
SUBJECT: UK PENSION SCHEME INVESTMENT IN NATIONAL INFRASTRUCTURE PLAN

London, 30 November 2011: Following the Autumn Statement from the UK Chancellor, Redington's Managing Director and Senior Investment Consultant, David Bennett, says:

"The National Infrastructure Plan is a welcome announcement from the government. Under the plan, the Government has signed a "Memorandum of Understanding" with the NAPF, PPF, four infrastructure fund managers and a number of pension funds (Hermes, the London Pensions Fund Authority and the Greater Manchester Pension Authority). The basic idea is to cooperate to develop a suitable platform – to be owned by pension funds – for increased pension fund investment in infrastructure. The funds who are signatories to the Memorandum have apparently said that they would be willing to allocate more than 2.5% of their assets to infrastructure under such a platform.

"The need for new infrastructure investment continues to grow - according to the FT the Government expects that £200bn needs to be invested in UK infrastructure over the next five years - whilst traditional sources of funding have dried up in recent years. Governments are reducing their spending to meet austerity targets and banks no longer have the balance sheet available to finance or refinance such deals. About £20bn of future funding is expected to come from pension funds.

"To date, infrastructure investments have mainly suited larger pension schemes due to their complexity and size. However, there are a number of smaller projects also in need of financing, such as affordable housing, schools and hospitals within the 'social infrastructure' space.

"The largest Canadian and Australian schemes have invested domestically in infrastructure for a number of years and have invested in building in-house skills and infrastructure to enable them to evaluate and make investments and then to handle ongoing management. In view of the relative scarcity of domestic assets they have been prominent in participating in a range of international infrastructure investments. This in-house option is not available to most UK pension funds and hence any proposal that opens up infrastructure investment to more pension schemes is to be welcomed.

"UK pension schemes have shown interest in this asset class since before the National Infrastructure Plan announcement. Successful implementation of this plan will require further education on the benefits of infrastructure investments, such as long-dated and inflation-linked cashflows, as well as ways for UK schemes to gain access. It is vital trustees understand the risks and returns involved with different opportunities, for example investing via equity versus debt, owning the asset outright versus investing via a fund.

"As always, the devil is in the details and the details are still flowing in."

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Notes to editors:

About Redington

Founded in 2006, Redington was established by two investment bankers, Dawid Konotey-Ahulu and Robert Gardner, formerly of Merrill Lynch, offers asset and liability management to pension funds and insurance companies. The company employs 45 people and has over £200bn in asset under consulting.

Konotey-Ahulu and Gardner spent several years advising on risk management strategies for their clients and, in 2003, devised and implemented the first full LDI risk management transaction by a pension fund, Friends Provident Pension Scheme. Their experience allows them to harness effectively the technology of investment banks and asset managers to provide clients with a wide range of solutions.

Redington is an advocate of social media and web 3.0 and how it can be used to bring about innovation and collaboration in the pensions community. In December 2009 it launched mallowstreet.com, a targeted community that brings pension fund decision makers and product providers together.

www.redington.co.uk

