

Unlisted Infrastructure Fact Sheet

1 Introduction

1.1 This Fact Sheet provides some basic details about the Trust's imminent investment in ***Unlisted Infrastructure***.

1.2 In particular, details are provided on:

- what this asset class is,
- the rationale for investing in this asset class, and
- the fund managers that the Trust has appointed to manage this asset class.

2. What is infrastructure?

2.1 Infrastructure can be seen as capital intensive, long-term assets which are required to service major economic and social needs.

2.2 This type of investment typically involves investment in areas such as utilities, roads, power stations, railway, airports and hospitals. They can be seen as monopoly / oligopoly type projects, typically developed under government initiatives and are generally characterized by relatively inelastic demand for output and services.

2.3 ***Unlisted Infrastructure*** funds are usually offered as limited partnerships or shares in offshore funds, which are similar to private equity investments in structure, but typically without gearing (debt) at the fund level.

3. What is the rationale for investing in Unlisted Infrastructure?

- 3.1 There are a number of reasons for investing in ***Unlisted Infrastructure***, as detailed in the rest of this section.
- 3.2 The ability to generate stable and predictable long-term cash flows with a good degree of built-in inflation protection.
- 3.3 The expectation of generating returns slightly greater than equities, with similar or lower volatility. This reduces the reliance on equity markets to deliver outperformance in excess of bond returns. As an essential service, the performance of infrastructure is usually not linked too closely with the economic cycle.
- 3.4 Infrastructure assets are considered essential, because they either support economic growth, or fulfil social needs. Many governments have pressing needs to invest in new infrastructure.
- 3.5 An increasing number of pension funds have been making an allocation to infrastructure, but governance requirements have been a limiting factor.

4. The Pension Trust's planned investment in Unlisted Infrastructure

4.1 The Trust's Investment Committee has been looking at infrastructure for some time, though care was needed in terms of timing and finding appropriate investments.

4.2 The Committee has had to be comfortable, given its fiduciary duty, with factors such as transparency, fee structure, governance requirements and the risk / reward characteristics.

4.3 The Committee has been very aware of the need for thorough due diligence, which is ongoing, paying sensible prices, sensible management of any leverage, transparent fee structures and alignment of interests of The Trust with the infrastructure fund managers.

4.4 A considerable amount of work has taken place over the past year, as follows:

- determining the appropriate type of investment vehicle,
- drawing up a short list of managers, and
- recommending the appointment of two managers, subject to the satisfactory completion of due diligence, which is ongoing.

4.5 The due diligence is expected to be complete by May 2011, with investment made shortly thereafter.

5. The Fund Managers

5.1 The two fund managers selected are:

- First State Investments – First State European Diversified Infrastructure Fund (EDIF), and
- Meridiam Infrastructure Managers – Meridiam Infrastructure Europe II (MII).

5.2 The table below sets out the key characteristics of the two funds.

Characteristics	First State Investments (EDIF)	Meridiam Infrastructure Managers (MII)
History	Part of Commonwealth Bank of Australia. Strong track record of investing in infrastructure.	Long experience in social infrastructure investment, particularly with Public Private Partnerships (PPP) in Europe.
Infrastructure Assets Targeted	Mature core economic infrastructure, investing operating assets in utilities and transportation (mainly roads and ports) sectors. The primary focus is on UK and Western Europe.	The focus is on social infrastructure through PPPs, split two thirds between primary projects and one third secondary projects where construction has been completed.
Initial Investments	Anglia Water (UK), Electricity North West (UK), Reganosa (Spain). Targeting 8 to 10 projects.	A2 Phase 2 Motorway (Poland), R1 Motorway (Slovakia), St Quentin Velodrome (France). Targeting investments in 18 to 25 projects.
Investment Return Objective	Stable, predictable cash yield in range of 5% to 7% p.a. and gross Internal Rate of Return between 10% and 15% p.a. over the long term.	Cash yield will be low initially, rising to 14% to 15% in years 15 to 25 years. Investment Objective is a gross Internal Rate of Return of 13% to 14% p.a. over 25 years.
Fees	Concessions offered to The Pensions Trust. Management fees of 95bp on invested capital. No commitment or transactions fee. Performance fee capped at 10% of total fund performance.	Management fees of 70 bps p.a. average on commitments over 25 years. Transaction fees borne by Fund. Carried interest to Manager subject to minimum IRR of 7% p.a.
Main Terms	Semi-open ended fund. Initial 5 year lock-in period, thereafter redemptions with 1 year notice. Fund Liquidation – strategic review after 10 years and 5 years thereafter.	Closed-ended fund. 25 year life.

5.2 Overall, EDIF complements MII, as it has a greater proportion of assets in UK (approx 30%). By comparison, MII has an emphasis on continental Europe, focusing on PPP projects. EDIF has more of an emphasis on operating assets versus assets with construction risk, and an emphasis on economic assets versus social assets.

6. What will the Scheme's allocation be to Unlisted Infrastructure?

6.1 The typical allocation is likely to be 2% to 4% of total Scheme assets and will sit in the **Alternative Illiquid** growth bucket.

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