Building Benchmarks for Infrastructure Investors

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Infrastructure Forum

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Opening remarks
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Agenda

1. What is EDHECinfra?
2. Preview of the EDHEC/GI Hub survey of institutional investors
3. Roundtable:
   “Infrastructure investment products, yesterday, today and tomorrow”
4. Q&A
What is EDHECinfra?

- A dedicated research unit focused on creating investment benchmarks for infrastructure investors
- A global data collection effort (already the largest database in the world)
- An asset pricing technology that takes the characteristics of private infrastructure assets into account
- Global support from the public and private sector
- Equity and debt benchmarks from the end of 2016
Preview of the EDHEC/GI Hub Survey of Institutional Investors (forthcoming 2016)

• circa 150 respondents so far: 60% institutional investors (Insurance, pension plans, SWFs), 35% Infrastructure Managers, 5% other (inc. banks)

• Predominantly CIOs/CEOs, Head of ALM/LDI and Head of Infrastructure

• One third debt-focus, on third equity-focused and one-third interested in both

• Mostly Global (half) and OECD focus

• 3/4 of investors already involved in infrastructure, most of them for less than ten years
What is infrastructure?

• Is there such a thing as an infrastructure asset class?
  • 60-70% respondents think that unlisted infrastructure debt or equity is an asset class in its own right
  • One third think that listed infrastructure is an asset class (one third reckon they don’t know)

• Does it matter?
  • Yes, 63%, No 22%, don’t know 15%

• What characterizes infrastructure investments?
  • The top item is contracts, monopoly and regulation
  • Industrial sectors are at the bottom of the list
Investors disagree on expected returns

Should infrastructure assets be expensive?

- Yes: 31%
- No: 53%
- Don't know: 16%

EDHEC/GIH Survey of c.150 Senior Executives in Insurance, Pension Plans and infrastructure managers, Banks and IFIs, forthcoming 2016
Where are the products?

Infrastructure investment products…

- Partly fulfill investors' needs: 82%
- Fully fulfill investor's needs: 3%
- Are mostly inadequate: 15%

EDHEC/GIH Survey of c.150 Senior Executives in Insurance, Pension Plans and infrastructure managers, Banks and IFIs, forthcoming 2016
A degree of skepticism

Do institutional investors trust the valuations reported by infrastructure managers? (investors only)

- Yes: 48%
- No: 26%

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A degree of skepticism

The classic infrastructure closed-ended PE fund is...

- 26% a perfectly justified way to approach infrastructure investment
- 74% outdated and not adding value for institutional investors in infrastructure

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Preserving the quality of the underlying

Are you concerned by the amount of 'dry powder' currently accumulated in private infrastructure equity and debt mandates?

- 55% certainly concerned: follow-on funds could create systemic risk
- 22% somewhat concerned: attention must be paid to a possible deterioration of underwriting standards
- 14% not at all concerned
- 9%
Improving infrastructure investment products

Suggested improvements

- Greater sector diversification
- Greater geo diversification
- Longer duration
- Better defined Objectives
- Lower fees

Declared objectives (with infra)

- Performance
- Diversification (alt.)
- Liability matching
- Diversification (CM)
- Duration hedging
- Inflation hedging
- Drawdown protection
- Capital gains
- ESG impact

Percentage respondents

0 50 100

w. avg score (1-5)

0 2 4
What should be better measured?

- Return vol
- Extrem risks
- Valuations
- Correlations
- Risk adjusted perf
- Duration

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Are current benchmarks for infrastructure investors adequate?

- Sufficient: 6%
- Inadequate: 27%
- Completely lacking: 67%

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A few questions

- Do investors have inconsistent investment beliefs
  - Low risk and high returns?
- Infrastructure investment could help achieve several types of investment objectives (performance vs. liability hedging)
  - How should investments be done to achieve this?
- While there has been a trend towards direct investing, most investors say they would prefer delegating
  - Who is right? Who will be (un)happy in ten years?
Roundtable: “Infrastructure investment products, yesterday, today and tomorrow”

• Brer Adams, Director, Global Infrastructure Hub
• Rossitsa Stoyanova, Director, Total Portfolio Management, Canada Pension Plan Investment Board
• Adriaan Ryder, Chief Strategist, Abu Dhabi Investment Council
• Peter Schenk, Head of Investment Controlling, MEAG MUNICH ERGO AssetManagement GmbH
• Tomas Walter, Senior Expert Solvency-II, EIOPA
• Raffaele Delacroce, Lead Manager, LTI Project, OECD