

# MEDIA BACKGROUNDER

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**PFX IS A CLOSED PRIVATE CAPITAL MARKET.**

**NO IDENTIFYING DATA ON INVESTORS OR PROJECTS IS AVAILABLE TO THE PUBLIC DOMAIN**

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**Project Finance: Definition.**

Universities (and Wikipedia) still teach the ‘project finance’ structure as if nothing has changed since it was first conceived back in the 1950’s by top-tier financial institutions for ‘*…the long-term financing of infrastructure and industrial projects based upon the projected cash flows of the project rather than the balance sheets of its sponsors’*.

In fact, over many decades, it has evolved far away from and bears no relation to those origins. Project finance can now be simply defined as: *'Investment predicated on the track record and financial stability of whoever is contracted to buy the output from the built project, with those same criteria applying to contractors and other counterparties to the project*'. This definition overrides the assets and balance sheet of the project principals be they public or private sector.

Now, this vastly evolved structure, powered overwhelmingly by the private markets, finances projects across renewable energy, hospitality, healthcare, infrastructure and many other sectors worldwide, with deal values $50m to $5bn+. To clarify, project finance is investment against revenues from a yet-to-be-built asset, from which mainstream banking and lending institutions are precluded by their own regulations. Currently, the market is dominated by private capital funds delivering the long-term, risk-mitigated returns their U/HNWI and other private capital investors seek. These include:

## Alternative investment funds

## Asset Managers

* **Corporate Lenders**
* **Hedge funds**
* **Investment banks**
* **Multi-/Single-Family Offices**
* **Private debt/equity funds**

At any one time there are many thousands of projects seeking finance, worldwide. They range across $50m local care homes, thru $250m renewable energy projects to $500m hotel/resort developments and $5bn or more transport, airport and other infrastructure projects.

Most notably, Lloyds of London and other leading insurance markets have now entered the market by endowing their A+ ratings on projects by backing comprehensive insurance Wraps supporting individual projects. This provides equivalence to mainstream illiquid fixed-income assets for private capital investors (although some structures offering liquidity are becoming available). Recent changes to legislation in some jurisdictions is expected to encourage mainstream institutions into the market, although this will take time as they assess the opportunity.

**Project finance structure | No financial liability**

As defined above, project finance is *'Investment predicated on the track record and financial stability of whoever is contracted to buy the output from the built project, with those same criteria applying to contractors and other counterparties to the project*'.

It is these factors on which investors lend into a project. Whilst the experience and credibility of the project principals be they a team, company, local or national government agency is important and relevant, their assets and balance sheet are not. The investment/lending decision rests on the above definition.

An example would be a $500m waste-to-energy (W2E) plant being built by a municipality. That municipality might be providing a brownfield site on which the plant is going to be built. It then has to show that it has secured grid connectivity, environmental, construction and other permits and, most important, a Power Purchase Agreement (PPA) with the grid into which the energy is going to be sold. Also, they need a credible, signed (subject to finance) agreement with their EPC (Engineering, Procurement and Construction) and other contractors. There are many other considerations on which PFX provides advice to clients.

Provided all this documentation and other matters are confirmed the investor will ask the project principals to arrange an insurance Wrap (see below) for the project. Once this is confirmed the investor will establish a Special Purpose Vehicle (SPV) through which the investment and everything related to it will be transacted. This leaves the project principals free and clear of any financial liability, whilst still owning the asset.

This means that the municipality will not have to turn to its taxpayers for payment or even underwriting of the debt, nor will a company need to burden its shareholders. Project financing is overwhelmingly private debt which provides the long-term, risk-mitigated returns that investors seek.

**Insurance Wrap**

The project finance structure itself, through lending against credible off-takers and other counterparties to the project, delivers inherent risk-mitigation and long-term returns (loan repayments and interest) for private capital investors.  This has further been reinforced by the global insurance markets backing insurance ‘Wraps’, endowing their A+ ratings on transactions.

Whilst many engineering, design, construction and other project counterparties offer their own performance guarantees and insurances, the insurance Wrap assembles a series of interlinked policies across every aspect of the project.  These range from construction site security thru contractors' performance and off-take agreements to political risk.

These Wraps are issued to the direct benefit of the lender. For borrowers, there is an initial underwriting ‘set-up’ cost which can vary between £10,000 and c£30,000 depending on the complexity, nature and other factors of the project. Once the policies are assembled the annual premiums are added to the loan, with which lenders have no issue as they are, in turn, insuring against their own lending.  With the Wrap backed by A+ rated insurance markets worldwide, including Lloyds of London, the projects become equivalent to any mainstream fixed-income asset.

Investors have direct access to the insurance Wrap, whose issuing A+-rated underwriters are engaged by multi-award winning UK-based risk consultants, [Invictus Risk Solutions LLP](https://www.projectfinanceexchange.com/Services/Invictus).

**Private Capital Markets**

The dominance of the private capital markets has progressively become the default position over more than two decades, accelerated by the banking crisis of 2008. Even before then, in 2006, the OECD had commented on the exodus of capital out of the traditional banking network and into entities such as those mentioned on the panel below, which were to become known collectively as the ‘shadow banking’ sector.

It is now widely acknowledged that, outside of retail and mainstream business banking services, so-called ‘shadow banking’ in all its many private debt and equity forms, now clearly overshadows traditional banking. Irony lives.

## Global Private Capital Market

## Key Data

## Fund Type AUM

## 2,000 Alternative Investment Funds $2tn1

10,000 Hedge funds $3.2tn2

7,300 Multi-/Single-Family Offices $5.9tn3

62,000 Private debt and equity funds $5.5tn4

45,000 Asset Mgrs (IAM membership) $10tn

Estimate taken from combined physical and liquid assets of $100tn as presented by [Thinking Ahead Institute.](https://www.thinkingaheadinstitute.org/news/article/global-asset-manager-aum-tops-us100-trillion-for-the-first-time/) IAM membership does not represent all Asset Mgrs.

**Total Funds/AUM: 126,000/$26.6tn**

Total AUM of $26.6tn broadly reflects Cap-Gemini’s of total $24tn available to alternative assets and RE.

**Family Offices**

For the purposes of this research the Family Office sector was ignored. Estimates of capital available from this source vary between $2tn and $15tn. In this there could be some duplication through the Fund Types shown above. It is a sector that is still shaking down.

**Private Capital Source**

19 million U/HNWI’s

Aggregate wealth $74tn5

1 [AIMA](http://www.aima.org)

2 [Hedge Fund Assoc](https://www.hedgefundassoc.org/about_hedge_funds/)

2 [eVestment](https://www.evestment.com/news/hedge-fund-industry-begins-2021-with-net-inflows/)

3 [Campden Wealth](https://www.campdenfb.com/article/global-family-office-growth-soars-manages-59-trillion)

4 [Pensions & Investments Mag](https://www.pionline.com/private-equity/big-jump-private-equity-aum-expected-over-next-5-years)

4 [Preqin](https://docs.preqin.com/reports/Preqin-Alternatives-in-2020-Report.pdf)

4 [Pitchbook](https://pitchbook.com/platform-data/funds)

[5 Asset Allocation chart. Cap-Gemini World Wealth Report.](https://worldwealthreport.com/reports/asset-allocation/global/)

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Mainstream banks who are involved in the market do so through their own investment banking or alternative investment operations.

The ultimate source of the finance is (at the time of writing in 2020) 19 million Ultra- and High-Net Worth Individuals (U/HNWI’s) worldwide with aggregate wealth of $74 trillion, as presented in the[*Cap-Gemini 2020 World Wealth Report*](https://worldwealthreport.com/reports/hnwi-wealth/global/) (and other sources).

This vast capital reserve, known in the market as ‘dry powder’, is finding its way into the market through over 126,000 alternative investment, hedge and private debt/equity funds, asset managers, family offices and other private capital investors worldwide.

The market has been powered by this vast lake of private capital which has grown since the turn of the century, and channelled through thousands of private capital funds (see panel above).

PFX was introduced to overcome the fragmentation that has always afflicted the market. With multiple investors and projects feeling their way in an unstructured market at any one time, It got to the point where it became so crowded and opaque it was almost impossible for projects and investors to identify, connect and engage with each other. A challenge for both investors and projects which PFX, through its progressive and long term mission of consolidating the market, is now transforming into a seamless process.

The transactional value of the global project finance market is already greater than that of most stock exchanges including London and New York. Project financing values often exceed IPO’s.

**Further information:**

[Investors](http://www.projectfinanceexchange.com/investors)

[Raising Project Finance](http://www.projectfinanceexchange.com/submitproject)

[View PFX Articles and Op-Eds](https://www.projectfinanceexchange.com/Articles)

For interviews with the PFX CEO (USA) or Chairman (UK) please contact media@projectfinanceexchange.com in the first instance. We will respond within 48 business hours.

There is a comprehensive [FAQ zone](http://www.projectfinanceexchange.com/faqs) at the site.

Please [REGISTER HERE](https://projectfinanceexchange.com/pfxupdates) for further information.

**From PFX Op-Ed in** [***Private Debt Investor***](https://www.projectfinanceexchange.com/Public/Articles/pdi_feb_2021) **| Feb 2021**

“*… the first recorded project financing was in 1299 when an Italian merchant bank, the House of Frescobaldi, funded a silver mine in Devon, England with the loan repaid with the output from the mine. In itself, the very definition of ‘project finance’*.”



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