



News Release

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What M&A downturn? Infrastructure funds look to invest £20bn in the UK and Europe

Deloitte, the business advisory firm, has announced today the findings of a piece of research into the investment plans of global infrastructure funds investing in the UK and Europe.

David Scott, infrastructure funds partner at Deloitte, commented: "The findings show that infrastructure funds are proving somewhat resilient to current market conditions, with in excess of £20bn in new equity capital raised over the last two to three years being invested in new asset classes and geographies across the UK and Europe. Infrastructure funds are proving to their investors, such as the big pension funds, that they can weather the storm by investing in businesses which will generate stable, predictable cash flows in the long term."

The research looks at what London-based infrastructure funds will be investing in the short to medium term. Scott went on to say: "Currently, there is a strong disconnect between what infrastructure funds invest in and the opportunities that are available. Most funds point to the emerging markets and less traditional asset types as being the most attractive but their fund focus, at present, tells a different story. As a result, prices are very high in 'sweet spot' areas such as UK and Western European traditional infrastructure assets, including airports, regulated utilities, ports and toll roads, questioning the sustainability of target returns in the long term."

James Riddell, infrastructure funds partner at Deloitte, added: "The research suggests that those funds prepared to move outside of their comfort zone, whether it's tangential infrastructure assets, greenfield infrastructure investments, or in geographies with greater sovereign risk, may be able to grab a bargain before the rest of the pack catches up. Many of the funds, however, will be held back in the short to medium term by both formal restrictions on what currencies they can invest in and the restrictions of reduced liquidity from increasingly cautious lenders unwilling to consider these opportunities at present."

The research also uncovered the assets that look set to benefit from the huge investment power of infrastructure funds. David Scott commented: "The majority of funds still believe that continued investment in traditional assets, such as airports, regulated utilities, ports and toll roads, remain fundamental. As long as opportunities in the UK and Europe remain available, the current landscape will remain relatively unchanged in the short to medium term. The research also shows, however, that less traditional assets such as waste, renewables and telecommunication infrastructure sectors look set to benefit from infrastructure fund investment in the next two years."

James Riddell went on to say: "While the research shows just how popular infrastructure funds are with institutional investors, it also highlights the problem of homogeneity in the sector. Infrastructure funds are now highlighting asset class specialisation and local market relationships to make themselves stand out from the crowd. As traditional investments become squeezed and funds look to exploit new asset classes and geographies, these differentiators will become increasingly marked in the next few years."

Key findings:

- Infrastructure funds are now a distinct class of investment, with many pension fund investors from around the globe allocating increasing proportions of their funds under management to the specific class of infrastructure;

- The majority of infrastructure funds remain conservative, favouring the stable and predictable long term cash flows generated by traditional infrastructure assets. Banks and other lenders seem to be keen to support this approach with two multi-billion pound transactions completed in the second half of 2007, even when the credit crunch had slowed other sectors' activity in M&A;
- A minority of infrastructure funds have recently extended their interest to tangential assets (i.e. essential service businesses inextricably linked to traditional infrastructure assets) albeit the current level of reduced liquidity in the debt markets are making these transactions more difficult;
- Europe, North America, India and China are seen as the most attractive markets although most infrastructure funds believe the emerging markets of Asia, Central and Eastern Europe and South American will remain underinvested compared with the opportunities presented in the short-term. Africa is viewed as least attractive;
- Alignment of the interests of management of the infrastructure asset and the fund itself were essential to ensure infrastructure funds could compete with private equity and plc share plans – how this is currently done varies significantly.

Ends

Notes for editors

About the research

Deloitte spoke to eighteen infrastructure funds from Europe, Australia, South East Asia and North America, currently invested in the UK and Europe, about a number of key areas, including: investment focus; attractive geographies and assets; the competitive environment; attitudes to current credit market conditions. The full research is available in pdf format and will accompany the press release.

About Deloitte

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