

CMSF

CONFERENCE OF MAJOR
SUPER FUNDS

20-22 March 2013

Brisbane Convention and
Exhibition Centre



1100
Super Professionals

100
Speakers

15
CPD Points

Infrastructure – 3 Sides Of The Story

The Institutional Investors' Perspective



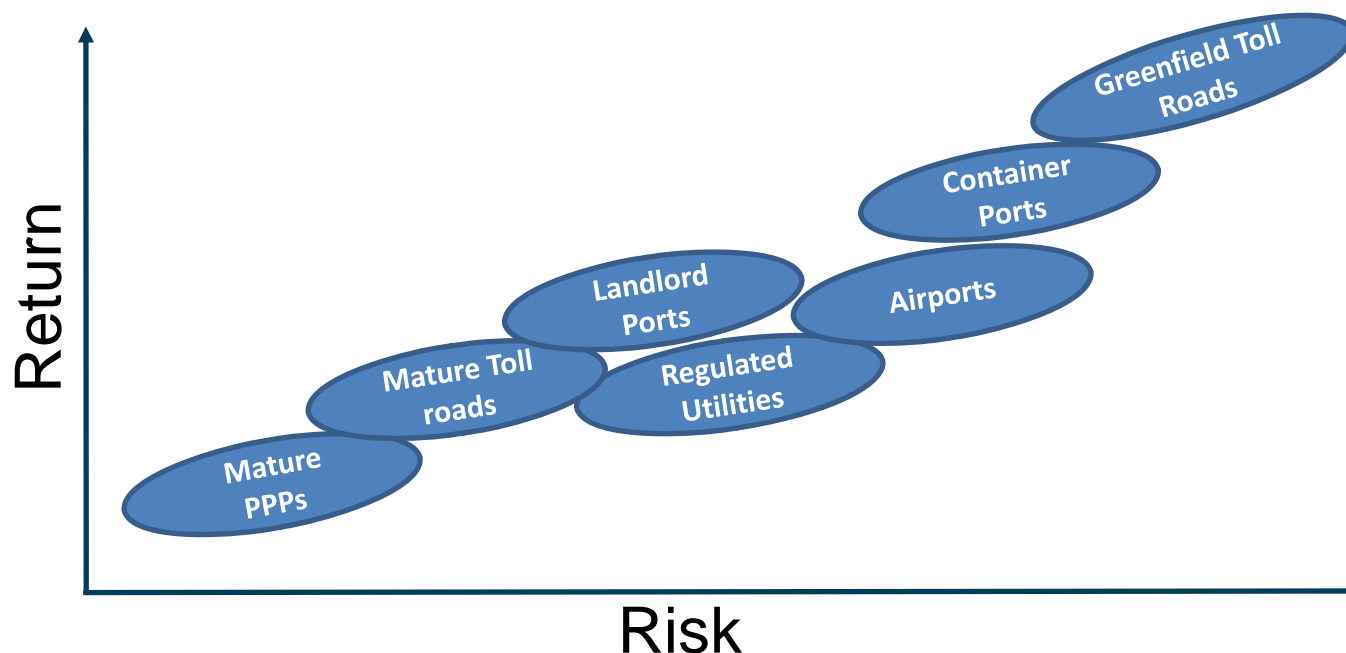
Why Invest in Infrastructure?

- ▶ **Reasons commonly given for investing in infrastructure**
 - Low risk
 - High yield
 - Long duration
 - Inflation protection
 - Low correlation with equities

Why Invest in Infrastructure?

▶ Low Risk?

- Risk and return characteristics vary widely within the sector



▶ High Yield?

- Highly dependent on asset performance and debt levels



Why Invest in Infrastructure?

▶ Long Duration?

- This means infrastructure valuations are highly sensitive to changes in:
 - Growth forecasts
 - Debt cost and availability
 - Discount rates
- All of these factors have changed significantly since the GFC
- These effects are magnified by debt
- Can swamp the effect of inflation linkage in revenues
- Correlations across all asset classes have increased post GFC



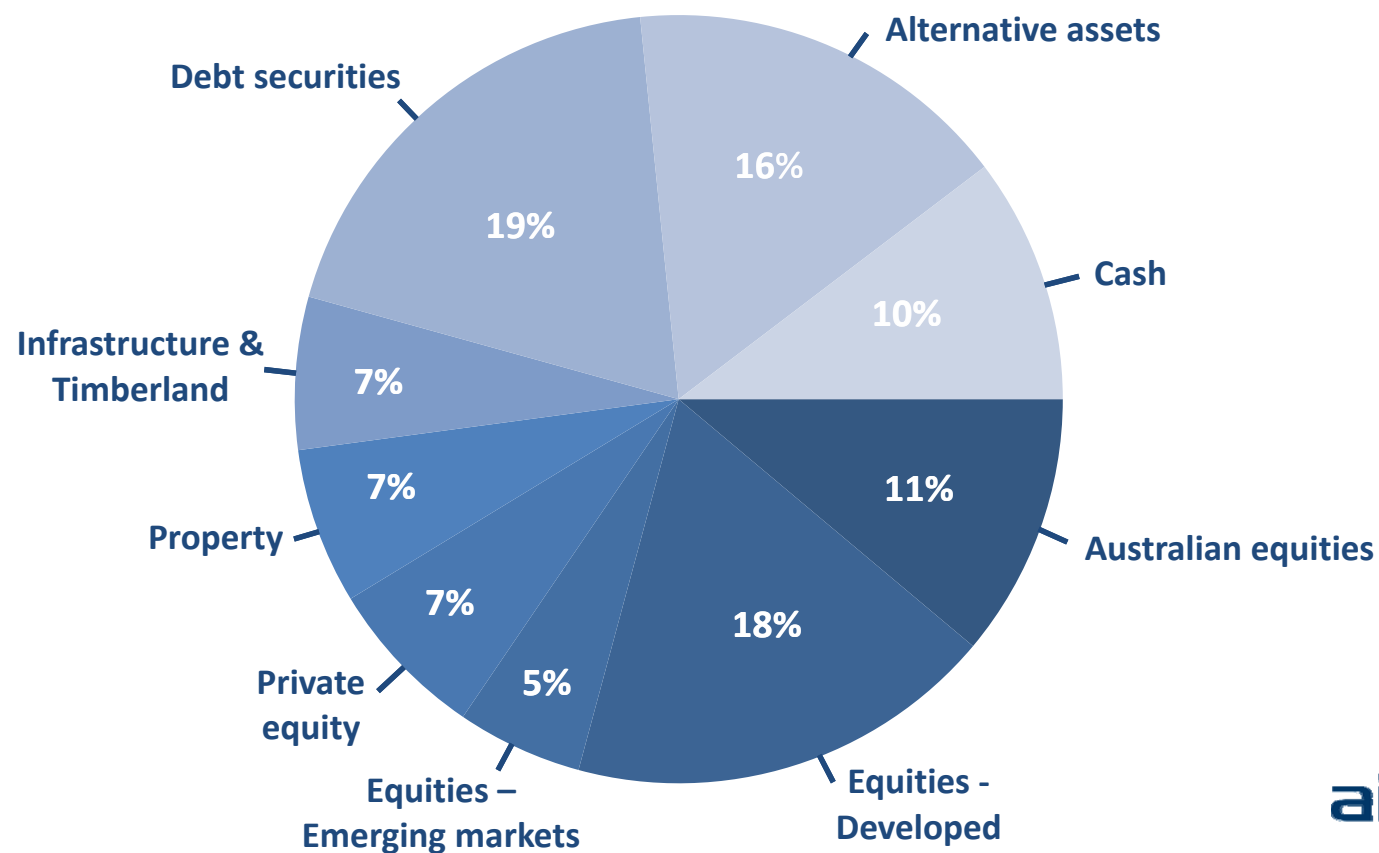
Why Invest in Infrastructure?

- ▶ **All Institutions Are Not the Same**
 - Different inflows
 - Different liability profiles
 - Different time horizons
 - Different return targets
- ▶ **Each institutional investor needs to consider the specific objectives of their portfolio to determine their approach to infrastructure**



Future Fund's Approach

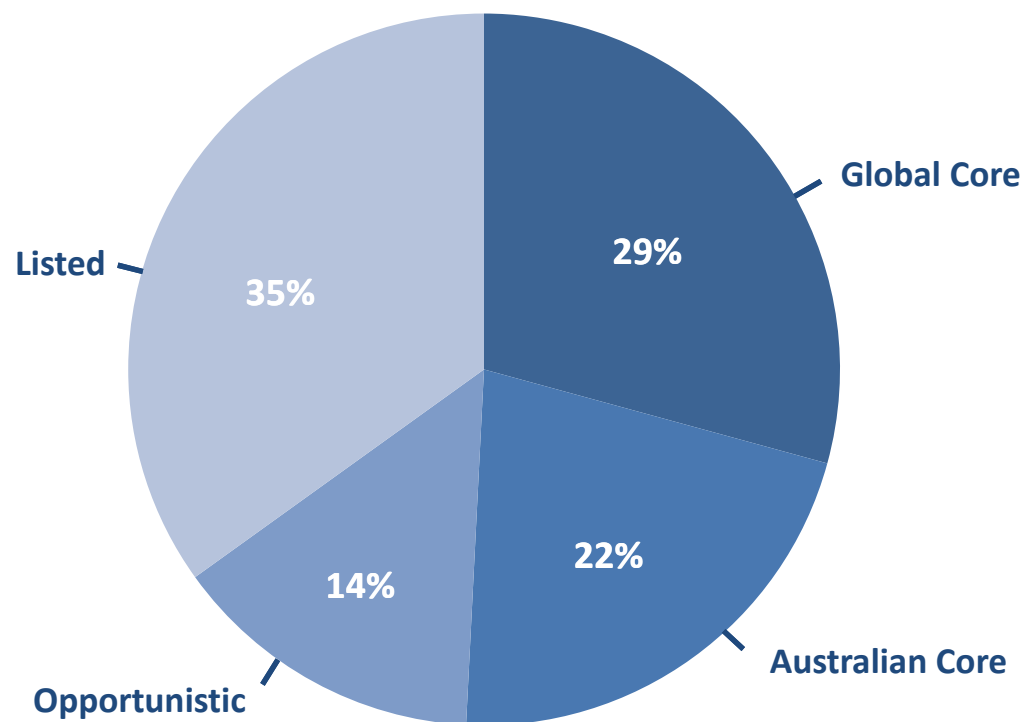
- ▶ Infrastructure Assets have a role to play in FF's portfolio



Future Fund's Approach

▶ Infra Portfolio Classified by Risk Exposure

- Global Core
- Australian Core
- Listed
- Opportunistic

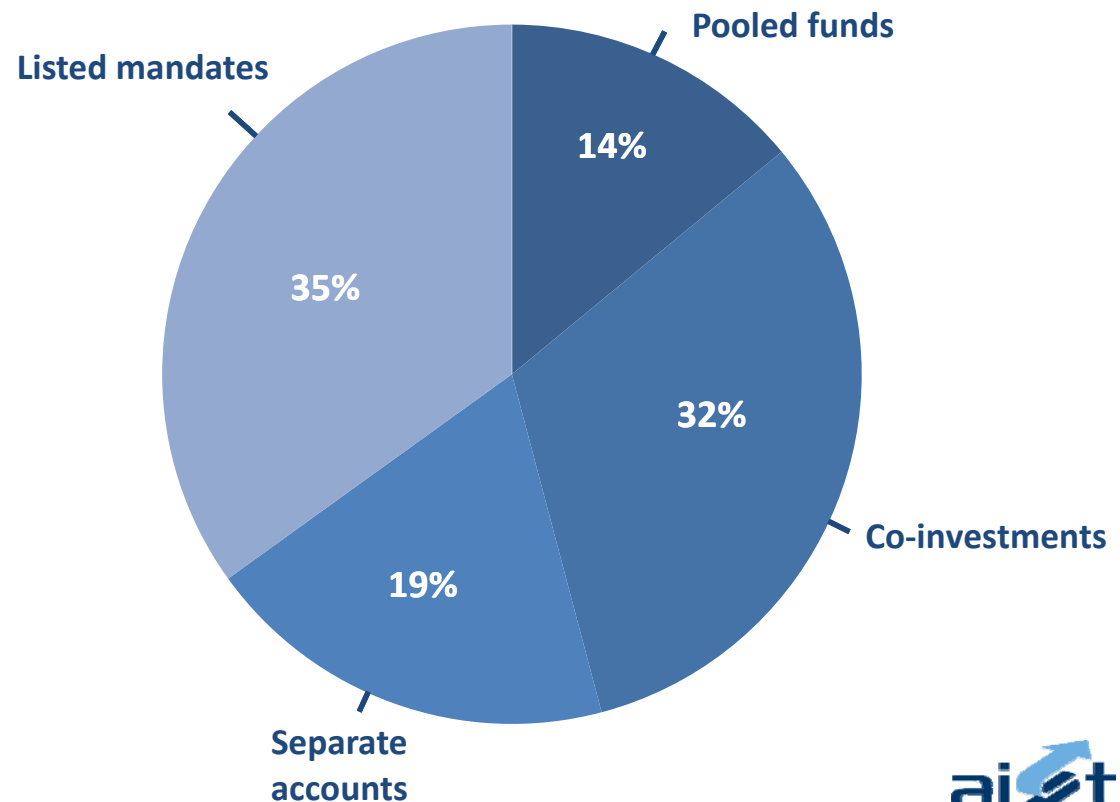




Future Fund's Approach

► Infrastructure implementation options

- Pooled funds
- Co-investments
- Separate accounts
- Listed mandates
- Direct investments





Future Fund's Approach

- ▶ **Team brings infrastructure expertise to supplement external managers**
- ▶ **Whole of portfolio approach**
- ▶ **Create Alignment with portfolio objectives**
- ▶ **Active, two way dialogue with managers**



Future Fund's Approach

▶ Issues for Manager Selection

- During Infrastructure's formative years:

Environment	Manager Skills
<ul style="list-style-type: none"> – Economic growth – Falling discount rates 	<ul style="list-style-type: none"> – Asset level due diligence – Capital structuring

▶ Now

Environment	Manager Skills
<ul style="list-style-type: none"> – Growth uncertain – Risk premia rising – Bond yields? 	<ul style="list-style-type: none"> – Macro economic skills – Work assets harder – Shorter holds/more turnover



Conclusions

- ▶ **Infrastructure shouldn't be considered to be a low risk asset class**
- ▶ **Know why you are investing**
- ▶ **Investors need to be active**
 - Understand your portfolio
 - Understand the risks, asset and portfolio related
 - Understand manager incentives