The infrastructure gap is significant — both in value and impact terms

Infracapital

It is widely acknowledged that infrastructure investment globally is currently well below what is needed to meet anticipated economic growth projections and aspirations. It is required in developing and developed economies alike. Factors such as the drive toward decarbonization and digitalization mean the need goes beyond maintenance, to replacement and refurbishment of existing infrastructure.

As the balance sheets of both national governments and corporates have become constrained over the past decade, the opportunities available for private-sector investor involvement have expanded greatly. This is particularly true for greenfield infrastructure investors, as financing the construction of new-build assets can be unattractive, given the lag between capex and earnings.

Greenfield infrastructure can bring a number of clear benefits to an economy; key among them is economic stimulation. Direct economic stimulation also has a multiplier effect, generating additional benefits to a society, such as secondary job creation and improved social services. Other direct beneficial impacts also arise, such as creating cleaner energy.

Investors seeking competitive risk-adjusted returns

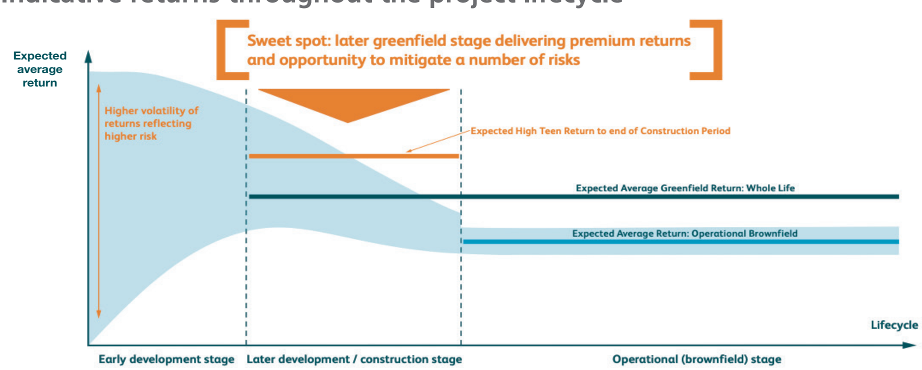
Entering at the greenfield phase allows investors to come in "at cost," meaning long-term investors can typically enjoy a significant return premium over brownfield investments over an asset's lifespan, including enhanced yields. Brownfield assets have also been commanding premium prices in many areas.

In the current market climate, infrastructure may be considered a defensive allocation. While foregoing yield during construction, which can vary from several months to several years, greenfield projects become brownfield assets once operational, carrying all the associated attractive characteristics: secured, reliable cash flows linked to inflation, alongside the potential for capital growth.

Investing in an era of disruption

Technology, innovation and greenfield infrastructure often go hand in hand, delivering a wealth of investment opportunities for proactive managers.

Indicative returns throughout the project lifecycle



Source: Infracapital, illustrative. As of April 5, 2019. Potential returns have been estimated using assumptions based on market conditions and anticipated investment opportunities. One or more of these assumptions may prove to be inaccurate. Consequently, such return profiles are not indicative of future results, and there can be no assurance that such returns are achievable.

Case study: Bioenergy Infrastructure Group — turning waste into energy

Since 2015, Bioenergy Infrastructure Group (BIG) has been developing and building a diverse portfolio of assets across the United Kingdom. Responding to a waste problem created by policy and supported by government incentives to create energy from biomass, Infracapital has grown an initial £85 million to an investment of £257 million, with further commitments expected in the near future. The initiative represents an opportunity to create sustainable power generation and solve a societal waste management problem. BIG's platform of long-term investments provides investors exposure to a diverse set of greenfield projects and brownfield assets that can offer high long-term yields and predictable, often inflation-protected cash flows backed by the U.K. government's contractual support for renewables. The BIG portfolio of seven plants currently has production capacity of more than 110 megawatts of low-carbon energy.

Broadband Internet has only recently been widely appreciated as a utility, satisfying a fundamental consumer need and demand for connectivity. As broadband connectivity has become a staple requirement around the world, Infracapital has become involved in a number of projects across Europe, in a variety of ways.

We have backed nascent businesses that need a capital partner to grow and worked with large utilities, such as Nokia and SSE, who no longer have appetite to fund the significant capex investment need and search for partners with both technical and financial acumen.

As the twin needs of addressing climate change and decarbonizing the global economy have become imperative in the global political agenda, there have been many developments focused on achieving those objectives.

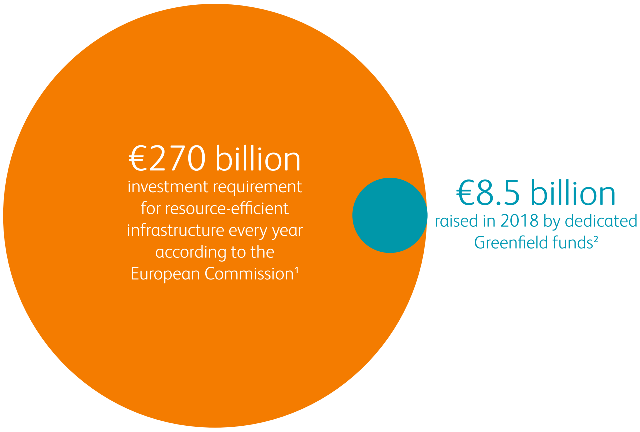
There is an attractive opportunity for greenfield investors to capitalize on new technology trends and policies that support them, but it is important to be confident of the long-term essentiality of what we invest in.

We believe that technology will help enhance existing infrastructure, rather than pose a threat to traditional infrastructure sectors, or make them less appealing. We aim to utilize digitalization to improve performance across all our portfolio companies and look to position our businesses for the growth and follow-on investment opportunities arising from change.

Risk management is an essential and ongoing effort

In common with other complex investments, greenfield infrastructure is not without risk. However, construction and other risks will be known entities to a sea-

Greenfield fundraising in context of EU resource-efficient infrastructure requirement



Source: Infracapital. [1] European Commission: March 2018 Financing Sustainable Growth Action Plan. [2] Preqin: €8.5 billion greenfield funds raised since 2018 (as of Feb. 28, 2019). Based on targeted raise of dedicated greenfield funds. Where no greenfield allocation is stated, a 25 percent allocation has been assumed. Includes funds with European focus and allocation to greenfield infrastructure.

soned greenfield manager, to be mitigated through measurable risk-management techniques. These could include careful structuring of contracts, effective cost management, and allowance for overruns in budget and timetable. Importantly, the platform strategy (such as BIG) brings benefits not only of diversification within projects, but also supports a strategy of smaller-scale construction, with less significant and binary risks on a single build.

As with all assets, careful attention to debates about potential changes in the regulatory environment is crucial. Exposure to regulatory or political change is mitigated through focusing on contracted cash flows and upfront subsidies (versus those received over life). Beyond experienced management, rigorous due diligence and extensive stress testing can help to evaluate potential investments for their ongoing financial viability in the event of changing government support in a changing environment.

As with any investment, diversification also represents an effective risk-management technique, so we aim to look across a broad range of market sectors in building our portfolios.

Regardless of the attractions of innovation, it is important to maintain the discipline of ensuring the long-term essentiality of the asset.

An approach that targets reward and sustainability alike

When sourcing assets, we believe that looking beyond the headline, trophy assets, which can often become heavily competed, allows us to identify the most attractive opportunities. We aim to source investments in areas of the mid-market that are typically less competed, often off-market.

We focus on investment opportunities across a diverse range of essential European infrastructure assets that can provide stable and sustainable growth to create value for our investors. This growth may be achieved organically or through smaller platform assets that represent substantial growth opportunities. Taking an active role in the management of all our assets ensures we can deliver the fullest potential, from both a financial and sustainability perspective.

In our approach to greenfield, we favor adopting a partnership model. It has proven effective when dealing with a spectrum of counterparties, with corporates appreciating a capital partner who can structure a transaction and developers seeking an experienced construction partner who brings more than just capital. Infracapital will typically work with partners on a repeat basis. This can help us deliver a pipeline of proprietary deals and extend our origination reach.

Opportunities in an uncertain world

Uncertainties are an understandable feature of long-term investments, with Brexit being a prime example. However, even during uncertainty, the essential nature of infrastructure assets can protect investors from wider market volatility and offer resilience during economic downturns. Pleasingly, the opportunity set remains strong across Europe and continues to provide attractive value.

We continue to see many attractive opportunities, driven by several key macroeconomic themes, including urbanization, technological innovation, and the ongoing transition to an efficient, decarbonized economy.

With extensive investment required in coming years, we believe there is an ever greater need to mobilize long-term capital to help fund the creation of sustainable, first-class infrastructure that serves communities and meets the changing needs of the 21st century.

CORPORATE OVERVIEW

Infracapital invests in, builds and manages a diverse range of essential infrastructure to meet the evolving needs of society and support sustainable long-term economic growth. Infracapital takes an active role in all of its investments to ensure they are adaptable and resilient, whilst working closely with local communities. Infracapital has raised and managed more than £5 billion across five funds since 2001.

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