

# KEYNOTE INTERVIEW

## Finding value in secondaries



*The mid-market for infrastructure secondaries is home to some appealing opportunities, say [Dmitriy Antropov](#) and [Marc Meier](#), co-heads of infrastructure partnership investments at Partners Group*

The infrastructure secondaries market is scaling up, with more investors than ever finding that the current environment provides attractive opportunities to buy.

Indeed, with 30 percent of respondents to *Infrastructure Investor's LP Perspectives 2024 Study* planning to make commitments to secondaries funds over the coming year, Dmitriy Antropov and Marc Meier, co-heads of infrastructure partnership investments at Partners Group, are anticipating a fast-growing market, especially given the maturation of the asset class and the desire among LPs for more sophisticated portfolio management tools.

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And while large-cap funds offer secondaries investors attractive diversification opportunities at scale, Antropov and Meier are eyeing the value to be found in the less travelled mid-market space. It is, after all, particularly fertile ground for those investors willing to embrace the more complex underwriting and relationship-building involved.

**Q Why is the infrastructure secondaries market**

**currently enjoying a moment in the sun?**

**Marc Meier:** The private infrastructure asset class is maturing, which will result in an increase in secondaries volumes. The asset class is now estimated to be worth north of \$1.3 trillion in assets under management and is forecast to continue expanding at double-digit growth rates.

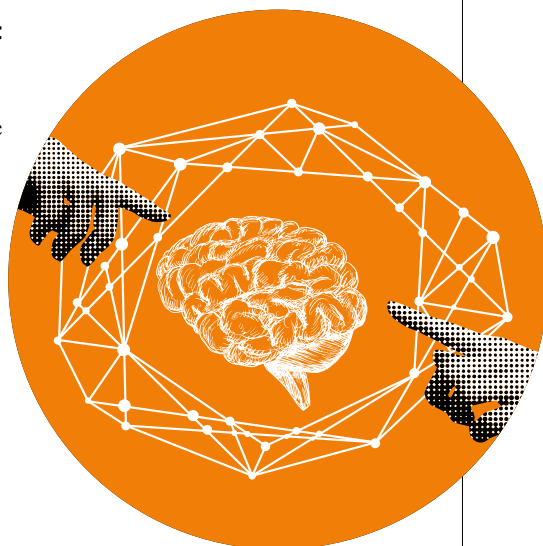
We see two main reasons for the growth in secondaries volumes. First, there are quite simply more private infrastructure assets around. At the same time, many investors have been investing heavily into the asset class in recent years and are now moving from

## Q What different skills are required to invest in mid-market infrastructure secondaries?

**DA:** In the mid-market you see some concentration in assets, so detailed bottom-up asset underwriting is important. It is much more difficult to take top-down views on track records because some funds are only on numbers two, three or four and the assets are less well-known. We have a large, dedicated infrastructure secondaries team and leverage the knowledge of our broader infrastructure platform, with a focus on understanding managers as well as assets.

Of course, we are still operating in an environment with less detailed information than you see in direct M&A, which is a feature of the secondaries market, but we are able to address that and differentiate ourselves as a buyer by emphasising the depth of our industry adviser network.

In the mid-market, you need to cover many more names and develop relationships year in, year out. Having been in this space for 20-plus years, we can draw on those deep ties to shape transactions.



a ‘building allocation’ phase to being at or close to their target allocations. This means they are becoming much more proactive in their portfolio management, which includes sales on the secondary market.

As a result, we see a much stronger transaction flow coming to market from LPs managing their existing portfolios. We believe total infrastructure secondaries transaction volumes could at least double over the next three to four years, perhaps even triple.

Next to this structural growth, we also see cyclical elements to the market, such as the denominator effect, which we have also seen in private equity secondaries. Higher interest rates, lower exit volumes and lower distributions have further driven sales, especially on the LP-led side.

Finally, due to the resilience of the infrastructure asset class, infrastructure secondaries often trade at a lower optical discount than other secondaries. That means vendors looking for liquidity often prefer to sell from their infrastructure portfolio than from private equity, VC or real estate, where discounts may be higher.

## Q How does the market differ from the more mature private equity secondaries space?

**Dmitriy Antropov:** The infrastructure secondaries market has growth catch-up potential because it is set to benefit from the same tailwinds that private equity enjoyed as it matured as an asset class, in terms of the increasing penetration of secondaries as a tool for portfolio management.

Beyond that, we see two important differences when compared with private equity secondaries. One is that infrastructure secondaries involve underlying assets that are quite diverse and therefore require complex underwriting.

The second is the supply-demand imbalance, which creates a positive dynamic for buyers right now because there are few competitors. There is still only a handful of experienced players that have been investing in infrastructure secondaries for more than five years, with several others trying to enter the market now but often struggling to gain traction. Furthermore, historically, a lot of the buyers in this market were institutional investors rather than secondaries funds, and they

are currently rebalancing portfolios, so they are not necessarily active buyers in the short term.

Putting all that together, the capital overhang ratio is much more favourable in infrastructure secondaries than in private equity. We estimate the amount of capital raised by dedicated buyers to be still significantly below expected transaction volumes (and even further off when it comes to sell-side flow willing to transact). In private equity, on the other hand, the capital overhang is significantly higher than annual transaction volumes. That creates quite an interesting buyer’s dynamic within the infrastructure market.

In practice, this means we have fewer final bidders in processes, processes are being pulled because of a lack of interest, which often results in attractive re-engagement points, and for those dedicated buyers in the market there are opportunities at attractive buy-side valuations.

## Q Why do you see more opportunities in mid-market infrastructure secondaries than in the large-cap market?

**MM:** There are not that many buyers

focused on the mid-market. As a result, we see far more relative value and more attractive risk-adjusted returns there.

If you look at the available opportunity set in terms of infrastructure funds raised over the last few years, a third of all the capital raised was for large-cap funds, even though these represent just 3 percent of the number of funds. The mid-market, on the other hand, which we define as funds at \$500 million to \$5 billion in size, accounted for 52 percent of capital raised and 30 percent of the number of funds.

That means the large-cap segment is concentrated within a small group of GPs, so you don't need to cover a lot of managers to efficiently tap one third of all the capital raised. Those funds are also global and diversified, which makes them attractive to buyers seeking diversification. As a result, transactions focusing on large-cap portfolios are more competitive and provide less attractive entry points.

In the mid-market, there are far more names to cover, all with different strategies and target geographies, which makes accessing the market difficult for all but the most knowledgeable and experienced buyers. That lower competition can then lead to higher return potential for secondaries transactions.

**DA:** Interestingly, we also find that mid-market GPs tend to be more relationship-driven. It takes time to get to know the space and build those relationships. Many of them have never done a secondary transaction and have never needed to provide this liquidity, which means they may not have detailed knowledge of the toolkit required. If we have the relationships, we can transact bilaterally and really shape opportunities both on the LP side and the continuation fund side.

For example, last year we made a secondary investment with a dedicated digital infrastructure manager in the US, which is now raising its 10th fund, despite never having previously had a non-US LP in its investor base. We

had covered the fund for five years to understand the strategy and portfolio. When one of its LPs became a willing seller, we could leverage that relationship and offer a solution that met the needs of the LP and that the GP was comfortable with, while we could get in at a double-digit discount.

*“There are not that many buyers focused on the mid-market”*

**MARC MEIER**

*“In 2025 we expect to see more balance between LP- and GP-led transaction flow”*

**DMITRIY ANTROPOV**

**Q As the number of specialist infrastructure secondaries funds continues to rise, what should investors look for when identifying a manager?**

**MM:** The question of what makes an infrastructure secondary transaction successful is interesting. Looking at the mature part of our portfolio, where we have a good database going back to 2006, we asked to what extent the result of a transaction came down to the discount and found almost no correlation between the scale of the return and the discount. Value creation after

closing a transaction is far more important, which is why it pays to go deep into portfolios and identify future value creation potential.

Investors need to look for managers with strong underwriting capabilities within a focused team that can analyse underlying assets one by one. Other things to look for are a dedicated focus on the infrastructure asset class, the experience and knowledge of the team, the quality of the relationships with GPs, and experience of investing through cycles.

In many ways, infrastructure is a younger part of the market, but it is important to look at the extent to which success is down to a positive market environment and significant back-leverage versus the ability of the manager.

**Q What is the outlook for infrastructure secondaries moving into 2025?**

**DA:** On the volume side, the outlook is for growth. We see that being driven by more structural than tactical trends, with the infrastructure secondaries market likely to expand in 2025 and beyond. We are convinced that the market has the potential to grow significantly over the next three to five years.

If you look at how this market is coming together, the past year has seen a major increase in LP secondaries. Activity has perhaps been more tactical, but in 2025 we expect to see more balance between LP- and GP-led transaction flow, with continuation funds and other extension secondaries becoming just another exit mechanism for managers.

We also think secondaries will penetrate more size points in 2025, as continuation funds expand from just large-cap funds and more traditional infrastructure assets. More mid-cap managers are considering these transactions and more cross-over assets are now involved, where private equity players are trying to raise GP-leds that are more oriented towards infrastructure secondaries buyers. ■