

INVESTING IN INFRASTRUCTURE



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Evolution/Redington Teach-in

Investing in Infrastructure

11th January 2012

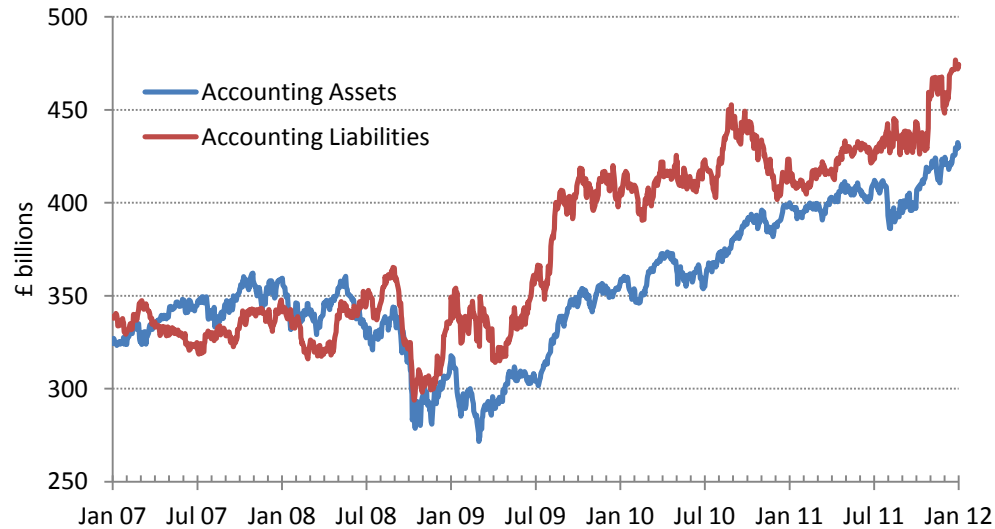


1. Falling long-term yields

2. Risky assets underperforming

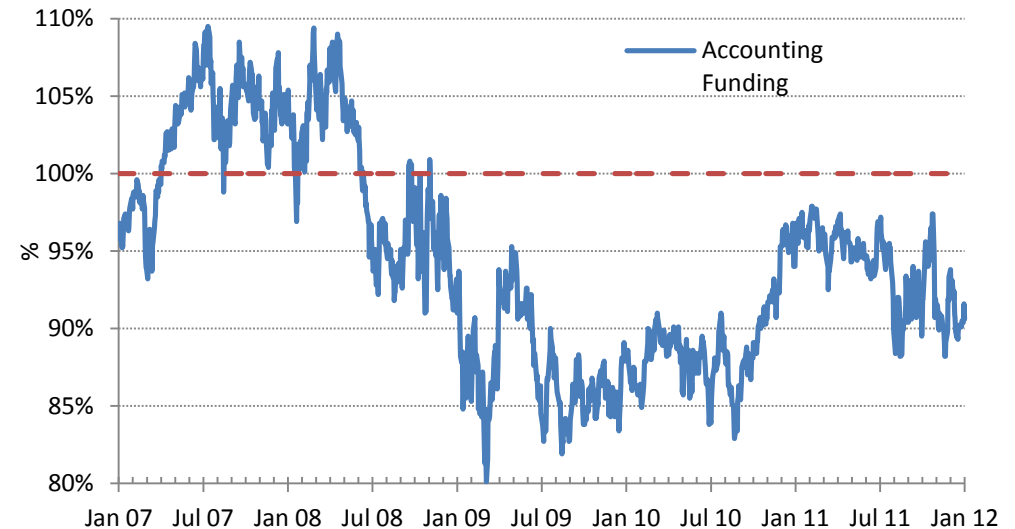
3. Declining real rates

As asset performance failed to keep pace with rising liabilities, **funding levels declined**.
Pension funds must therefore **focus on making the right decisions to achieve full funding in a difficult environment**.



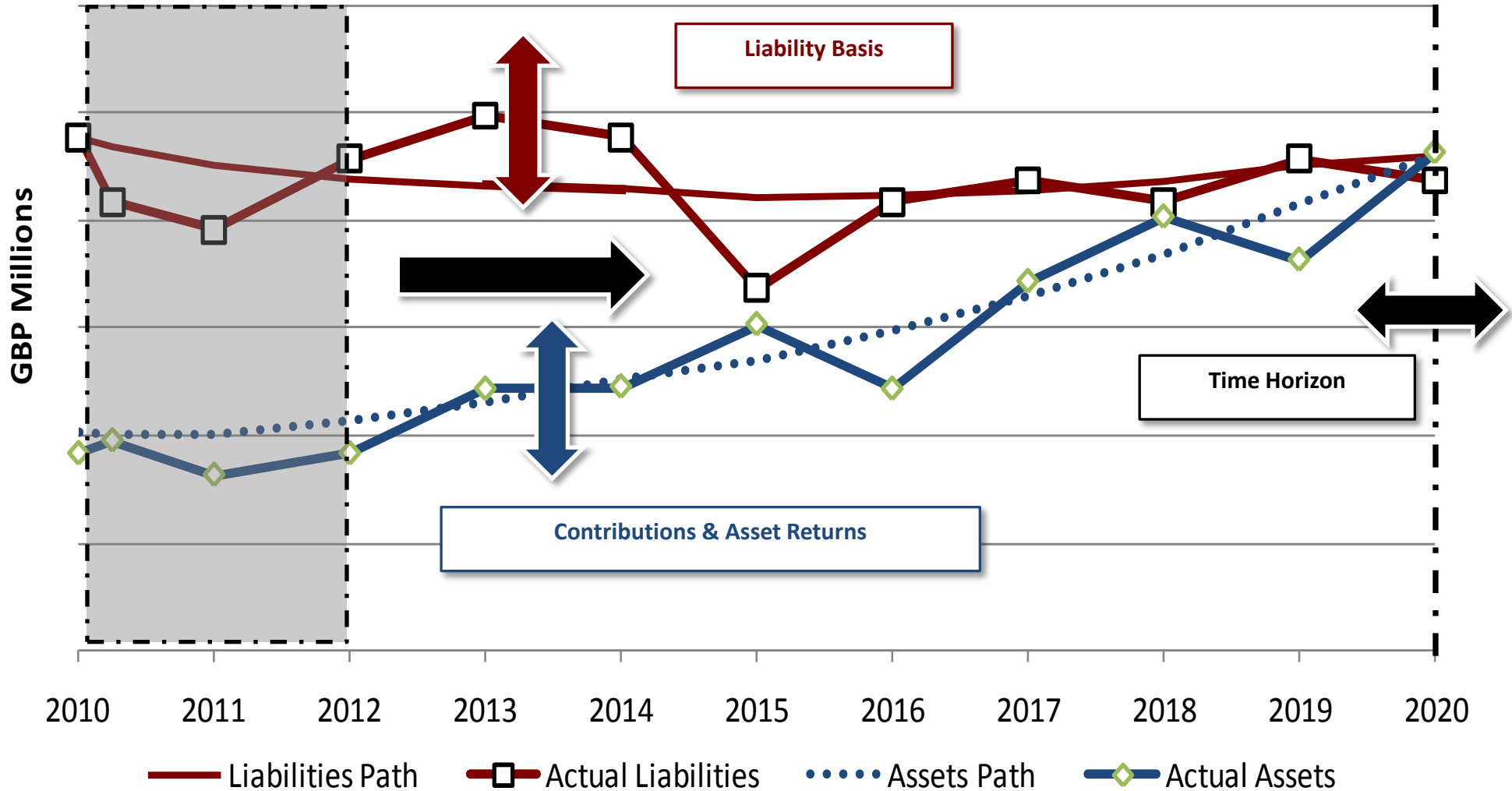
FTSE 100 companies' aggregate pension assets and liabilities

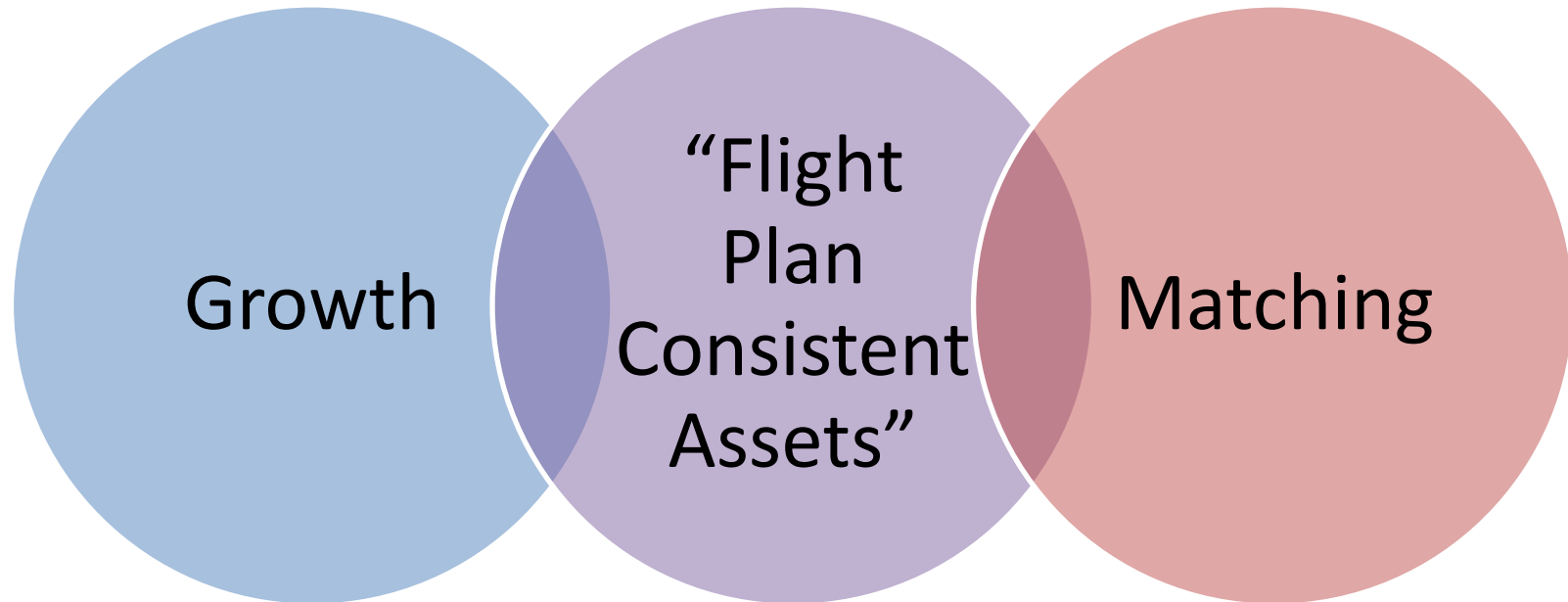
Source: Aon Hewitt Pension Risk Tracker, Redington



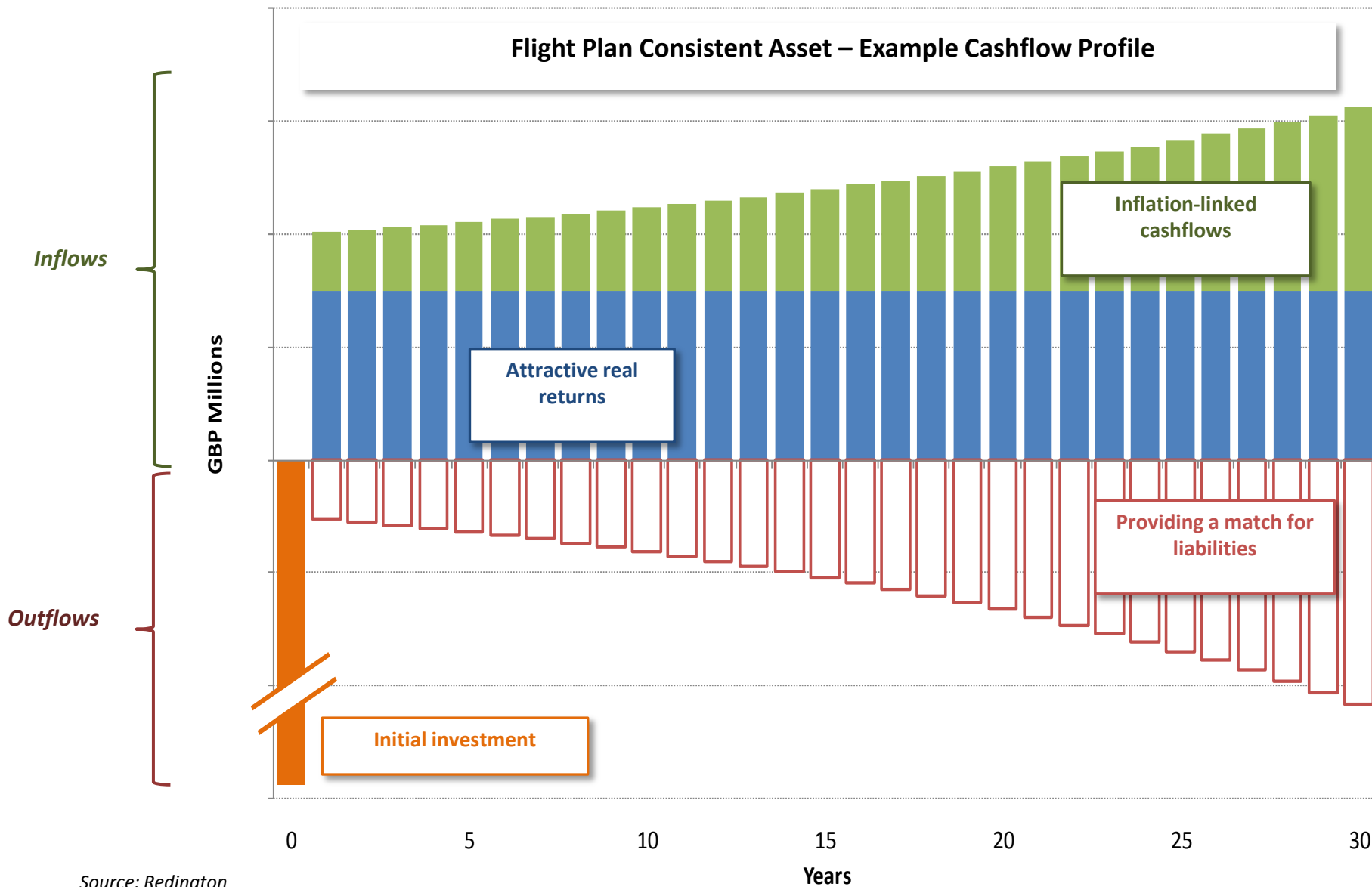
Aggregate funding level of FTSE 100 pension schemes

Source: Aon Hewitt Pension Risk Tracker, Redington





 ***Fuel efficiency***: achieve an efficient risk/return balance 



Source: Redington

Infrastructure

- Investing in **public sector projects** through, for example, Private Finance Initiatives (PFIs), bespoke investments structures or by purchasing a suitable infrastructure asset
- Wide range of possible assets, from roads to power generation
- **Long-term, potentially inflation-linked** revenue streams



Secured Leases

- Take advantage of **attractive yields on long-term secured property leases**
- Yields may be **in excess of yields on corporate bonds** issued by same borrower
- **Long-dated index-linked** cashflows



Social Housing

- **Low-cost rental housing** provided for disadvantaged people in need of housing
- Generally **provided by local councils and housing associations**
- Offers **long-dated, inflation-linked** cashflows from **secured borrowers** (i.e. housing associations) with **quasi-government guarantee**



Ground Rents

- Ground rent created when freehold land or building is sold on long lease
- Typically **“pepper-corn” rent for land only** (not buildings)
- Offers **attractive returns, limited credit risk and high level of security**



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