



Pensions Investment in Infrastructure

Robert Gardner
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The Actuarial Profession
making financial sense of the future



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11 April 2013

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We live in uncertain times...

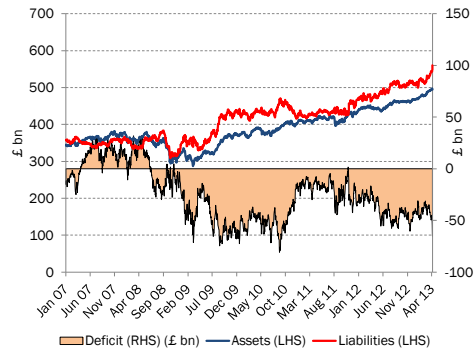
Pension funds continue to face a challenging economic environment

30-Year Gilt Real Yield



Source: Bloomberg, Redington

FTSE 100 Company Pension Assets and Liabilities



Source: Aon Hewitt Risk Tracker



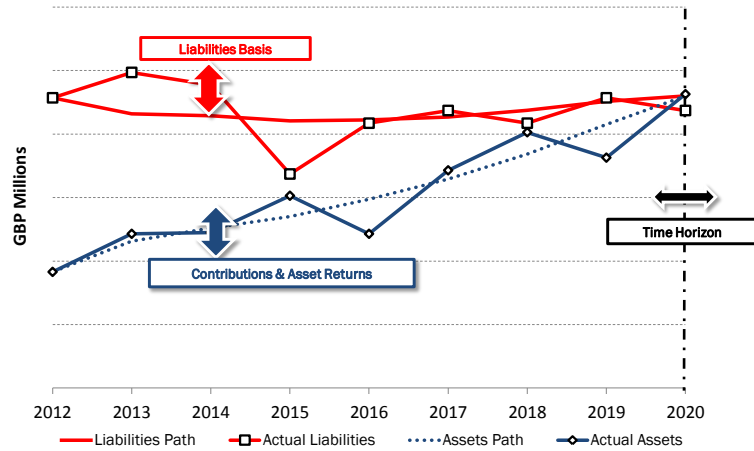
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A "Flight Plan" to repair the deficit and improve member security...



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Why invest in infrastructure?

Infrastructure assets can provide pension funds with:

1

Attractive risk/return profile

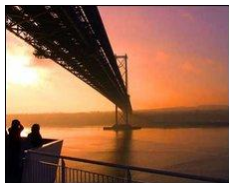
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Liability-matching cash flows

3

Diversification benefits

Private Finance Initiatives



Private Infrastructure



Social Infrastructure Projects



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How is infrastructure attractive to long term investors – both debt and equity?

Infrastructure Debt

- First call on cashflows (i.e. **secured**)
- **Traditionally dominated by banks**
- **Illiquidity premium**
- **Stable, secure, long-term cashflows**
- Potential **inflation-linkage**

Infrastructure Equity

- Call on free cashflows – a **leveraged exposure**.
- Similar to **private equity** (with **comparable fees**)
- **Refinancing risk**
- Equity valuation more **volatile**

A Few Examples of Pension Funds and Infrastructure... Lessons learned



Inflation-Linked Debt

Equity

Sale & Leaseback

Social Housing



Genesis Housing Association Inflation-Linked Debt



- **Low-cost rental housing** provided for disadvantaged people in need of housing.
- **Housing Associations** have traditionally been able to borrow long-term funding at very low margins from their relationship banks, however post-credit crunch, the funding landscape in the sector has opened up.
- Offers **long-dated, inflation-linked** cashflows from **secured borrowers** (i.e. housing associations) with **quasi-government guarantee**.

INSIDE HOUSING.CO.UK

Genesis bond raises £250 million

15 December 2009 | By [Tom Lloyd](#)



Image source: Genesis Housing Association

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Cambridge Water Equity



- Bought by **HSBC** in **August 2011** (for warehousing) for £74m
- Provides **water for 300,000 people** in Cambridgeshire.
- **No external debt** bar revolving credit facility.

FINANCIAL NEWS

Come on in, the Cambridge water's fine

15 Aug 2011

Pension funds mull a bid for Cambridge Water

[Mark Cobley](#)

15 Aug 2011

Redington plans fresh water bid

[Mike Foster](#)

05 Jan 2012



Image source: Cambridge Water

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**Aviva REaLM (on behalf of Aviva Staff Pension Scheme) and Derwent Living
Sale & Leaseback**



**INSIDE
HOUSING.CO.UK**

Aviva completes £45m homes transfer

13 September 2011 | By [Carl Brown](#)

- We advised the Aviva Staff Pension Scheme on its Return Enhancing and Liability Matching (ReALM®) strategy to fund the transfer of 839 properties from Home Group to East Midlands housing provider Derwent Living.



Image source: Aviva Investors

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**M&G Investments
Social Housing**



**IDREAL
ESTATE**

Pension funds invest £200m in M&G social housing debt fund

2 December 2011

- On behalf of a client who was interested in our suggestion to invest in social housing, we initiated discussions with M&G to ascertain whether they could manage the investment.
- These discussions led to M&G establishing its **Social Housing Debt Fund** in late 2011.



Image source: Financial News

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Accessing Infrastructure

Directly	Via a Dedicated Platform	Via an Asset Manager
<ul style="list-style-type: none"> Pension funds buy infrastructure debt directly from issuers. This requires significant expertise and resources (i.e. In-house team). 	<ul style="list-style-type: none"> Enables pooling of assets with other pension funds. Examples: Pension Infrastructure Platform (supported by the Government). 	<ul style="list-style-type: none"> We have met with and researched a wide range of providers in this space, covering UK and European infrastructure debt.



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