



Infrastructure's second lease of life





Cover story

Amid LP demand for liquidity and distributions, the infrastructure secondaries market saw an unprecedented rise last year. Zak Bentley and Kalliope Gourtis uncover how this places the market for future growth

Few private market asset classes were breaking records – positively – in 2023 as fundraising and deployment took a beating. The \$119 billion raised for infrastructure was the poorest fundraising year for unlisted, closed-end structures since 2015, while buyouts, real estate and even private credit took tumbles.

Secondaries, though, bucked the trend. The asset class hit a new record with a total of \$117.9 billion raised across all asset classes, according to affiliate title *Secondaries Investor's FY 2023 Fundraising Report*. Transaction volume was also strong, with the \$114 billion deployed making 2023 the secondaries market's second-best year, according to Evercore.

Infrastructure's role in this is intriguing. It represents about 7 percent of secondary deal volume, Evercore says, a figure which has remained broadly flat for the last few years.

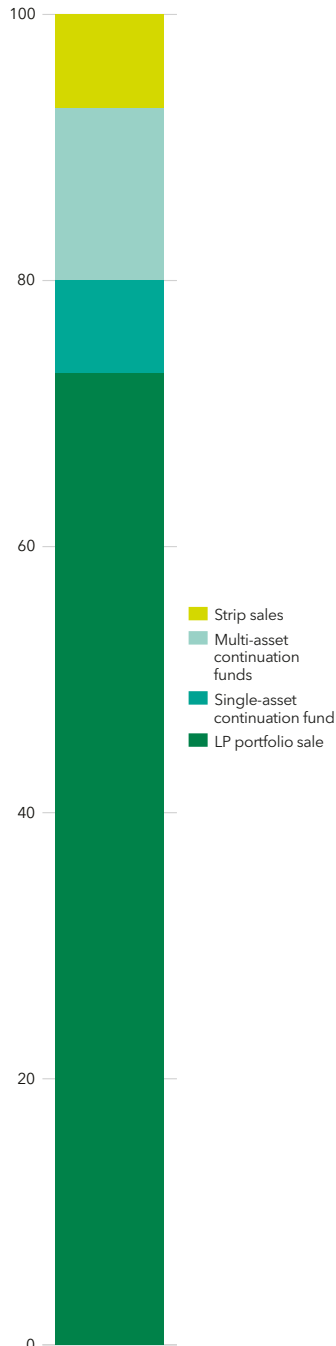
However, LP-led deals, which represent about three-quarters of infrastructure secondary transactions, tripled from 4 percent of total secondary LP-led volume in 2022 to 12 percent in 2023, further data from Campbell Lutyens reveals. LP-led transactions in all other asset classes declined or remained flat, other than private credit, which grew from 2 percent in 2022 to 4 percent in 2023.

The reasons for this growth are multi-faceted and characteristic of both the secondaries and infrastructure asset classes. Andrea Echberg, global head of infrastructure at secondaries infrastructure fund manager Pantheon, puts some weight on the role the denominator effect has had on portfolio construction.

“At the end of investing our Fund III [in 2020], we saw more LP stakes coming to market, primarily for portfolio construction reasons. The amount of money that had been raised

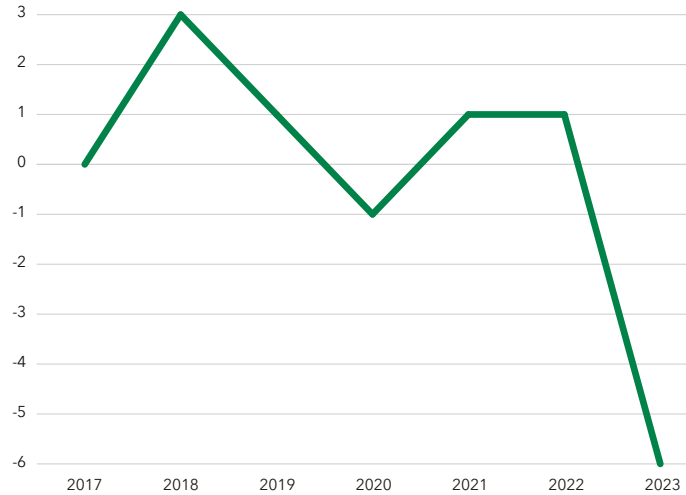
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Transaction volume (number of deals %)



Source: Evercore, FY 2023 Secondary Market Survey Results

Premium/discount to NAV (%)



Source: Campbell Lutyens, H2 2023 Infrastructure Market Report

for infrastructure was starting to underpin more consistent dealflow in LP stakes in secondaries, on a scale we hadn't seen before," she says, with the firm having raised \$3 billion for its Pantheon Global Infrastructure Fund IV in January, and a further \$2.3 billion in co-investment.

"The petrol on the fire was the market disruption in 2022 and the resulting denominator effect. Since then, we've had a period where most investors weren't getting back the liquidity they were expecting from their private equity and infrastructure portfolios."

Echberg, who says her team saw \$46 billion of dealflow last year, adds: "The liquidity squeeze from the denominator effect and distribution slowdown will take at least a couple of years to work through. Once that has worked its way through the system, I think the fundamentals of a more robust market that has seen a lot of capital raised and that has a growing volume of unrealised assets will still drive consistent level of secondary dealflow, but we might not quite have the velocity we have now."

Others are less definitive on the continuing influence of the denominator

effect today, rather placing more emphasis on the ongoing issue of lack of DPI to investors.

"We still have the issue of distributions really slowing down, so people feel over-allocated," says Harold Hope, global head of the secondaries-focused vintage strategies at Goldman Sachs Asset Management, which last year raised \$1 billion for its first infrastructure secondaries fund. "When they look across the portfolios, they're thinking where can they get liquidity at the best pricing or lowest discount and that's gravitating them a little bit to infrastructure or private credit, where assets are a little safer."

David Perrin, a partner in Campbell Lutyens' secondaries advisory business, sees the LP liquidity squeeze and the need for distributions as driving factors in the growth of the past 12 months, but does not believe this growth is stuck in a moment in time.

"Following the significant increase in volume in LP secondaries in 2023 we expect that investors who have built mature diversified, infrastructure portfolios will continue to get more comfort in the robustness of and the ability

to get liquidity through the secondary market, and therefore will use it more often and on a more consistent basis for portfolio management,” he says.

“So, whilst the volume of LP sales this year might not exceed the record volume of \$7 billion last year, we expect it to be well above the \$2.5 billion that you saw the year beforehand, and absolutely see the average level of LP sales continue to increase and be more consistent in flow.”

While, as mentioned above, deal-flow in the infrastructure secondaries market is heavily tilted towards LP-led transactions, many market observers expect this to progress in the medium term towards the more balanced levels between LP-led and GP-led that the wider secondaries market exhibits. For now, though, selling off stakes in infrastructure funds might be the best route to finding liquidity in the current macroeconomic environment.

“When you think about NAV, it’s very hard to sell a portfolio of LP interests in a down market. As those markets started to settle, what we saw were LPs looking to try and take advantage of assets that have continued to be resilient from a valuation standpoint and assets for which they could receive attractive proceeds,” says Chris Areson, partner at advisory firm PJT Park Hill’s private capital solutions group.

“Infrastructure ticked a very nice box for that, so what we saw was an almost unprecedented amount of meaningful, chunky LP portfolios that came to the market with a very strong infrastructure focus to it. We’ve seen that tail off a little bit in 2024 but infrastructure still is a meaningful portion of the LP portfolio books that we see folks are looking to sell or add in the market.”

The price is right

Pricing in this moment in time has become a significant reason why LPs are looking to offload infrastructure fund

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DAVID PERRIN
Campbell Lutyens

stakes. While other data points may vary, Campbell Lutyens’ data shows average infrastructure secondary discounts at about 6 percent last year, while the wider private markets average sat at about 16 percent.

In prior years, infrastructure secondary pricing displayed little premium or discount. The simplest explanation for this is infrastructure performing to what it’s advertised as by GPs.

“Certainly, over the last 12 months, the pricing for infrastructure secondaries is, on average, better pricing than buyouts, for example,” Campbell’s Perrin explains. “Therefore, if you are a CIO and you’re looking across your portfolio of where you want to minimise the headline discount, then infrastructure secondaries allows you to do that because by its nature, it’s a less volatile asset class, and therefore valuations are more robust.”

And, even in a world of more infra-like assets, Areson believes this is less likely to come to the secondary market.

“I do think you’re probably going to continue to see the somewhat more narrow pricing band for infrastructure funds because I think what will actually transact to the market will probably be things that look more like infrastructure and less like a more expanded definition of the asset class,” he says.

Goldman’s Hope, having closed a \$14.2 billion generalist secondaries fund alongside its Vintage Infrastructure Partners vehicle, has a similar perspective.

“I think we’ve seen less variability in the discounts in infrastructure than other sectors. All the discounts gapped out when the public markets declined a couple of years ago, but the



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HENRY WILLANS
Goldman Sachs Asset Management



infrastructure discounts didn’t gap out as much. Private equity discounts have narrowed, for example, but infrastructure hasn’t really done that. It’s a testament to the asset class’s selling point that it didn’t gap out like some of the other sectors did.”

That’s not to mean there isn’t value to be had by infrastructure secondaries GPs, with Pantheon finding slightly wider discounts than those documented by Campbell Lutyens.

“We’re seeing a 5-15 percent at the outer edges. Last year, we did find some transactions up to 20 percent discounts on some portfolios,” Echberg says. “The rate of dealflow we’re seeing makes it easy to sustain those levels, and for discounts to possibly

widen slightly. The discounts are not coming from the fact secondary buyers are concerned about the portfolios, it’s much more a supply-demand imbalance in terms of the available capital and scaled buyers for infrastructure secondaries.”

Echberg’s latter comments point to a wider secondaries dynamic prevalent in infrastructure secondaries where there is too much buyer capital. *Secondaries Investor* reported data at the start of this year that there is about 1.2 years’ worth of dry powder in the secondaries market overall. This might be even less in the infrastructure secondaries market.

“We’re seeing a really chronically under-capitalised buy-side. There’s still

Evergreen infrastructure

Whether LP- or GP-led, secondaries have become a favoured market in infrastructure

While LP-led transactions make up the bulk of the infrastructure secondaries market in terms of the number of transactions, bulky GP-led deals means that in terms of transaction value, single-asset and multi-asset continuation funds, in addition to a smaller number of strip sales, have led the market.

Campbell Lutyens’ data shows the \$5 billion of GP-led activity comprised 68 percent of the infrastructure secondaries market overall in 2022, while this fell to 56 percent in 2023, amid the rise of LP sales.

The continuation fund route has become a favoured haunt for some managers with DigitalBridge, ECP and Global Infrastructure Partners among those who have chosen the option to spin off assets into evergreen vehicles on multiple occasions, with GIP believed to be raising two separate continuation funds at the time of writing.

However, the process of executing a successful continuation fund can be fraught with various potential conflicts in terms of valuations, and not all of infrastructure’s buyers are totally convinced.

“When there were fewer LP stakes deals, we saw a higher number of GP-led transactions and we found better value through some of those opportunities,” recalls Andrea Echberg, global head of infrastructure at secondaries infrastructure fund manager Pantheon.

“It’s been a lot harder in this market for GPs to do a GP-led, particularly if you have to go through an LPAC approval; it’s quite hard to do a deal at anything other than NAV. The demand for GP-leds hasn’t gone away, it’s more that there is scarce capital out there and in the current market it’s a case of what deals can get done.”

perhaps less than one year of dry powder in terms of buyer capital and that's leading to secondary buyers being able to be selective," says Henry Willans, head of infrastructure secondaries at Goldman Sachs.

That's a view shared at Blackstone Strategic Partners, which in 2020 closed its Strategic Partners Infrastructure III fund on \$3.75 billion. It's now in market with a fourth vintage, announcing in January that it had, thus far, raised \$1.8 billion for the new vehicle.

"You may not necessarily have a secondary market that's well-capitalised enough to get every deal done today," says Mark Bhupathi, head of Strategic Partners Infrastructure. "I think

that creates an inefficient market. There's a lot of very high-quality infrastructure assets held in older funds and this is a great way to play some of the big themes and tailwinds that are out there, which is what we're trying to do. And I think in any inefficient market that can create attractive entry points."

That inefficiency is summed up by Willans, who says that "we think less than a third of deals that come to market tend to get closed".

Market of the future

With secondaries being a relatively younger part of the private markets, infrastructure secondaries is in a particular stage of youthfulness. That

makes predicting the next stages of growth a tough ask, but theories abound.

Some have pointed to the ongoing manager consolidation happening in the infrastructure space as a new route for LP-led deals, with the possibility that some LPs may not want to be part of the new and larger groups, or that the consolidation exceeds their preferred allocation to a single manager.

Perrin predicts more growth to come from the strip sales side of the GP-led market, whereby parts of different assets are put into a new vehicle to be managed by the GP.

"It's a very useful mechanism," he reasons, with another nod to platform investing. "A significant benefit of GP-led secondaries at this point in time is GPs today are investing in platforms and businesses that they are building out, and they require new capital to continue to do that.

"Therefore, an annex fund allows you to raise more capital around one or a portfolio of assets while still managing those assets in your main vehicle for the benefit of your existing investors as well."

A more novel approach came from Edward Keith, head of infrastructure secondaries at Ares Management, on a podcast with *Secondaries Investor* last month.

"Co-investments are extremely valuable to investors, particularly in infrastructure because the assets can have that long duration and I've seen recently LPs make outsized commitments to their sponsors, harvest the co-investment for three to four years of the investment period and then it makes sense for them to look at selling to the next investor," Keith said.

"In a way, you're almost making the commitment with the expectation you're going to access the secondaries market." A long-term asset class it was then, until the secondaries market took hold. ■

At Goldman Sachs Asset Management, Harold Hope, global head of the secondaries-focused Vintage Strategies, has similar concerns but remains hopeful that such concerns can be worked through in the near-term.

"On these continuation vehicles, we still don't see eye to eye with the managers on valuations all the time. That's what's holding up deals in that space. Valuations have been a little bit sticky and the companies are growing into the valuations so it's getting better every quarter, but we need to get a little closer to what we're willing to pay versus what the sponsor's holding it at. We think that's going to happen, maybe later this year, and there will be more opportunity on the non-LP side.

"The continuation vehicle structure in infrastructure makes a ton of sense. You've got to get the timing right and the valuation right."

Hope's sentiments around the continuation vehicle's suitability for infrastructure assets is an oft-told one, with proponents toasting the marriage of long-term assets with evergreen investment vehicles.

Chris Areson, partner at advisory firm PJT Park Hill's private capital solutions group, says that his firm has helped raise over \$10 billion of continuation vehicle transactions in the infrastructure space over the past three years. He cautions that "they do require a focused and concerted effort to make sure that conflicts are appropriately managed".

With that in place, he predicts "we're going to see more and more GP-led secondary transactions in the infrastructure space".

A significant part of this will be driven by on-going decarbonisation efforts in the asset class, according to David Perrin, a partner in Campbell Lutyens' secondaries advisory business.

"If you have an asset which is conventional power and energy and you want to undertake greenification of that asset, for example, you can use a secondary transaction to raise follow-on capital or new capital to do that. We have seen that in a couple of transactions, and we expect that to continue."

Important disclosure

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