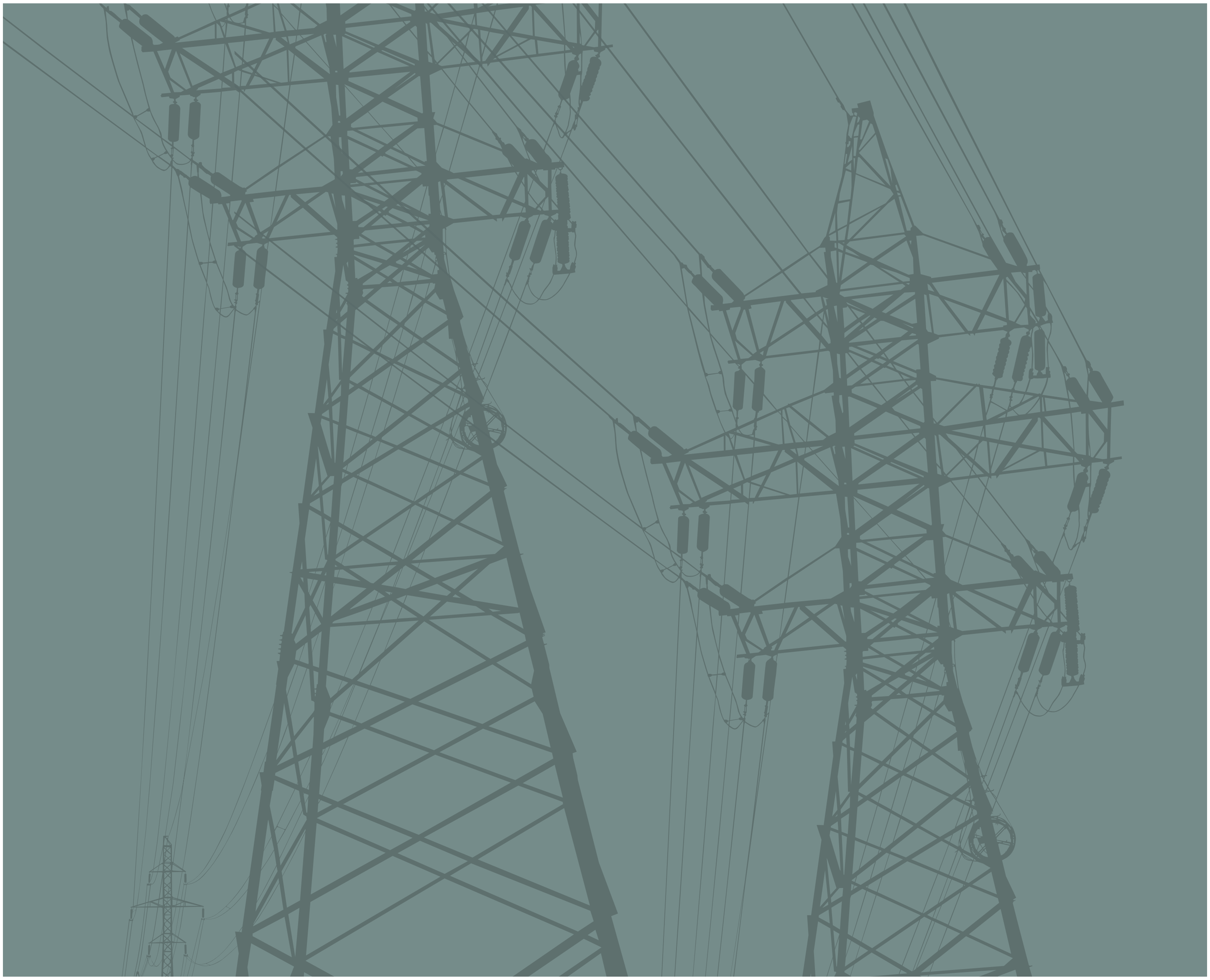

Infrastructure Institutional Investor Trends for 2015 Survey

PROBITAS PARTNERS

probity (prō'bĭ·tē)
n. [from Latin probitas: good, proper, honest.] adherence to the highest principles, ideals and character.

On an ongoing basis, Probitas Partners offers research and investment tools for the alternative investment market to aid its institutional investor and general partner clients. Probitas Partners compiles data from various trade and other sources and then vets and enhances that data via its team's broad knowledge of the market.

Contents

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Infrastructure Landscape

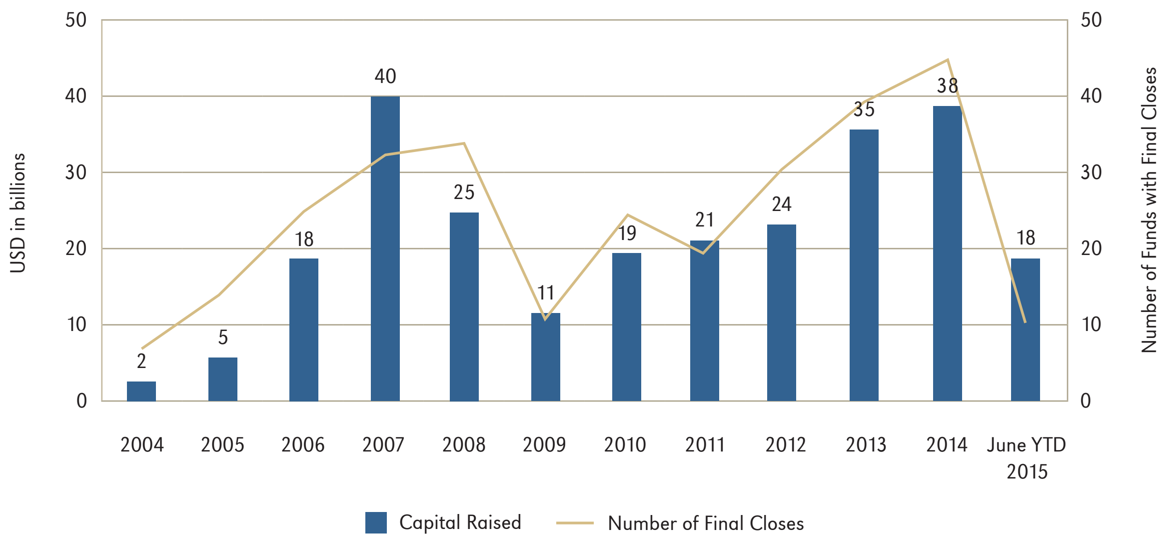
- Fundraising set a post-Great Financial Crisis ("GFC") high in 2014, along with an all-time high in the number of funds raised (Chart I). Fundraising so far in 2015 has been strong, though slightly slower than 2014's pace.

- Global funds continue to lead investor interest, with most of these funds focused on developed markets (Chart II). Interest in funds strictly focused on North America dropped, though interest in Europe-focused funds remained strong.

- Brownfield and brownfield/greenfield (focused on brownfield investing with a limited ability to do greenfield projects) strategies continue to comprise the largest sector of interest in the market, making up 56% of total 2014 fundraising (Chart III). Interest in pure greenfield funds remains weak.

- Infrastructure debt funds, a new sector of the market, surged in interest in 2013, moving from 12% of fundraising in 2012 to 23%. In 2014, however, interest in infrastructure debt fell substantially to only 7% of money raised.

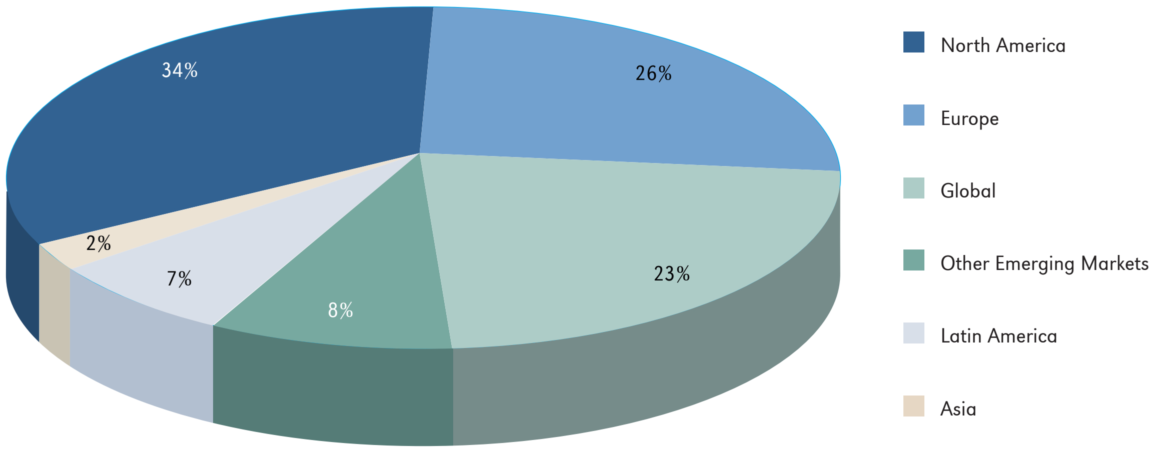
Chart I Global Infrastructure Fundraising 2004–2015



Source: Probitas Partners; PREQIN, Infrastructure Investor, Private Equity Analyst
Note: Does not include infrastructure funds-of-funds

Chart II Infrastructure Fundraising, 2014 by Region

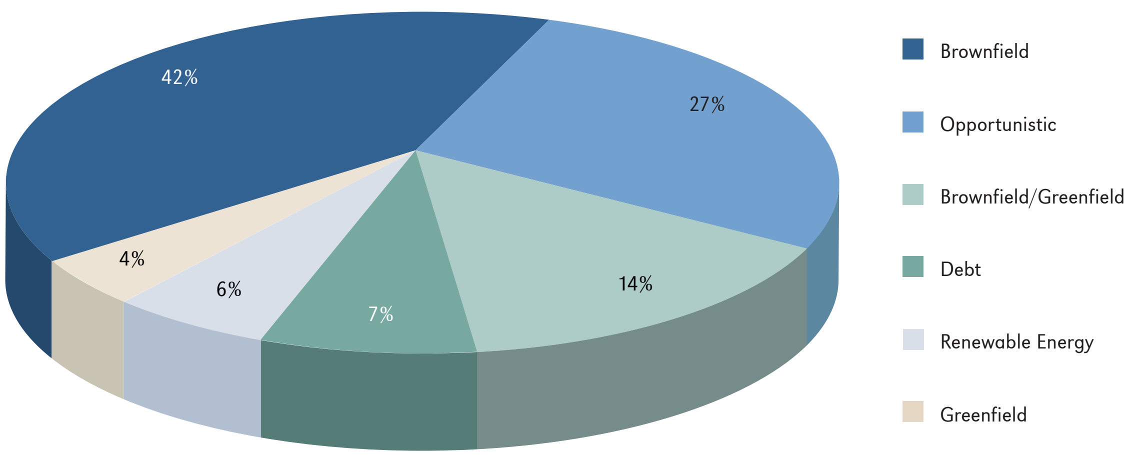
(in terms of capital raised in USD)



Source: Probitas Partners; PREQIN, Infrastructure Investor, Private Equity Analyst
Note: Does not include infrastructure funds-of-funds

Chart III Infrastructure Fundraising, 2014 by Strategy

(in terms of capital raised in USD)



Source: Probitas Partners; PREQIN, Infrastructure Investor, Private Equity Analyst
Note: Does not include infrastructure funds-of-funds

Ten Largest Infrastructure Funds to Date

- Table I lists the ten largest infrastructure funds closed to date; most of these funds were launched and had significant closes before the Global Financial Crisis.
- Global Infrastructure Partners II and Brookfield Infrastructure Fund II are the major exceptions to the above point; in 2013 they managed to raise the two largest infrastructure funds ever created.
- All these funds focus on developed markets. Four of them were sponsored by financial institutions.
- Increasingly, independent fund groups continue to be launched or spun out from sponsors, driven both by a desire for independence and regulatory and other issues impacting financial sponsors.

Table I Ten Largest Infrastructure Funds, August 2015

Rank	Fund Name	Firm Name	Headquarters	Vintage Year	Amount (MM)
1	Global Infrastructure Partners II	Global Infrastructure Partners	New York	2013	USD 8,250
2	Brookfield Infrastructure Fund II	Brookfield Asset Management	Toronto	2013	USD 7,000
3	GS Infrastructure Partners I	GS Infrastructure Investment Group	New York	2006	USD 6,500
4	Macquarie European Infrastructure Fund II	Macquarie Infrastructure and Real Assets	London	2006	EUR 4,635
5	Global Infrastructure Partners I	Global Infrastructure Partners	New York	2008	USD 5,640
6	Energy Capital Partners III	Energy Capital Partners	Short Hills, NJ	2014	USD 5,095
7	Energy Capital Partners II	Energy Capital Partners	Short Hills, NJ	2009	USD 4,335
8	Alinda Infrastructure Fund II	Alinda Capital Partners	New York	2008	USD 4,097
9	Macquarie Infrastructure Partners	Macquarie Infrastructure and Real Assets	London	2006	USD 4,000
10	North Haven Infrastructure Partners	Morgan Stanley Infrastructure	New York	2008	USD 4,000

Source: Probitas Partners

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Infrastructure Institutional Investor Survey

In mid-2015, Probitas Partners conducted an online survey to gauge investor interest, opinions, and perspectives on investing in infrastructure. Responses were received from senior investment executives representing such institutions as public and corporate pension plans, fund-of-funds, and sovereign wealth funds, among others.

Highlights of Survey Findings

- ***Fear of too much money in the sector remains high:*** The biggest fear among investors is that too much money is coming into the market and increasing the risk that returns will be negatively impacted — a fear that has increased dramatically over the last three years of survey responses, more than doubling from 35% to 74%. Investors are also increasingly concerned about the amount of leverage that certain fund managers are using.

"Value-added brownfield funds are the preference of most infrastructure fund investors"

- ***Value-added brownfield funds are the preference of most infrastructure fund investors, followed by core brownfield funds:*** Investors are looking to generate higher returns with value-added funds while not taking on tremendously more risk to do so. On the other hand, core brownfield assets remain extremely attractive to those investors with the capability to invest directly in projects.

- ***Interest in infrastructure debt funds falling:*** Debt funds, a newer sector, surged to a fundraising market high in 2013 and have fallen back over the last eighteen months; fewer investors are targeting these funds as we move towards 2016. This follows a similar pattern for real estate debt funds, and investors may be pausing to assess how their first commitments in the sector perform, especially in what is anticipated to be a rising rate environment, before putting more money into the sector.

- ***Opportunistic funds remain of some interest to investors, especially in the energy sector:*** These funds are attracting more commitments from pure private equity investors, given competitive returns and their risk/return profile.

- ***Fund duration preferences are in flux:*** Though private equity-like 10-year structures attracted a plurality of interest, the predominance of investors seeking those structures dropped in this year's survey. No other structure surged into the lead. Experienced investors, however, favored hybrid 10-year structures that provide liquidity or long-term hold options at maturity.

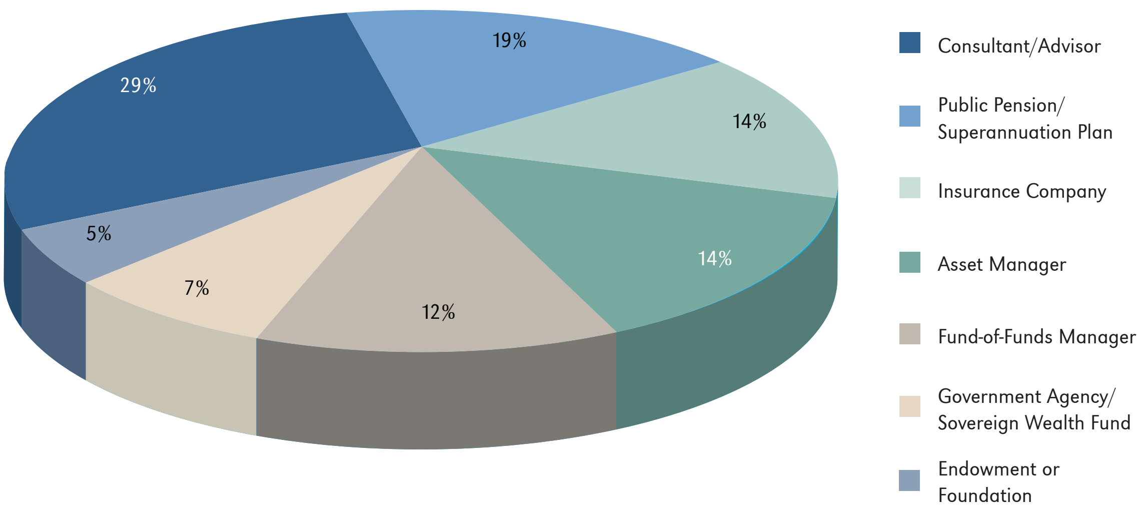
- ***Emerging markets interest rebounded slightly:*** After falling to a new low in last year's survey, interest in emerging markets infrastructure rebounded slightly, with much more interest in Asia than in any other geography.

Profile of Respondents

- Chart IV highlights the diversity of institutions that responded to the survey, though consultants, pension plans, insurance companies, and asset managers dominated.
- Respondents were geographically diverse; most respondents from Australia and Canada were very experienced investors (Chart V).
- 50% of respondents have active infrastructure investing programs of at least a year or longer, with most of the other respondents being either consultants (who advise clients who are in a variety of stages) or are either new to the sector or only invest opportunistically (Chart VI).

"50% of respondents have active infrastructure investing programs of at least a year or longer"

Chart IV Respondents Categorized by Investor Type
"I represent a:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

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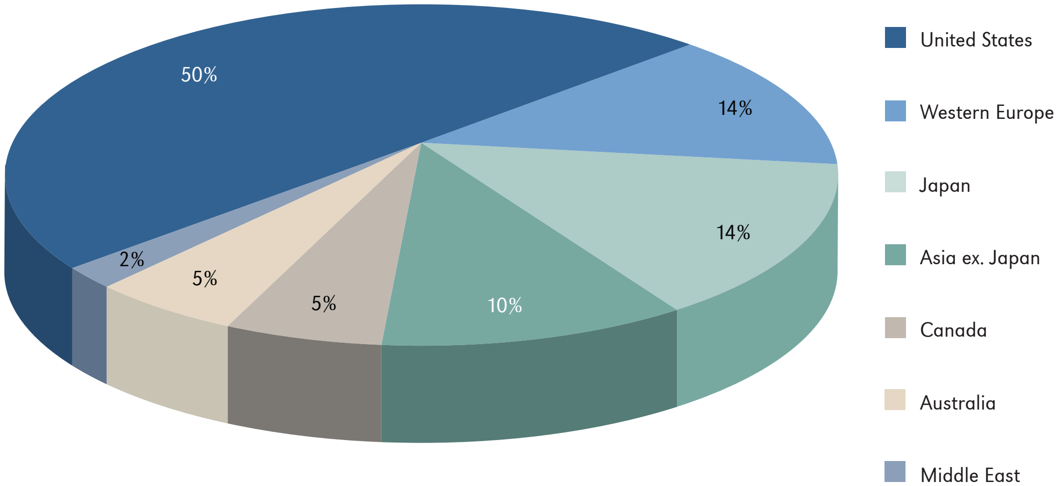
Chart V Respondents Categorized by Firm Headquarters

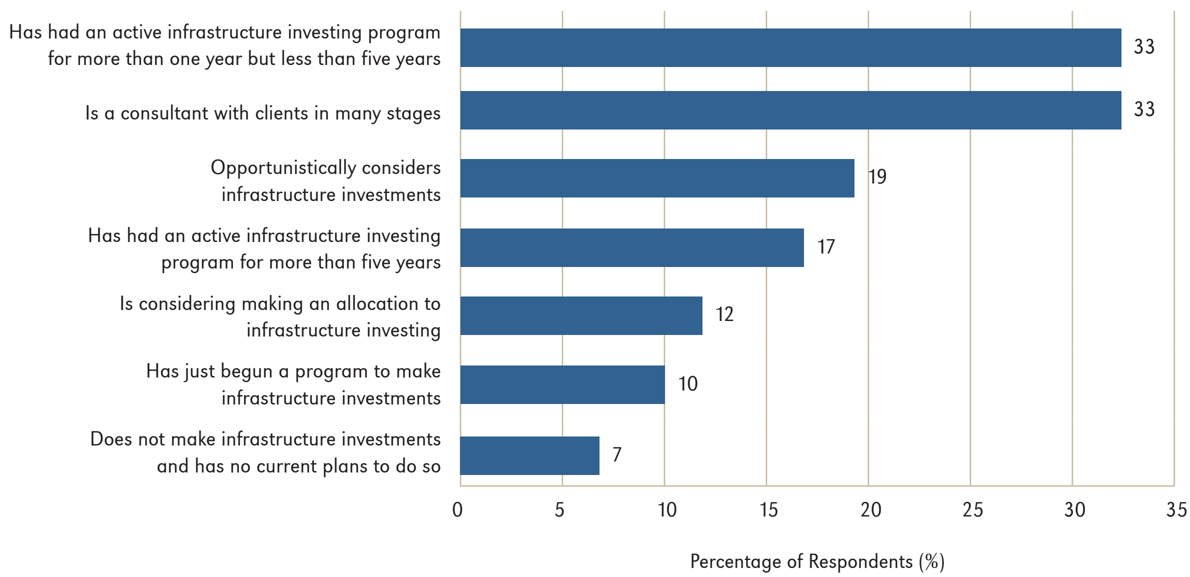
"My firm is headquartered in:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

Chart VI Plans for Infrastructure Investing

"As far as infrastructure investing is concerned, my firm (choose all that apply):"



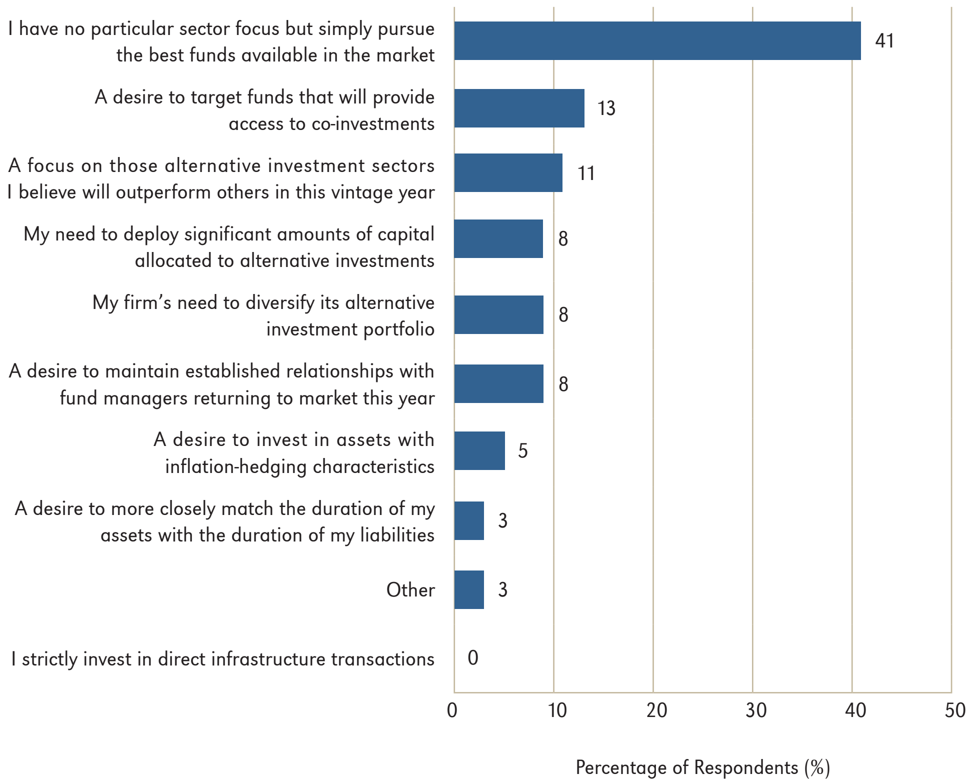
Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

- Chart VII shows that no specific attribute caused investors to choose an infrastructure fund; instead, a plurality of respondents simply focused on selecting best funds available in the market.

- Thirteen percent of respondents targeted funds that would provide access to co-investments, up from 5% in last year's survey.

Chart VII Drivers for Sector Target Focus

"My sector investment focus over the next twelve months is being driven by:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

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Plans for Infrastructure Investing

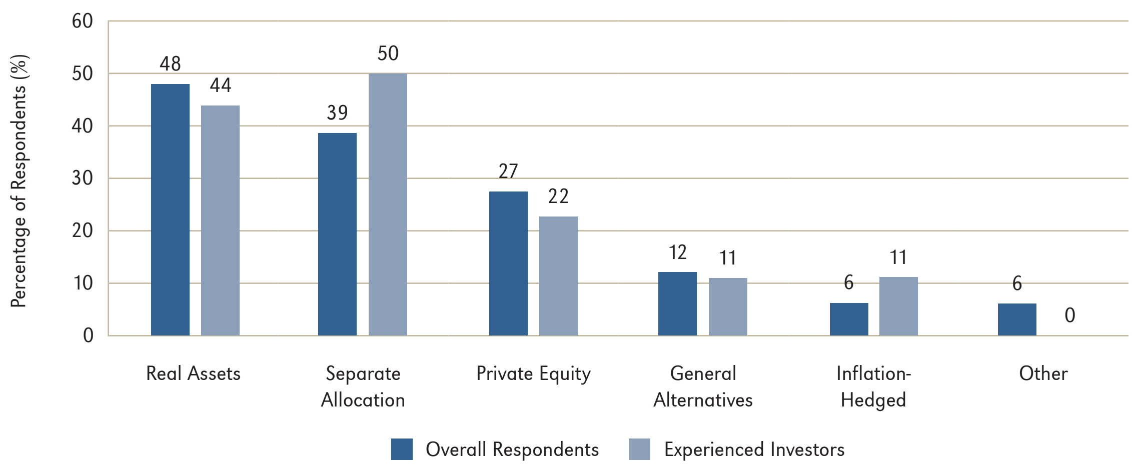
- Only 26% of respondents had separate infrastructure allocations in 2007 (our first infrastructure survey), while 40% were making infrastructure investments from their private equity allocations as they made a reconnaissance of the sector. Chart VIII shows the strong shift towards separate infrastructure or real asset allocations over the last nine years.

- Over the last year, there has been a strong shift towards including infrastructure in a more broad-based real assets portfolio, moving from 22% last year to 48% this year. A number of investors put infrastructure investments in different allocations, most likely driven by individual fund strategy.

- In 2007, 11% of respondents placed infrastructure investments in their real estate allocations; this year, for the first time, no investors used their real estate allocations for infrastructure investments.

Chart VIII Categorizing Infrastructure

"Within our portfolio, infrastructure investments are or will be placed in (choose all that apply):"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey
Note: "Experienced Investors" constitutes those investors who have been active in the sector for over a year

- On the back of 2014's strong fundraising, investors are still looking to either increase or maintain their allocations; there is little interest in decreasing exposure (Chart IX).

- The range of respondents' allocation sizes was very diverse, including both small and large investors who often pursue different strategies (Chart X).

- All of respondents to the survey that invest in infrastructure either actively or opportunistically invest in closed-end infrastructure funds (Chart XI).

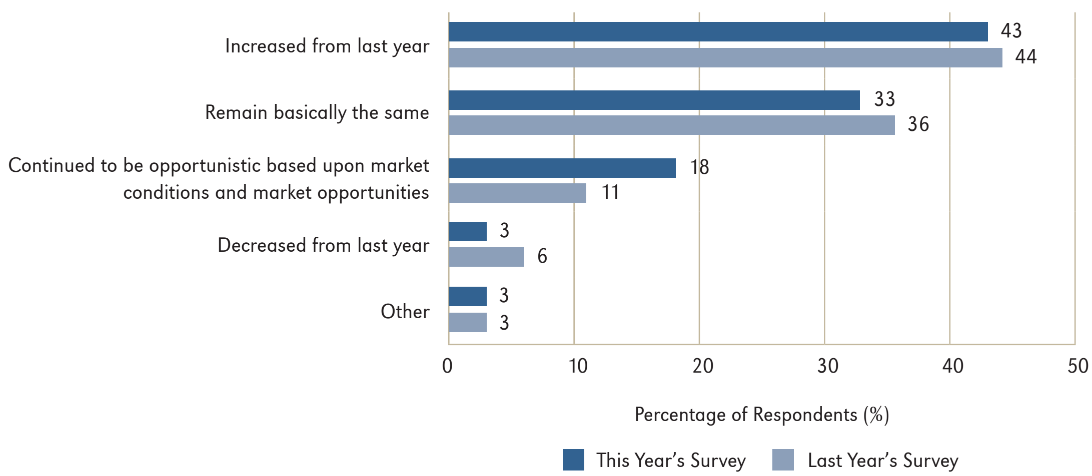
- At the other end of the spectrum, only 19% of respondents invest in infrastructure funds-of-funds, and only 35% of respondents invest in publicly traded infrastructure vehicles.

- Consistent with the trend since inception of the survey, there is significant interest in co-investments with 70% of respondents actively or opportunistically targeting them; in addition, 31% of respondents actively targeting direct investments.

"Investors are still looking to increase or maintain their allocations"

Chart IX Appetite for Infrastructure

"I believe that my firm's appetite for infrastructure investments for the next twelve months will be:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

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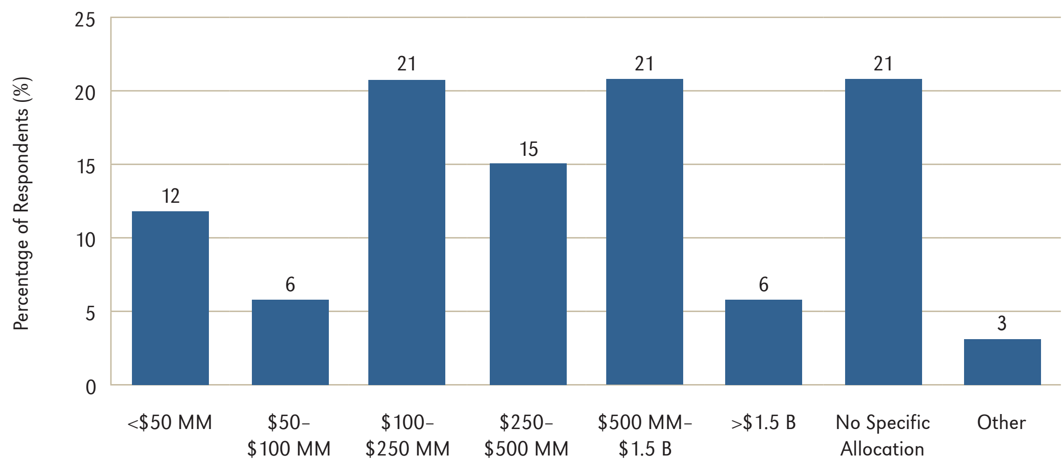
Chart X Infrastructure Allocations

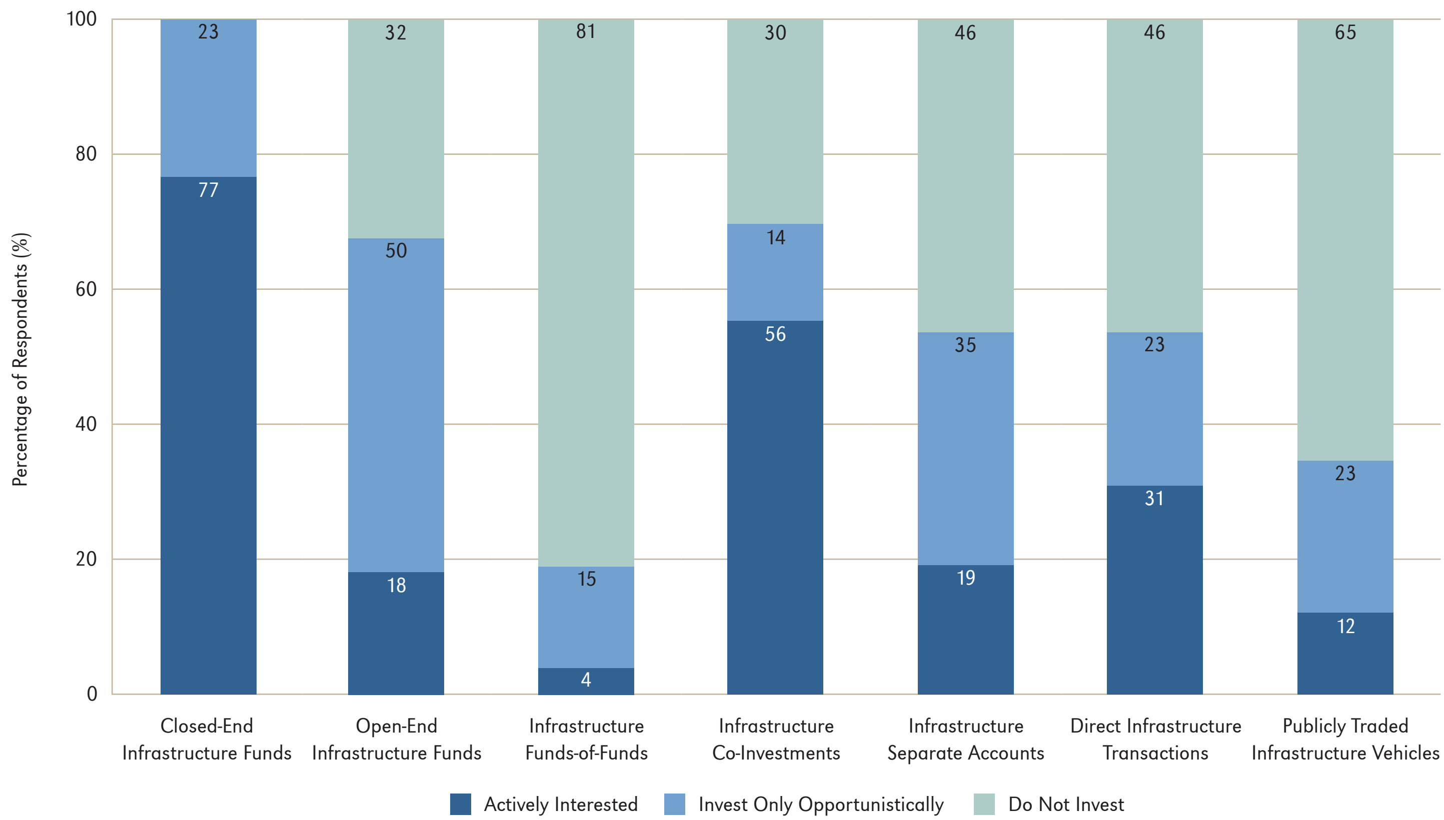
"Over the next year, my allocation to infrastructure commitments will be (in USD):"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

Chart XI Interest in Investment Structures

"My firm's interest in various investment structures:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

Sectors, Industries and Geographies of Interest

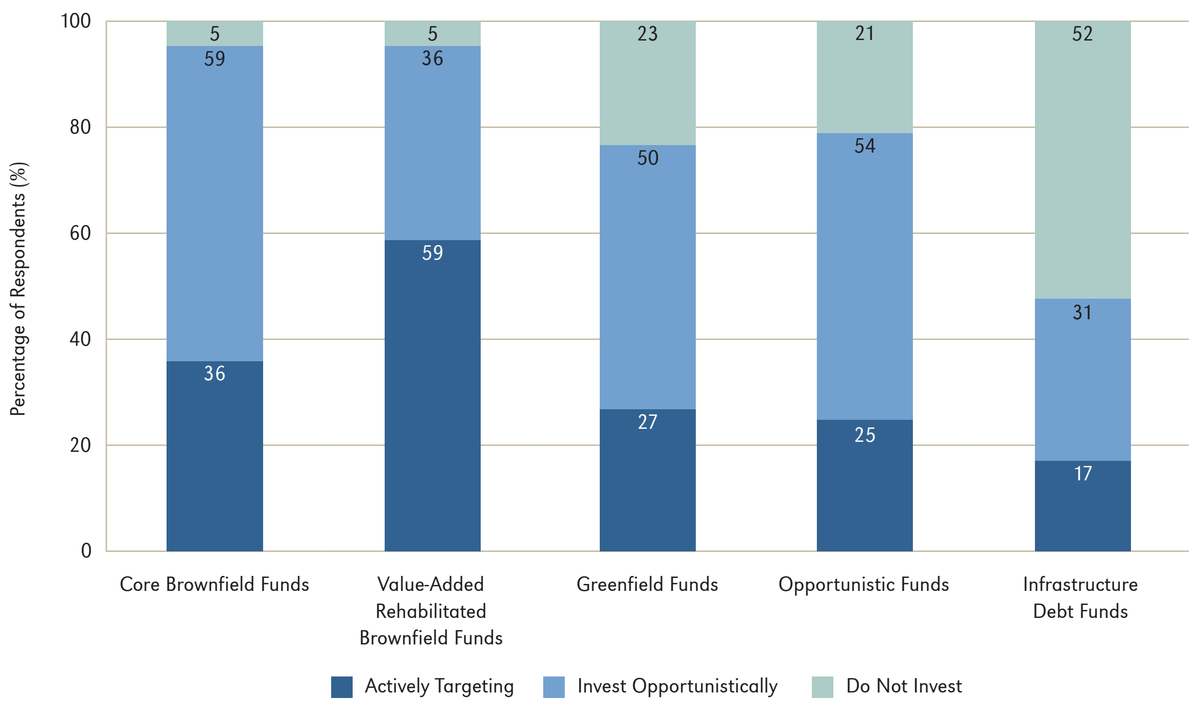
- Value-added brownfield funds (targeting established projects that require rehabilitation or repositioning) remain the preferred strategy, with 95% of respondents actively or opportunistically investing in this sector (Chart XII).

- Respondents were only modestly interested in opportunistic funds, but because of their risk/return profiles these funds often attract commitments from private equity investors as well, a number of whom do not invest in infrastructure funds.

- As far as industry sectors, interest was remarkably similar to last year's survey, with energy and power continuing to lead investor interest, and transportation and water and waste management following closely (Chart XIII).

Chart XII Interest in Fund Strategies

"My firm's interest in various fund strategies:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

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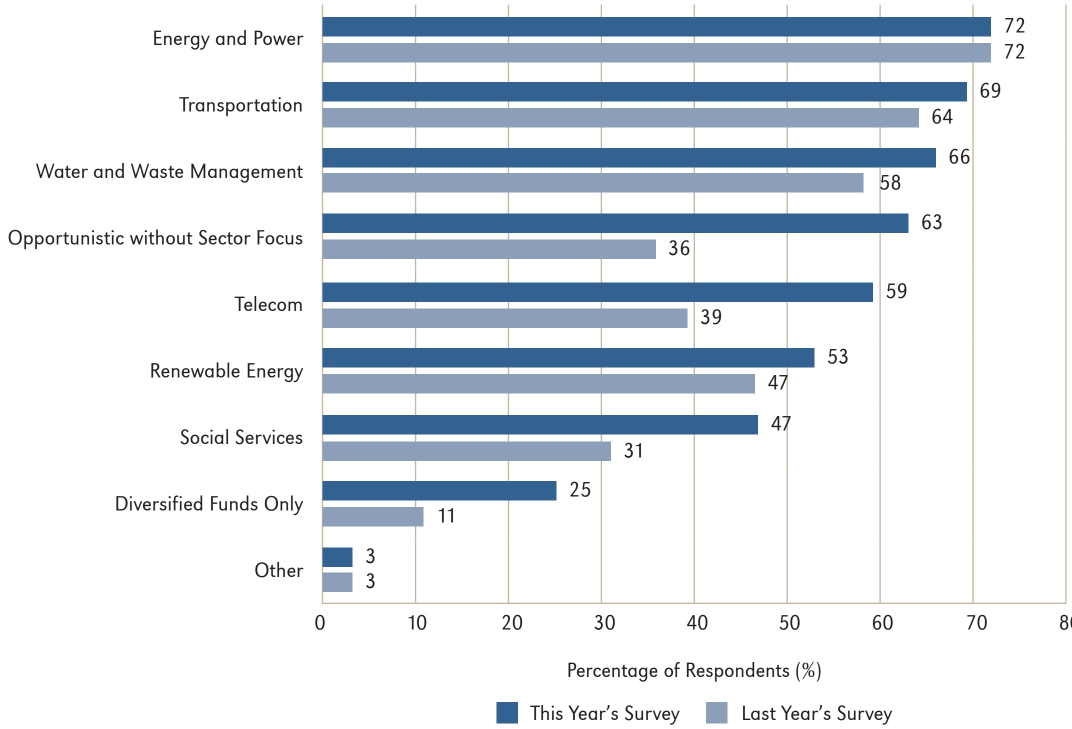
Chart XIII Infrastructure Industry Sectors of Interest

"My firm seeks to invest in the following sectors (choose all that apply):"



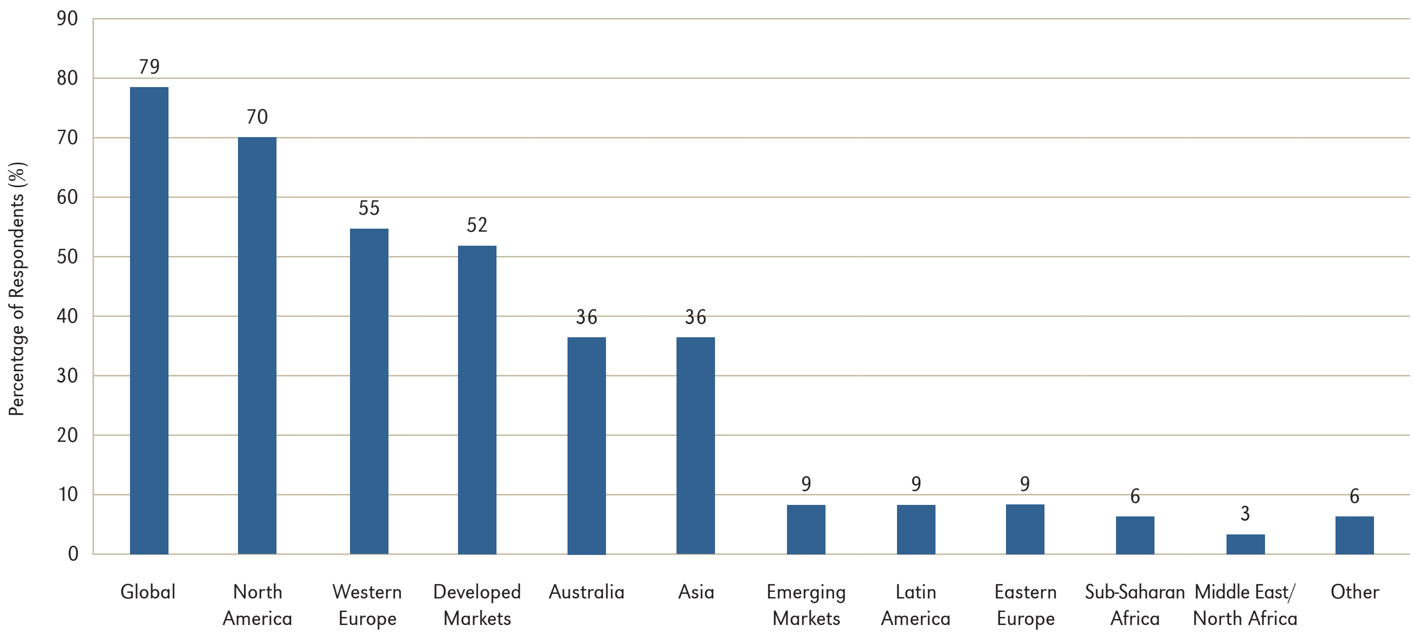
Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

- As far as geographic focus, investors continue to prefer the developed markets (Chart XIV); even global funds, ranked first in interest, are typically focused on developed markets and usually have very small or no allocations to emerging markets.

- Australia ranked highly as an area of interest in part because there were a large number of Australian respondents that were focused on their home market and because infrastructure investing is well developed there.

Chart XIV Geographic Focus

"My firm invests in infrastructure funds with investment mandates focused on (choose all that apply):"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

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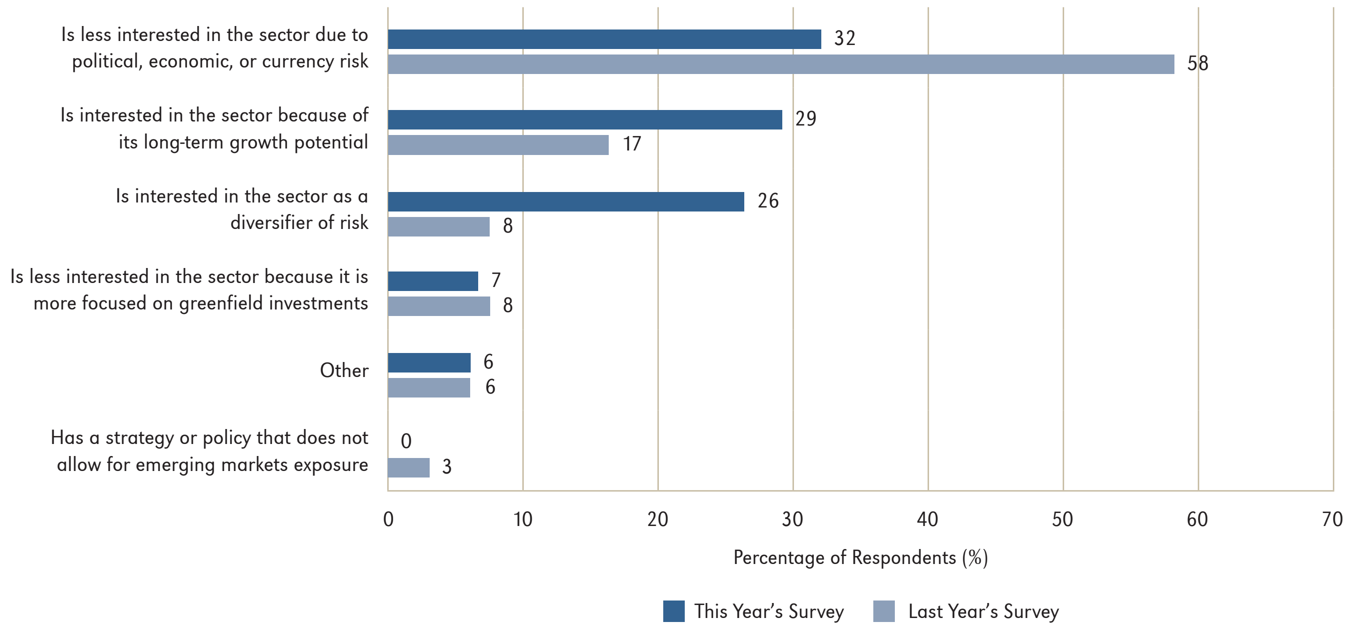
- The biggest shift in perception this year has been towards emerging markets (Chart XV); last year investors' fears about political, economic, or currency risk spiked, rising 2.5 times to 58% — this year those concerns fell dramatically to 32%.

- Interest in emerging markets both for their long-term growth potential and as diversifiers of risk increased substantially.

Chart XV Interest in Emerging Markets

"As far as my interest in emerging markets is concerned, my firm:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

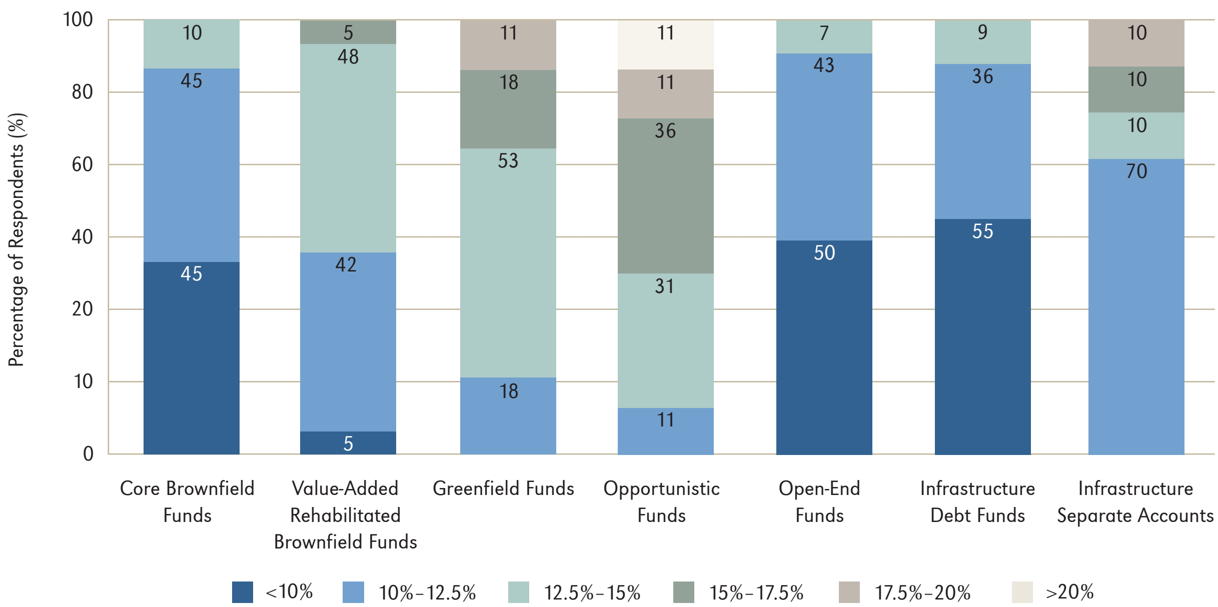
Targeted Returns and Fees

- Respondents' perception of risk resulted in the following expectations for returns by strategy, detailed in Chart XVI:
  - 90% expect returns of 12.5% or lower for core brownfield funds.
  - 53% expect returns of 12.5% or higher for value-added brownfield funds, while 82% expect those sorts of returns for greenfield funds.
  - Expectations for opportunistic funds are more in line with private equity.
  - Interestingly, the return expectations of open-ended funds (the vast majority of which are core brownfield vehicles) and debt funds are nearly the same.
- Expected risk/return profiles by strategy clearly impact management fee and carried interest expectations, as covered in Charts XVII and XVIII:
  - Brownfield funds, one of investors' most preferred strategies, are under continuing pressure from investors on fees; 85% of respondents investing in such funds expect management fees to be 1.25% or less, and 95% of respondents expect carry to be 15% or less. These expectations on fees and carry are noticeably lower than last year's survey.

"90% expect returns of 12.5% or lower for core brownfield funds"

Chart XVI Target Net IRRs

"For the major sectors of closed-end infrastructure funds operating in developing markets, my firm's target Net IRRs are as follows:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

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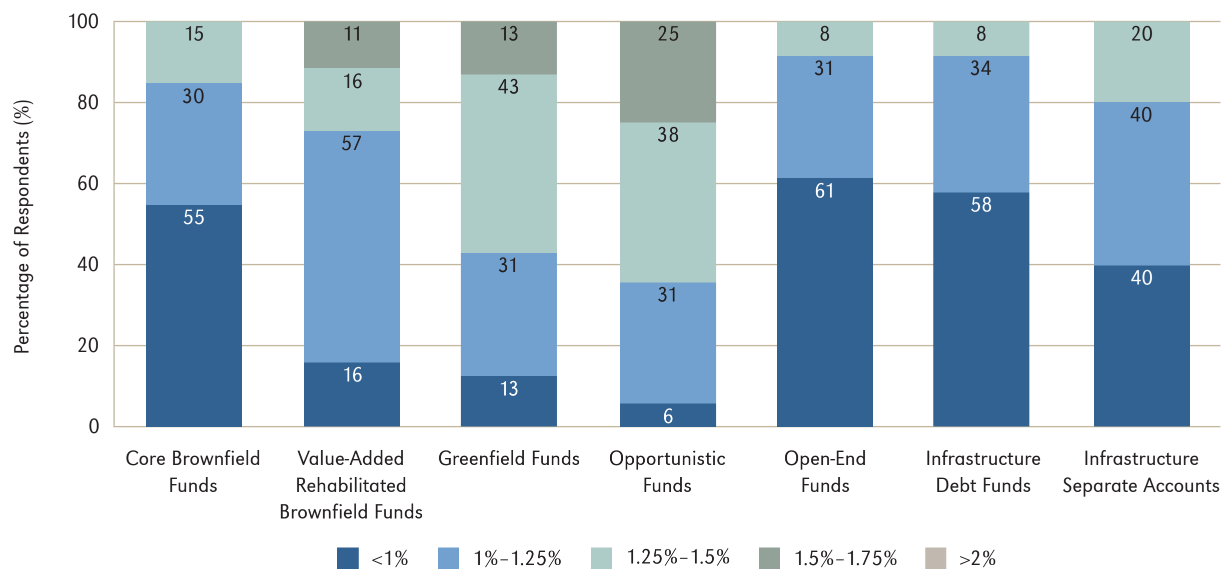
- Fee and carry expectations for open-ended funds and infrastructure debt funds are very similar, matching investors' return expectations.

- Expectations for separate account fees and carry are noticeably lower than funds, reflecting the pricing power of investors able to make large commitments.

Chart XVII Targeted Annual Management Fees

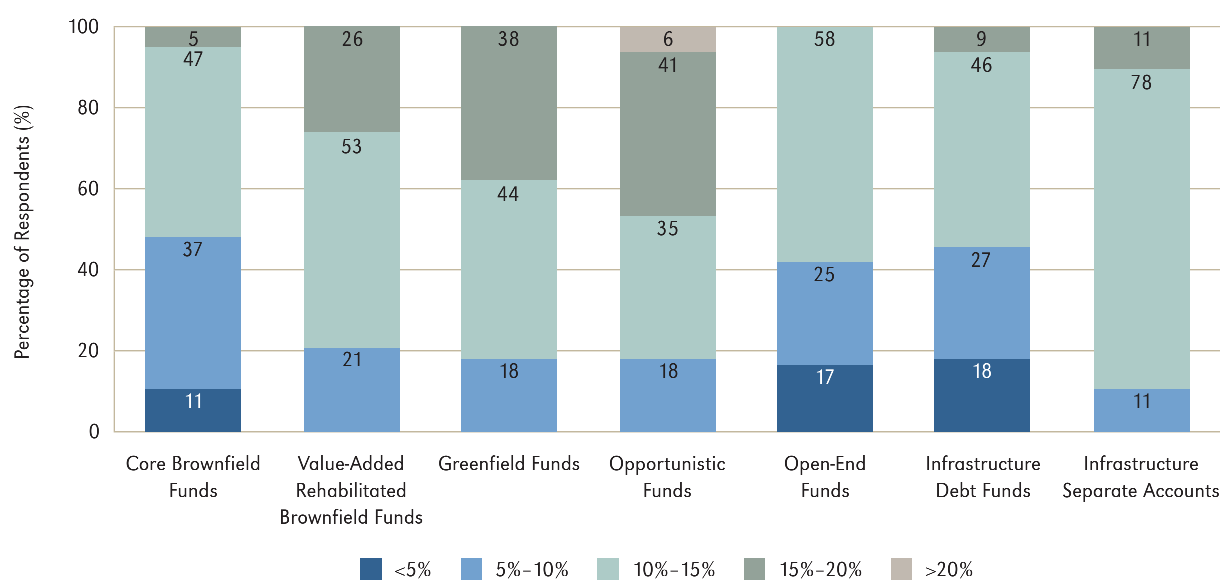
"For the major sectors of closed-end infrastructure funds operating in developing markets, my firm's targeted management fees are as follows:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

Chart XVIII Targeted Carried Interest

"For the major sectors of closed-end infrastructure funds operating in developing markets, my firm's targets for carried interest are:"

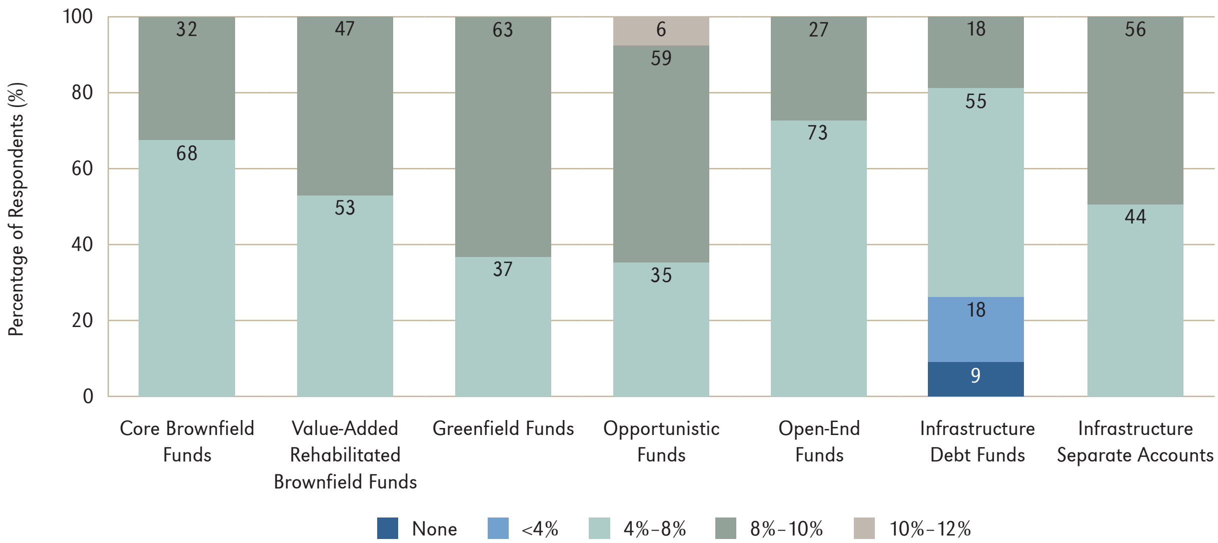


Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

- Many investors continue to seek risk-adjusted carry hurdles, as detailed in Chart XIX, with correspondingly higher hurdle rates expected as fund strategy risk increases.

Chart XIX Carried Interest Hurdle

"For the major sectors of closed-end infrastructure funds operating in developing markets, my firm's targets for carry hurdles are:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

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Portfolio Benchmarks

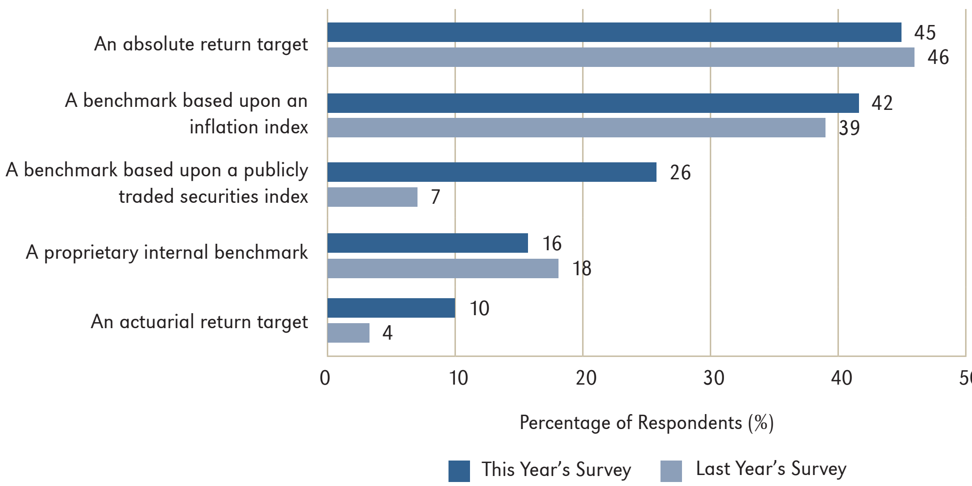
- There has been a shift towards absolute return targets and inflation indices, and away from proprietary internal benchmarks over the last several years (Chart XX).

- There was a significant increase this year in the use of publicly traded securities indices.

- A number of the respondents use multiple benchmarks (totals below sum to over 114% for 2015).

Chart XX Portfolio Benchmarks

"Regarding portfolio benchmarks for infrastructure, my firm uses (choose all that apply):"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

Investment Structures

- Unlike private equity funds where term structures are substantially standardized, there remains a broad variety of term structures in the infrastructure market.

- One of the biggest changes in this year's survey, not only overall but also for experienced investors, is in preferred fund life. Chart XXI shows the results from last year's survey, while Chart XXII details this year's survey.

- 10-year fund life vehicles continue to be preferred by a plurality of respondents even though in brownfield Public Private Partnerships, underlying project concessions often have lives of 30 years or more. However, overall that interest slipped from 44% last year to 34% this year, and for experienced investors it dropped more significantly, from 52% last year to 28% this year.

- In contrast, overall those who had no preference on a fund's term structure increased significantly from 9% in 2014 to 30% in 2015, while for experienced investors the biggest move was a shift towards 10-year hybrid structures, moving from no interest last year to 33% this year.

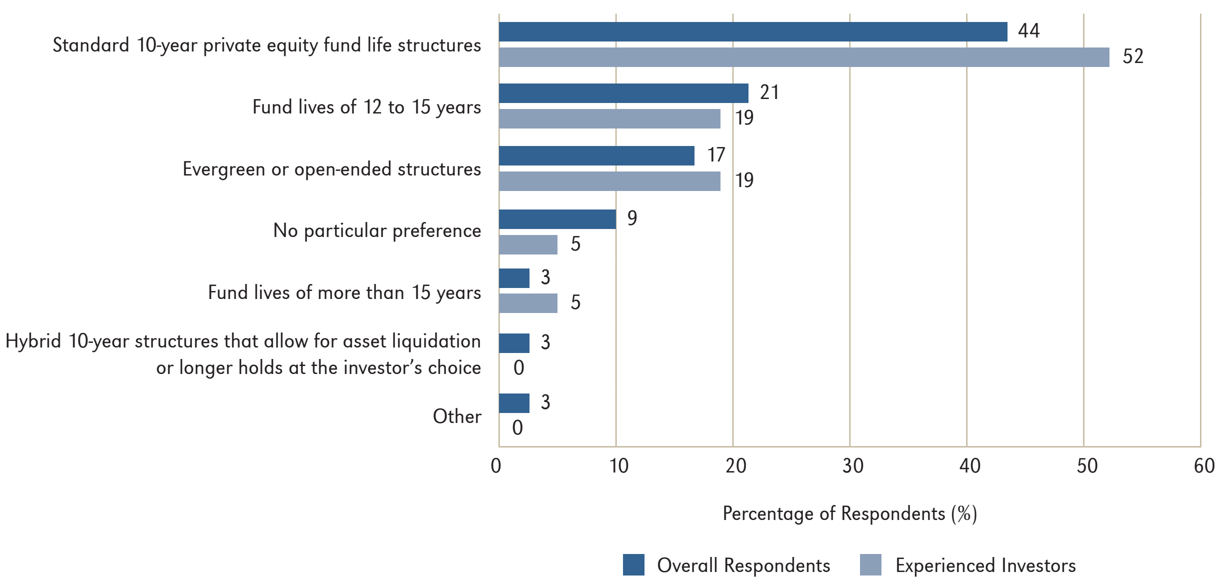
- Interest in evergreen or open-ended structures also declined significantly.

- The majority of respondents continue to prefer independent as opposed to sponsored vehicles, much as they did in last year's survey, though a third of respondents said that the question of sponsorship was not a primary factor in their decision-making process (Chart XXIII).

"One of the biggest changes in this year's survey, not only overall but also for experienced investors, is in preferred fund life"

Chart XXI Preferred Terms Structures, 2014

"My firm prefers to invest in vehicles with the following duration:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2014 Survey
Note: "Experienced Investors" constitutes those investors who have been active in the sector for over a year

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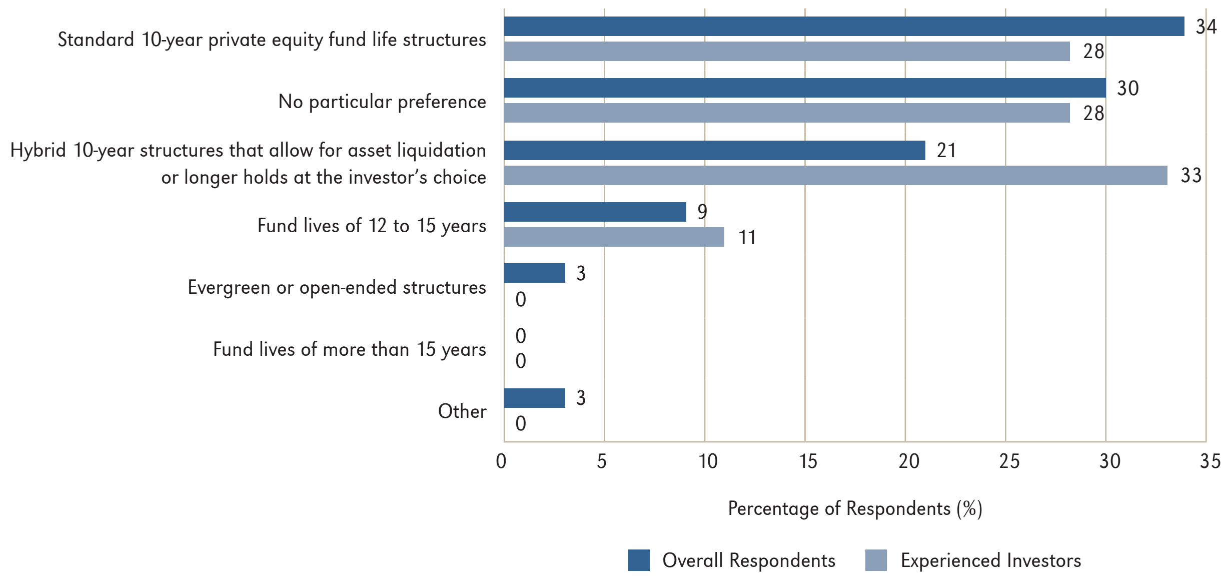
Chart XXII Preferred Terms Structures, 2015

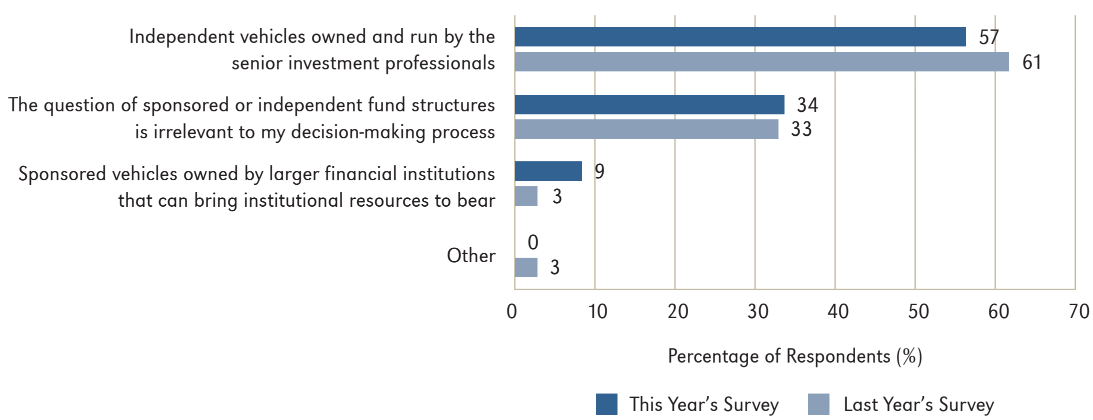
"My firm prefers to invest in vehicles with the following duration:"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey
Note: "Experienced Investors" constitutes those investors who have been active in the sector for over a year

Chart XXIII Independent vs. Sponsored Fund Structures

"As far as terms and conditions are concerned, I would prefer to invest in funds that are (choose only one):"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

Terms and Conditions

- Proper alignment of interest between limited partners and general partners — expressed in terms of the level of management fees and the general partner's financial commitment to the fund — continues to be the primary area of concern for investors (Chart XXIV).

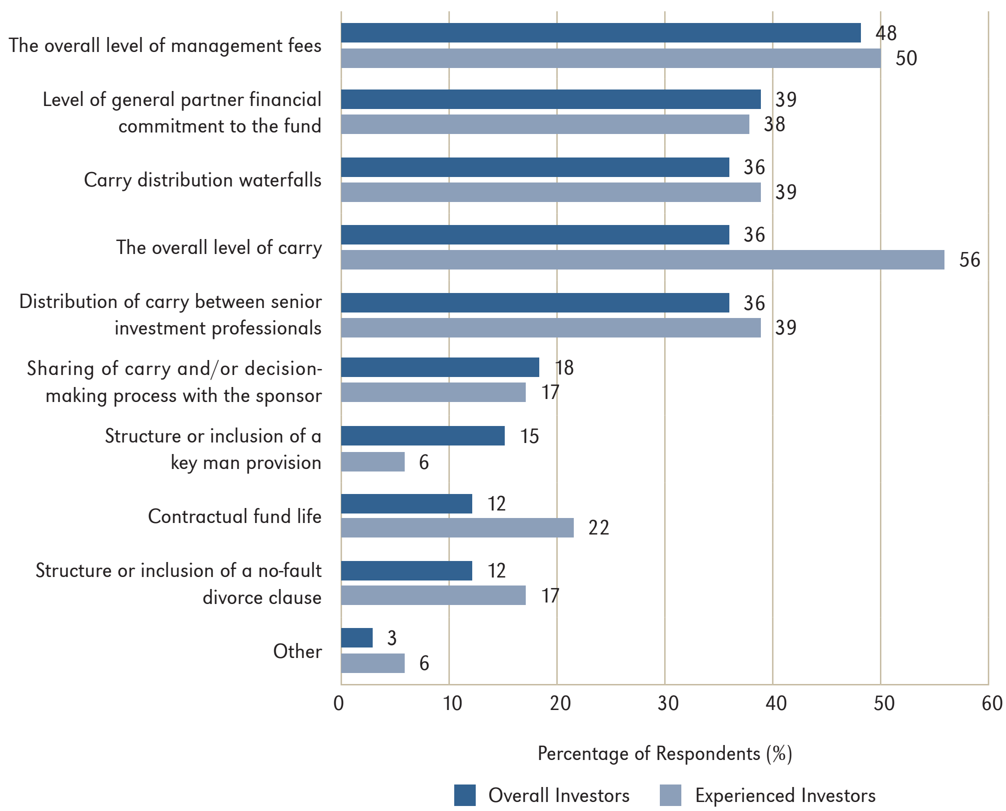
- Focus on the distribution of carried interest between senior investment professionals moved up in investors' concerns from 27% last year to 39% this year among overall respondents.

- Experienced investors are significantly more focused on carry distribution waterfalls, with 56% of them focused on this, compared to 36% for overall respondents.

"Alignment of interest... continues to be the primary concern for investors"

Chart XXIV Terms and Conditions Focus

"As far as terms and conditions are concerned, separate from due diligence issues, my firm is most focused on (choose no more than two):"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey
Note: "Experienced Investors" constitutes those investors who have been active in the sector for over a year

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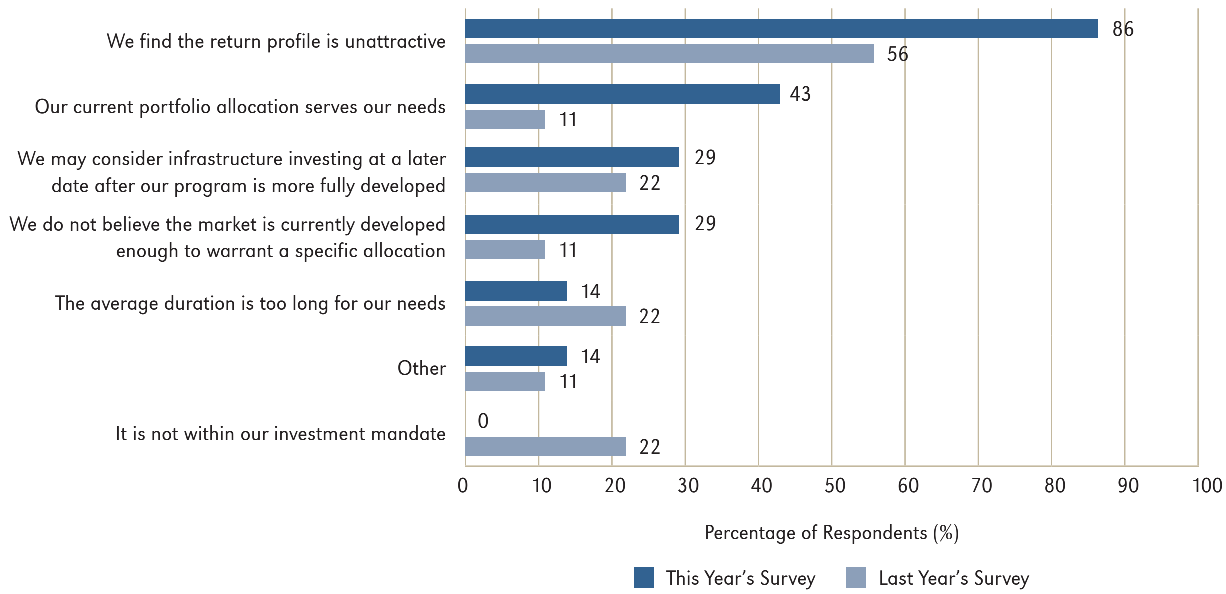
Reasons for Not Investing

- Nearly all of the respondents to the survey invest in infrastructure in some fashion.
- For those few not investing, the driving reason was that they found the return profile unattractive (Chart XXV). A significant number of other respondents simply stated that their current portfolio allocation served their needs.

Chart XXV Reasons for Not Investing in Infrastructure

"My firm is not interested in infrastructure because (choose all that apply):"



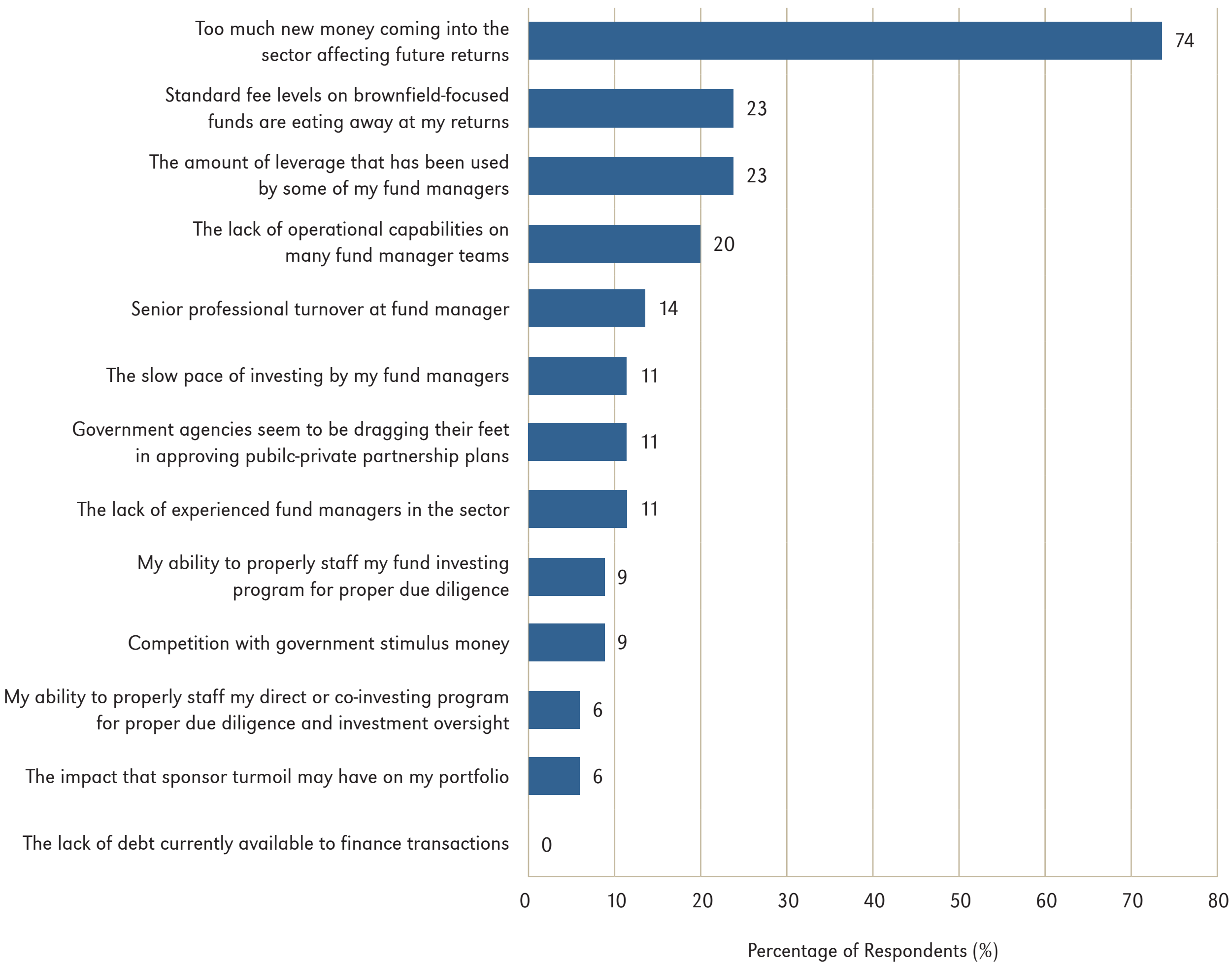
Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

Infrastructure Investment Concerns

- As detailed in Chart XXVI, by far the biggest issue for investors is that too much new money is coming into the sector potentially affecting future returns. This concern is up only slightly from the 72% of respondents who picked it last year, but as late as our 2012 survey, only 35% of respondents were concerned about that.

Chart XXVI Infrastructure Investing Concerns

"As an infrastructure investor, what keeps you up at night? (choose no more than two):"



Source: Probitas Partners' Infrastructure Institutional Investor Trends for 2015 Survey

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“Too much new money is coming into the sector potentially affecting future returns”

- Table II highlights the top four concerns in our 2010 survey compared to 2015’s results.
  - The biggest concern in 2010, the lack of experienced fund managers in the sector, has fallen considerably, with only 11% of respondents indicating that is an issue in 2015.
  - Investors feared that too much new money was coming into the sector in 2010, even though we were still in the throes of the GFC — but that was much less of a concern then compared with today.
  - In both 2010 and 2015 the third ranked fear was that too much leverage was being employed by certain fund managers. Interestingly, the 2015 number was over double the 11% of investors who were concerned with this in 2014. For North American investors, in 2015 this concern was more pronounced than in the overall respondent pool, with 35% of North Americans targeting leverage as an issue.
  - Investors are increasingly focused on fund managers’ operational capabilities, especially with value-added brownfield, greenfield, and opportunistic strategies. This is the fourth-ranked concern in 2015.

Table II What Keeps You Up at Night?
Top Four Responses

2010		2015	
Issue	**%**	**Issue**	**%**
The lack of experienced fund managers in the sector	34%	Too much new money coming into the sector affecting future returns	74%
Too much new money coming into the sector affecting future returns	31%	Standard fee levels on brownfield-focused funds are eating away at my returns	23%
The amount of leverage that has been used by some of my fund managers	28%	The amount of leverage that has been used by some of my fund managers	23%
Standard fee levels on brownfield-focused funds are eating away at my returns	23%	The lack of operational capabilities on many fund manager teams	20%

Source: Probitas Partners’ Infrastructure Institutional Investor Trends Survey, 2010 & 2015

Key Trends

There are several key trends emanating both from the survey and our ongoing conversations with investors:

- ***Large investors will continue to seek more control and moderated net return erosion through direct investments, co-investments, and separate accounts:*** Among large sovereign wealth funds and pension plans, even where certain limitations restrict a fund's ability to invest directly, co-investments and separate accounts are providing increased opportunities. This is most evident in core brownfield investments. This increased appetite by investors continues to create increased pricing pressure on core and core-like assets.

- ***As far as fund structures are concerned, there is strong interest in value-added brownfield funds:*** These funds, though invested in assets that are currently generating significant cash flow, are focused on assets that need to be rehabilitated in some way, either addressing operational or structural issues or funding expansion. Expected returns on these projects are higher than core projects, fit better into fund structures, and can capitalize upon repositioning on the healthy appetite for stabilized assets.

- ***Interest in emerging markets is likely to continue to be volatile:*** The perceived risk/return profile of these markets change year-by-year, driven by economic and political issues in the largest emerging markets. Institutional investors in developed markets — who control most of the capital — focused more on their core home markets and remain opportunistic in their emerging market interest.

- ***Open-ended fund structures will continue to lag fixed-term structures in investor interest:*** Even though they more closely match the underlying maturity of many core brownfield assets that come to market as part of very long-term public-private partnership (PPP) concessions, open-ended fund structures have failed for years to develop a strong global following. Most institutional investors continue to be interested in shorter-term closed-ended structures with which they have more familiarity.

- ***Competition in the deal market, both from other funds and direct investors, is making it more difficult to execute transactions at reasonable prices:*** This increased competition, combined with regulatory and political issues in certain jurisdictions, makes it more difficult to complete PPP transactions. The result is that dry powder at infrastructure funds has reached an all-time high (Chart XXVII) even as fundraising continues to be strong.

"Open-ended fund structures will continue to lag fixed-term structures in investor interest"

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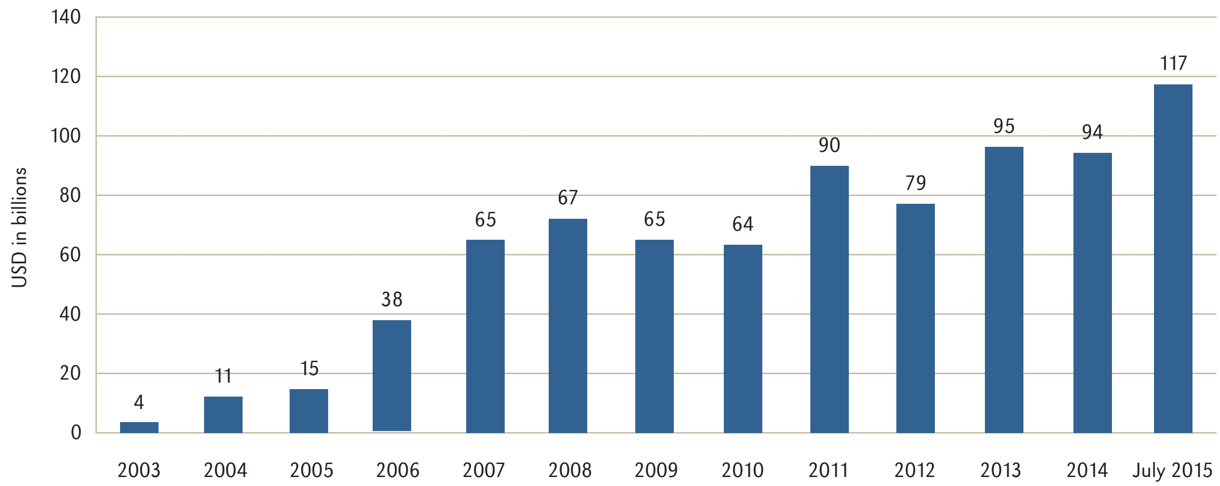
Chart XXVII Infrastructure Dry Powder

Closed-end infrastructure funds



Source: PREQIN

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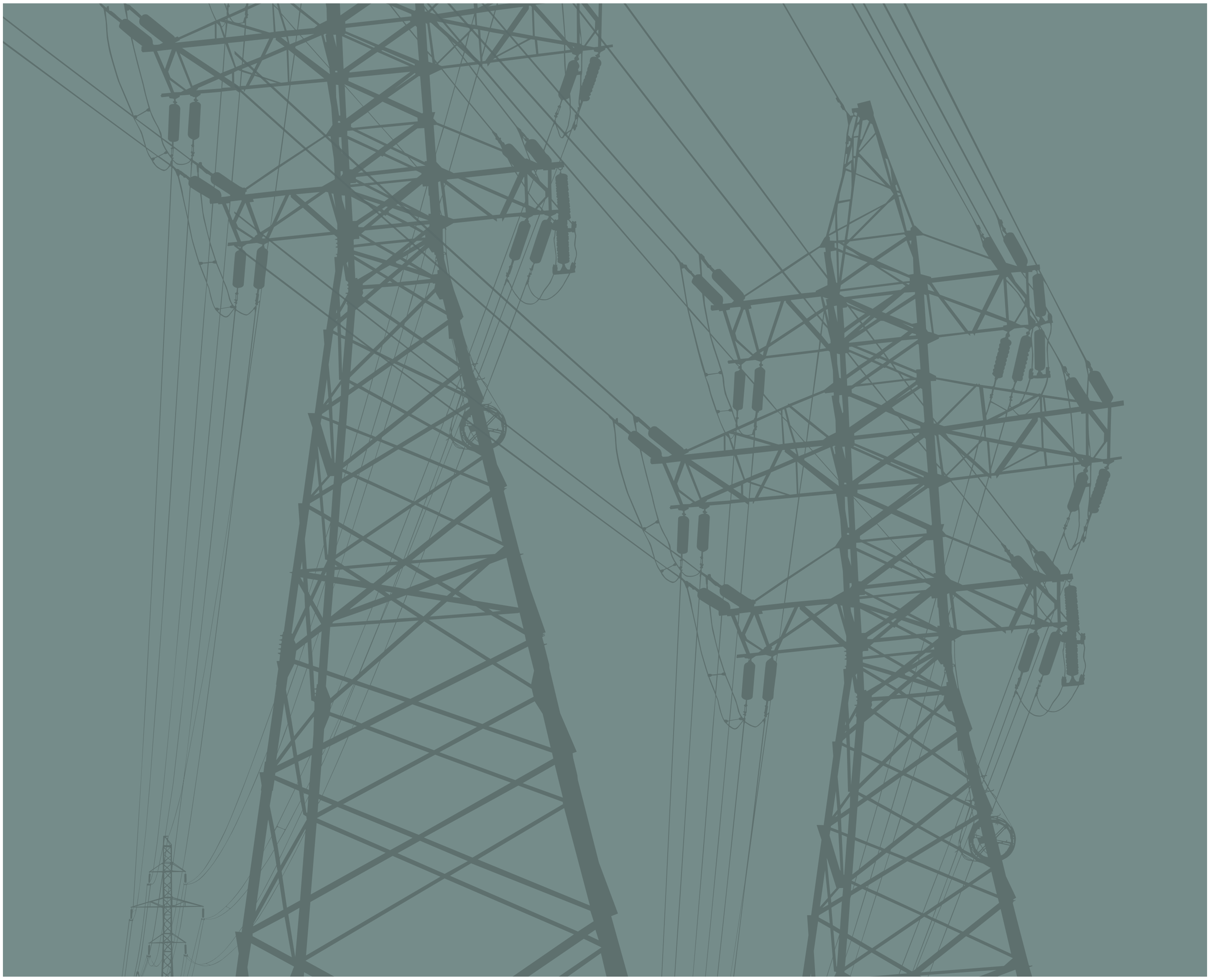

Infrastructure Institutional Investor Trends for 2015 Survey

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