



Global Infrastructure Hub Shanghai

25 February 2016



“The Global (*infrastructure*) Investment Puzzle”

Estimated Infrastructure needs to 2030: \$57trn (McKinsey)
Estimated Institutional Investment funds available in OECD countries: \$92trn (OECD)
Project Finance Investment 2015: \$309bn (Infrastructure Journal)

Private sector perspective

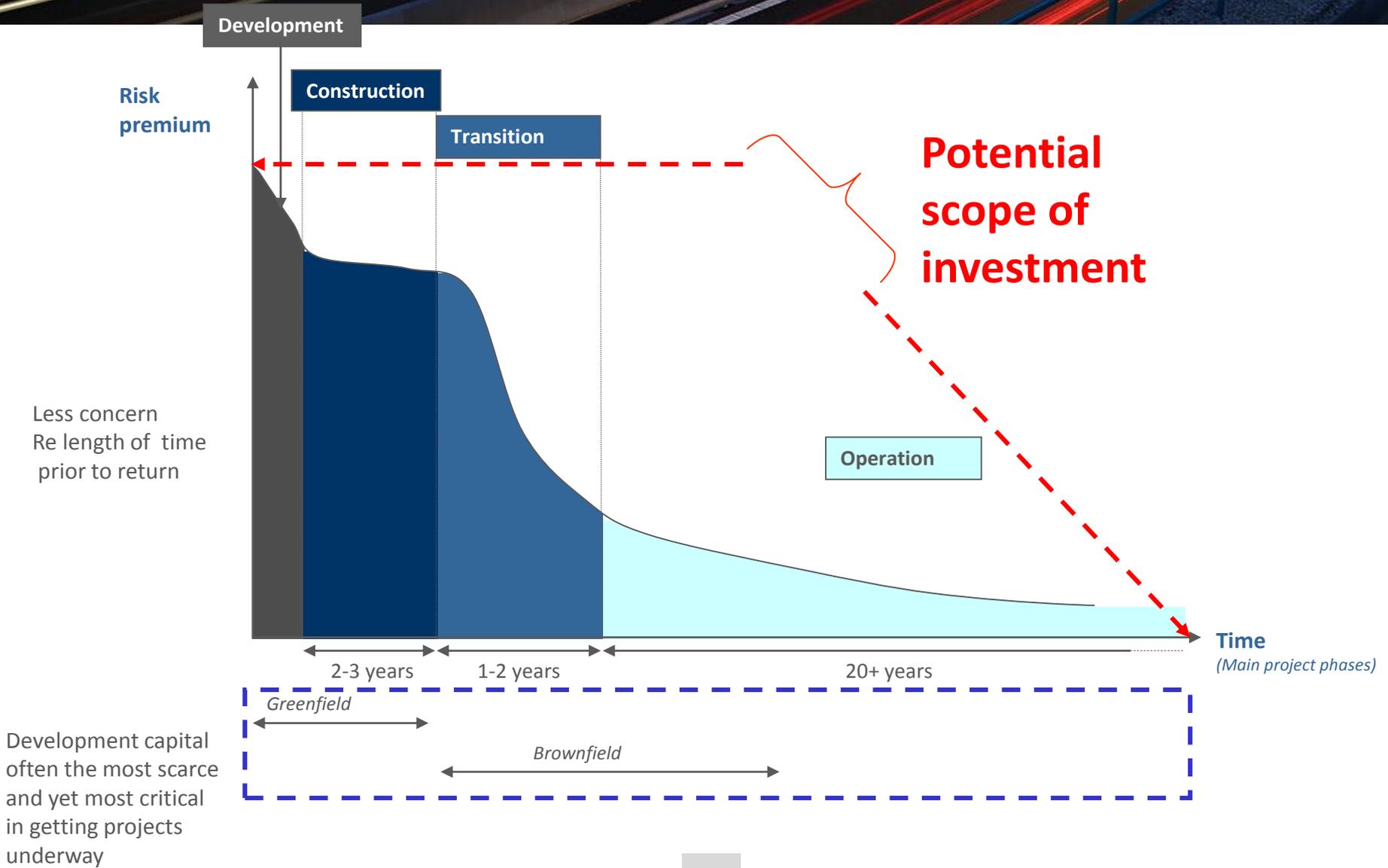


What is the private sector looking for - trends

- Availability of funds for equity investment or debt provision is not the issue!
- No question about willingness to invest – in a low growth, low interest rate environment investors are looking for long term, stable, defensive cash flows exemplified by infrastructure
 - Regulated infrastructure no longer appears as stable, contracted cash flows (PPPs) are seen as more interesting
 - Yield seen as reasonable in comparison with central government returns
 - General view is that brownfield infrastructure investment is a bit expensive
 - Greenfield investment beckoning but complexities daunting
 - Investors still considering whether to make direct investments or use managers
- Investors are very focussed on strength of management teams – are they stable, effective at investing, experienced in managing real infrastructure assets – key issue where managers being used for greenfield investment
- Illiquidity concerns reduced due to perceived depth of market, more preparedness to invest over the long term therefore early stage payments can be foregone in return for longer higher cash flow levels



Investment strategies for the private sector





Meridian is a leading long-term independent infrastructure fund manager

Founded in 2005, Meridian is an independently managed investment firm and the global leading long term (25 years) infrastructure investment fund, adopting a whole-of-life approach to the design, structuring, financing, building and long-term operation of greenfield PPP projects, with assets under management of c\$4bn representing the creation of some \$30bn of greenfield infrastructure, Meridian has built a portfolio of 45 projects as at 15th February 2016, all funds' projected performance is in line with targets returns set at the outset, Sustainability and ESG (Environmental, Social and Governance) is at the core of the firm's approach to investment.

Meridian Investment Strategy

- Sector of focus
 - **Greenfield (new construction) PPP / project finance projects** in the transportation, energy, social infrastructure and environmental sectors
 - Refrains from investing in regulated utilities
 - Selectively investing in 'off-market' Brownfield (existing assets)
- Management philosophy
 - Secure a significant stake in projects to protect long-term interests
 - Active involvement of the Team in the development and management of the asset – Not a passive investor
- Returns objectives
 - **Achieve long term stable cash flows**, with inflation protection

Meridian Funds

	Meridian Infrastructure ¹	Meridian Infrastructure Europe II ²	Meridian Infrastructure North America II	Meridian Infrastructure Africa Fund	Meridian Transition
Vintage	2006	2009	2010	2015	2015
Commitment	€546m	€904m	\$873m	€300m	€400m
Co-investments	€140m	€81m	\$459m	-	-
Geography	Europe & N. America	Europe	N. America	Africa	Europe
No. of Investments	11	21	8	3	-

1) Investment period closed

2) Includes Meridian Infrastructure Eastern Europe

3) Includes a 15% allocation to other non-European OECD markets



Why is there a puzzle then?

- Private sector engagement is growing- Research from Aurium Capital Markets has revealed a 36% global increase in the number of pension schemes investing in infrastructure during a 12 month period over 2014/15.
- Although substantial stimulus project financing of infrastructure has marginally increased from 2014 when \$308bn to \$309bn in 2015 globally across all sectors (IJ Annual Review)
- Actual provision of finance now seemingly less vital than project preparation and structuring - far more critical is the project development and preparation, and in looking for solutions – entities such as the Global Infrastructure Hub and the European Advisory Hub have been set up, processes such as IISS developed to help projects to develop and communication to take place -
- Some projects are clearly and unequivocally commercially viable, others attract no finance – this is not just about risk and return but about structure and prospects – these examples need to be aired
- Private and public sector need to work together in transparent way in order to fill the gap of understanding of what is, or is not deliverable
- Now clear that unless this happen the puzzle will not have been solved...

Port of Calais project

A major project requiring significant development work to make the project investable



Background & Origination

- The Port of Calais consists of the design, construction, financing and maintenance of the Calais port extension for a 50-year period. This new extension will provide Calais with much larger capacity in order to cope with future traffic growth and fleet expansion.
- Project was taking a long time to realised – what made a difference – public and private working on a structure together - Traffic risk was separated from the underlying finance, reserve accounts created and then a backstop support from the regional council

Rationale & Key Features

- High profile with strong public sector and multi-lateral support
- A strong rationale for the project – current port operations are becoming congested and are expected to reach maximum capacity by 2020
- Calais is currently the limiting factor in traffic growth and expansion of the fleet as Dover can accommodate larger ships

What had been wrong?

- Project not investable:
 - Full demand risk
 - Complex operations including c.800 existing staff
- How to isolate the investor?.
- Remove traffic risk and operational complexities, project company has a risk-profile suitable for the necessary long-term financing
- The project required significant technical expertise as there had been minimal design work completed.

Financial Close	July 2015
Project Classification	Limited demand risk
Project Type	Greenfield
Location	France
Concession Life	50 Years
Total Value	€905 million
Meridiam Ownership	40% ¹
Sector	Ports
Other Partners	Caisse des Dépôts (French public savings bank) CCI Côte d'Opale (local concession operator)