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# Pension Fund Investment in Infrastructure: Catalyst or Catastrophe?

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## Castalia's Infrastructure Expertise

- Castalia is an advisory firm specializing in improving the delivery of public services, particularly in the core infrastructure sectors of **transport, energy, water, and telecommunications**.
- Castalia is recognized internationally for developing **innovative approaches for private sector participation in infrastructure** sectors and assists clients throughout the life-cycle of public-private partnerships and is frequently asked to advise public sector clients on developing broad P3 programs.
- Castalia's approach is based on **helping governments** redefine how they identify "assets" and **create new value** beyond simply accelerating the realization of existing value.
- Castalia assists governments with **maximizing resource utilization**, improving performance and achieving service delivery efficiency through innovative thinking.
- Castalia's distinct advantage is an **uncompromised focus on the public's interest** and our comprehensive, **independent** approach to P3s which allows us to pursue our primary goal: helping deploy public resources in a manner that maximizes value to achieve the best public services and the most livable communities.

### By the numbers...

**4 offices globally**

**>35 on staff**

**>\$25Bn in P3 projects**

**>50 countries served**

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## ***Pension Investment in Infrastructure Assets Makes Sense***

### **Infrastructure**

- **Long lived assets**
- **Stable, predictable returns**

### **Pensions**

- **Long lived liabilities**

### **Pension investments in infrastructure**

In 2007, U.S. pensions were valued at just over \$15 trillion (109% of GDP) and represented 60% of pension capital held globally. If 5-10% of this amount were invested in infrastructure, this would equate to \$750 billion - \$1.5 trillion.

**Levered conservatively at 60% debt to equity, this would amount to \$1.9-\$3.8 trillion of overall investment for infrastructure projects.<sup>1</sup>**

In 2008 the top 10 managers in infrastructure invested \$72 billion on behalf of pension funds, compared to \$43 billion in 2007.<sup>2</sup>

1 Source: Pensions & Infrastructure, Ryan Orr, CRGP, May 2009

2 Source: Infrastructure Investor 8 July 2009

## ***Internationally, State Pension Funds are Leading Infrastructure Investors***

<b>Pension Fund</b>	<b>Assets</b>	<b>% in Infrastructure</b>	<b>Sample Investments</b>
<b>QIC</b> Queensland, Australia	<b>\$51 b</b>	<b>5%</b>	<b>58% of PowerCo, (NZ Electricity and Gas Co)</b> <b>BrisConnect, (Brisbane airport toll highway and busway)</b>
<b>NZ Superfund</b> New Zealand	<b>\$8 b</b>	<b>5%</b>	<b>Transuburban NZ\$209m – (Toll Highway Group)</b> <b>Zurich Airport NZ\$142m</b> <b>Copenhagen Airport NZ\$31m</b>
<b>OMERS</b> Ontario Municipal Employees Ontario, Canada	<b>\$50 b</b>	<b>20%</b>	<b>Associated British Ports</b> <b>Detroit River Rail Tunnel</b> <b>Confederation Bridge</b> <b>16 Schools in Nova Scotia</b>
<b>Canadian Pension Plan</b> Canada	<b>\$120 b</b>	<b>5%</b>	<b>Anglian Water Services (UK)</b> <b>Puget Sound Energy (USA)</b> <b>Transelec (Chile)</b>

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## ***US Pension Funds Can Now Invest in Infrastructure P3s***

**US Pension Funds are non-profit tax exempt entities so they did not invest in tax-exempt revenues bonds, which were the infrastructure finance issuance**

**NOW**

**U.S. P3 infrastructure investments offer opportunities for U.S. Pension Funds**

<b>Plan</b>	<b>Assets</b>	<b>% in Infrastructure</b>	<b>Sample Investment</b>
<b>CALPERS</b>	<b>\$176 billion</b>	<b>5% (target)</b>	<b>Most through funds for now Offer for Port of Virginia</b>
<b>San Diego County Employees Retirement Assn.</b>	<b>\$5.9 billion</b>	<b>5% (target)</b>	<b>Goldman/Macquarie funds</b>
<b>Dallas Police and Fire</b>	<b>\$3 billion</b>	<b>5% (target)</b>	<b>2 managed lane projects in Texas</b>
<b>SBA Florida</b>	<b>\$119 billion (AUM 4/30/09)</b>	<b>No current allocation</b>	<b>Studying asset class</b>

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## ***With Great Opportunities Come Great Risks***

<b>Infrastructure Investing in State</b>	
<b>Pros</b>	<b>Risks</b>
Understand the opportunity	Used for political and fiscal purposes, not prudent investments
Bring down political risk	Lose diversification
Boost state economy	<b>Challenge:</b> Find a mechanism that allows pension funds to reap the benefits while avoiding the risks.
Natural hedge to local “final salary” pension obligations	

## ***Global Models for Managing This Conflict***

<b>Fund</b>	<b>Policies and Governance</b>	<b>Investment Approach</b>
<b>QIC Queensland, Australia</b>	<b>Agreement that will be “diversified, with balance across life-cycle, sector, and geography”</b>	<b>Australia – Direct Investment  Internationally – Through Fund Managers</b>
<b>NZ Superfund New Zealand</b>	<b>Independent Guardians appoint Independent (private) managers for each class of assets</b>	<b>Through Fund Managers</b>
<b>OMERS Ontario, Canada</b>	<b>Borealis is dedicated, Independent Infrastructure Fund manager</b>	<b>Direct Investments</b>
<b>Canada Pension Plan Canada</b>	<b>CPP Investment Board (www.cppib.ca) is a Crown corporation operating at arm’s length from governments to manage and invest the CPP fund to help ensure the long-term sustainability of the CPP.</b>	<b>Direct and through fund managers</b>



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## ***Conclusion***

- **State of Florida can benefit from attracting pension funds into Florida Infrastructure P3s**
- **SBA can benefit from investing in infrastructure P3s**
- **International experience suggests SBA should be able to invest in Florida Infrastructure P3s, but subject to usual independence and fiduciary safeguards, as well as possible other safeguards such as:**
  - **Asset allocation limits and diversity requirements**
  - **Independent managers or appraisal processes**
  - **Requirements to co-invest with out-of-state investors on same terms**