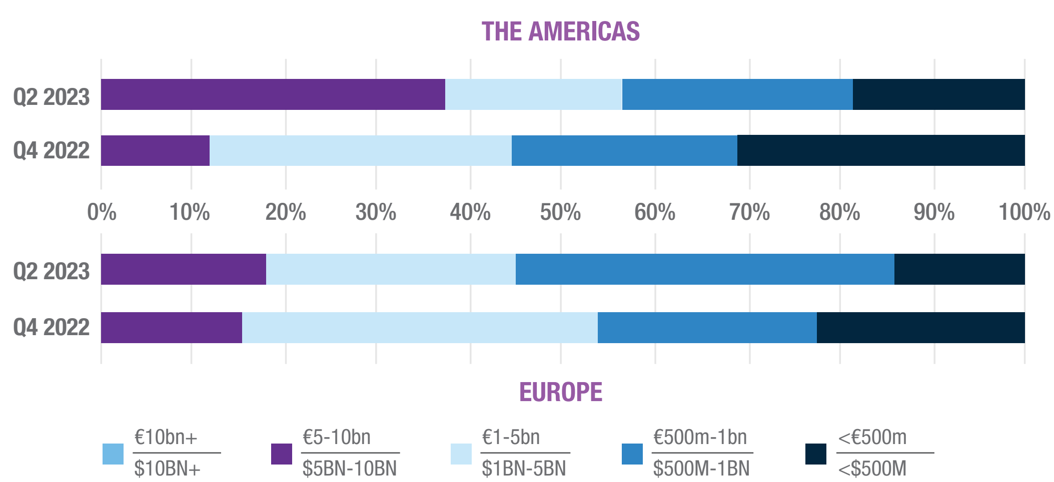
↑ ↓ *Change in comparison to Q4 2022*

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)



> *"The Inflation Reduction Act is already having an impact. Our US renewables platform is seeing very strong pipeline growth."*
>
> **– NORTH AMERICAN PENSION FUND 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?



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ABOUT THE 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 $1.6 trillion in infrastructure assets under management across 70 countries.

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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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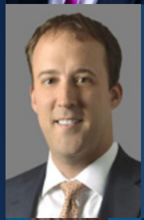

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A & M

ABOUT ALVAREZ & MARSAL

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With over 7,500 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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