Infrastructure as a “New Asset Class for Pensions and SWFs”

2nd Annual OECD WPC World Pensions Investment Forum
Why Infrastructure

Demand for infrastructure investments

Supply of institutional investor capital

Equity vs. Debt
Each investor is different – but in general we are all looking for:

- Relevant risk rewards
- Returns match long liabilities
- Stable returns
- Often inflation protection
- Diversification
ATP’s investment strategy

ATP, Investments

Rates
- Government Bonds
- Mortgage-backed
- Covered Bonds
- FX Global
- FX DKK/EUR
- Volatility

Credit
- Investment Grade Corporate
- High Yield
- Emerging Market Debt
- Distressed Debt
- Loans

Equities
- Denmark
- Europe
- US
- Japan
- Global Emerging Markets
- Private Equity

Inflation
- Index-linked bonds
- Real Estate
- Infrastructure
- Timberland
- Allocation mandates

Commodities
- Oil Futures
- Oil Equities
Supply of new infrastructure projects: USD 30+ trillion before 2030

North America
- 55% Transport
- 22% Water
- 23% Power

Asia
- 57% Transport
- 16% Water
- 27% Power

Europe
- 49% Transport
- 39% Water
- 12% Power

Total Demand
- 50% North America
- 29% Europe
- 21% Asia

OECD, Infra News
PPP model if designed correctly focusing on different parties incentives can give:

1. Disciplined evaluation of project economy
2. Innovation in project design and construction
3. Innovation in project expansion and the surrounding next works
4. Innovation in operation and maintenance
5. PPP savings – project cost, funding and timing
Each investor is a bit different - different purpose, different liabilities, different level of “fundedness” and different strategies.

All these factors influence what investors are looking for, how they wish to invest and the investment strategy behind investing in infrastructure.

Anticipating that pension funds interests for alternative investments are typically 5-10% of there balance and around 50% of this could be used for infrastructure – this would allow $1-2 trillion of supply of capital for infrastructure globally.
Example of infrastructure capital structure

- **Equity**: 20-25%
  - Control, full risk

- **Mezz**: 10-20%
  - No control, equity like risk, higher returns
  - "No" down side, No up side
  - Low stable returns

- **Senior debt**: 55-70%

Issues to consider for pension funds:

1) Is control of characteristics important,
2) Nominal vs. risk adjusted returns,
3) Protecting down side vs. not selling up side,
4) Ability to influence business development
Questions