



FRESHFIELDS BRUCKHAUS DERINGER US LLP

# Americas infrastructure investors forum

Infrastructure investment in a maturing market





## Executive summary

On February 23, 2011, a broad range of infrastructure industry participants attended the third annual Infrastructure Investors Forum “Americas infrastructure investing in a new era: challenges and opportunities for an increasingly sophisticated investor base” in New York City.

The panel discussions focused on trends arising in infrastructure investment in the Americas during 2010, and trends expected to appear in 2011. A key message emerged: 2010 saw stability return to infrastructure investing faster than expected after the credit crisis. Nevertheless, post-crisis challenges that arose in 2010 will need innovative solutions in 2011. These challenges cut across all infrastructure sub-sectors. They include responding to an expanding number and type of market participants, developing innovative and value-additive investment structures, and exploring opportunities in Latin American markets. Addressing these challenges effectively in 2011 could “reboot” the American infrastructure market in a way that will expand opportunity and develop a more mature market in the years to come.

## An expanding number and type of market participants

Last year brought increased participation in the infrastructure market through direct investments by pension funds and sovereign wealth funds. Infrastructure investing is a natural strategy for pension funds, as they are looking to match long-dated liabilities to long-term investments. In addition, sovereign wealth funds looking for greater exposure to US assets have become increasingly active. Both types of investors not only increase the pool of available capital for the asset class but are also useful complements to private equity and infrastructure fund investors that look to implement management improvements and operational efficiencies with a more active management approach to investing.

There have been several recent examples of co-investments and direct investments by pension funds and sovereign wealth funds. For example, pension funds AIMCo and CalPERS made large direct investments for the first time in 2010 – AIMCo in the Autopista Central highway in Chile and CalPERS in Gatwick Airport in the UK. Representatives of AIMCo and CalPERS highlighted these 2010 deals as models for expanding direct investments from pension funds in 2011, and AIMCo and CalPERS are building internal capacity to implement and manage more direct investments.

## Opportunities for innovative deal structures

As equity investors' appetite for infrastructure grew in 2010, developments in the debt markets and in specific sectors presented challenges that demand innovative acquisition and operating structures.

A common theme was the importance of improving asset operations to drive value. As a consequence, partnering strategies are more important than ever to infrastructure investors. Funds are focusing on how to work with strategic investors and asset operators to generate value from acquired assets. The most valuable assets are those with scope for operating efficiencies and management improvements.

## Financing acquisitions in the debt markets

Although the availability of bank financing has not fully rebounded from the credit crisis, the outlook is improving. Before the crisis, between 50 and 60 banks were active in infrastructure lending. Far fewer are active in the current market, and the syndication market is nearly moribund. The result is limited capacity in bank lending for the asset class – infrastructure deals requiring debt greater than \$1bn are still challenging with an all bank solution.

Additional sources of debt financing have emerged to augment, or in some cases as an alternative to, bank financing. For example, investors in 2010 tapped institutional debt providers in the leveraged loan market, including managers of collateralized loan obligations, debt investment funds and hedge funds (albeit at a higher borrowing cost) and the debt capital markets. Mixed bank and bond solutions and more layers of debt in the capital structure are increasingly common.

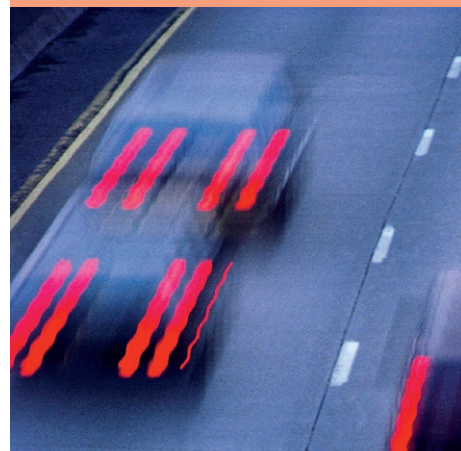
The 2010 bond financing of Chicago Parking Meters (CPM) foreshadows a trend toward post-acquisition recapitalization that allow owners to add leverage efficiently and without the rigidity and operational and administrative constraints typical of project finance debt structures. The investor base for investment grade utility bonds is recognizing the parallels between these types of assets and regulated utilities.

## A focus on energy

Representatives from the energy sector view the current market as a once-in-a-lifetime opportunity. The US is seeking simultaneously to upgrade its electricity transmission system and replace generating assets that are outdated due to technical or environmental obstacles or regulatory changes. In addition, opportunities abound in natural gas. Access to deposits under the marcellus shale shelf has been described as a “game changer” for the sector, and even larger gas deposits exist under shelves elsewhere in the US.

Strategic market players should consolidate throughout 2011, and large utilities will divest assets. Successful investors in 2011 will be those that generate value by networking different energy assets and managing commodity risk.

Freshfields Bruckhaus Deringer US LLP advised Chicago Metered Parking LCC in connection with the 144A bond financing of the Chicago Metered Parking System. We represented the consortium in connection with their successful bid for the 75-year concession of the City of Chicago's Metered Parking System for \$1.15bn.





Freshfields Bruckhaus Deringer US LLP recently advised the Regional Transportation District of Denver (RTD) in relation to the pathfinder \$1.64bn Eagle P3 commuter rail project in Colorado. The project has established a benchmark for greenfield transit projects in the US.

### A focus on transportation

In contrast to the energy sector, market players in transportation face a significant challenge in building political support in the US for private financing. The recent city council rejections of parking privatizations in Pittsburgh and Los Angeles have created a perception of political risk that will cause investors to be more selective in pursuit of deals in 2011.

The evolving US political environment has created start-and-stop deal flow that needs to stabilize and become more predictable to restore confidence to the market. Nevertheless, public authorities that are realistic about what it takes to attract private investment – both in terms of confidence in the process and deal terms that are truly value additive – will succeed.

### Opportunities in Latin America

Investors are also turning their attention to increasing opportunity in Latin America. Chile, Brazil and Mexico have relatively stable economic outlooks and proven regulatory regimes for private investment in infrastructure. The challenge for these regions in attracting foreign capital for assets outside of the energy sector will be the balance of capital inflows with local sources of debt and equity as well as exchange rate fluctuations.

### Outlook for 2011 and beyond

Looking towards 2011, a generally positive and stable outlook was forecast, with increased activity in nearly all sectors but particularly energy. Although challenges remain, the mood generally was one of confidence and optimism in 2011 that will continue the momentum for investment in the American infrastructure market.

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