

Infrastructure Investing

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History of investors

- ▶ In the beginning there were financiers
 - ▶ Strong investment grade projects
 - ▶ Strong sub-contractors
- ▶ Key sub-contractors
 - ▶ Operation and maintenance
 - ▶ Construction partners
 - ▶ Accounting challenges
 - ▶ Balance sheet and credit/return challenges
 - ▶ Vertically integrated investors
 - ▶ Potentially significant accounting challenges
- ▶ Sub-contractors tend to invest through pension fund and equity funds
- ▶ Most investment are 'private equity' investments

Investment characteristics

- ▶ Long term deals
- ▶ Typically complex structure
- ▶ Strong credit rating
 - ▶ Canada typically A- and above
 - ▶ Driven by many factors including counter party
- ▶ 'Modest' return
 - ▶ Depend on revenue model
 - ▶ Interestingly not that sensitive to risk free rate
 - ▶ Hold to maturity v recycle
- ▶ Large capital outlay with small annual costs
 - ▶ Highly levered with small equity checks
- ▶ Often no residual value

Investment characteristics (cont'd)

- ▶ Investments into projects tend to be partnerships
 - ▶ General partnership
 - ▶ Limited partnership
- ▶ Tax structuring
 - ▶ Flow through
 - ▶ Cost base issues
 - ▶ Thin capitalization rules
 - ▶ Cross border

Types of investors

- ▶ Financial
 - ▶ Pension funds / Life cos
 - ▶ Infrastructure funds
 - ▶ Listed
 - ▶ Unlisted
 - ▶ PE funds
- ▶ Key parties
 - ▶ Sub-contractors
 - ▶ Risk tolerance
- ▶ Debt investors

Types of investors (cont'd)

- ▶ Depends on investment characteristics
 - ▶ Greenfield/Development risk
 - ▶ Revenue model
 - ▶ Secondary market
 - ▶ Asset specific
 - ▶ Equity ticket size

Funds – key issues

- ▶ Most investment in infrastructure through funds
 - ▶ Scale
 - ▶ Complexity
- ▶ Investment strategy
- ▶ Investment team
 - ▶ Carried interest
- ▶ Committed capital v invested funds
- ▶ Duration of fund
 - ▶ Closed end v open end
 - ▶ Implications of the project development cycle

Funds – key issues (cont'd)

- ▶ Valuation - best practice, steps, method and challenges
- ▶ Multiple funding rounds
- ▶ Redemption
- ▶ Return thresholds and fees
 - ▶ Core equity return
 - ▶ Success fee (development fee, equity u/w)
 - ▶ Financial advisory
 - ▶ LC fee/Management fees
 - ▶ Lifecycle surpluses