

IBUILD

National Stakeholder Event

Workshop 3:

*Overcoming Obstacles to Valuation and
Financing of Local Infrastructure
Provision*

12/11/2014, The Doubletree, Leeds

EPSRC

Engineering and Physical Sciences
Research Council



Welcome

Andy Brown

Senior Lecturer in Economics

IBUILD

University of Leeds

Overview

David Penhallurick, IUK

Tom Knowland & Simon Brereton, Leeds City Council

Open discussion

Mike Shimwell, KPMG

Toby Buscombe, Mercers International

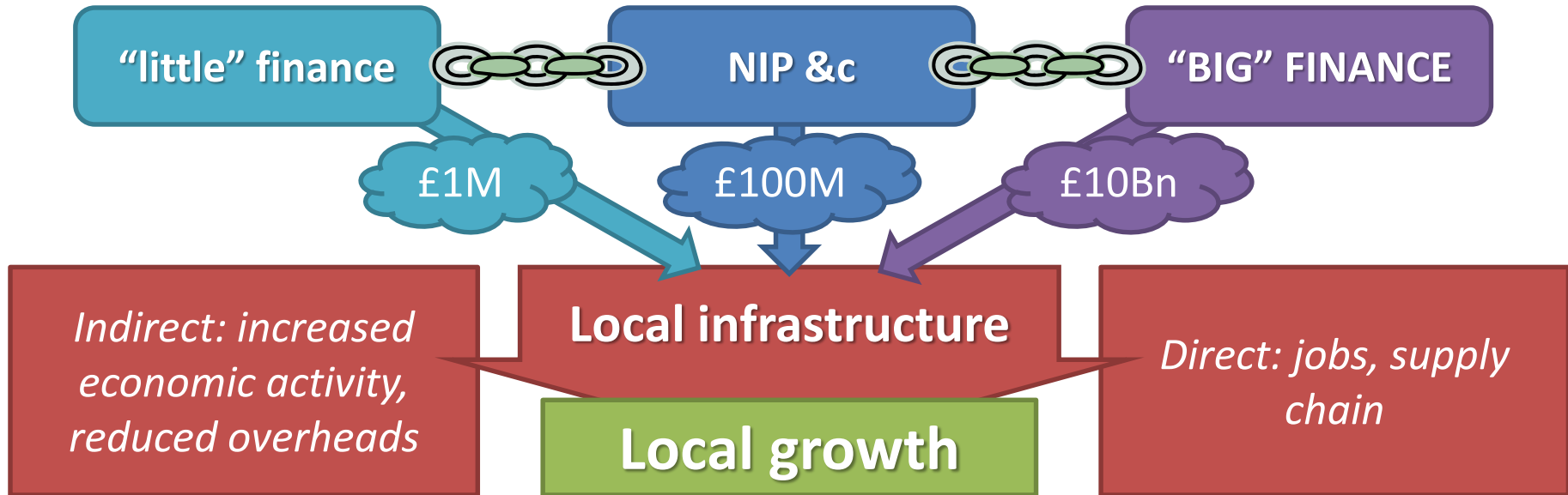
Open discussion

Discussion in groups & feedback

- Community self-generated resource (e.g. B4RN)
- Local Authority finance: Council Tax
- Community bonds
- Does this keep value (£, jobs, skills...) in the community?

- Interact with UK plans: “everything must go somewhere”
- Ability to underwrite risk to achieve social goals: Equity & Dividend
- Political value (e.g. flood defences)?

- UK-based: pension plans
 - value “3% pa”
- Foreign: FDI
 - Geopolitical objectives as part of value?
- Does value leave the community



Setting the scene

David Penhallurick

Strategic Lead - Cross-Sector Delivery

Infrastructure UK

HM Treasury

EPSRC

Engineering and Physical Sciences
Research Council



A local authority view

Simon Brereton

*Acting Head of Economic Policy and
Sector Development
Leeds City Council*

Tom Knowland

*Head of Sustainable Development
Leeds City Council*

EPSRC

Engineering and Physical Sciences
Research Council





Leeds City Council

Some challenges in funding and valuing local infrastructure

- “Smaller in size, greater in influence”
- Politics changes quickly, infrastructure takes forever!
- Social value – emphasis on adverse impacts, not benefits



What Leeds would like to do...



- Rail link to the airport
- NGT
- Internet of everything
- 70,000 new houses
- Green infrastructure
- +1,000,001!

Examples of successful investment: District Heating Networks - features of financing and valuation

Tom Knowlands

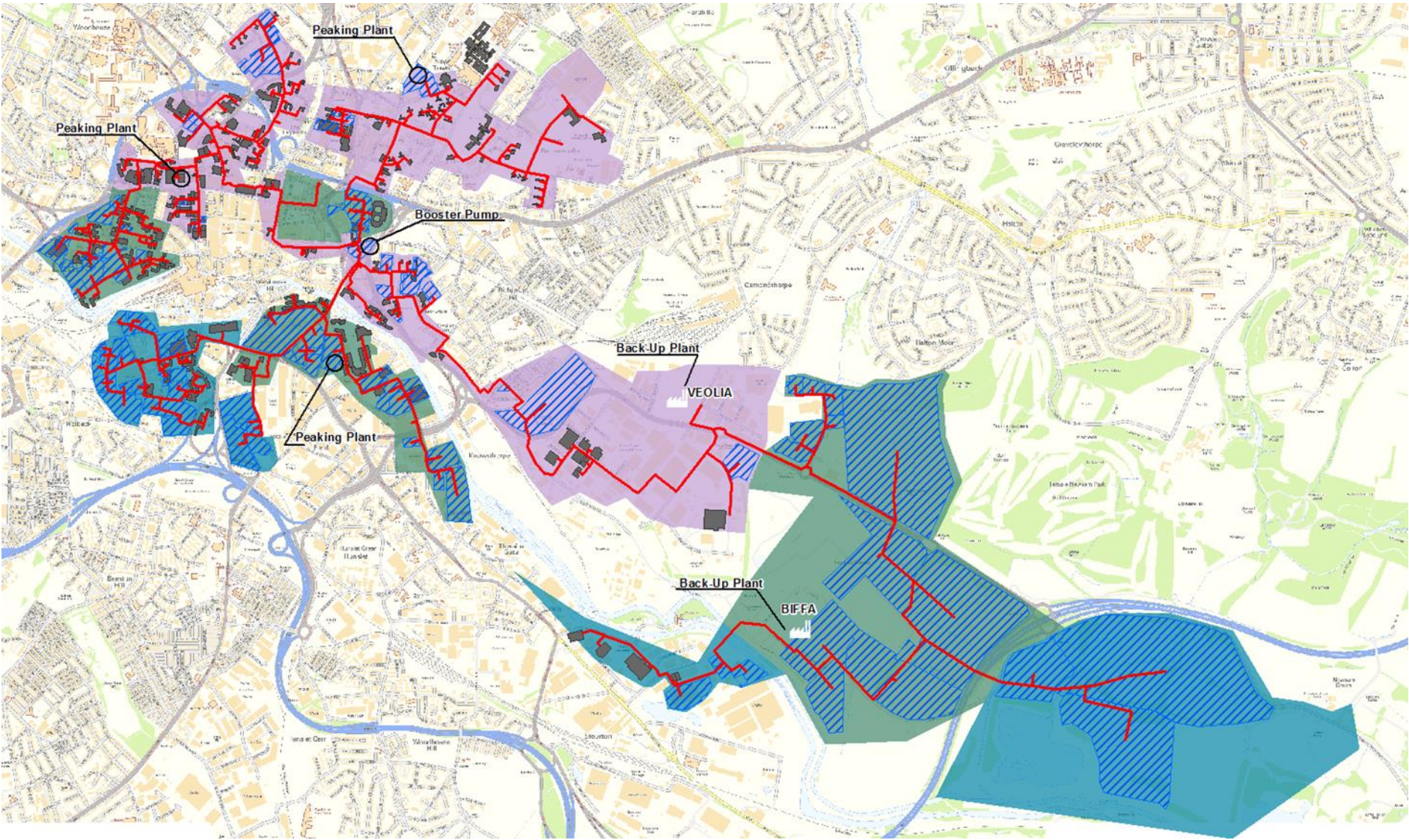
Head of Sustainable Development

Leeds City Council

EPSRC

Engineering and Physical Sciences
Research Council





Peaking Plant

Peaking Plant

Booster Pump

Peaking Plant

Back-Up Plant

Back-Up Plant

VEOLIA

BIFFA

Open Discussion

Finance Case Study 1

Mike Shimwell

*Principal Consultant and Actuary,
Pensions*

Tax & Pensions

KPMG LLP

EPSRC

Engineering and Physical Sciences
Research Council



Finance Case Study 2

Toby Buscombe

*CFA, Principal, Head of Infrastructure
Mercer*

INFRASTRUCTURE EFFECTIVE INVESTING CONSIDERATIONS FOR INSTITUTIONS

TOBY BUSCOMBE
LEEDS, NOVEMBER 2014



COVERAGE

1. Defining terms
2. Headline investment case
3. Effective investment considerations

ASSET CLASS OVERVIEW

DEFINING ECONOMIC CHARACTERISTICS

WHAT IS INFRASTRUCTURE?

High barriers to entry

Economies of scale

Inelastic demand

Long life duration



Potential for inflation linked income streams

HEADLINE INVESTMENT CASE

A PORTFOLIO CONTEXT

Lower volatility investment returns

Underlying asset cash flow stability

Mark to market insulation

Diversification via alternative sources of return

Access to unique return drivers

Limited linkage to traditional asset price

Potential for inflation linked returns

Explicit indexation in many asset revenues

Cash yield return component

Mature assets can generate stable cash

EFFECTIVE INVESTING A TOP DOWN PERSPECTIVE

Planning as a critical first step

Setting objectives

Defining a portfolio role

Integrating with broader factor risk

Programme framework

Patient deployment

Investing through cycles

Focus on diligence

Long-lived and illiquid investments

Value of in-depth analysis and review

value of opportunism

EFFECTIVE INVESTING

A LOCAL PROJECT PERSPECTIVE

Potential benefits

- ❖ Politically palatable funding solution
- ❖ Improved market access
- ❖ Enhanced sector and political awareness relative to competitors

Considerations

- Investment motivations
- Resourcing arrangements
- Portfolio implications
- Headline risk
- Political interference risk

Potential pitfalls

- ❖ Portfolio concentration
- ❖ Non-financial imperatives
- ❖ Ineffective management arrangements

Case studies

- Asia Pacific
- North America

APPENDIX A

ADDITIONAL INFORMATION

EFFECTIVE INVESTING

THE VALUE OF DIVERSIFICATION

Diversify across a wide range of factors

...but meaningful diversification essential

**Investment
Manager**

Strategy

Geography

Sector

Investment Stage

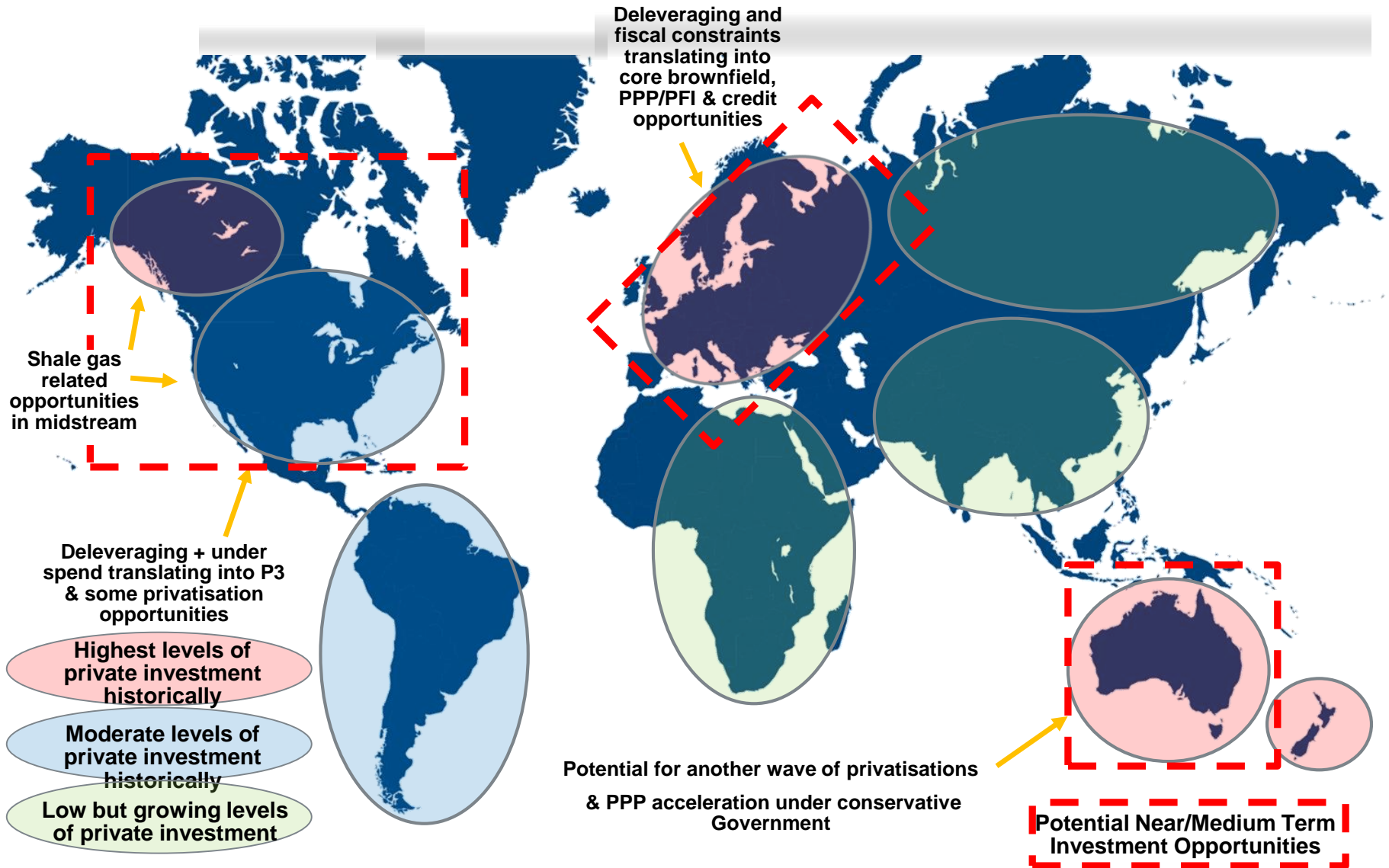
**Individual
Assets**

**Revenue
Drivers**

Vintage Year

**Common
Asset-level
Risk Factors**

INFRASTRUCTURE MARKET THEMES



APPENDIX B
MERCER AND INFRASTRUCTURE

OVERVIEW

Scale

Global investment consulting and management firm
2,700+ retainer clients with US\$5.5 trillion under advice and US\$64 billion under management
Global reach with 66 consulting locations worldwide

Alignment

Alignment through independence
Providing tailored and unbiased advice and solutions
Clients afforded global access to research, ideas and investment opportunities

Experience

Advising clients on infrastructure and natural resources for over a decade
16 Real Asset investment professionals
Led by global specialists with deep direct investment experience
Key personnel involved in direct investments globally totaling US\$3.2 billion

Customisation

Mercer builds and manages portfolios customised to meet client objectives
Capabilities extend to overall portfolio design and strategy advice, tailoring ownership structures and specific implementation assistance
Services customised to meet specific client needs

Global network

Leveraging our global network to maximise opportunities for clients
Deep global network across sponsors and managers to generate investment opportunities

GLOBAL INFRASTRUCTURE TEAM

14 EXPERTS IN 6 OFFICES ACROSS THE WORLD

EUROPE



Toby Buscombe CFA** | London | 13 years
Michael Forestner * CFA | London | 23 years
Robert Howie* FIA | London | 17 years
Garvan McCarthy* CAIA | London | 10 years
Amarik Ubhi CFA | London | 10 years

AMERICAS



Ryan Bisch CAIA | Toronto | 12 years
Harry Leggat * | St Louis | 16 years

PACIFIC



Sarah Azzi* | Sydney | 8 years
Farhad Billimoria CFA | Melbourne | 9 years
Phil Graham* CFA | Melbourne | 33 years
Ray King* | Melbourne | 28 years
Scott McNally* | Sydney | 19 years
Mark Murray CFA | Sydney | 15 years
Cameron Systemans * | Melbourne | 3 years

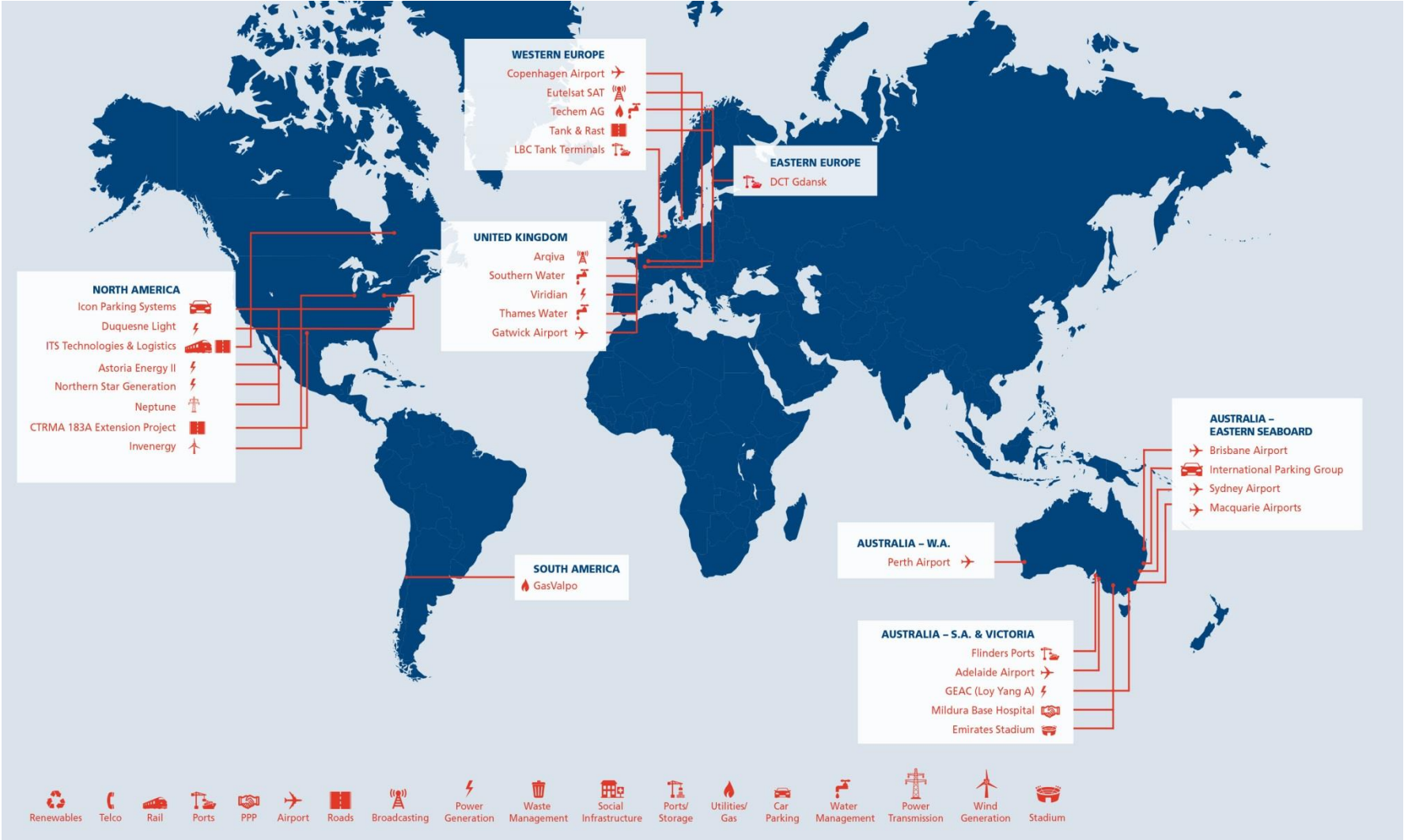
As at November 2014

Dedicated specialists shown in bold
Number of years direct industry experience

*Shared resource

**Global Head

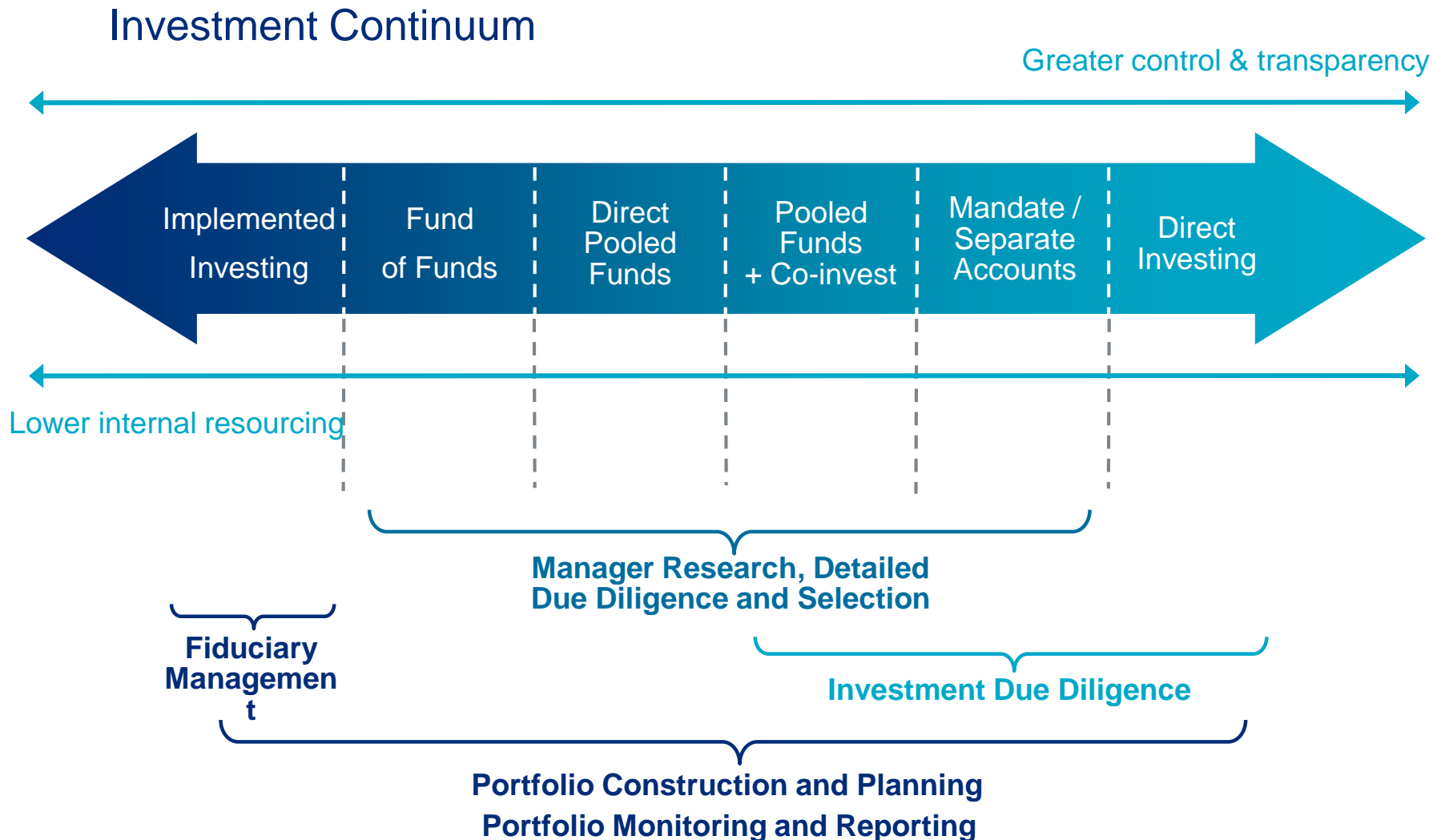
GLOBAL DIRECT INFRASTRUCTURE EXPERIENCE



GLOBAL POOLED INFRASTRUCTURE EXPERIENCE

Coverage (as at 31 December 2013)	Managers covered	Strategies covered	Strategies rated
Global	40	50	30
North America	11	14	11
Europe	41	52	29
Emerging Markets	15	20	5
Australasia	13	18	13
Listed Securities	41	58	24
Power / Energy	37	54	15
Funds of Funds	7	10	5
Infrastructure Debt	14	17	5
TOTAL	219	293	137

MERCER AND INFRASTRUCTURE INTEGRATED SERVICE OFFERING



IMPORTANT NOTICES

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

© 2014 Mercer LLC. All rights reserved.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance does not guarantee future results. Mercer's ratings do not constitute individualized investment advice.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities, commodities and/or any other financial instruments or products or constitute a solicitation on behalf of any of the investment managers, their affiliates, products or strategies that Mercer may evaluate or recommend. For the most recent approved ratings of an investment strategy, and a fuller explanation of their meanings, contact your Mercer representative.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see

www.mercer.com/conflictsofinterest.

Mercer's universes are intended to provide collective samples of strategies that best allow for robust peer group comparisons over a chosen timeframe. Mercer does not assert that the peer groups are wholly representative of and applicable to all strategies available to investors.



Mercer Limited is authorised and regulated by the Financial Services Authority
Registered in England No. 984275 Registered Office: 1 Tower Place West,
Tower Place, London EC3R 5BU



cutting through complexity

Pension Schemes as sources of infrastructure investment – appetite and obstacles

•Mike Shimwell

•November 2014



1. Scope of discussion

2. Appetite

3. Obstacles

- Any views expressed are those of the presenter and not of KPMG LLP!

Pension Schemes as sources of infrastructure investment

Scope of discussion



- Strong regional identity
- Social and economic motivation common
- Strong desire to commit and to take control of own future

**Risk
profile**

**Competitio
n**

**Opportunit
y**

Liquidity

**Budget
changes
and DC**



cutting through complexity

- © 2014 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

Open Discussion

Group Discussion and Feedback

<https://research.ncl.ac.uk/ibuild/researchprogramme/>
<http://sure-infrastructure.leeds.ac.uk/ibuild/>

EPSRC

Engineering and Physical Sciences
Research Council

