

Infrastructure

We manage a range of funds investing principally in mid-market economic infrastructure and operational projects in Europe and North America. Infrastructure is a defensive asset class that provides a good source of income and fund management fees for the Group, enhancing returns on our proprietary capital. The team has been active in its deployment of capital across the portfolio and in new investments.

Our Infrastructure portfolio generated a GIR of £86 million or 6% on the opening portfolio value (2022: £241 million, 21%) primarily driven by portfolio income and good value growth contribution across our US assets, offset by a decrease in the share price of our quoted stake in 3iN, despite its strong NAV return in the year. We completed two new investments and three further investments in 3iN and three bolt-on acquisitions for our North American Infrastructure platform. We also completed the disposal of 3iN's operational projects portfolio to the 3i European Operational Projects Fund ("3i EOPF").

At a glance

Gross investment return

**£86m
or 6%**

(2022: £241m or 21%)

AUM

£6.4bn

(2022: £5.7bn)

Cash income

£107m

(2022: £91m)

Table 7: Gross investment return for the year to 31 March

Investment basis	2023 £m	2022 £m
Realised profits over value on the disposal of investments	–	10
Unrealised profits on the revaluation of investments	23	178
Dividends	33	31
Interest income from investment portfolio	14	12
Fees payable	–	(3)
Foreign exchange on investments	16	13
Movement in fair value of derivatives	–	–
Gross investment return	86	241
Gross investment return as a % of opening portfolio value	6%	21%

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Global Cloud Xchange ("GCX")

GCX is a leading global data communications service provider that owns one of the world's largest private subsea fibre optic networks.

GCX offers network services which power digital transformation for enterprises, new media providers and telecoms carriers. Its 66,000 km of cables span over 46 countries from North America to Asia, with a particularly strong position on the Europe-Asia and Intra-Asia routes.

Global data traffic is growing rapidly, with data usage forecast to grow in excess of 25% per annum. Technological advances, the digitalisation of the economy and regulatory developments are causing a proliferation of data generation and usage across all industries.

This data is increasingly being stored and shared via the cloud and relies on data carrier infrastructure, including GCX's extensive network, to flow between hubs across the world.

In September 2022, 3iN completed its \$377 million investment to acquire a 100% stake in GCX. Additional acquisition debt raised in March 2022 reduced the previously announced equity commitment of \$512 million.

£318m
Investment funded
by 3iN

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Future Biogas

Future Biogas is one of the largest Anaerobic Digestion (“AD”) plant developers and producers of biomethane in the UK. Established in 2010, it operates 11 AD plants on behalf of institutional investors under long term contracts, converting a wide range of feedstocks into biogas.

Biogas can be used to generate green electricity, or upgraded into biomethane and injected into the UK’s national gas network. There is growing demand for domestically-produced biomethane which, as a direct substitute for fossil natural gas, has an essential role to play in decarbonising some of the UK’s gas dependent sectors such as heat, transport and manufacturing.

It also allows the existing gas infrastructure to help meet the UK Government’s net zero and energy security targets without any change to the existing system.

Future Biogas will develop a new generation of AD plants and sell the resulting biomethane under long-term offtake agreements to corporate buyers. In the longer term, it intends to enter the nascent but high-potential voluntary carbon offset market through carbon capture and storage.

Future Biogas has a highly experienced management team with a strong track record in the sector and links with a number of key trade associations in the industry.

£28m
Investment funded by 3iN



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www.futurebiogas.com

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Fund management

3iN

3iN's total return on opening NAV of 14.7% for the year to 31 March 2023 was materially ahead of its total return target of 8% to 10% per annum. 3iN also delivered its dividend target of 11.15 pence per share, a 6.7% increase on last year.

Underpinning this strong return was the excellent performance of 3iN's investment portfolio, which was driven by exposure to long-term growth trends. We have seen particularly strong trading from assets operating in the utilities sector exposed to energy transition (such as **Infinis** and **Attero**), the communication sector (such as **Tampnet**) and the transport and logistics sector (such as **TCR**).

As investment manager to 3iN, in FY2023 we received a management and support services fee of £49 million (2022: £44 million) and a NAV-based performance fee of £35 million (2022: £26 million). This performance fee comprised a third of the potential performance fee for each of FY2023, FY2022 and FY2021 after the performance hurdle was met in each year.

The market for infrastructure investments remains competitive, with strong demand for quality infrastructure assets. Against this backdrop, 3iN was active in the year whilst remaining disciplined on price, completing a £318 million new investment in **Global Cloud Xchange**, a global data communications service provider and a £28 million new investment in **Future Biogas**, a producer of biomethane in the UK. 3iN also completed a £338 million further investment in **TCR**, acquiring an additional 48% stake from a co-investor, a £15 million further investment in **DNS:NET** to support its continued fibre roll-out programme and a £30 million further investment in **Infinis** to fund the development of its solar roll-out programme.

We continue to utilise our relationship with external co-investors to manage our underlying risk exposure across certain assets, demonstrated in the year with two syndications. We syndicated 28% of 3iN's stake in **TCR** for proceeds of £190 million and a 17% stake in **ESVAGT** for proceeds of £87 million.

In June 2022, 3iN completed the sale of its European projects portfolio to the 3i EOPF for £106 million.

North American Infrastructure platform

The investments in our North American Infrastructure platform generated good organic and acquisitive growth in FY2023. **Regional Rail** expanded its footprint through two bolt-on acquisitions and one new rail services contract, including three short-line railroads in the Midwest region of the US and several short-line railroads in Canada. Its existing freight lines delivered good volumes offsetting the impact of cost inflation. **EC Waste** completed the self-funded bolt-on acquisition of A&A Waste Management, a business that provides non-hazardous solid waste collections in Puerto Rico. This acquisition, combined with an increase in landfill volumes, contributed to the top-line growth of the business in the year.

Table 8: Assets under management as at 31 March 2023

Fund/strategy	Close date	Fund size	3i commitment/share	Remaining 3i commitment	% invested ³ at 31 March 2023	AUM £m	Fee income earned in 2023 £m
3iN ¹	Mar-07	n/a	£841m	n/a	n/a	2,882	49
3i Managed Infrastructure Acquisitions LP	Jun-17	£698m	£35m	£5m	87%	1,280	4
3i managed accounts	various	n/a	n/a	n/a	n/a	744	5
BIIF	May-08	£680m	n/a	n/a	91%	457	4
3i North American Infrastructure platform	Mar-22 ²	US\$495m	US\$300m	US\$108m	64%	389	2
3i European Operational Projects Fund	Apr-18	€456m	€40m	€5m	86%	359	2
US Infrastructure	Nov-17	n/a	n/a	n/a	n/a	300	–
3i India Infrastructure Fund	Mar-08	US\$1,195m	US\$250m	n/a	73%	–	–
Total						6,411	66

1 AUM based on the share price at 31 March 2023.

2 First close completed in March 2022.

3 % invested is the capital deployed into investments against the total Fund commitment.

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Other funds

3i EOPF and 3i Managed Infrastructure Acquisitions Fund ("3i MIA") performed well in the year. 3i EOPF purchased the European projects portfolio from 3iN for £106 million. Following this acquisition, 3i EOPF has now deployed 86% of its total commitments.

3i's proprietary capital infrastructure portfolio

The Group's proprietary capital infrastructure portfolio consists of its 29% quoted stake in 3iN, its investment in **Smarte Carte** and direct stakes in other managed funds.

Quoted stake in 3iN

In February 2023, 3iN successfully completed a share placing of £100 million. The funds were used to part pay drawings on their RCF and partly used to fund the acquisition of Future Biogas. 3i did not participate in this placing and its holding in 3iN was therefore diluted from 30% to 29%. At 31 March 2023, our 29% stake in 3iN (31 March 2022: 30%) was valued at £841 million (31 March 2022: £934 million) as a result of a 10% year-on-year decline in its share price to 313 pence (31 March 2022: 347 pence), which was caused by broader market volatility. As a result we recognised an unrealised loss of £93 million (2022: unrealised gain of £137 million), partially offset by £29 million of dividend income (2022: £27 million).

North America Infrastructure proprietary capital

Smarte Carte traded strongly in 2022 driven by robust US travel and retail demand across each of its lines of business, coupled with a steady recovery in international volumes. The business continues to leverage its existing footprint to expand into financially attractive ancillary services such as porter services and bag storage at its airports and other locations and recently completed a refinancing at attractive terms. At 31 March 2023, Smarte Carte was valued at £300 million on a DCF basis (31 March 2022: £207 million).

Assets under management

Infrastructure AUM increased to £6.4 billion (2022: £5.7 billion), principally due to an increase in 3i managed accounts and good performance across 3i MIA and our US infrastructure portfolio, offset by a decline in the share price of 3iN.

Table 9: Unrealised profits/(losses) on the revaluation of Infrastructure investments in the year to 31 March

	2023 £m	2022 £m
Quoted	(93)	137
Discounted cash flow ("DCF")	103	36
Fund/other	13	5
Total	23	178

Further information on our valuation methodology, including definitions and rationale, is included in the portfolio valuation – an explanation section.

Table 10: Infrastructure portfolio movement for the year to 31 March 2023

Investment	Valuation	Opening value at 1 April 2022 £m	Investment £m	Disposals at opening book value £m	Unrealised profit/(loss) £m	Other movements ¹ £m	Closing value at 31 March 2023 £m
3iN	Quoted	934	–	–	(93)	–	841
Smarte Carte	DCF	207	–	–	83	10	300
Regional Rail	DCF	48	7	–	13	2	70
EC Waste	DCF	86	–	–	7	5	98
3i MIA	Fund	53	–	–	12	–	65
3i EOPF	Fund	24	6	–	1	1	32
Other	Other	–	3	–	–	–	3
Total		1,352	16	–	23	18	1,409

¹ Other movements include foreign exchange.