

How to access UK infrastructure assets

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Evolution, Debt Advice & Origination

Infrastructure Assets and Pension Funds

- ▶ Divestment of Banks' project finance loan portfolios is about to speed up,

“The transfer of long-term project finance loans from banks' balance sheets to institutional investors makes perfect sense. But getting them there, or disintermediating them, isn't going to be easy.” (InfraNews 03 Nov 2011)

- ▶ Generally accepted that Infrastructure Assets are now a separate asset class and should form part of a balanced, diversified Pension Fund asset allocation strategy,

“The UK desperately needs to update its infrastructure, and pension funds are looking for inflation-linked, long-term investments. This could be win-win” (Financial Times 02 Dec 2011)

- ▶ Infrastructure is an attractive asset class, but pension funds need convincing,

“The problem is that most UK pension funds are simply too small and cannot afford the expertise needed to analyse and research the increasingly complex world of infrastructure investments” (Financial Times 28 Nov 2011)

- ▶ **The Challenge for Pension Funds is therefore**
 - How to assess UK Infrastructure Assets, and
 - How to manage their investments in UK Infrastructure Assets

Re-Cap Of The Infrastructure Asset Class

Essential assets

Social

- Housing
- Healthcare
- Education

Regulatory

- Utilities
- Transmission
- Renewables

Economic

- Roads
- Rail
- Airports & Ports



All suitable for Pension Funds if appropriately structured

What Do We Mean By “Appropriately Structured”

- ▶ Ownership of 100% of the available cash flow
 - ❑ Through a mix of equity and / or debt products
- ▶ No leverage or limited external debt
 - ❑ Although, a debt product is important for tax considerations
- ▶ Cashflow self sustaining
 - ❑ Sufficient cash flow to sustain operating activities
- ▶ Low complexity / technology
- ▶ Appropriate governance
 - ❑ Apportionment of risk sharing
 - ❑ Asset control / management
- ▶ Strong operational management
- ▶ Delegated active physical asset management
 - ❑ Through appointed Chairman, Non-Exec and performance manager

“Our Approach to Investing in Infrastructure Assets Appropriately”

- ▶ **Robust risk framework**
 - Agreed ALM framework and asset allocation policy
- ▶ **Sufficiently detailed investment criteria**
 - Decision making ability over asset selection
- ▶ **Asset origination**
 - Diverse source of assets
- ▶ **Process management**
 - Structured approach to due diligence and negotiations
- ▶ **Appropriately structured**
 - 100% ownership (either single or with like minded co-investors)
 - Little or no leverage
 - Governance, delegated board representation and real asset management

Evolution can help investors to originate and invest in the right assets in the right way

Traditional Access to Infrastructure Assets

	Indirect Discretionary Managed	Direct Self Managed
Leverage	<p><u>Pros:</u></p> <ul style="list-style-type: none"> • Easy access • Outsourced management <p><u>Cons:</u></p> <ul style="list-style-type: none"> • Expensive • Non alignment of interest • High performance fees • Inappropriate ALM model 	<p><u>Pros:</u></p> <ul style="list-style-type: none"> • Discretion over asset investment / divestment • No management fees <p><u>Cons:</u></p> <ul style="list-style-type: none"> • Resource intensive • Specialist expertise
Unlevered	<p><u>Pros:</u></p> <ul style="list-style-type: none"> • More appropriate model • Outsourced management • Lower management fees • Returns in line ALM strategy <p><u>Cons:</u></p> <ul style="list-style-type: none"> • Little or no offering 	<p><u>Pros:</u></p> <ul style="list-style-type: none"> • More appropriate model • Full discretion • No management fees • Returns in line with ALM strategy <p><u>Cons:</u></p> <ul style="list-style-type: none"> • Resource intensive • Specialist expertise



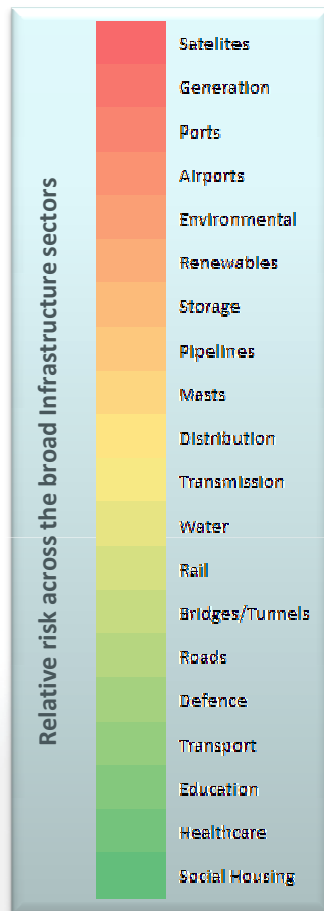
► Re-finance risk potentially erodes investment rationale



► More appropriate matching of long term liabilities

► Generally lower management fees

Risk Framework and Investment Criteria Considerations



▶ **Greenfield versus operating assets**

▶ **Construction Risk**

- Construction and supply chain delays
- Contractor quality
- Credit risk

▶ **Payment or patronage demand**

- Cash flow counterparty
- Car/passenger usage

▶ **Political / Regulatory Risk**

- Regulatory and policy changes

▶ **Technology**

- Technical challenges
- Obsolescence

▶ **Geographic profile**



Where Will Assets Come From

Evolution has strong relationships across the Infrastructure sector and can actively originate suitable investments:

▶ **Client relationships**

- Social housing
- Government
- Local Authorities
- Investment banks
- Advisors
- Other infrastructure investors / funds

▶ **Responding to requests for financing**

- Investment banks
- Advisors
- Other intermediaries

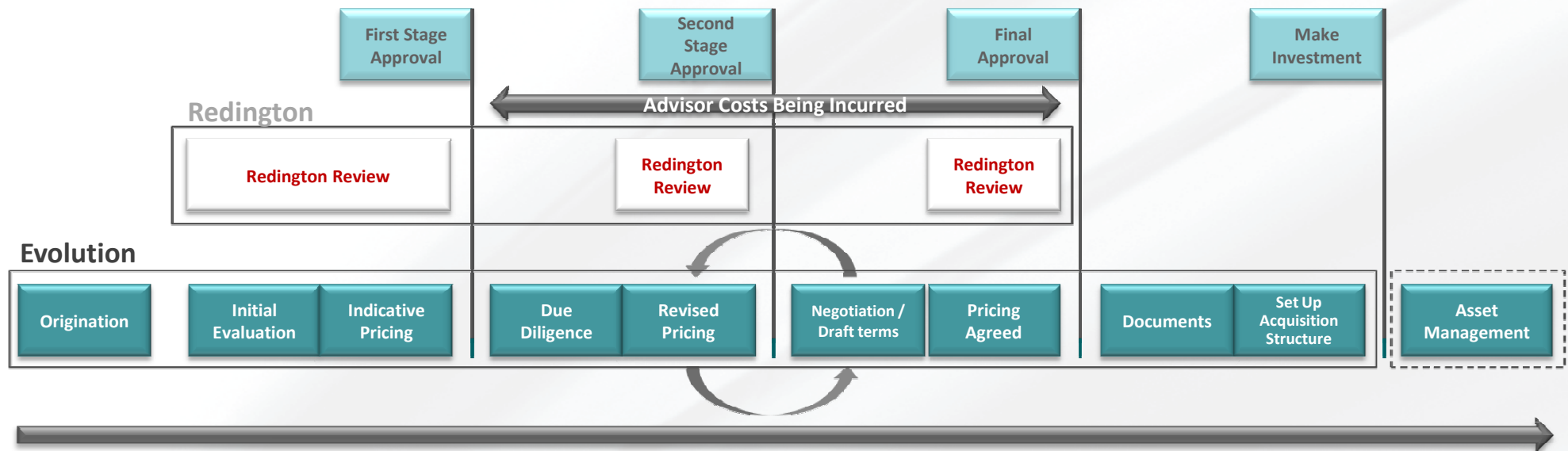
▶ **Industry participants**

- Construction companies
- Facilities managers
- Technical consultants

▶ **Participation in auctions or funding competitions**

▶ **Local development opportunities requiring business investment**

The Investment Process Requires a Structured Approach



- ▶ Initial Evaluation & Indicative Pricing
 - Create or review financial model
 - Evaluate suitability and fit with investment mandate
 - Seek first stage approval

- ▶ Due Diligence & Revised Pricing
 - Appoint advisors and manage due diligence process
 - Initial drafting of key terms
 - Seek second stage approval

- ▶ Negotiation and Price Agreement
 - Conduct price and document negotiation and purchase terms
 - Revise pricing
 - Seek final approval

- ▶ Documentation and Set-Up
 - Negotiate and finalise documentation
 - Organise acquisition structure
 - Co-ordinate investment

- ▶ Asset Management
 - Ongoing operational management of the investment

Investment, Governance and Management Considerations

Management of unlisted Infrastructure investments is resource intensive and requires hands on active day to day oversight and decision making. Typically this would include all or some of the below:

▶ Investment Approval Process

- Where are investment decisions made
- What delegated authority lies with the investment manager
- Who appoints advisors

▶ Advisory Boards or Investment Committee

- Establish an investment process oversight board or committee for key decision making
- Conflicts management

▶ Resource Allocation

- Construction project management
 - Appointment of technical advisors
- Operational management
 - Performance manager
 - Chairman and Non Executive Directors
- Strong incumbent management

▶ Accommodating new investment partners

- Consequences of multiple owners

Where can Evolution help

Expertise

- Asset origination
- Due diligence
- Structuring

Independence

- Not tied to any product
- Not a fund

Bespoke approach

- Tailored portfolio
- Suitable structuring

Real asset management

- Key relationships with industry experts
- Strong financial management
- Stakeholder representation

Are Pension Funds really ready for active UK Infrastructure investment ?

Q & A

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The Evolution Team

	Economic Infrastructure						Social Infrastructure ¹						Regulated Infrastructure					Region					Ownership		
	Environmental ²	Pipelines	Storage	Communication	Utilities	Transport ³	Housing	Healthcare	Education	Accommodation	Defence	Transport ⁴	Water	Transmission	Distribution	Renewables ⁵	Telecoms	UK	Europe	US/Canada	Asia/Australia	Latam	Public	Private	Non Share Cap/Mutual
Combined Experience	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
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Henrietta Podd	●	●			●	●	●	●	●	●	●	●	●	●	●		●	●		●	●		●	●	●
Ian Dixon	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
David Orford			●		●	●		●			●		●		●	●	●	●	●				●		

Notes

- 1 Includes PFI / PPP
- 2 Includes Waste Water
- 3 Demand based
- 4 Availability based
- 5 Includes Wind / Solar / EfW

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