

INFRASTRUCTURE AS AN ALTERNATIVE STRATEGY

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Presented by:

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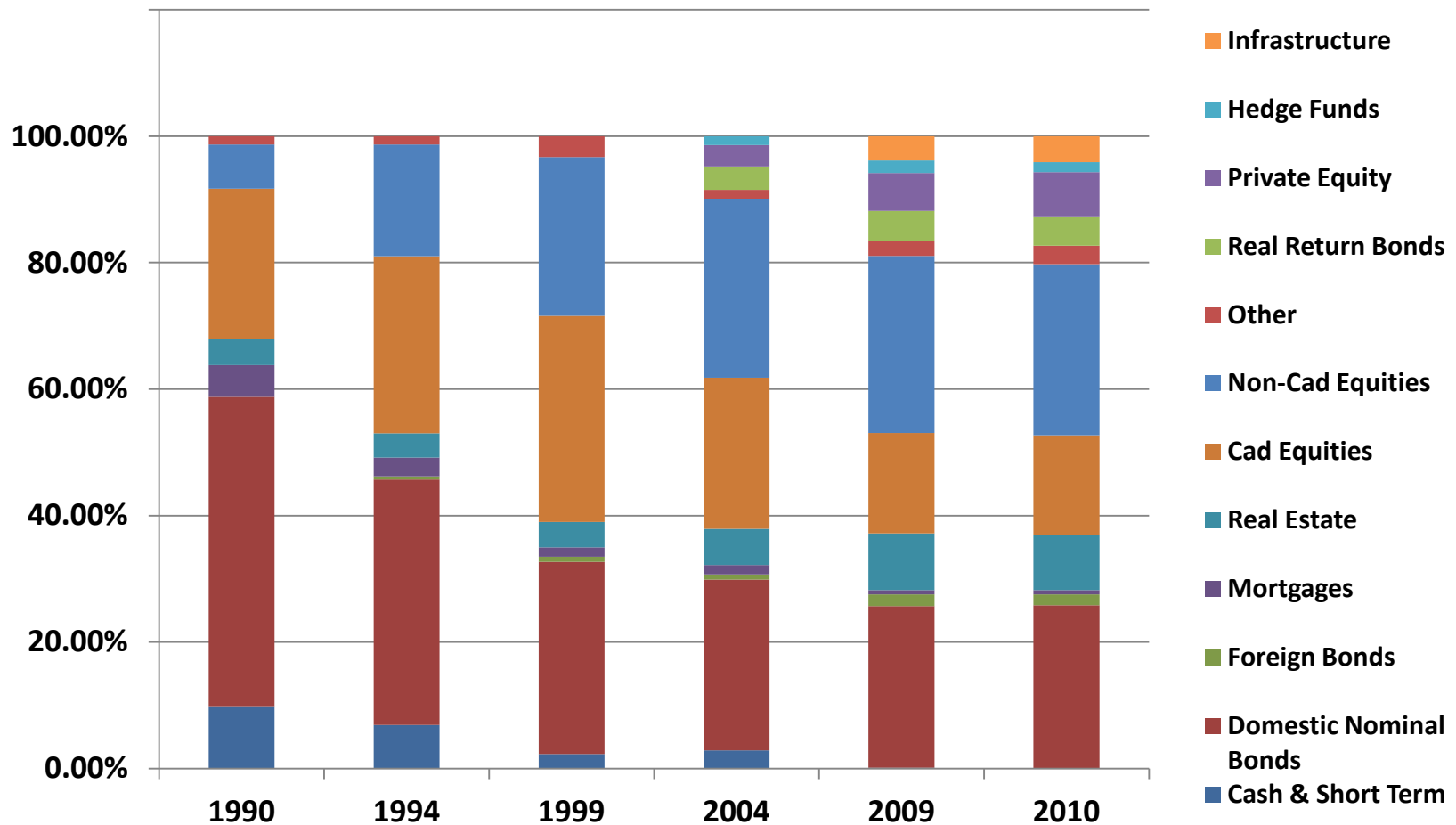
Terri Troy, CEO, HRM Pension Plan



KINDLE CAPITAL MANAGEMENT INC.



Preface: Asset Mix Composite* as at December 31, 2010



Preface: Canadian Pension Plan's Allocation to Infrastructure



	Total AUM (million)	Infrastructure Assets (million)	Infrastructure Assets (%)
	\$140,147	\$9,539	7%
	\$104,721	\$7,070	7%
	\$53,965	\$8,365	16 %

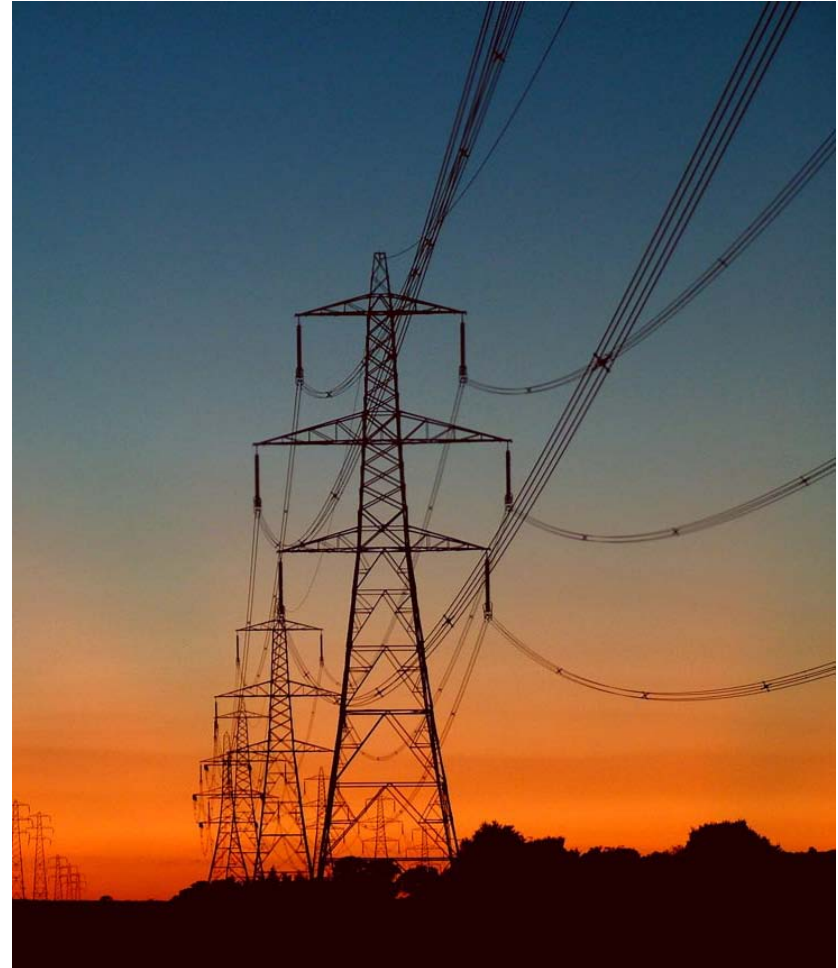
Agenda

- What is Infrastructure?
- Infrastructure Investing- Advantages and Risks
- Infrastructure Market Overview
- Ways to Access Infrastructure Investing
- Case Study: Syndication - CPPIB and 407ETR
- Case Study: Co-Investments – Live Transactions

What is Infrastructure?

1. Regulated Assets

- Natural monopolies with high barriers to entry
- Stable demand
- Revenues based on rate of return
- *Examples: Electricity Transmission & Distribution (“T&D”), Gas T&D, Water Distribution, Collection and Treatment*



What is Infrastructure?

2. Transportation Assets

- Revenues based on use or availability
- Risks include regulatory pricing, demand, maintenance capital expenditures
- Revenues originate from users or government
- *Examples: Toll Roads, Bridges and Tunnels, Airports, Ports*



What is Infrastructure?

3. Contracted Competitive Assets

- Underlying assets may be competitive and subject to fluctuating market prices
- Returns stabilized through long-term contracted rates and volumes
- Counterparty and performance risk
- *Examples: Electricity Generation, Midstream Gas*



What is Infrastructure?

4. Social Infrastructure Assets

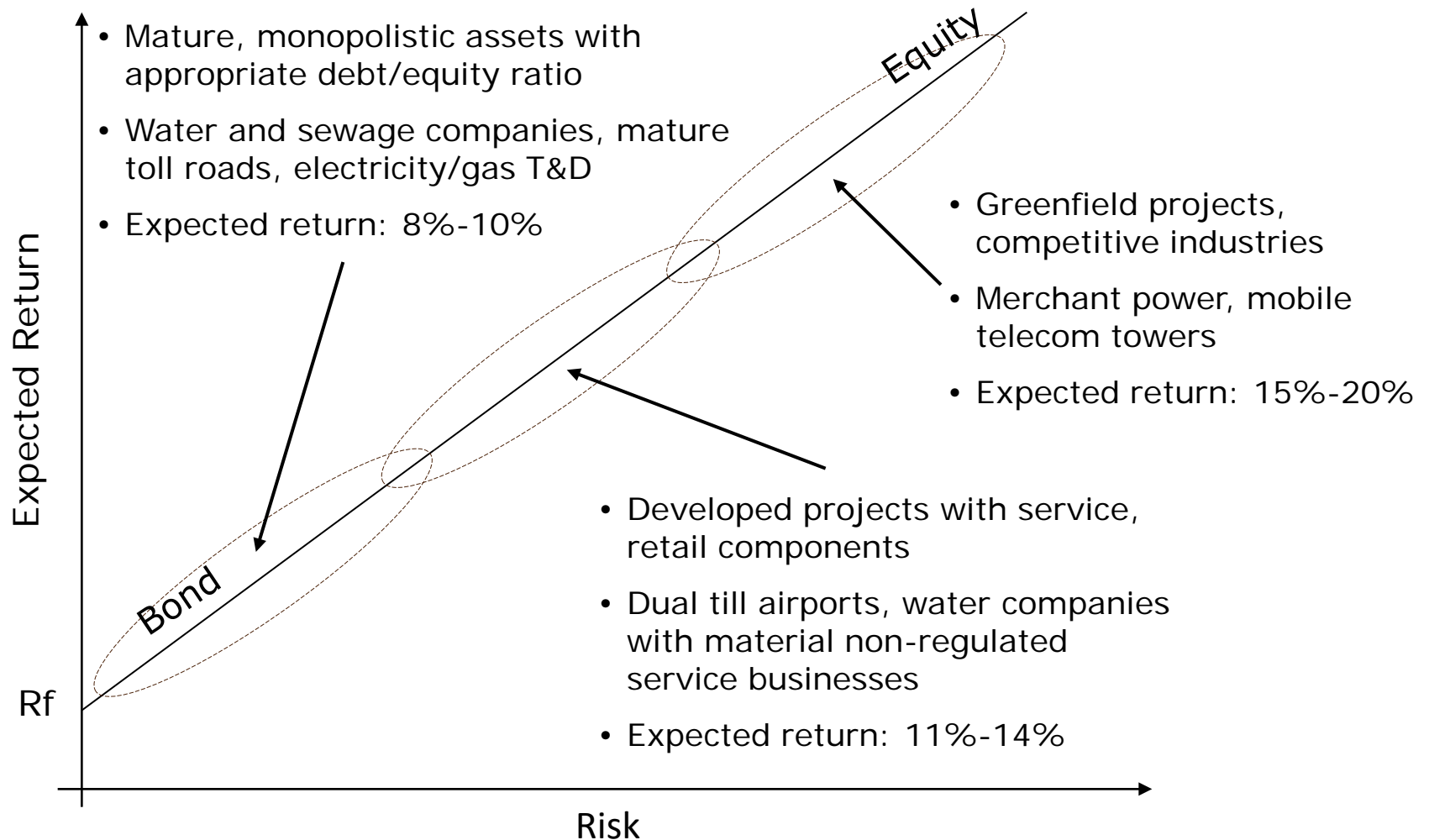
- Physical assets associated with provision of social good
- Stable cash flows contracted through government
- Revenues based on availability or performance standards
- *Examples: Schools, Hospitals, Prisons, Courts, Nursing Homes, Waste Disposal*



Infrastructure Revenue Models

- ✓ Availability Based
- ✓ Patronage Based
- ✓ Regulated Rate of Return
- ✓ Long Term Contracted
- ✓ Competitive

Infrastructure Risk Return Profile



Infrastructure Investing - Advantages

- ✓ Attractive risk-return characteristics
- ✓ Relatively stable long term cash flows
- ✓ Cash flows often tied to inflation
- ✓ Good duration match for pension liabilities
- ✓ High and sustainable barriers to entry (monopolistic assets)
- ✓ Inelastic demand attributes
- ✓ Returns driven primarily by the asset

Infrastructure Investing - Risks

- Certain assets often described as infrastructure have volatile return characteristics and operate in competitive environments
- Every infrastructure investment has unique risks that may adversely impact returns
 - Price risk: uncertainty of future commodity prices or generation capacity due to fluctuations in markets prices and environment
 - Early-stage development/demand risk: uncertainty with timing of operational launch and future use (toll roads under construction)
 - Technology risk: uncertainty of future technological developments (communications infrastructure)
 - Financing risk: risk of not being able to refinance debt at attractive rates; risk of default
 - Political Risk: stability of Government regimes, rule of law
 - Management: Experienced operators and financiers

The Infrastructure Market

- Market Characteristics:
 - Increasing Investor demand
 - Increasing supply by governments and private sellers
- Consequently, downward pressure on returns
- US and European forecast infrastructure spend of US\$775 billion to US\$1 trillion and €650 billion and 850 billion, respectively¹

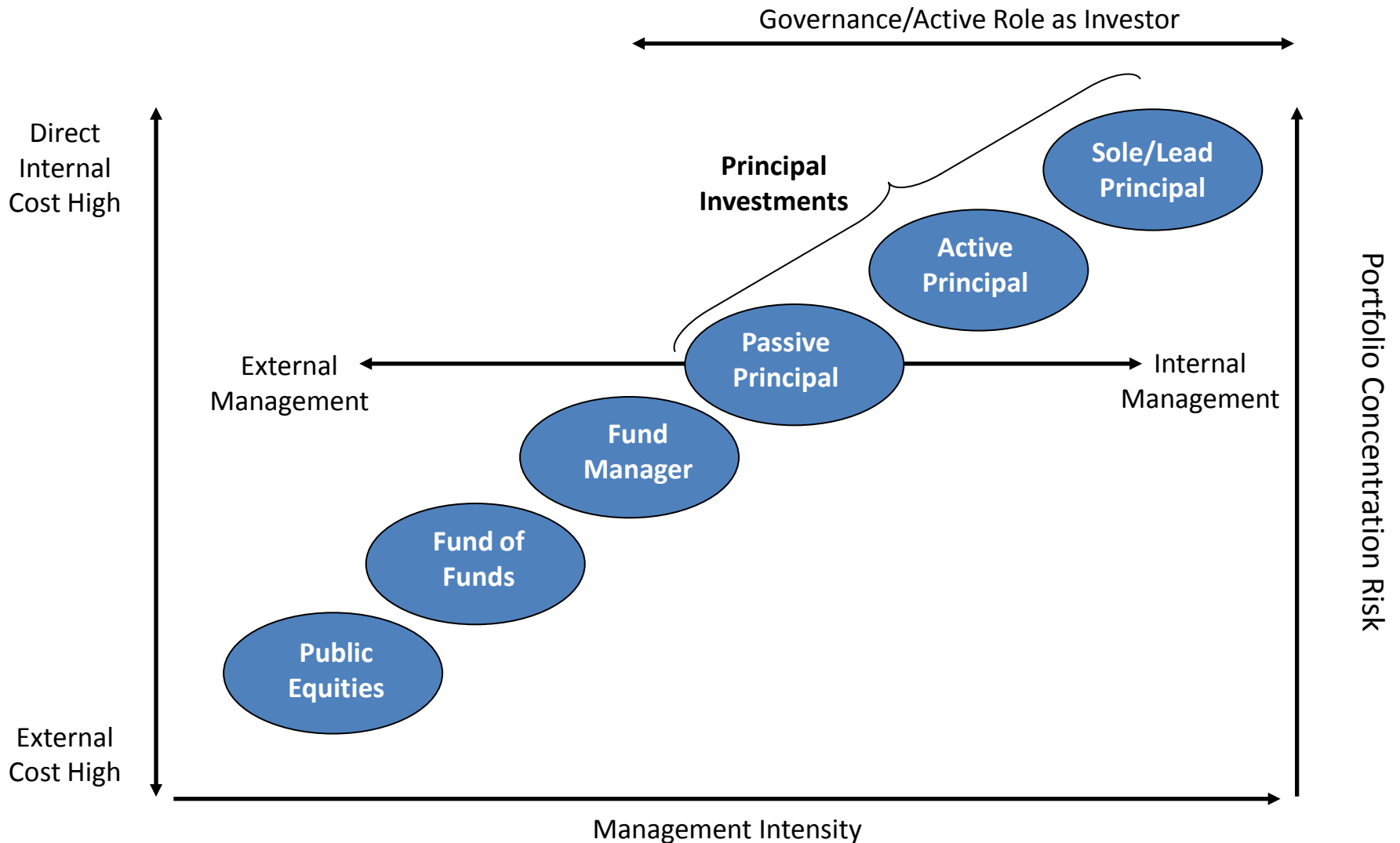
Note 1 – Source: Goldman Sachs Research

The Canadian Infrastructure Market

- Massive underinvestment over the past 30 years
- Governments lack the financial resources
- Infrastructure deficit: \$50 to \$125 billion¹
- Tremendous opportunity for private sector investment

Note 1. Source: TD Financial Research

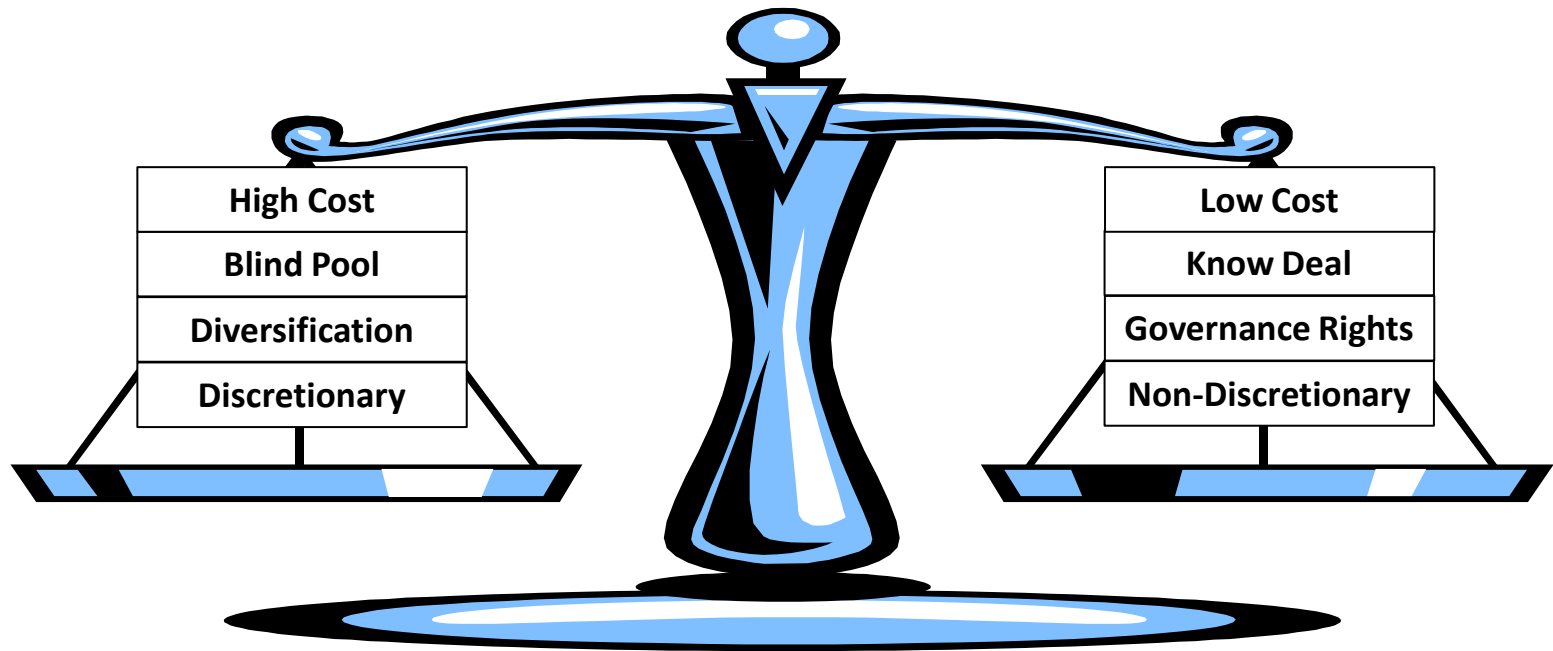
Ways to Access Infrastructure Investments



The Trade-offs: Funds vs. Direct

Fund Investing

Direct Investing



The Syndication Market: A Solution

Syndication Market

- ✓ Direct access to co-investment opportunities
- ✓ Reliance on lead investor(s) for deal execution resources
- ✓ Passive investment with limited liquidity

Benefits to Minority Investors

- ✓ Alignment of interests
- ✓ Invest alongside leading infrastructure investors
- ✓ Sharing of resources
- ✓ Reduced execution risk

Managed Consortiums: Co-Investments

- Aggregation of capital from numerous institutional investors in creating a single purpose investment vehicle
- Invest as one “large” pool of consolidated capital
 - Access to proprietary transactions
 - Sharing of transaction expenses
 - Governance rights
 - Advisory services may be required

Case Study: 407ETR Syndication

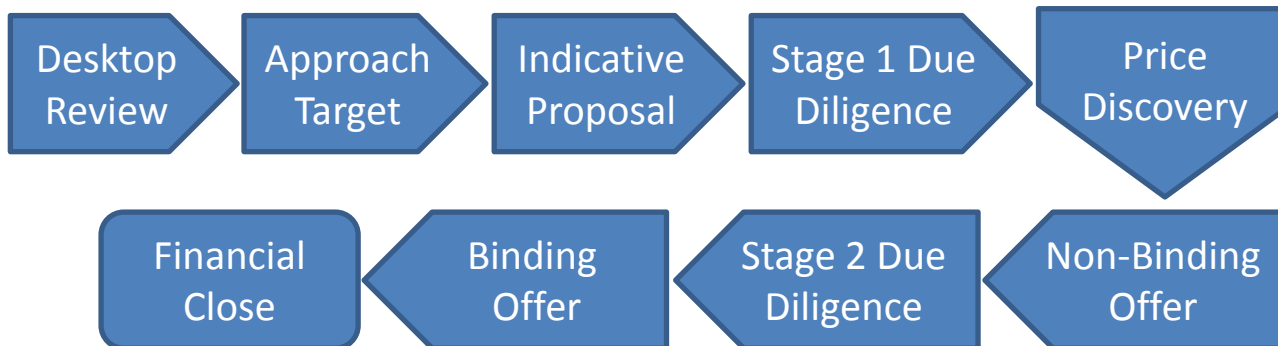
- In late 2010, CPPIB purchased a 40% interest in 407 International Inc. (“407ETR”) for ~\$3.8 billion
- By March 2011, CPPIB successfully syndicated ~\$1 billion of equity to a small group of institutional investors



- Consortium of like-minded Canadian institutional investors formed to purchase more than \$100 million equity interest in the 407ETR Syndication

Case Study: Managed Consortium Co-Investments

- Kindle Capital currently leading investment consortiums on “live” M&A transactions based in Europe and Australasia
- Working alongside experienced global infrastructure investors who are leading the transaction
- Appropriate governance rights are negotiated for consortium
- Stages of involvement include:



Key Take Aways

- ✓ Infrastructure is an attractive asset class
- ✓ Ideal for investors with long term investment horizons
- ✓ Many points of access to gain exposure
- ✓ Do not need to be an expert or need the experience to invest
- ✓ Significant costs in managing an in-house/internal program
- ✓ Canadian institutional infrastructure investors are global leaders