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INFRASTRUCTURE INVESTOR

The year of infra debt

With 2012 coming to an end, it is looking likely that it will be remembered as the year the infrastructure debt market truly took off.

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Bruno Alves

As October rolls to a close, it seems fair to say already – with a good degree of certainty – that 2012 was the year when institutional infrastructure debt, as a market and asset class, truly took off.

What made 2012 significantly different from 2011, then? To put it bluntly, this was the year when demand finally caught up with up all the products on offer – and then went on to spur a few new ones.

It’s somewhat symbolic that one of the pioneers in the infrastructure debt space, Hadrian’s Wall Capital, only managed to reach a first close for its bond-oriented infrastructure fund solution this year – after two years on the fundraising trail.

It’s also no coincidence that the largest fundraising in the space is set to conclude this year. We are talking about Australia’s Westbourne Capital, which held a A$1.4 billion first close in June for its debt fund and indicated it would raise some A$2 billion by the time the year closes.

In bulk terms, the market for infrastructure debt funds has steadily increased in size as the year has worn on. According to the latest figures from Probitas Partners, a placement agent, debt funds accounted for 12 percent of the total raised by infrastructure funds in the third quarter – up from 9 percent at the end of the second quarter.

As if to show that the trend shows little sign of abating, London-based Gravis Capital Partners managed to raise £144 million – up from an original target of £80 million plus – in mid-October for its subordinated debt fund.

But perhaps more importantly, the market is showing breadth as well as depth, with debt funds being far from the only way institutional investors are engaging with the space.

In late October, French bank Natixis teamed up with Belgian insurance company Ageas to help it invest up to €2 billion over the next two to three years in infrastructure loans originated by Natixis. The partnership is, as far as we aware, the first time an insurer and a bank have teamed up to cooperate in such a comprehensive and systematic way.

Not that institutional investors have failed to engage with banks in other ways to access their infrastructure debt portfolios. In June, fellow insurer Aviva Investors bought a €200 million portfolio of project finance loans from Bank of Ireland.

Other institutional investors are choosing to build their own infrastructure debt teams in-house. That’s the case with Allianz Global Investors (AllianzGI), the investment management arm of global insurer Allianz, which earlier this year hired Deborah Zurkow from infrastructure-focused Trifinium Advisors, a subsidiary of monoline insurer MBIA, to establish an infrastructure debt team.

We could labour the point, but the above examples should be enough to provide even the most sceptical of observers with plenty of evidence that the infrastructure debt market is looking healthy.

This is mostly because institutional investor disappointment with fixed income has reached a nadir, opening the door for significant flows into infrastructure in general – and infrastructure debt in particular.

But it is especially important because it has real potential to force institutional investors to get more comfortable with infrastructure risks. Of course, none of this would have happened if the number of safe-haven treasuries hadn’t decreased dramatically. Still, the deconstruction of the notion that all advanced economy gilts were, essentially, riskless, is proving a boon for infrastructure.

Going back to the Gravis example, some investors that participated in its recent fundraising felt comfortable enough with the fund’s risk profile to invest in it through their fixed income allocations. If that trend accelerates, future debt funds might have a much easier time when they come to market.

Whichever way you look at it, the future seems bright for the institutional infrastructure debt space.