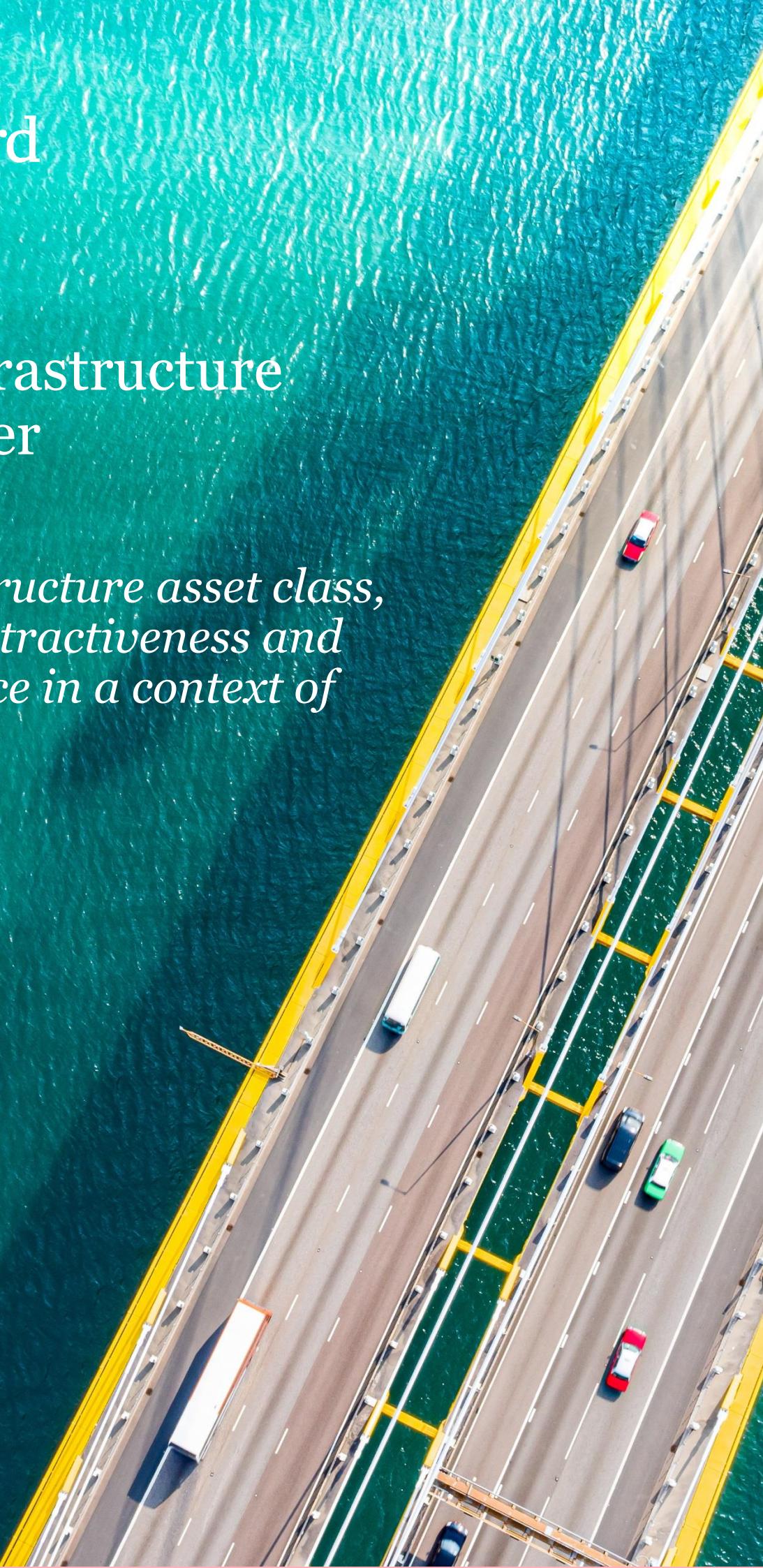


Bird & Bird

2023 Infrastructure Barometer

The infrastructure asset class, between attractiveness and performance in a context of resilience

June 2024



The Energy & Infrastructure Group of Bird & Bird in Paris unveils the fourth edition of its barometer on the activity of infrastructure funds in 2023.

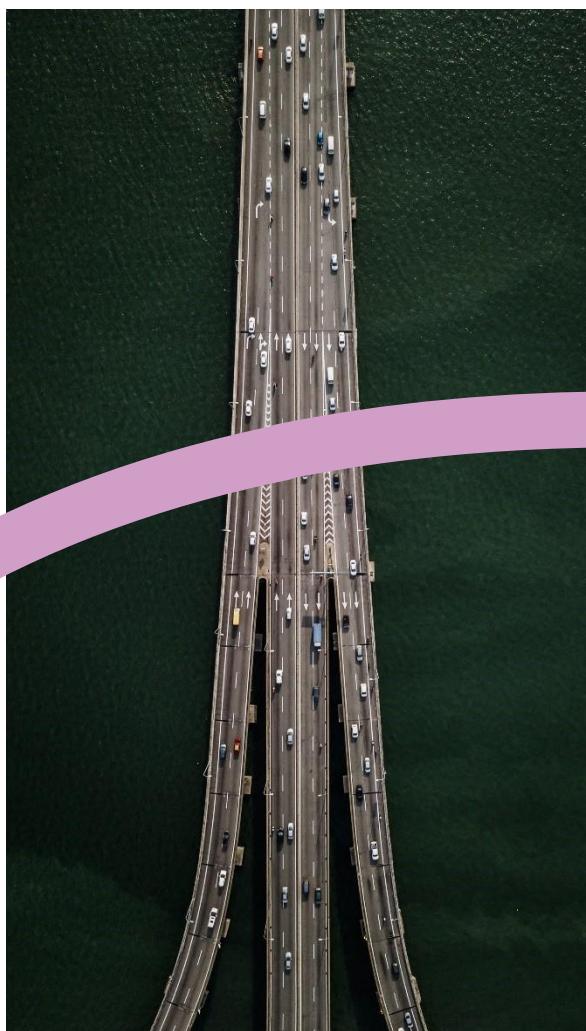
This long-term study aims to provide a snapshot of the activity carried out by dedicated financial investors in the infrastructure sector over the past year. It is based on data collected through a survey conducted in partnership with CFNEWS INFRA and interviews with infrastructure fund managers managing between 50 million and over 1 billion euros in assets. It also uses figures published by France Invest in its annual study on the activity of French private equity and infrastructure funds, conducted in partnership with Grant Thornton, as well as data from the study sponsored by UBS Asset Management¹.

Introduction

The year 2023 was marked by the resilience of the infrastructure asset class, confirming the trends observed in 2022. Despite a private equity (hereinafter "PE") environment disrupted by frequent reallocations and macroeconomic uncertainties, the infrastructure market demonstrated an exceptional ability to attract investors and support economic growth, illustrating its adaptability and innovation. This resilience has been evidenced in several key trends that shaped investment strategies and influenced fund performance.

In these conditions, investors had to navigate challenges related to macroeconomic conditions, including high inflation and increased interest rates, as well as opportunities offered by the energy transition and decarbonisation initiatives. In response to the energy crisis exacerbated by the conflict in Ukraine, Europe, including France, intensified efforts to reduce reliance on imported fossil fuels, notably by accelerating investments in renewable energy and green infrastructure.

In France, the infrastructure sector benefited from several government initiatives aimed at modernizing and expanding transportation networks. Significant investments were made in tram and rail transport projects, with over 7 billion euros allocated to light rail projects and 47 billion euros for improving the rail network. This includes the development of new metro and tram lines in cities like Toulouse and Strasbourg, underscoring the country's commitment to more sustainable and efficient transport infrastructure².



¹ UBS Asset Management, *Fundraising in infrastructure, A return to the market buzz*, 14 mai 2024, en ligne sur : [Fundraising in infrastructure | UBS Global](#).

² Bird & Bird | Baromètre de l'activité des fonds infra | Edition 2022
³ <https://www.mordorintelligence.com/industry-reports/france-transportation-infrastructure-construction-market>

Capital Raising

After a decade extremely favourable to the infrastructure asset class, 2023 confirmed a downward trend in fundraising, although the relative performance was better compared to other PE sub-asset classes such as real estate, for example. Capital raising for infrastructure funds decreased by 27% compared to 2022, reaching 118 billion euros. This decline is explained by several factors, including a market structure dominated by a few large players who do not raise capital annually, leading to significant variations. Nevertheless, despite this decrease, 2023 remains the third-best year in all the years studied by France Invest.

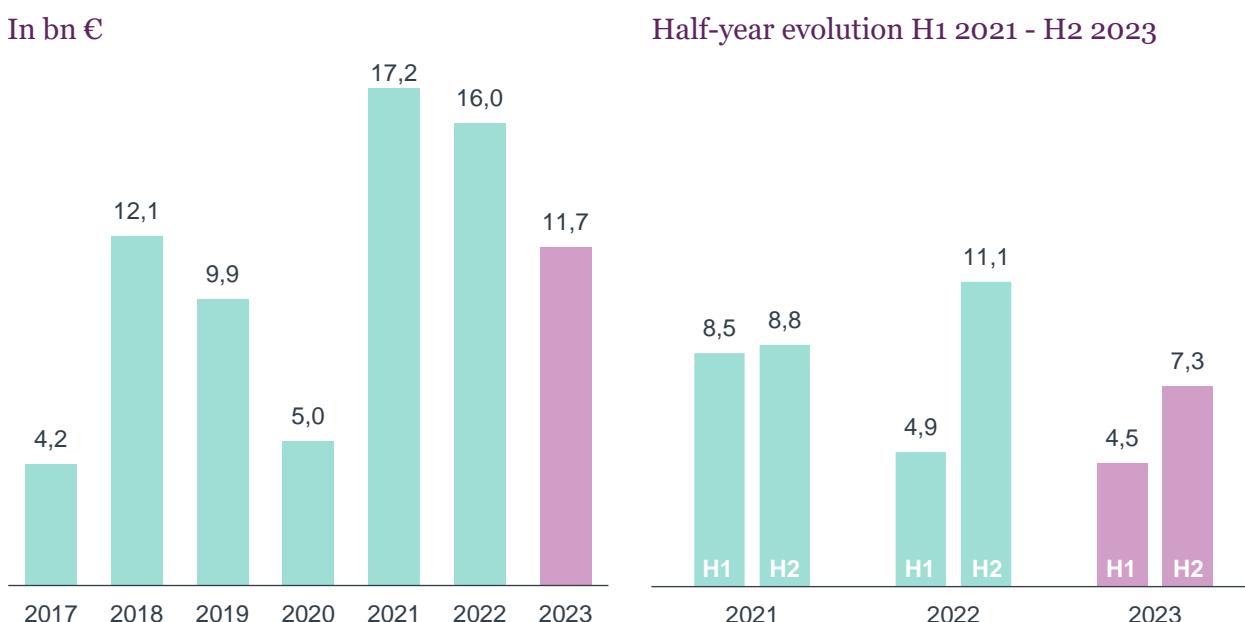
The second half of 2023 saw a notable rebound, with 7,3 billion euros raised, marking a 63% increase compared to the first half. This positive dynamic places the second half of 2023 at a level comparable to those of the exceptional semesters of 2021.

Difficult price adjustments also contributed to this decline, as buyers and sellers did not always agree. This situation led to a two-thirds drop in disposals and a 40% decrease in acquisitions⁴. Moreover, global economic conditions marked by high inflation and increased interest rates complicated fundraising and transactions. Consequently, many investors adopted a “wait-and-see” approach, opting to manage their existing portfolios rather than pursue new fundraising activities.

However, some sectors showed signs of resilience. For example, infrastructure continued to attract investments due to their stable nature, the continued demand for renewable energy projects and the modernisation of existing infrastructure. The trend towards fund concentration with megafunds dominating the market also played a key role in 2023. Despite their difficulties, these funds managed to raise significant amounts, illustrating continued investor confidence in large infrastructure initiatives.

In summary, although fundraising was more difficult in 2023, the infrastructure market showed a remarkable ability to maintain relatively high investment levels, reflecting its robustness and strategic importance to institutional investors.

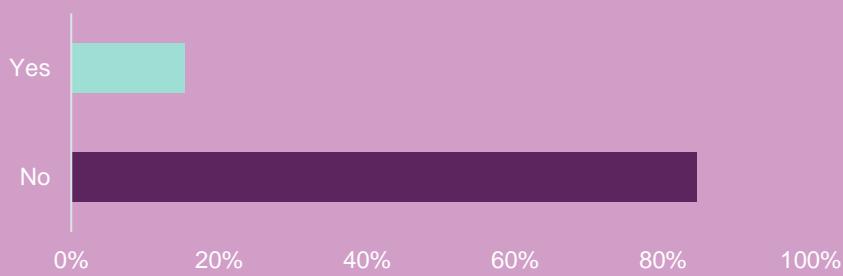
In this sense, the focus on larger funds observed in 2022 intensified in 2023. However, even these large funds encountered difficulties in raising capital. For example, Antin Infrastructure Partners, with its Flagship Fund V, had an ambitious target of 10 billion euros and a hard cap of 12 billion. Despite a rapid first closing at 5 billion euros, the fund had to lower its expectations, ultimately reaching 7.7 billion euros in commitments⁵.



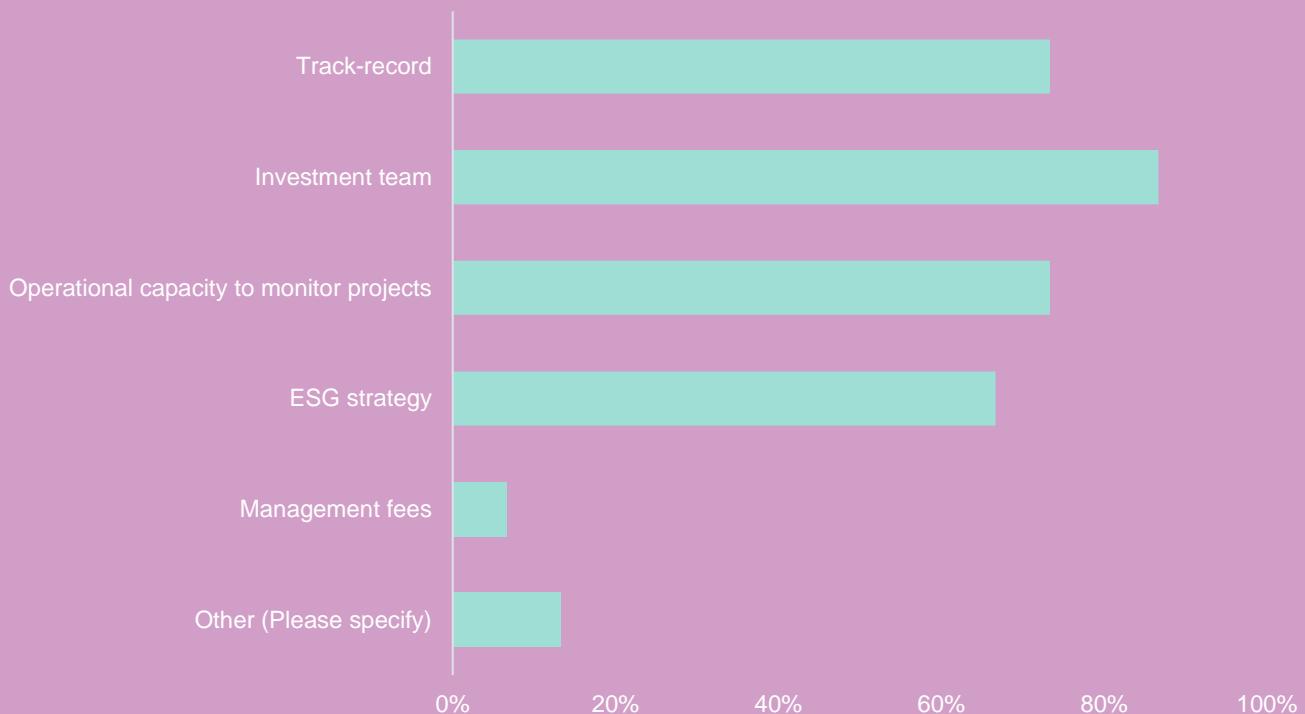
⁴ L. Allard, *Non-côté : des performances contrastées*, 23 May 2024, Le Point, n°2703, p. 24.

⁵ <https://www.antin-ip.com/media/our-news/antin-successfully-holds-first-close-flagship-fund-v-more-%E2%82%AC5-billion-commits> ; <https://www.businesswire.com/news/home/20230425005978/en/Antin-Infrastructure-Partners-SA-Robust-Activity-Levels-Supported-by-Infrastructure-Resilience>

This trend was confirmed among the managers surveyed in the partnership with CFNEWS INFRA, where the majority succeeded in raising funds, although some did not reach their hard cap. Indeed, in response to the question "Did you meet or exceed your hard cap?" the investment funds surveyed by Bird & Bird mostly answered negatively, which can be explained by the subscription closing date and the downward trend observed in the first half of 2023.



Also, to mitigate this lack of attractiveness, several investment funds have relied on different differentiation criteria to attract capital. It is noted that the amount of management fees is not the most used lever, contrary to the operational excellence of the funds and their experience.

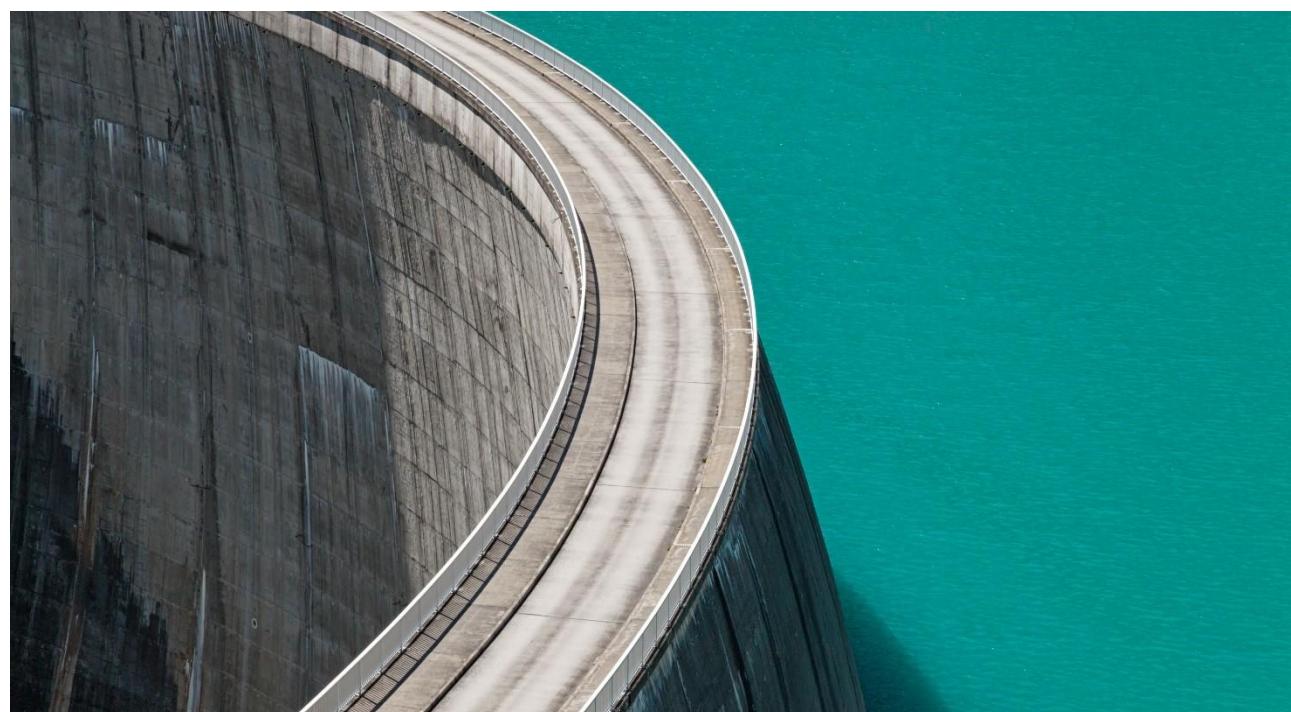


Subscriber Class and Geography of Raised Funds

The distribution of capital raised by type of subscribers in 2023 remained relatively stable, with large institutional investors such as pension funds, insurers, and fund of funds predominating. Sovereign wealth funds also continue to play an important role. However, other categories of investors reduced their commitments due to a more challenging economic context and rising interest rates.

The private equity sector also benefits from opening to individuals, notably within life insurance contracts. This democratization of investments has been reinforced by past good performances with significant returns that attract a growing number of individual investors. According to France Invest, from 2013 to 2022, private equity outperformed other asset classes with an average annual return of 14.2%. This performance has encouraged greater individual participation in this sector, providing a diversification of capital sources for infrastructure funds⁶.

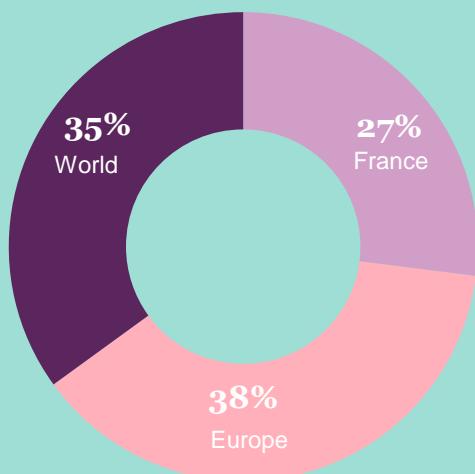
Total	Funds raised*		Evolution 2023 v. average 2021-2022
Infrastructure funds	In M€ – In % 11,742M€	■ France ■ Foreign	
Retirement funds/ pension funds	3,528M€ – 30%		-37%
Insurance companies – Mutual insurance	2,800M€ – 24%		-25%
Funds of funds	2,768M€ – 24%		-28%
Sovereign wealth funds	1,285M€ – 11%		-5%
Public sector	343M€ – 3%		-24%
Banks	299M€ – 3%		-51%
Industrials	237M€ – 2%		-56%
Private individuals – Family offices	228M€ – 2%		+32%



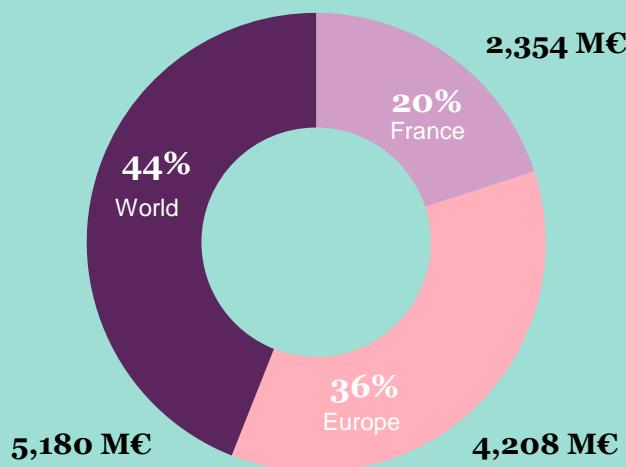
⁶ L. Allard, *Non-côté : des performances contrastées*, op. cit.

Geographically, the international attractiveness of French funds is notable, with 80% of the capital raised abroad in 2023. This high proportion demonstrates the confidence of international investors in the robustness and potential of French infrastructures.

Yearly average 2018-2022
60,215 M€ raised



2023 11,742 M€ raised



Numbers in 2022:

20%

France: 3,238 M€

37%

Europe: 5,839 M€

43%

World: 6,926 M€

Investments – Transaction Volume and Market Conditions

Despite a slight decrease in invested amounts to 10 billion euros in 2023, the year was relatively dynamic with nearly 180 transactions recorded. The second half particularly contributed to this performance, with over 6 billion euros invested, making this period the best semester of the past three years.

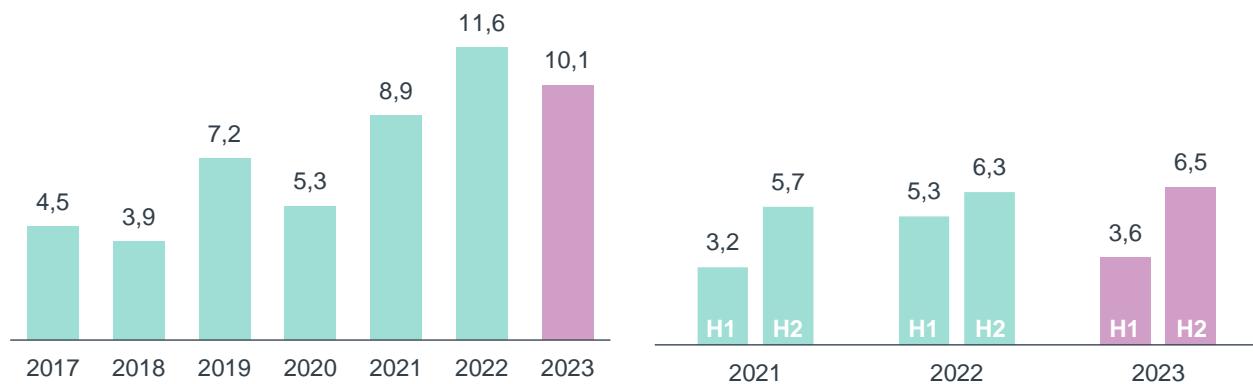
Investments in Europe outside France remained predominant, totalling nearly 7 billion euros invested in over 90 projects, a trend similar to 2022. The United Kingdom and the Netherlands stand out as major beneficiaries in Europe. Globally, North America, the Middle East, and Southeast Asia were preferred destinations, notably for sovereign wealth funds.

The ability of managers to select investments becomes increasingly crucial, as the quality of investment decisions makes the difference in fund performance regardless of the economic cycle. Despite a slight decrease in invested amounts to 10 billion euros in 2023, the year was relatively dynamic with nearly 180 transactions recorded. According to France Invest's study, the value of securities was multiplied by 2.9 over an average holding period of five years and five months⁷.

Invested amounts

In bn€

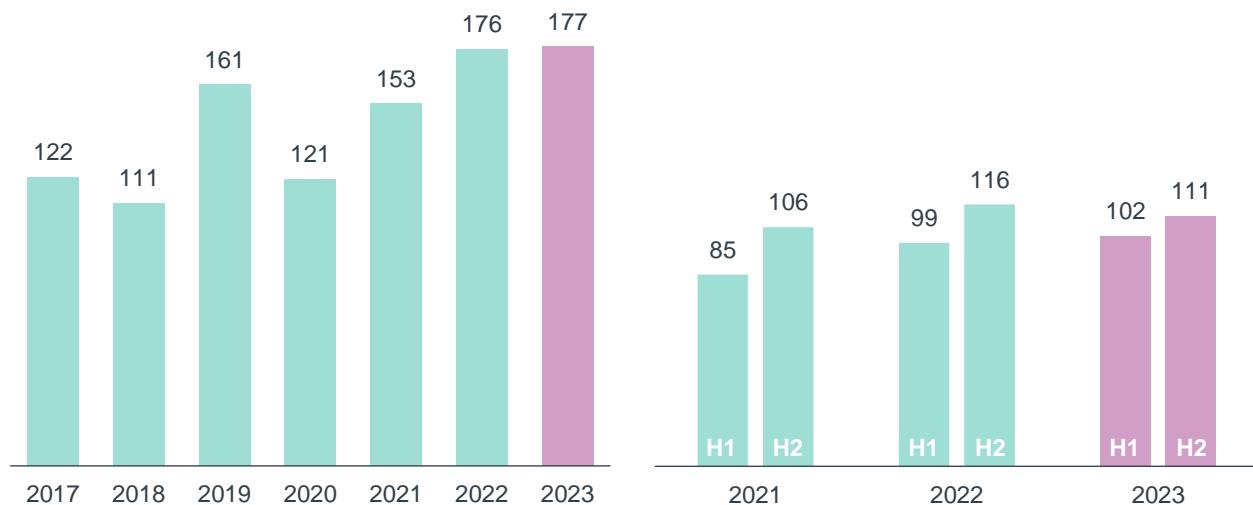
Half-year evolution H1 2021 - H2 2023



Volume of infrastructure projects

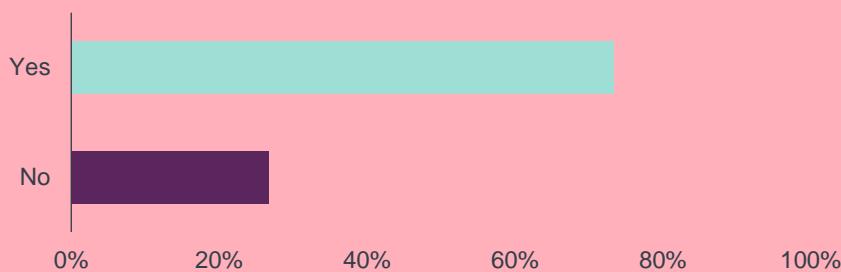
In bn€

Half-year evolution H1 2021 - H2 2023

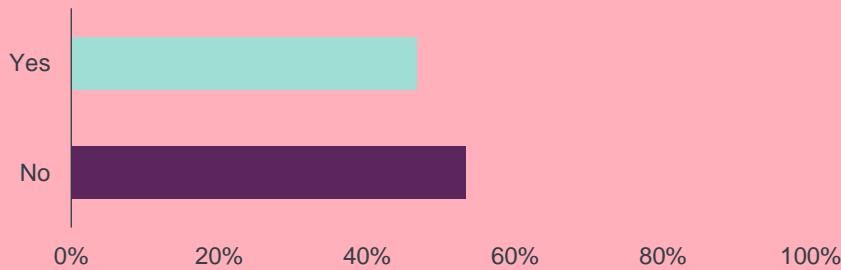


⁷ L. Allard, *Non-côté : des performances contrastées*, op. cit.

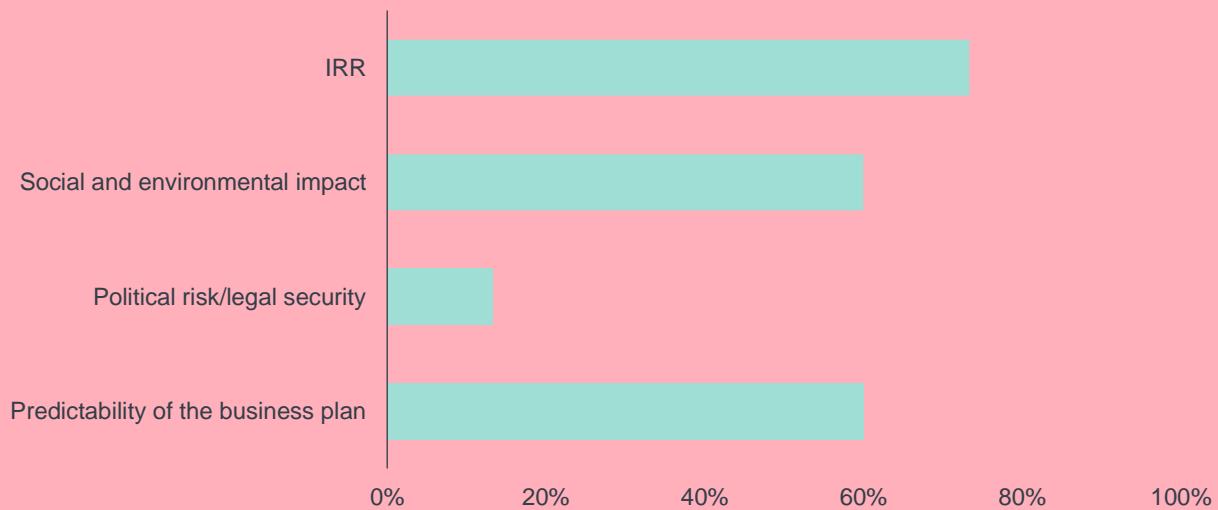
It is worth noting that more than 70% of actors identified a deterioration in credit conditions in 2023.



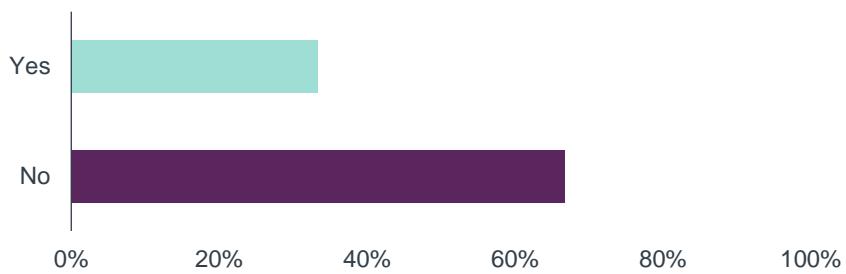
This situation led to a tightening of covenants required by creditors, increasing challenges for investors. In this context, and to meet market requirements and maintain the desired level of investments, a majority of respondents surveyed by Bird & Bird revised their internal rate of return (**IRR**).



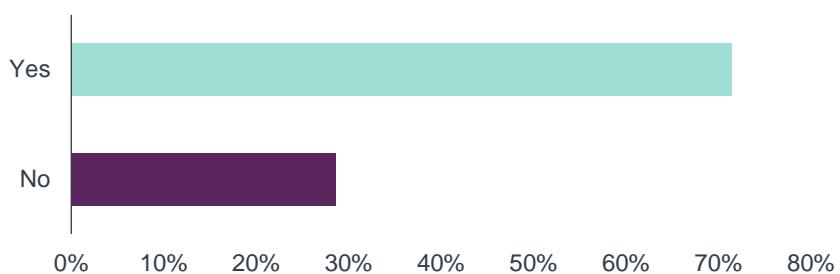
This revision can also be explained by investors' desire to focus not only on the expected IRR for an operation but also on other criteria that are becoming increasingly important in the context of the ongoing ecological transition in an uncertain economic environment, namely ESG criteria and business predictability.



In this context, it should however be noted a large majority of participants to the Bird & Bird survey have no difficulty in identifying and investing in projects in line with their investment criteria...



...despite the context of rising interest rates leading many of them to reassess or even abandon certain of their potential investments.



Investments – Sectoral Distribution and Investment Segments

Sectoral Distribution of Investments

The renewable energy sector has known a significant increase in investments, reaching nearly 45 billion euros in 120 projects. The environmental sector also progressed with 14 billion euros invested. Conversely, the telecom and infrastructure sectors experienced a decline of 20% to 50%. Dominant themes in 2023 include energy efficiency and renewable energy, influenced by revised or developed ESG policies by most managers.

There was a greater dispersion of returns according to managers' strategies. Infrastructure posted a 10-year net IRR of 16.5%, while buyout capital recorded an IRR of 15.3% and venture & growth capital 14.3%. This dispersion of returns underscores the importance of management strategy and investment selection⁸.

Simultaneously, there is a confirmed appetite for investments in batteries, gigafactories, and critical metals. However, questions are beginning to emerge regarding the electrification of vehicle fleets and the pace of the energy transition. The political context plays a key role in these uncertainties. The rise of populist movements in some European countries has highlighted tensions around climate policies that could slow or alter investment trajectories in green infrastructure, influencing market dynamics.

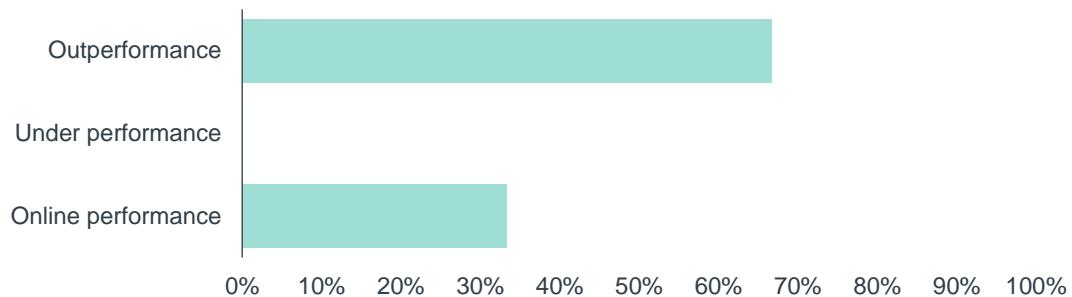
In terms of investment ticket sizes, operations exceeding 200 million euros represented nearly 60% of the invested amounts, while investments below 20 million euros accounted for over 110 transactions. This distribution shows a concentration of investments on large-scale projects while maintaining a significant volume of small transactions, allowing for risk diversification and support for a variety of innovative and strategic projects.



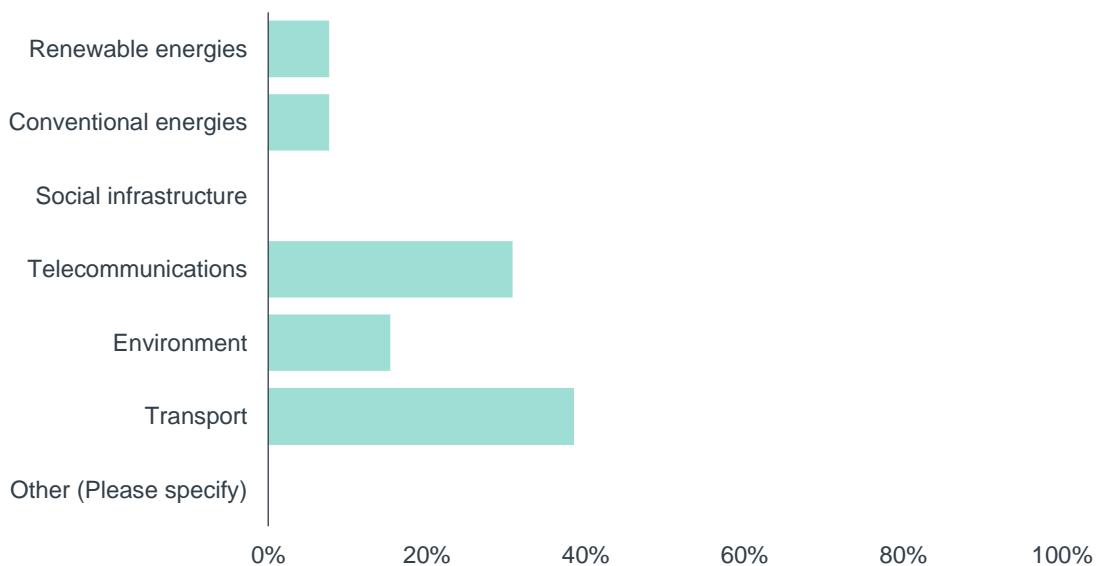
⁸ L. Allard, *Non-côté : des performances contrastées*, op. cit.

Total Infrastructure	Invested amounts		Volume of infrastructure projects	
	In M€		In M€	
	10,211M€	Average 2021-2022	165	Average 2021-2022
Less than 20 M€	433M€ 646M€	■ Average 2021-2022 ■ 2023	96 112	■ Average 2021-2022 ■ 2023
From 20 M€ to 49 M€	871M€ 792M€	■ Average 2021-2022 ■ 2023	30 26	■ Average 2021-2022 ■ 2023
From 50 M€ to 99 M€	878M€ 1,026M€	■ Average 2021-2022 ■ 2023	14 15	■ Average 2021-2022 ■ 2023
From 100 M€ to 199 M€	1,365M€ 1,586M€	■ Average 2021-2022 ■ 2023	10 11	■ Average 2021-2022 ■ 2023
From 200 M€ to 499 M€	3,789M€ 2,299M€	■ Average 2021-2022 ■ 2023	11 8	■ Average 2021-2022 ■ 2023
More than 500 M€	2,875M€ 3,772M€	■ Average 2021-2022 ■ 2023	4 5	■ Average 2021-2022 ■ 2023

Among these trends, it should be noted that the infrastructure asset class remains attractive for well-known reasons (e.g., fixed revenues, contracts negotiated over several years) but also because it presents returns in line with or below expected performances, as highlighted by investment funds surveyed by Bird & Bird.



This attractiveness of the infrastructure class can also be analysed in terms of observed internal rates of return, which appear higher for this asset class than for renewable energies, as pointed out by investment funds surveyed by Bird & Bird.



Investment Segments

Investments in brownfield projects were twice as dynamic as those in greenfield projects, with nearly 7 billion euros invested in less than 80 operations. However, greenfield investments progressed significantly, increasing by over 30% to reach 3 billion euros in 100 projects.

Total Infrastructure	Invested amounts		Volume of infrastructure projects	
	In M€		In M€	
	10,211M€	Average 2021-2022	165	Average 2021-2022
Greenfield	2,373M€			107
	3,168M€		100	
Brownfield	7,839M€			58
	6,953M€		77	

The study conducted in partnership with CFNEWS INFRA also shows that credit conditions deteriorated in 2023, with a tightening of covenants required by creditors. The most used financing instruments include structured debts, subordinated debt, and project bank loans.

A few notable investments in 2023

In 2023, several significant infrastructure investments were made in France, illustrating the dynamism and importance of this sector. Notably, ProLogium, a Taiwanese battery manufacturer, announced a massive investment of 52 billion euros to build a battery factory in Dunkirk. This new facility, ProLogium's first in Europe, is expected to generate about 3,000 direct jobs in the region. This strategic investment aims to strengthen battery production capacity in Europe, a key element for the automotive industry and the energy transition⁹.

Similarly, IKEA planned to invest 900 million euros by 2026 in the development of a logistics center near Toulouse. This center's primary purpose is to improve the company's supply chain efficiency in France and Europe¹⁰. This project is part of a broader investment plan aimed at strengthening the company's logistics infrastructure to meet the growing demand of online commerce and physical stores.

Lastly, another major investment was announced by STMicroelectronics in partnership with GlobalFoundries. Together, they plan to spend 57 billion euros to build a new semiconductor factory in Crolles, near Grenoble¹¹. This factory will play a crucial role in reducing Europe's dependence on semiconductor imports, a strategic sector for many industries, including automotive, electronics, and telecommunications. The investment is also expected to create thousands of jobs in the region and stimulate the local economy.

These investments reflect the growing importance of advanced infrastructures and green technologies, as well as the desire to strengthen European competitiveness in strategic sectors.

⁹ <https://www.lopinion.fr/economie/prologium-vise-l-excellence-pour-sa-gigafactory-de-dunkerque>

¹⁰ <https://www.20minutes.fr/economie/4036901-20230515-choose-france-ikea-va-investir-906-millions-euros-supplémentaires-2026-france>

¹¹ <https://www.lesechos.fr/tech-medias/high-tech/semi-conducteurs-pres-de-3-milliards-deuros-daide-detat-pour-lusine-de-crolles-1949097>

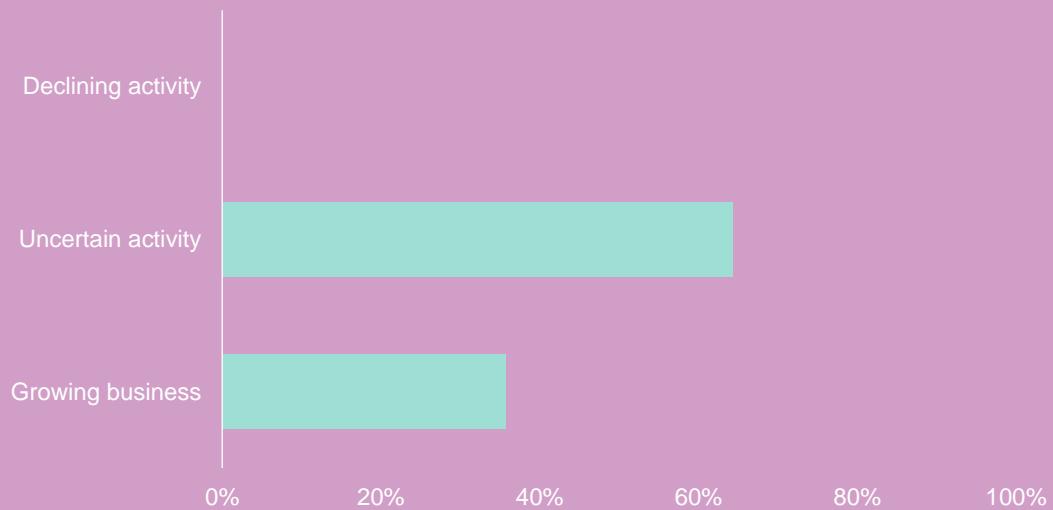
Trends and Prospects for 2024

The report sponsored by UBS highlights a certain prudence among investors in 2023, who preferred to manage their existing portfolios in the face of high inflation and increased interest rates. It should be noted that the vast majority of funds that invested in 2023 observed performance in line with their own objectives.



However, early 2024 shows signs of recovery, with renewed interest in the infrastructure sector, particularly due to the stabilisation of public markets and improved macroeconomic conditions. Funds raised primarily focus on megafunds, whose average size continues to increase, exceeding 2 billion dollars at the beginning of 2024. At the same time, specific sector strategies are gaining importance, representing 30% of funds raised between 2021 and 2023.

The infrastructure industry benefits from a capital reserve of over 300 billion dollars, creating pressure to deploy these funds. With the stabilization of interest rates and inflation, the number and value of transactions are expected to increase, with a resurgence of activity in sectors such as offshore wind. However, despite this optimism, one might wonder if the hope of a rebound in 2024 is more "wishful thinking" as it is not yet reflected in the figures or the outlook envisaged by the investment funds surveyed by Bird & Bird. Unlike the previous edition of the barometer where the majority of them expected growth, today they mostly consider the activity uncertain. The evolution of interest rates will therefore be crucial to support this recovery.



In this regard, the acquisition of Neoen by the Canadian fund Brookfield for 61 billion euros deserves particular attention. This transaction has boosted the entire sector on the stock market, illustrating the price gap between listed and unlisted markets for pure green energy players. Neoen's stock market trajectory, following its IPO in 2018 at 16.50 euros per share and a peak at 59 euros in 2020, has been marked by corrections and fluctuations due to economic challenges such as peak inflation and rising interest rates. Brookfield buys Neoen at 19 times its estimated 2024 EBITDA, compared to an average multiple of 12 times for listed peers, highlighting the growing divergence of valuations between listed and unlisted markets.¹² This context could offer a favourable environment for the development of new projects and the valuation of existing assets.

In conclusion, the year 2023 demonstrated the resilience and adaptability of the French private equity market in the infrastructure sector despite economic challenges. The outlook for 2024 looks promising with expectations of stabilisation and continued growth in various strategic sectors. The return of "animal spirits" and the improvement of macroeconomic conditions should favour a significant recovery in fundraising and investments. To conclude, despite the environment being identified uncertain by 56% of the investment funds surveyed by Bird & Bird, over 43% of them expect their business to grow in 2024.



We would like to thank France Invest and CFNEWS INFRA for their active contribution to this barometer.



¹² A. Garabedian, Neoen donne un signal d'achat au secteur des énergies renouvelables, L'Agefi, 30 mai 2024, en ligne sur : <https://www.agefi.fr/news/entreprises/neoen-donne-un-signal-dachat-au-secteur-des-energies-renouvelables>

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