IST3 Investment Foundation
Votre Partenaire Indépendant et Compétent

Les Mérites de l'infrastructure dans les Portefeuilles Institutionnels
(présentation en anglais)

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Mark A. Weisdorf
Managing Partner, Mark Weisdorf Associates, LLC
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
• 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

Global Infrastructure Gap (five years to 2020)

→ In excess of $8 trillion shortfall in global infrastructure spending to keep up with projected GDP growth

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<th>$trillion cumulative</th>
<th>Supply</th>
<th>Gap</th>
<th>Demand</th>
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<td>$14</td>
<td>$8</td>
<td>$22</td>
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U.S. Infrastructure Gap (five years to 2020)

→ In excess of $1.1 trillion spending shortfall on U.S. transportation, electricity, water & wastewater, ports and airports

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<td>$1.6</td>
<td>$1.1</td>
<td>$2.7</td>
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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

- Transaction Volume
- Number of Transactions

Fundraising - Private Funds
Global Infrastructure Funds

- Cumulative Fund Size
- Number of Final Closings
- Average Fund Size

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
• ‘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
Mark Weisdorf Associates, LLC

Mark Weisdorf
Managing Partner
135 East 57th St.
25th Floor
New York, NY
10022, USA

Email: mark@weisdorf.ca
Tel: +1-917-446-2264
Website: www.weisdorf.ca
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