



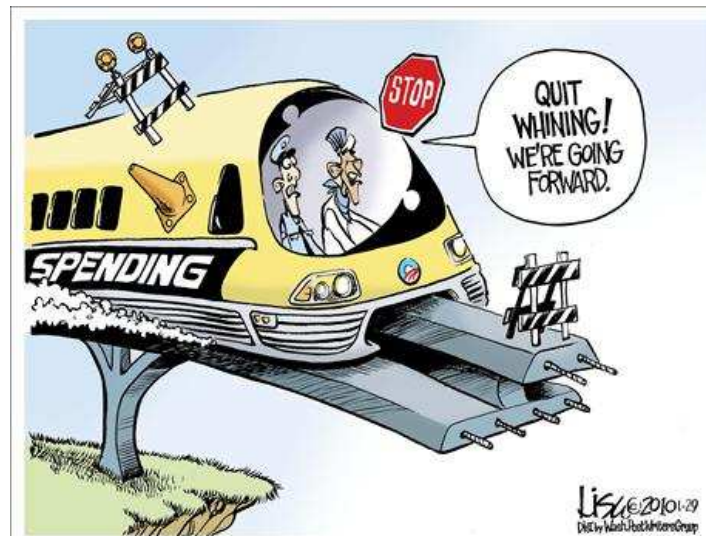
# Infrastructure Investing: Past Lessons, Future Expectations

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## State of the Union

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## OVERVIEW

- More Advanced Discussion on Infrastructure Investing
- Experienced Speakers
- Evolution
- How To Build Portfolio?
- Current Market With Canadian Context
- Intricacies Of Making Direct/Co-investments with Two 'Illustrative' Examples
- Q&A



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## Infrastructure Investment Evolution

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- History
  - Traditionally financed by governments (New Deal)
  - Privatization push (Thatcher)
  - Emergence of an asset class (Australian experience)
- Infrastructure managers
  - Listed funds initially
  - Unlisted, "PE-style" funds emerged
  - Small group of global players
- Direct investors
  - Construction companies / strategics
  - Australian Supers /Canadian pension plans
  - Others (SWFs, Insurance companies, SOEs)



### The emergence of a new asset class

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## Infrastructure Market Stakeholders

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- Developers
- Construction companies
- Investments Banks and advisors
- Government agencies (regulators)
- Direct investors
- Fund managers
- Technical diligence experts
- Debt providers

- Law firms
- Tax experts
- Labour unions
- Customers/offtakers
- Operations
- Insurance
- Environmental groups
- Media
- Politicians
- Others...



**Managing countless relationships can make deals very complicated**









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## Canadian Players

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Plan	FY 2013 Total AUM (\$C)	Invested	Offices	Inception of Infrastructure Program
 TEACHERS' PENSION PLAN	141bn	8%	Toronto; London; New York; Hong Kong	2001
 OMERS BOREALIS INFRASTRUCTURE	65bn	15%	Toronto; New York; London; Sydney	1999
 CPP INVESTMENT BOARD	202bn	6%	Toronto; London; Hong Kong; New York; São Paulo	2006
 Caisse de dépôt et placement du Québec	200bn	4%	Montreal; Quebec City; New York; Beijing	1999
 bc inc	110bn	5%	Victoria	2002
 FSP	114bn	6%	Ottawa; Montreal	2006
 AIMCO	75bn	4%	Edmonton; Toronto; London	2004
 OPTrust	16bn	15%	Toronto; London; Sydney	2006

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## How to Build an Infrastructure Portfolio?

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- Crawl, walk, run
- Funds
  - Open-end vs. closed-end
  - Risk return profile (core vs. core-plus vs. value-add)
  - Geographic exposure
- Co-investments
  - Alongside Fund Managers
- Direct Investments
  - Primary vs. secondary
  - Auctions vs. exclusive



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## Benchmarks

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- Unique to each investor
- Potential benchmarks include:
  - Listed Infrastructure Market Indices
  - Inflation Benchmark + Margin (e.g. CPI + X%)
  - Inflation Linked Bond Yield + Margin
  - Bond Yield + Margin (e.g. Treasuries + Y%)
  - Absolute Return (Z%)
  - Peer Group of Unlisted Infrastructure Funds
  - Hurdle rate (8%)

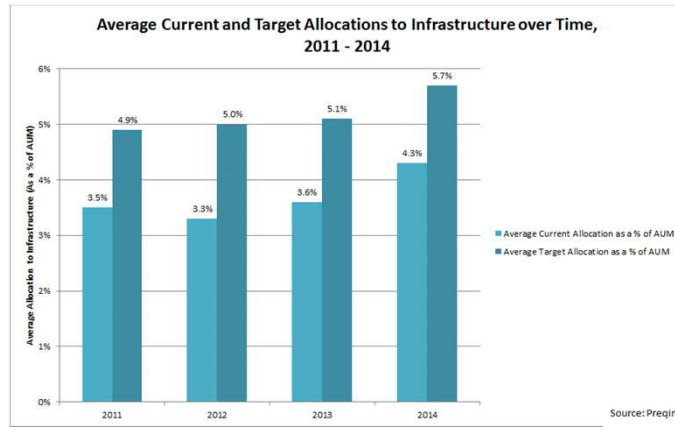


**Choosing the appropriate benchmark drives strategy and target markets**

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Allocations

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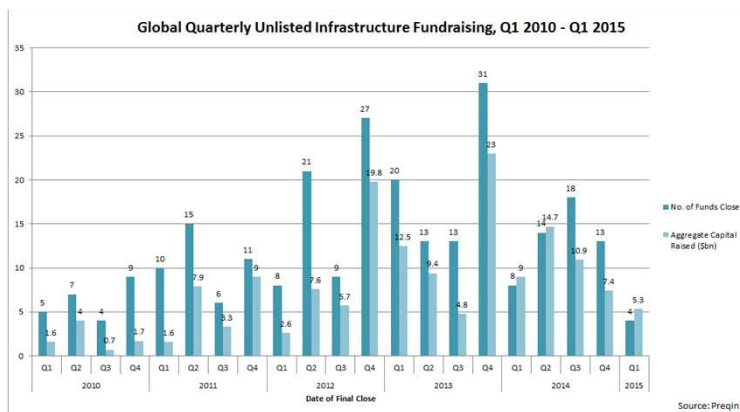


**Growing allocations and consistent shortfall vs. target allocations**

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Fundraising

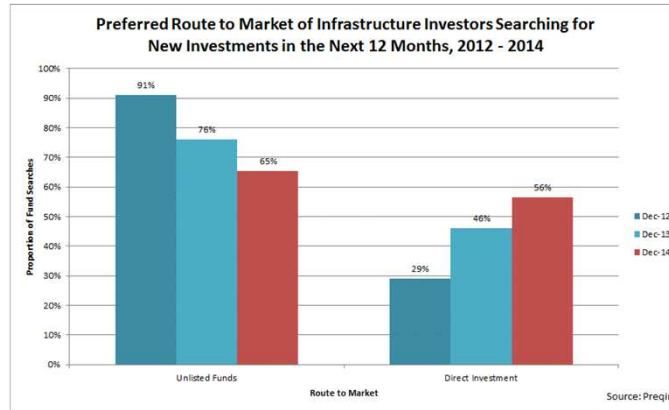
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**266 Funds closed raising \$162.5 billion (avg. \$611m)**

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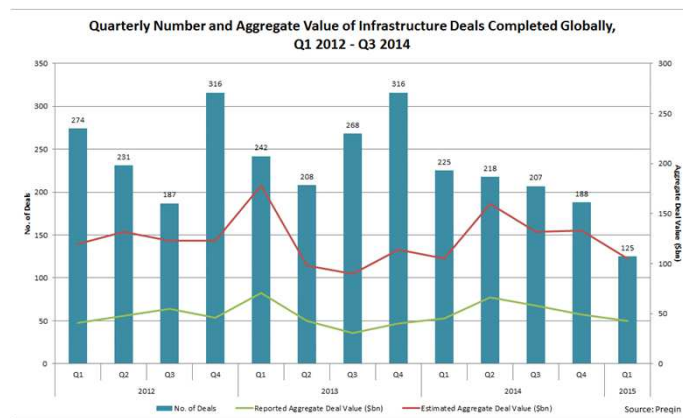
More Competition for Assets



Investors preferred route to access infrastructure is changing...

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Deal Flow



3,000+ deals with an estimated deal value of 1,600+ billion (avg. \$538m)

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## Asset Management

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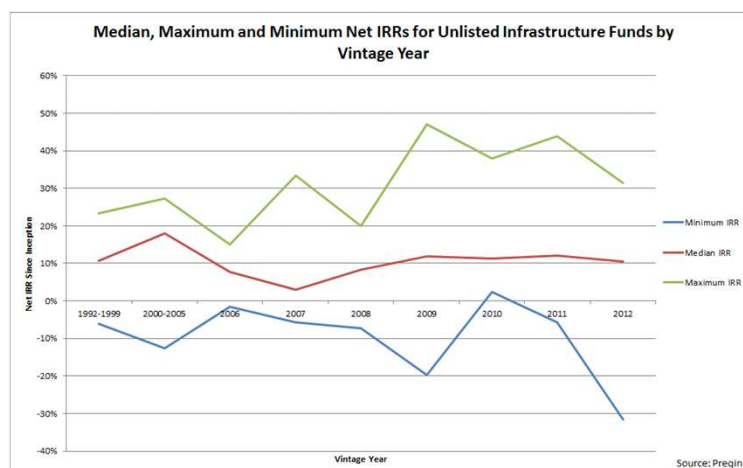
- Need to consider asset management strategy as important component of direct investment platform
- Considerations that require asset management strategy include:
  - Customer experience
  - Internal reporting
  - Changes to strategy
  - Acquisitions/divestitures vs. internal growth
  - Financing
- More than just attending board meetings



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## Returns

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**Significant variation with overall median ~10% net IRRs**

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Canadian Players' Returns

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Plan	FY 2013 Total AUM (\$C)	Invested	FY2013 Infrastructure Return (IRR)	Inception of Infrastructure Program
 TEACHERS' PENSION PLAN	141bn	8%	16.8%	2001
 OMERS BOREALIS INFRASTRUCTURE	65bn	15%	12.4%	1999
 CPP INVESTMENT BOARD	202bn	6%	10.1%	2006
 Caisse de dépôt et placement du Québec	200bn	4%	10.6%	1999
 IPI Inc	110bn	5%	11.4%	2002
 FSP	114bn	6%	10.1%	2006
 AIMCO	75bn	4%	2.9%	2004
 OPTrust	16bn	15%	11.6%	2006

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Case Study 1 - Observations

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- Identifying long-term trend is only half the battle
- Investing alongside experienced partners makes job much easier
- Choosing appropriate structure for an investment can be complex
- Timing and resource availability is a real factor
- Be conservative in assumptions – if it can go wrong, need to consider impact on returns
- Try to draw lessons from similar investments
- Risk identification and mitigation is crucial

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## Case Study 2 - Lessons Learned

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- Know your partner
  - Ensure biases, beliefs and interests are aligned
- Move quickly on replacing management, implementing change
- Consider affordability for customers
  - Can the demographic and socioeconomics support rate increases?
- Don't underestimate the challenges of implementing ERP systems (e.g., cost, time, staff, business operations/functions)
- Don't pay for growth from unidentified acquisitions or contracts
- Debt structuring at acquisition: beware of "ratcheting covenants"
- Don't underestimate the difficulty of operating and improving the profitability of non-regulated business segments
- Engage with customers and community early, and often

## Conclusions

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- Infrastructure investment has progressed...but still early days
- There are a lot of considerations (and costs) that go into making direct investments in infrastructure assets
  - Sourcing and aligning with experienced partners is competitive advantage
  - Asset management approach and strategy is crucial
  - Risk identification and mitigation requires considerable due diligence
- Possible implications for today's investors
  - Growing desire to deploy capital might exceed number of good opportunities available – need to be selective
  - Finding skilled and experienced teams with right capabilities is difficult – need to know who to ask
  - Be realistic regarding pacing and return expectations – need to be patient

Infrastructure investment is here to stay

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