

# IBUILD

## *National Stakeholder Event*

### *Workshop 3:*

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

*12/11/2014, The Doubletree, Leeds*

# Welcome

*Andy Brown*

*Senior Lecturer in Economics*

*IBUILD*

*University of Leeds*

**EPSRC**

Engineering and Physical Sciences  
Research Council

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ibuild

The logo for ibuild features the word "ibuild" in a bold, lowercase, sans-serif font. The letter "i" is blue, "b" is brown, "u" is light blue, "d" is gold, and "l" is blue. Above the letter "b", there is a stylized graphic element composed of a blue triangle pointing down and to the left, a gold triangle pointing down and to the right, and a white area in the center where they overlap, forming a shape reminiscent of a mountain or a stylized letter "E".

# Overview

*David Penhallurick, IUK*

*Tom Knowland & Simon Brereton, Leeds City Council*

*Open discussion*

*Mike Shimwell, KPMG*

*Toby Buscombe, Mercers International*

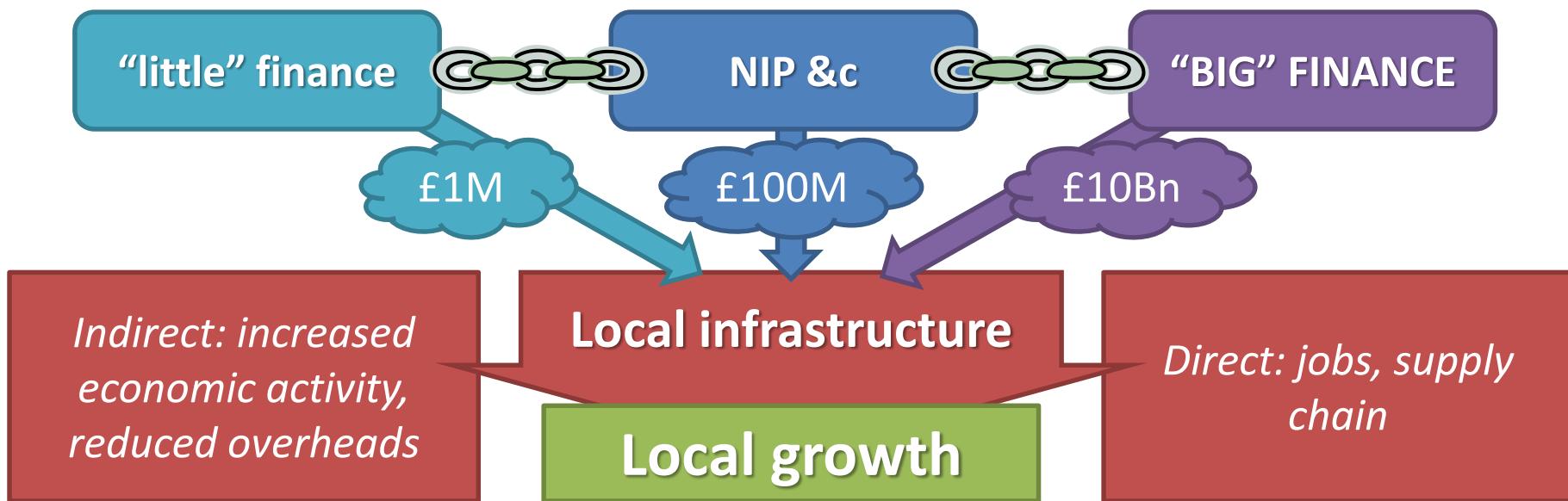
*Open discussion*

*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*

# 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*



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...



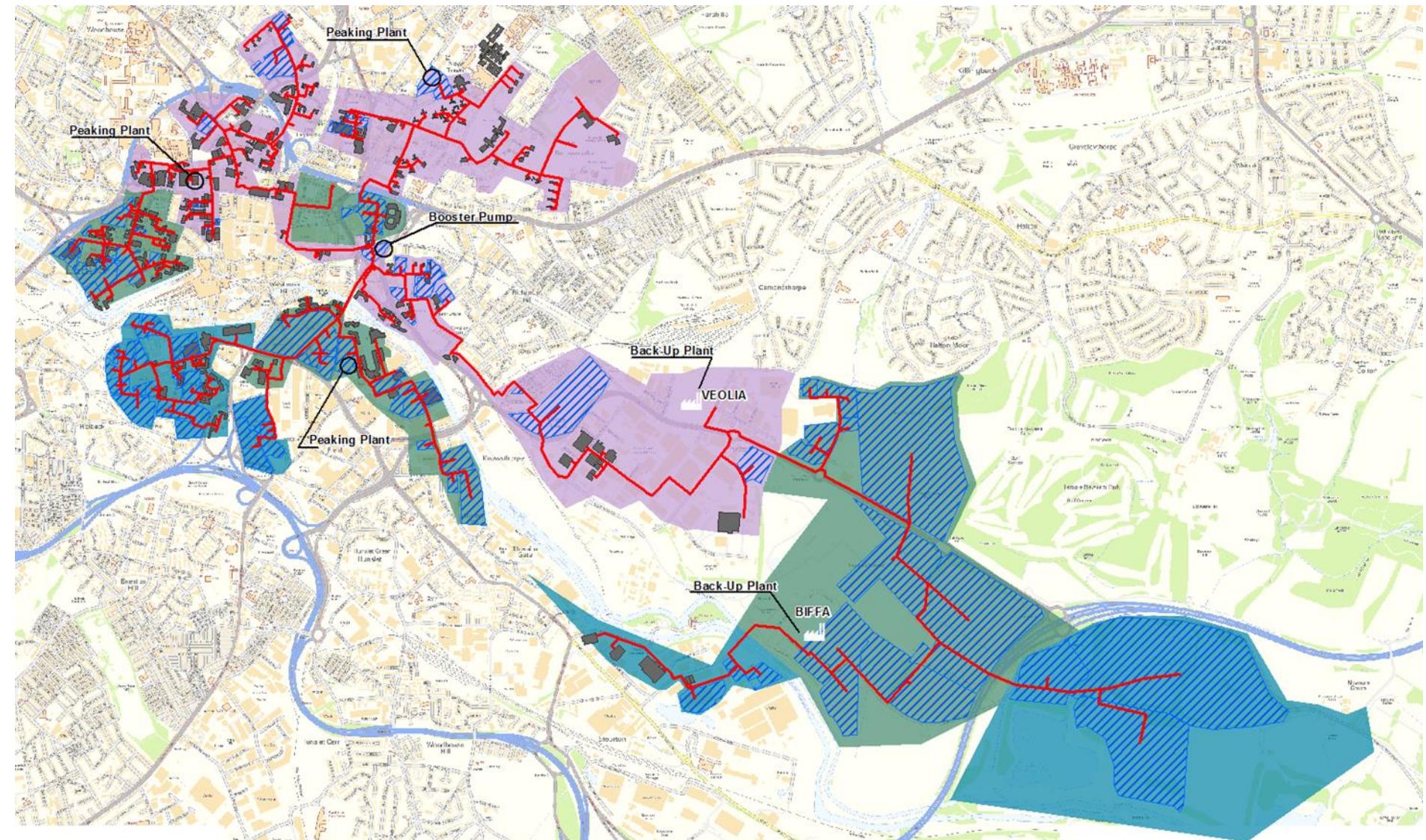
- Rail link to the airport
- NGT
- Internet of everything
- 70,000 new houses
- Green infrastructure
- +1,000,001!

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

*Tom Knowlands*

*Head of Sustainable Development*

*Leeds City Council*



# Open Discussion

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# Finance Case Study 1

*Mike Shimwell*

*Principal Consultant and Actuary,  
Pensions*

*Tax & Pensions*

*KPMG LLP*

# 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

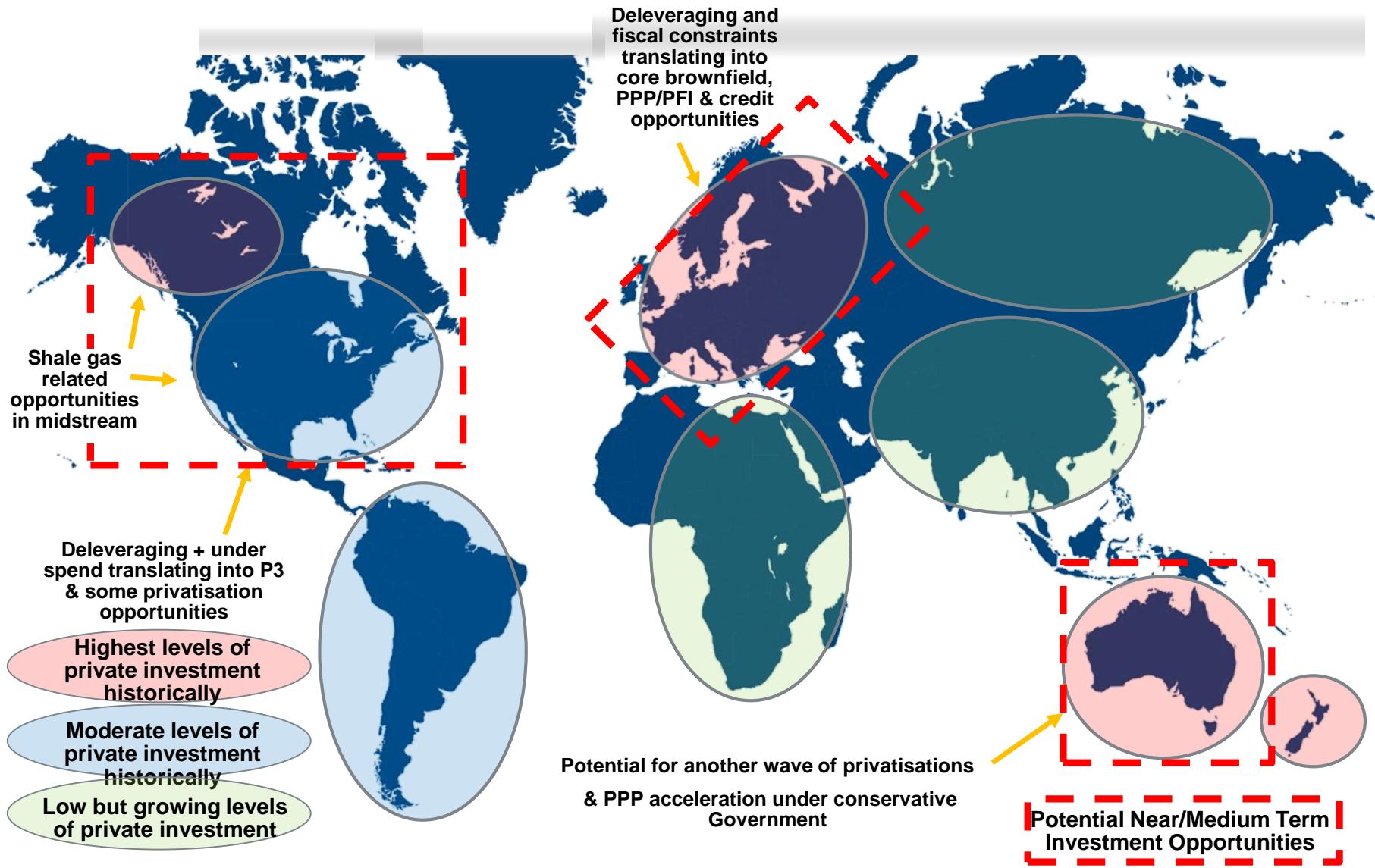
Individual  
Assets

Revenue  
Drivers

Vintage Year

Common  
Asset-level  
Risk Factors

# INFRASTRUCTURE MARKET THEMES



# APPENDIX B

## MERCER AND INFRASTRUCTURE

# OVERVIEW

<b>Scale</b>	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
<b>Alignment</b>	Alignment through independence Providing tailored and unbiased advice and solutions Clients afforded global access to research, ideas and investment opportunities
<b>Experience</b>	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
<b>Customisation</b>	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
<b>Global network</b>	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 Systermans \*** | Melbourne | 3 years

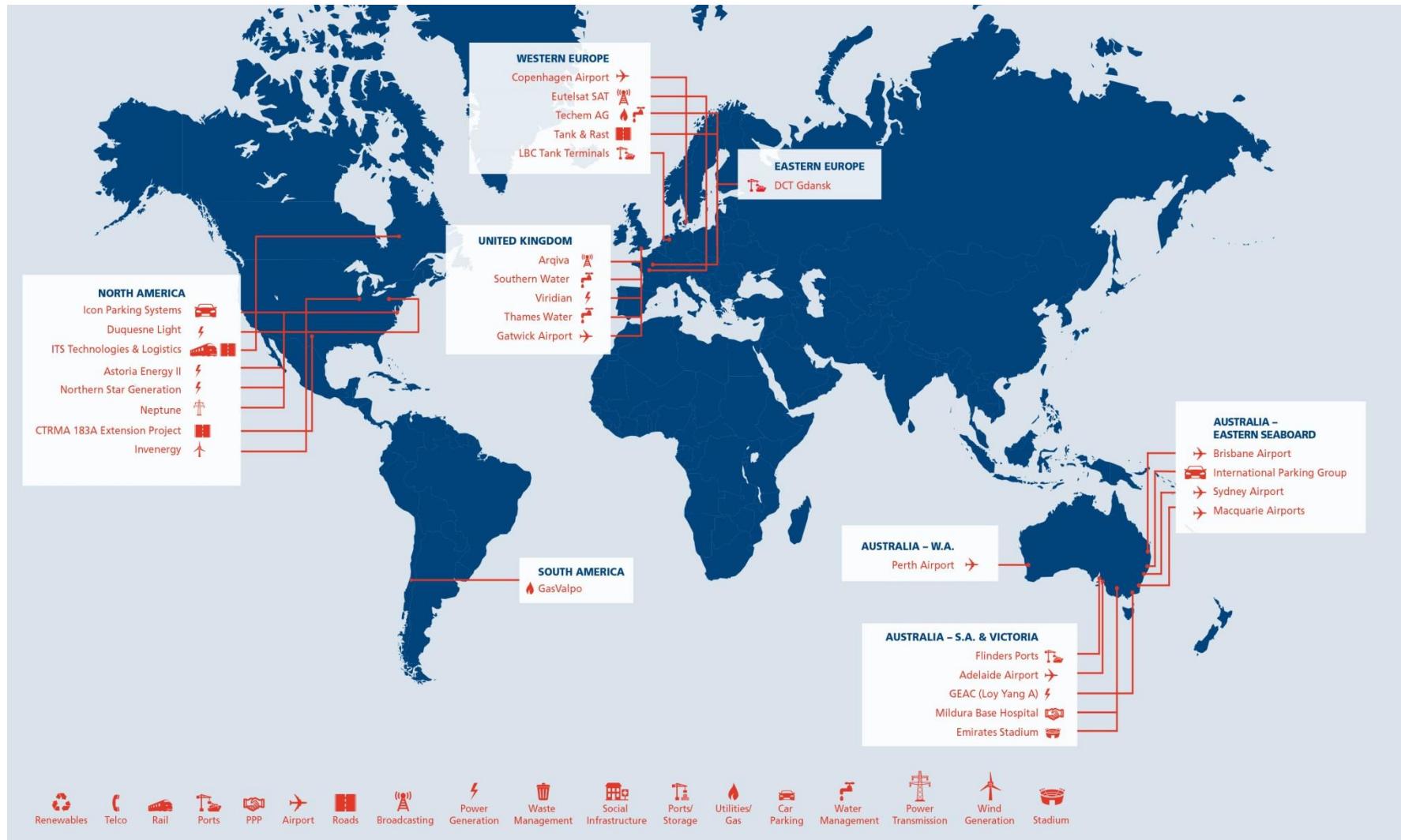
As at November 2014

Dedicated specialists shown in bold  
Number of years direct industry experience

\*Shared resource

\*\*Global Head

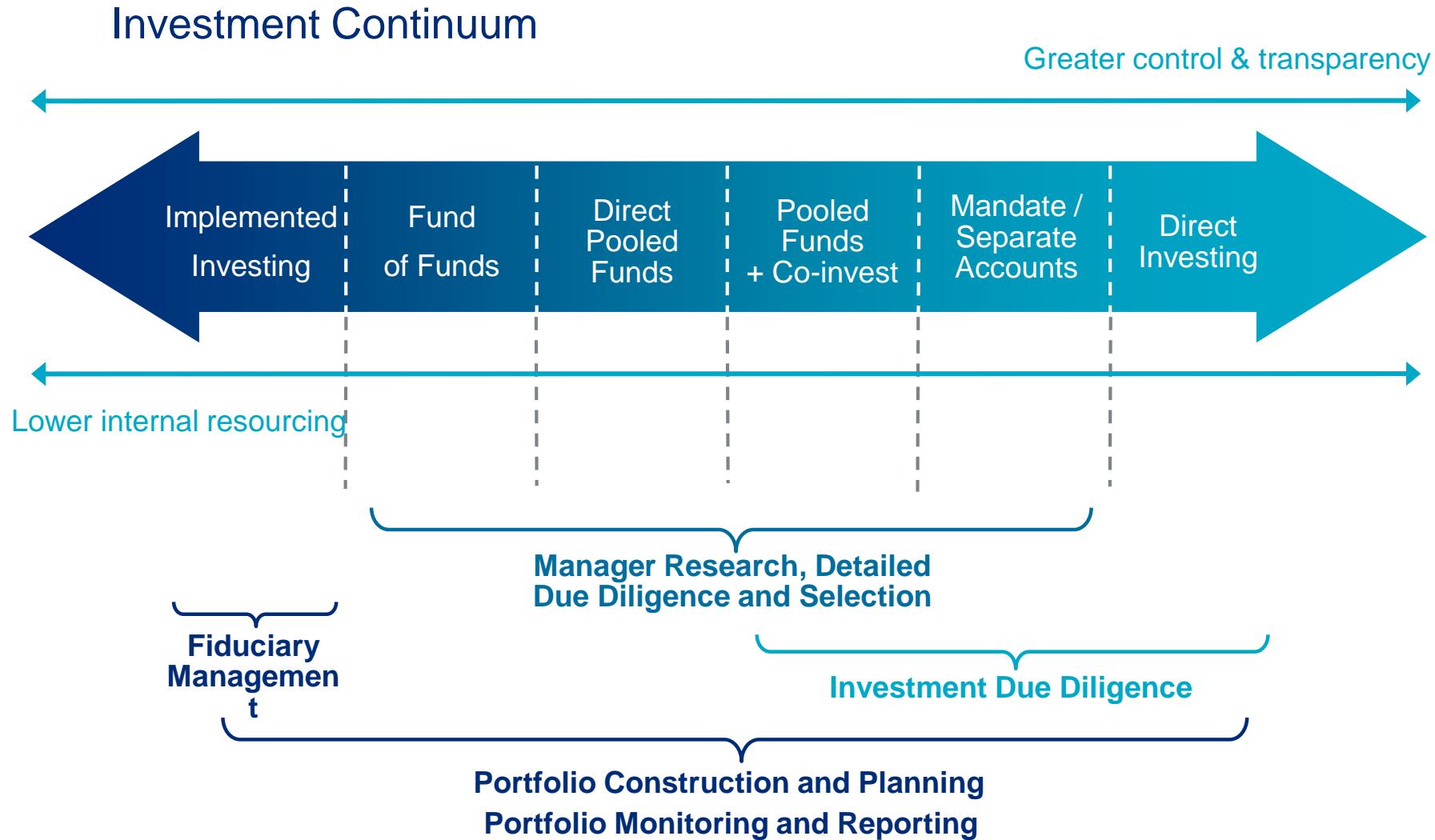
# GLOBAL DIRECT INFRASTRUCTURE EXPERIENCE



# 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
<b>TOTAL</b>	<b>219</b>	<b>293</b>	<b>137</b>

# MERCER AND INFRASTRUCTURE INTEGRATED SERVICE OFFERING



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*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

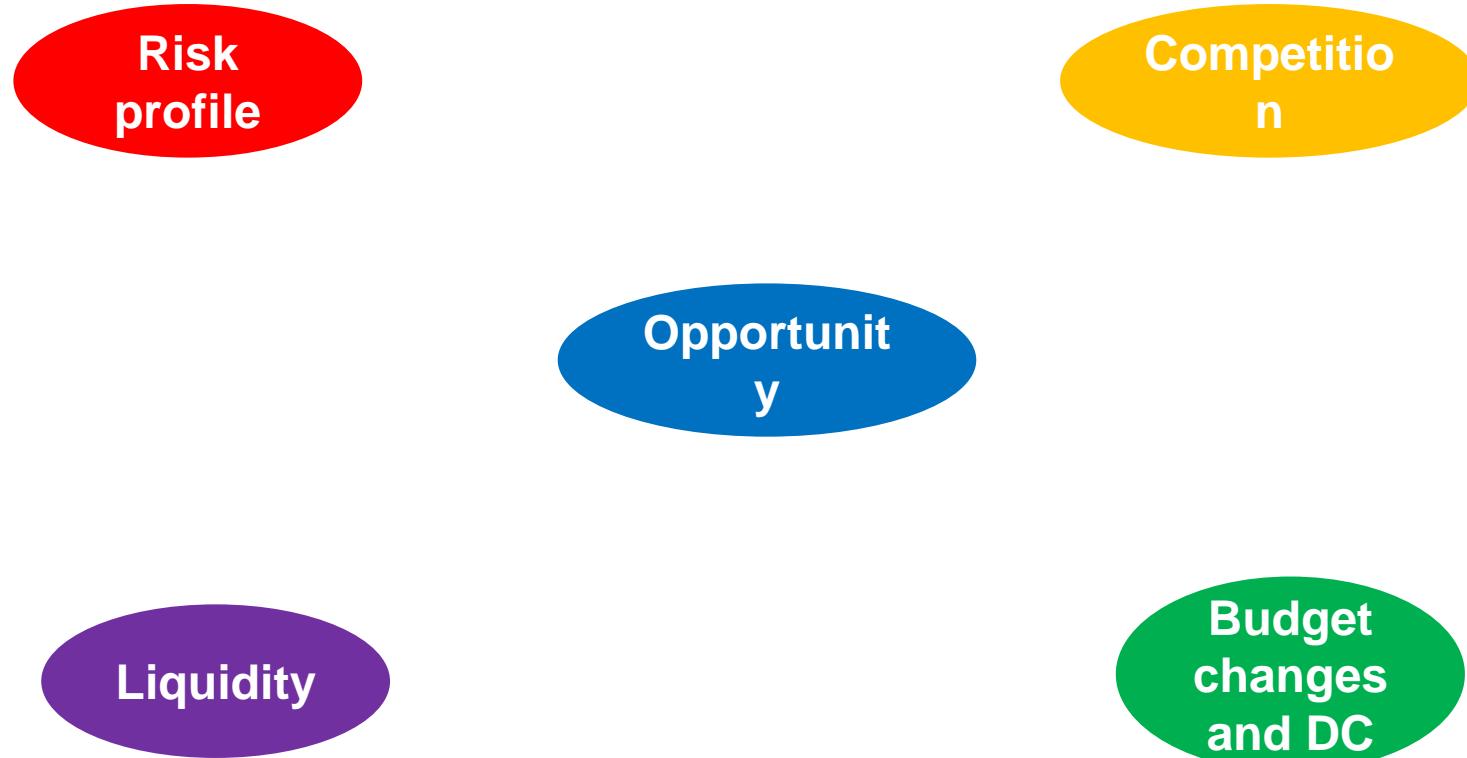
## Scope of discussion



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

## Pension Schemes as sources of infrastructure investment Obstacles

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*cutting through complexity*

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# Open Discussion

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# Group Discussion and Feedback

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