



# Infrastructure Investment

Tony Lynch  
Donadea Capital

**Donadea  
Capital**

IAPF Annual Investment Conference : 23<sup>rd</sup> March 2011

[www.iapf.ie](http://www.iapf.ie)



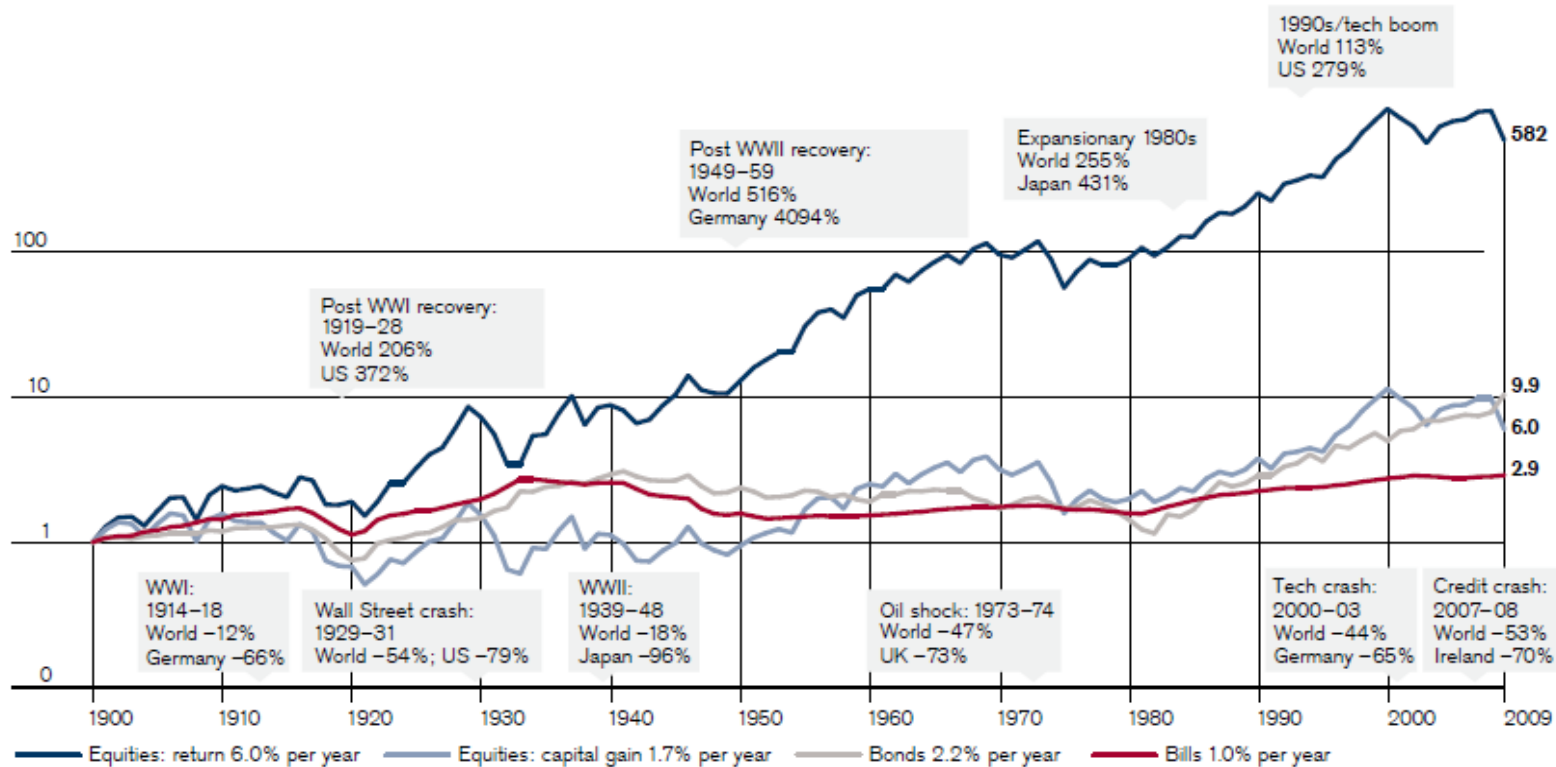
# Investment returns

- What are the characteristics of the asset classes that deliver the best returns over the long run?
- What are the characteristics of infrastructure investments?
- Do these characteristics suit pension funds?



## Cumulative returns on US asset classes in real terms, 1900–2008

Source: Elroy Dimson, Paul Marsh and Mike Staunton, Credit Suisse Global Investment Returns Sourcebook 2009 and Triumph of the Optimists, Princeton University Press, 2002



Reproduced with permission. Copyright – Elroy Dimson, Paul Marsh and Mike Staunton.



# Investment returns

- Bulk of real return on equities accrues through dividend income not capital gains
- Asset values as a whole rise only slowly in the long run but can rise and fall dramatically in the short run
- Clear evidence on the nature of long-term returns



# Investment environment

- Equities remain expensive on a historic basis - cyclically-adjusted PE ratio of 24
- 30-year bull market in bonds at an end?
- Property outlook depends on individual markets
- Impact of end of QE2 unclear but unlikely to provide upside to current valuations



# Infrastructure funds

- Existing funds include private-equity-type funds that engage in leveraged acquisition of existing infrastructure assets
- Also include PPP/PFI funds in the UK that invest at cost in new assets/projects
- Investments can range from debt, mezzanine to equity



# Domestic opportunities

- PPPs
- Renewable energy
- Other private infrastructure developments which involve debt opportunities and higher-risk start-up equity investments
- Returns on debt of 6-7 per cent and 10-12 per cent on equity



# PPP model

- PPP Co. enters into Design, Build, Finance & Maintain (DBFM) contract with the State
- Contractor takes construction risk
- Facilities manager takes maintenance risk
- Some residual risk (eg. insurance) to be managed





# PPPs

- Well-defined risk characteristics
- Well-established legal templates structured to protect senior debt provider
- But ..... problems in the short term



# Renewable energy

- Independent wind farms developers
- Output price supported by Government REFIT programme – contract revenue
- Well-understood risk characteristics – which mainly relate to wind
- Equity, debt and mezzanine opportunities



# Other projects

- Projects in development in the energy & transport sectors
- Largely private sector developments
- Equity and debt requirements



# Debt opportunities

- Debt participation *pari passu* with participating banks
- Normal security arrangements over projects
- Essentially an infrastructure bond



# Investment characteristics

- Contract-supported revenue
- Returns paid out – income generating
- Well-defined risk characteristics
- No liquidity – initially at least
- Project-by-project approach brings visibility to funds enabling a “dip-the-toe” approach



# Other issues

Pensions Board supportive as infrastructure investments provide:

- ✓ a liability match;
- ✓ a source of diversification from equities.

Brendan Kennedy, CEO, Pensions Board.



# PANEL DISCUSSION Q&A

**Donadea  
Capital**

IAPF Annual Investment Conference : 23<sup>rd</sup> March 2011

[www.iapf.ie](http://www.iapf.ie)



# THANK YOU

Tony Lynch  
Donadea Capital

**Donadea  
Capital**

IAPF Annual Investment Conference : 23<sup>rd</sup> March 2011

[www.iapf.ie](http://www.iapf.ie)