



IST3 Investment Foundation

Votre Partenaire Indépendant et Compétent

Les Mérites de l'infrastructure dans les Portefeuilles Institutionnels

(présentation en anglais)

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Let's define Infrastructure...

Assets involved in the movement and storage of goods, people, data, water and energy

Essential for a community to survive, thrive, be productive

Monopolies or assets with monopolistic characteristics, often regulated by government agencies or concession contracts



Infrastructure

Sectors and Investment Characteristics

- **Sectors and Sub-sectors**
 - **Regulated Utilities:** electricity, gas, water & waste water
 - **Transportation:** airports, roads, seaports, vehicular roads, rail roads
 - **Contracted Power Generation:** coal, gas, hydro, nuclear, wind, solar
 - **Social Infrastructure:** hospitals, schools, government buildings, housing
 - **Telecommunications:** copper, fiber optics, cellular, radio, satellite, TV
- **Investment Characteristics**
 - **Cash Flows:** relatively predictable, low volatility, significant distributions
 - **Monopolistic:** high barriers to entry, inelastic demand
 - **Diversification:** low correlation to equity, fixed income and the economy
 - **Inflation:** partial protection or hedging characteristics
 - **ESG:** significant impact and opportunity for enhancement



Infrastructure

Risks, Trends and Mitigants

- **Risks, Trends and Mitigants**

- **Political:** legislative framework, precedent case law, and contract protections
- **Regulatory:** transparent regulatory framework, track record of fairness
- **Labour:** early engagement, agreement on compensation, growth plans
- **Technology:** assess, consider and underwrite enhancement and disruption
- **Affordability:** abuse of demand inelasticity and monopolistic characteristics
- **ESG:** a material consideration (autos, fossil fuels, nuclear, military, prisons)
- **Increased market efficiency:** absolute returns declining, while risk-adjusted returns relative to fixed income and real estate continue to be competitive
- **Idiosyncratic risk:** sectoral and geographic expertise & experience required

- **Portfolio Diversification**

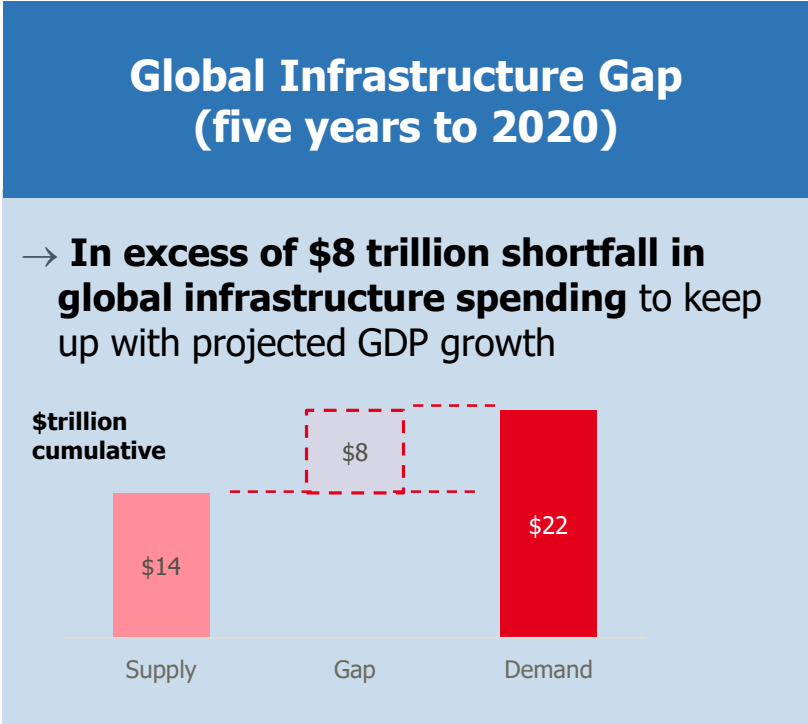
Risks are best mitigated through portfolio construction diversified across:

- **Sector:** utilities, transportation, social, contracted/concession-based assets
- **Geography:** newer vs. older OECD members, emerging & frontier economies
- **Life-cycle:** development, in-construction, ramp-up, optimized, maintenance

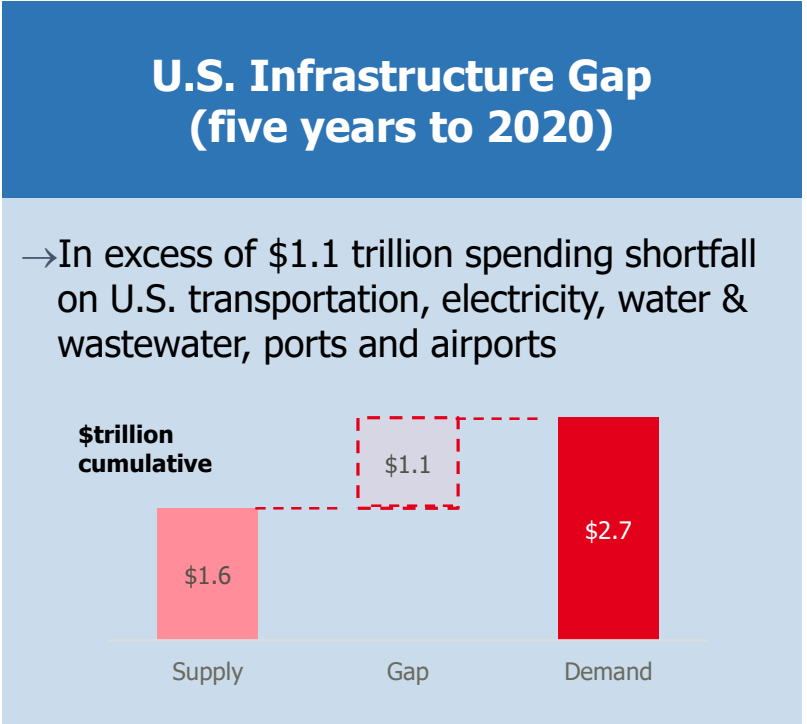


Infrastructure Opportunity

Significant need for investment and spending



Source: McKinsey Global Institute *Infrastructure Productivity*; figures cumulative and based on past infrastructure spending

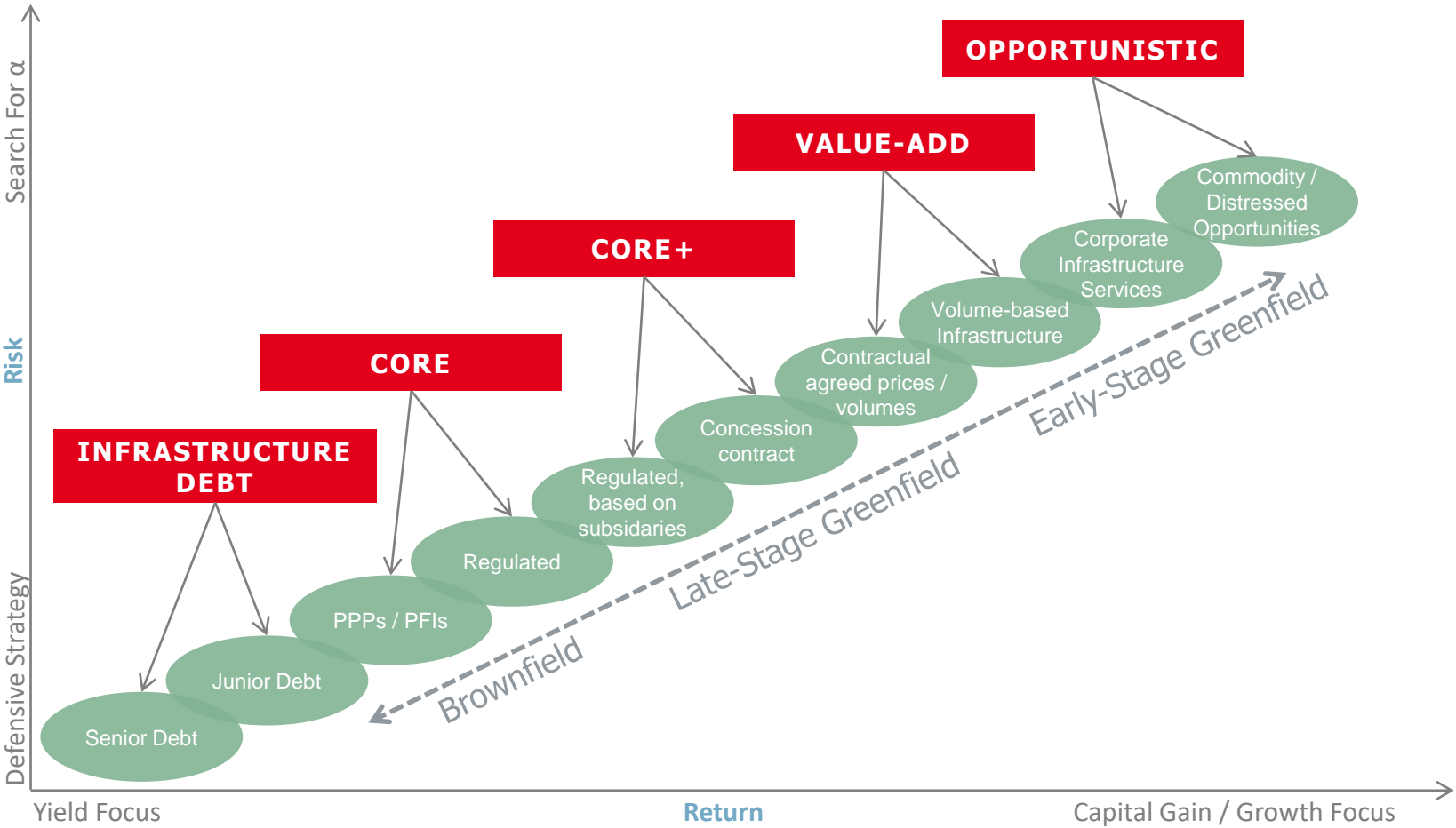


Source: American Society of Civil Engineers *Failure to Act Report*; figures based on current trends; figures cumulative



Infrastructure Investment Strategies

Risk-Return Spectrum

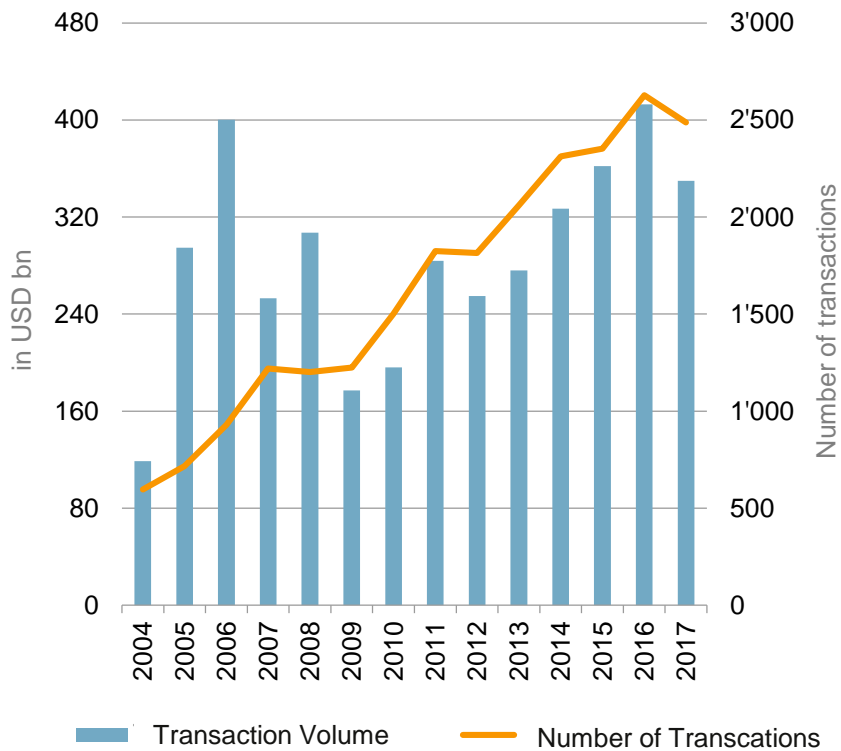


Source: Mercer Private Markets Research

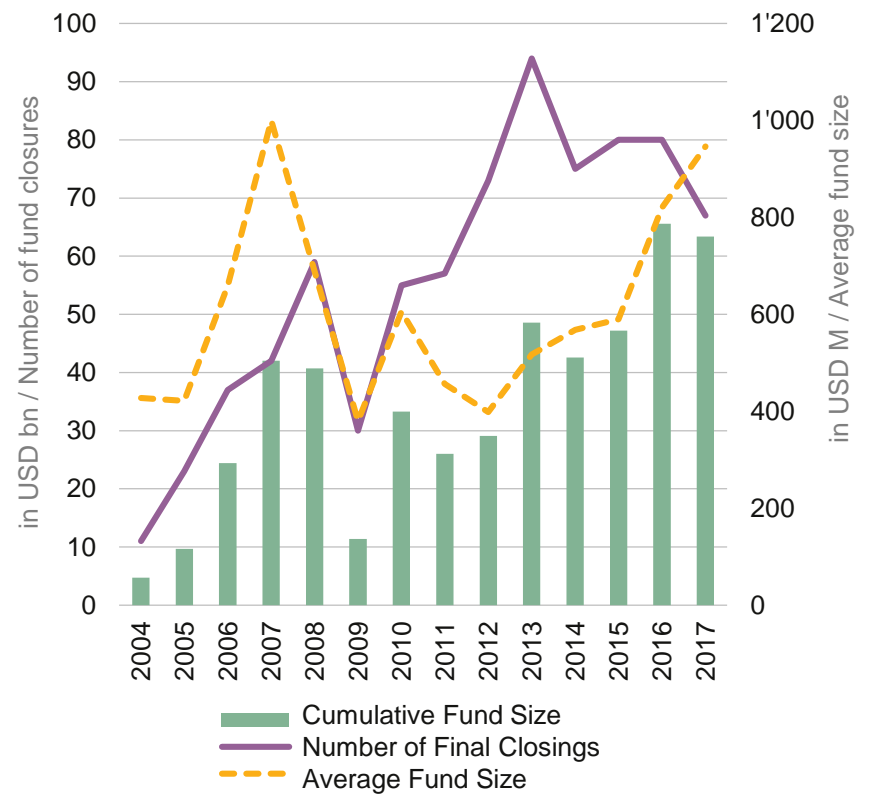


Infrastructure Investing Transaction and Fundraising Activity

Global Transaction Volume



Fundraising - Private Funds Global Infrastructure Funds



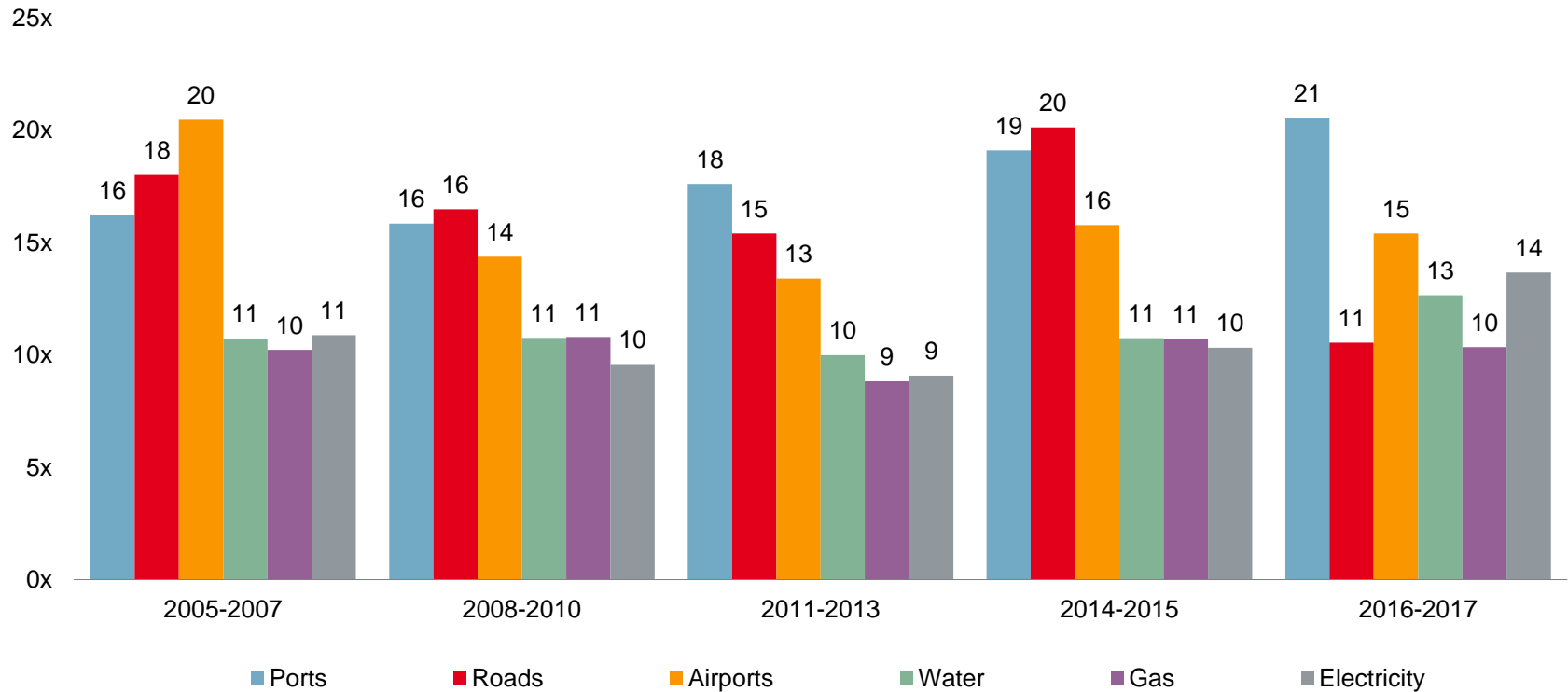
Sources: Prequin, Mercer Private Markets Research



Infrastructure Valuations

Multiples are increasing and discount rates are declining

EV/EBITDA Multiples for OECD Transactions



Sources: Capital IQ, Morgan Stanley, Mercer Private Markets Research



Infrastructure Portfolio Construction

- 'Crawl, walk, run'
- 'Don't put all your eggs in one basket'
- Secondaries (mitigate J-Curve)
- Funds
 - Open-end vs. closed-end
 - Risk-return profile:
(core vs. core-plus vs. value-add)
 - Sector, geographic diversification
- Co-Investments
 - Alongside Fund Managers
- Direct Investments
 - Primary vs. secondary
 - Auctions vs. exclusive





Infrastructure
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