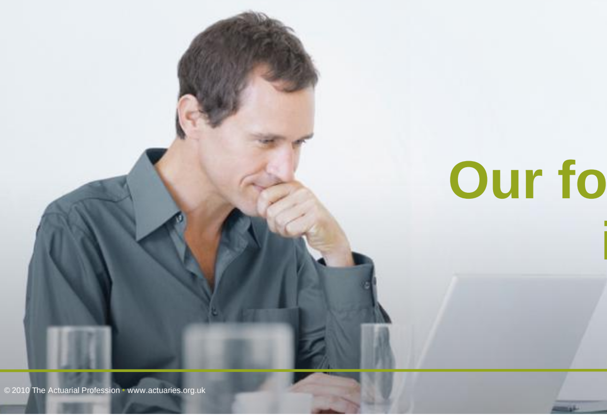
The Actuarial Profession
making financial sense of the future

[Infrastructure seminar]
Alan Rubenstein



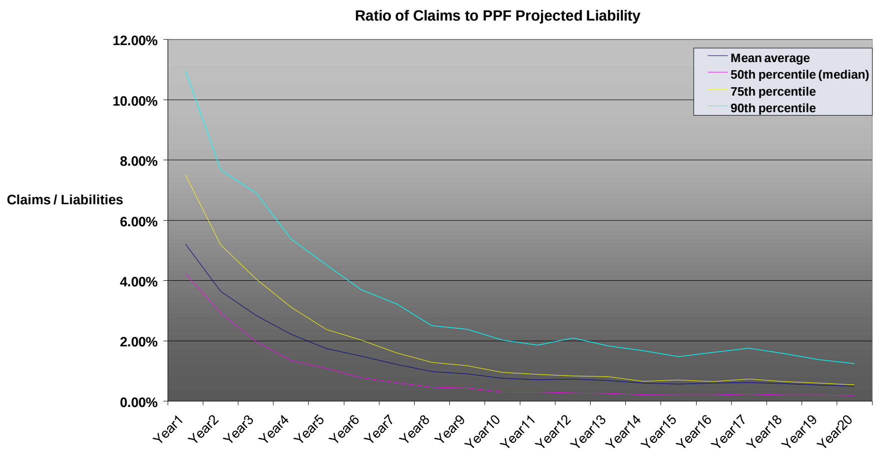
Our foundations for infrastructure

11 April 2013

Background to the PPF

- 106% funded (31/1/13)
- £18bn balance sheet liabilities
- £765m compensation paid
- 153,000 members transferred into PPF from 550 schemes
- A further 155,000 members in assessment from nearly 300 cases.

Our time horizon



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Principles of PPF investment strategy

- Conservative, low-risk appetite
- Liability Driven Investment strategy
- Interest & inflation rate risk reduced through investment in:
  - UK Government bonds and cash
  - Interest rate swaps
  - Inflation swaps
  - Swaptions
  - Gilt Repos
  - Gilt total return swaps (TRS)
- Diversified growth strategy
- Libor+1.8% target
- 4% risk budget

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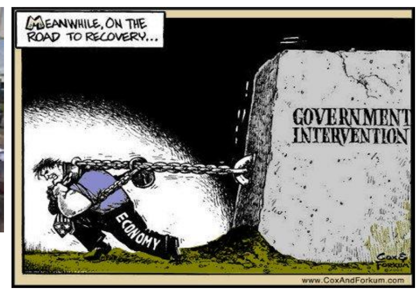
Asset Allocation

	Asset Class		Allocation	
70%	Liability Hedging	LDI Collateral	£4.3bn	33%
	Global Bonds	Global Government	£2.3bn	18%
		Global Credit	£0.9bn	7%
		Absolute Return	£0.6bn	5%
		Asset Backed	£0.4bn	3%
		Emerging Markets	£0.5bn	4%
10%	Global Equity	Global Equity	£1.2bn	9%
20%	Alternatives	Real Estate	£0.7bn	6%
		Private Equity	£0.3bn	2%
		GTAA	£0.7bn	6%
		Infrastructure	**£0.1bn**	**1%**
		Alternative Credit	£0.8bn	6%

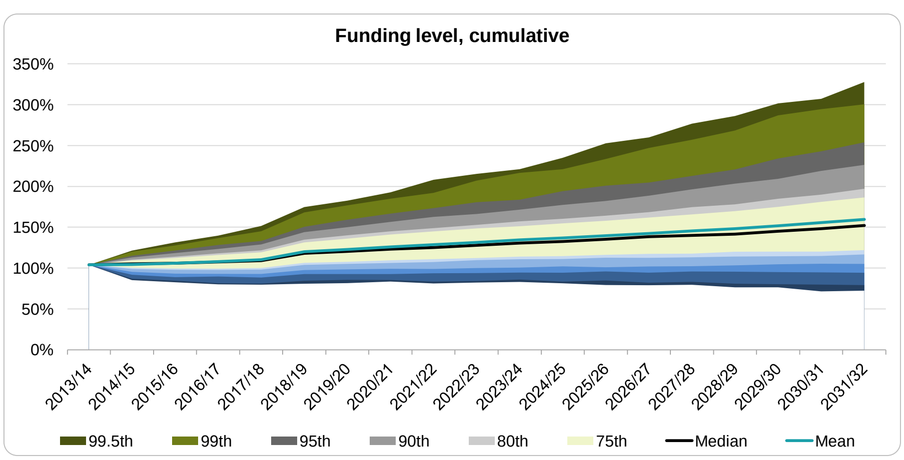
What does our current infrastructure investment seek to do?

- Predominantly return-seeking
- Diversified: mainly Europe and North America
- Variety of options
- Target consistency & reliability of returns
- But one manager seeking to move assets on in 5-7 years
- Low risk (secured assets and sponsor)

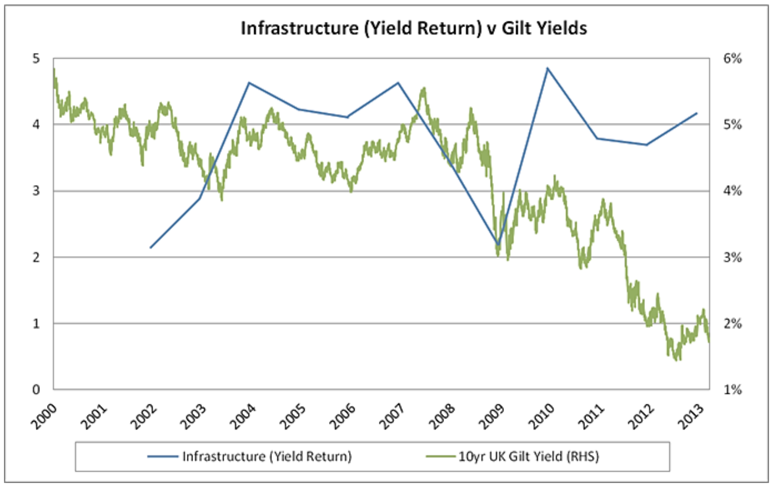
Infrastructure comes with its own risks



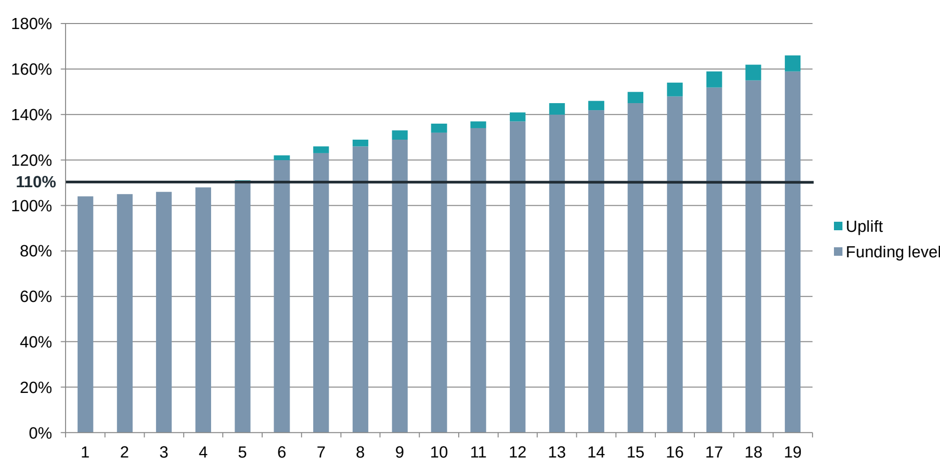
How do we hit the return target in the future?



Yield comparison



Looking for uplift



Why do we want to invest in PIP?

- Seeking long-dated, inflation-linked returns, interest-like characteristics
- Could reduce dependency on hedging with swaps…
- …allowing us to capture illiquidity premium
- Demand for long-term financing, but banks unable to lend
- Looking to bridge divide between greenfield and brownfield
- Infrastructure a natural fit for PPF and pension schemes

Summary

- PPF seeking to hedge (extremely illiquid) liabilities
- To date, infrastructure fund managers set-up along return-seeking, private equity lines
- On the right terms, infrastructure could be a suitable replacement for gilts
- But it's important to be aware of the complexity and risks of the asset class
- PIP will offer PPF and others access to low-risk, long-term inflation-linked cash flows on fair terms