

INVESTMENT IN INFRASTRUCTURE – PENSION FUNDS AND SOVEREIGN WEALTH FUNDS

BACKGROUND

Evolution of infrastructure as an asset class

Infrastructure is emerging as a strong asset class in its own right, increasingly separate to Real Estate or Private Equity allocations, and rapidly building up in the portfolios of investors and fund managers.

A year ago, unlisted infrastructure assets under management stood at an all-time high of USD293bn – 17 times higher than a decade ago and representing an ~85% increase since December 2010. Of this, “dry powder” represents ~34%, partly reflecting low deal flow which is lengthening the period to find suitable investment opportunities.⁴ Currently 62% of investors remain below their target infrastructure allocation.⁵

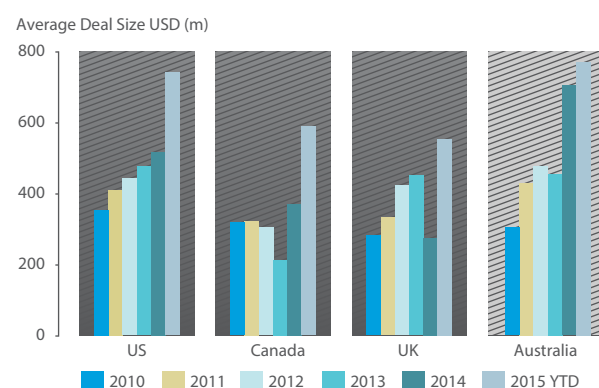
This heightened demand for infrastructure exposures reflects the great alignment of this asset class to multigenerational investors.

“Infrastructure, as an asset class, is well suited to public pension funds and sovereign wealth funds, many of whom blend investment choices with Government initiatives around development. These investors have an ability to deploy large volumes of capital at a time. In contrast to insurance companies, they have no long-term liabilities or unexpected redemptions to manage. They can also be more patient, unencumbered by regulatory restrictions on investment choices.” — Rennie Siow, Head of Funds and Insurance, Singapore.

Australia as an investment destination for Pension Funds and Sovereign Wealth Funds (SWFs)

Deal sizes since 2010 have substantially increased for developed markets, but particularly Australia, with average deal size now at ~USD761m, a 158% increase on 2010 and among the largest average deal sizes globally.

Figure 7 – Average Size of Infrastructure Deals by Country, 2010–2015 YTD⁶



Source: Preqin Infrastructure Online

⁴ Preqin “Record Infrastructure Assets under Management” (April, 2015)

⁵ Preqin H1 2015 Infrastructure Outlook

⁶ As at 3 August 2015

40% AND 57% OF DEALS IN 2014 AND 2015 YTD RESPECTIVELY WERE COMPLETED FOR AUD1BN OR MORE. COMPARATIVELY, THE PROPORTION OF DEALS OCCURRING FOR AUD1BN OR MORE IN THE PRECEDING FOUR YEARS WAS AN AVERAGE OF 20%⁷

Strong appetite for the favourable characteristics of brownfield sites among Pension Funds and SWFs has worked favourably in terms of Australian privatisation of state-owned infrastructure, with recent major bids from the Abu Dhabi Investment Authority, Kuwait Investment Authority, China Investment Corporation and Korea Investment Corporation.⁸

This is a far more diversified investor base as compared to a decade ago, when it was limited predominantly to Australian and Canadian pension funds, and the strong demand over the recent three years has driven up prices. Some recent profit-taking is evident from the early players, including Singapore's GIC, although much of this is skewed to Australian Real Estate assets.

Australia Major Project Update

Earlier this year, ANZ Research released the *Australia Major Project Update* which highlighted the unprecedented investment and development of Australian major resource projects over the past decade and some of the challenges to resources investment over the near to mid-term. One of the major observation of the report was the strong infrastructure demand from both domestic and foreign investors.

Since this report was released, Australia has had a change in Prime Minister although no announcements have been made on infrastructure and many of the decisions are driven by state governments.

"The themes presented in the Australia Major Project Update remain relevant today, although our expectations of public infrastructure spending have increased by ~AUD2bn in each of 2017, 2018, and 2019." — Felicity Emmett, Head of Australian Economics (October, 2015).

Figure 8 – Major Public Infrastructure Projects > AUD 2bn

COMPANY	PROJECT		COST (AUD)	STATE	INDUSTRY	START	END
Under construction / committed							
NBN Co	National Broadband Network (NBN)	▲	31.5bn	AUST	Telecoms	2012	2021
NSW Roads and Maritime Services	WestConnex	▲	15.5bn	NSW	Roads	2014	2023
NSW State Rail Authority	North West Rail Link		8.3bn	NSW	Rail	2014	2019
NSW Roads and Maritime Services/ Transurban, QIC & Intoll	NorthConnex		3.0bn	NSW	Road	2015	2019
Proposed							
VIC Dept. of Transport	Melbourne Metro		11.0bn	VIC	Rail	2018	2025
NSW State Rail Authority	Sydney Rapid Transit		10.4bn	NSW	Rail	2018	2024
Victorian Government	50 Level Crossing Removals		6.0bn	VIC	Rail/Road	2016	2023
QLD Dept. of Transport and Main Roads	Brisbane Bus & Train (BaT)	x	5.0bn	QLD	Rail/Road	2017	2021
NSW Roads and Maritime Services	Western Harbour Tunnel		4.5bn	NSW	Road	2019	2023
Western Sydney Airport Alliance/ Australian Federal Government	Badgerys Creek Airport		2.5bn	NSW	Airport	2016	2024
Transport NSW	CBD and South East Light Rail		2.2bn	NSW	Rail	2015	2019
WA Dept. of Transport	Airport Rail Link		2.2bn	WA	Rail	2016	2019
VIC Dept. of Transport	Cranbourne-Pakenham Rail Corridor		2.0bn	VIC	Rail	2016	2020
Victorian Government	Western Distributor	NEW	5.0bn	VIC	Roads	2015	2017

Updates since February: The Western Distributor project in Melbourne (AUD5bn) looks likely to go ahead, while the BaT project (AUD5bn) is now very unlikely to go ahead. Spending on both WestConnex in NSW and the NBN has increased by AUD4bn and AUD1.5bn respectively since the Australia Major Project Update was published.

Sources: ANZ Research (October, 2015); ANZ Australia Major Project Update (February 2015) citing company reports, Deloitte Access Economics, Infrastructure NSW, State government budget papers and ANZ Research.

⁷ Preqin "The Australian Infrastructure Market" (September, 2015)

⁸ Institutional Investor's Sovereign Wealth Centre "Down Under SWFs Compete for Hard Assets Amid Rising Prices" (April, 2015)

SHARING OUR INDUSTRY INSIGHTS WITH CLIENTS

ANZ Funds & Insurance team, together with our in-house industry specialists within the Utilities & Infrastructure team, continue to support our Pension Funds and SWF clients allocating their capital to Australia Pacific infrastructure projects. This industry expertise is augmented by ANZ's strong product capabilities across Project Finance, Corporate Advisory, DCM and Loan Syndications.

The opportunities for this asset class are vast, but investors must remain mindful of uncertainty regarding the timing and the scale of the impending financing task, have a sufficiently broad and flexible investment mandate and an ability to self-manage liquidity over a long-term investment horizon. For some investors, shifting to a less passive investment opportunity will require local insights from their banking partner and/or contracting, partnering or co-investing with experienced and reputable local investment managers.



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