



IDENTIFYING OPPORTUNITY

Experience is crucial to finding successful, long-term infrastructure investing.

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With ever increasing institutional investor interest in infrastructure investment around the world, it is important to be conscious of the fact that not all infrastructure investments are created equal. There is great breadth and diversity in the opportunities and investors should seek distinct return requirements in each category of infrastructure investments, commensurate with the risk being taken. This gives larger, sophisticated investors the opportunity to further diversify their portfolios within their infrastructure investments.

Growth of the Sector

Infrastructure assets are effectively the systems and structures that provide a society with its essential services. Increasing economic development and population growth is driving the demand for infrastructure investment. The proportion of public spending to GDP is at historically high levels in the developed world and governments are facing greater pressure than ever not to raise taxes. This is leading to a growing demand for the private sector to fill the funding gap. The backlog of infrastructure development facing governments in many countries, both developed and developing, all around the world is also fuelling private sector involvement.

In addition, there is an increasing perception that the private sector can provide better value in the provision of certain types of infrastructure. The private sector is increasingly willing to do so due to infrastructure's inherent attractions:

- Stability of demand—stems partly from the barriers to entry and means cash flows and total returns are relatively stable and predictable. Revenues are often inflation-linked.
- Long-term cash flow—many assets are perpetual or have concessions running for 25 to 35 years and sometimes up to 99 years. This is attractive to insurance and pension funds in naturally matching the

long-term nature of their liabilities.

Find a category

A useful way to categorize infrastructure investments is by the legal and commercial structures rather than physical characteristics, essentially highlighting distinctions in monopolistic position. In the table below we have developed six definitions and categories of infrastructure.

Category	Expected Return (for "A" countries)
1. PFI/PPP Secondary	7-9%
2. Regulated Utility	8-10
3. PFI/PPP Primary	9-12
4. Gen Infra. Secondary	10-14
5. Gen Infra. Primary	11-15
6. Other Non-Regulated	12+

A road project, for example, could be in category one or six and, although the underlying asset is identical, the risk profile of the investment will differ materially. The returns shown are for more developed markets (the "A"-rated countries); return ranges for projects in less-developed markets would generally offer an additional 100-200 basis points commensurate with the added risk.

Experience required

With all of the growth in pooled investment product designed for institutional investors and the intense competition for investments, the experience of the investment team, their network of relationships and their ability to access investment opportunity will be even more crucial to ensuring investment success going forward. Successful, long-term infrastructure investing will require more in-depth market experience and understanding of the risk-return nuances of the market than many new entrants may expect. ■

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