

# JOIN THE Debate



First ever CIR online debate explores pros and cons of infrastructure investing.

BY JENNIFER HUGHEY

**I**S infrastructure the final frontier for long-term inflation-adjusted returns in turbulent times? As a pension plan sponsor, there are many factors to consider when thinking about investing in this asset class as members of the first ever *Canadian Investment Review's* Online Debate discovered. This inaugural debate, which was sponsored and moderated by WeirFoulds LLP, launched on April 14th, 2009. Participants in the discussion were key members of the plan sponsor, academic and investment communities. Those invited to participate were asked to consider and debate the reasons why infrastructure is attractive or, on the contrary, why it might not be a good investment. The debate raised numerous questions that members of this exclusive online community tackled within this innovative forum. Below are the main discussion points on each side of the debate and the low-down on which side won.

## THE MODERATOR

Moderator Brad McLellan, a partner with WeirFoulds LLP, encouraged the 250+ members to consider some very important points over the course of the debate. Will pension funds be reluctant to invest in infrastructure due to concerns such as the current economic climate, political risk in such projects and pursuit costs? What is the most appropriate type of investment by a pension fund in infrastructure? Are pension funds doing the appropriate due diligence for the type of infrastructure investment they are contemplating? And, if Canadian pension funds elect to invest in infrastructure projects

outside of Canada, what should they look for when going beyond our borders?

## THE PRO

Gayle McDade, senior fund manager with Alberta Investment Management Corp. (AIMCo) took the proponent side, affirming infrastructure's many positive attributes, such as the investment in long-life tangible

## How Do I Use CIR Online Debates?

Each debate lasts between four and six weeks in duration and will focus on a number of timely topics. To get started, log in with your email address and password, provided initially by CIR. Don't have a password? Please contact the editor for consideration. Once you've logged in, click on Debate Home and read the posted statements. You can see when in the Important Dates section on the right side of the page.

Once you've read the statements, post a comment. These can be added at the bottom of the page but you need to be logged in as a member first. You can preview your comment before you post and even publish anonymously if you wish.

Don't forget to vote! A feature that makes the debates all the more interactive is the ability to vote. Click on the PRO or CON button to cast your vote and the numbers automatically change to reflect this. If you change your mind throughout the debate, you can always change your vote!

For more information on CIR Online Debates, or to recommend a topic that's keeping you up at night, please contact editor, Jennifer Hughey at 416-764-4144 or [jennifer.hughey@rci.rogers.com](mailto:jennifer.hughey@rci.rogers.com).

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assets that are used to provide essential services. She noted that many infrastructure sectors also have a position of market power: monopoly status due to regulation, natural monopoly, or contracts and pricing power with a captive customer base.

“In setting asset mix, pension plans measure the amount of mismatch risk between the assets and the liabilities,” McDade said. “There are only a few inflation-sensitive assets to choose from, [such as] real return bonds, infrastructure and real estate. This would suggest that these asset classes would form the core of an investment policy.”

### THE CON

Bruce Grantier, retired manager of pension assets with Scotiabank, had a different point of view, saying that while these points may make infrastructure appear attractive, it’s not suited for all types of plans. Grantier maintains that infrastructure is especially inaccessible for small to medium-size funds who do not have dedicated resources to earn favourable returns because they are limited to fund investments.

“When I recently surveyed the big funds, (such as Ontario Teachers’, CPP, OMERS) I realized they all have dedicated

staffs of 50+ in private equity (including infrastructure), and they invest directly in large infrastructure projects.”

Grantier said because most pension funds do not have these extensive resources and having been through the laborious examination process himself, he concluded that there is significant potential for fees to consume a good portion of the total return available to the investor.

### AND THE WINNER IS...

As the debate progressed, members evaluated whether or not investing in the asset class was feasible. They commented on their own experiences and voted for the best presented case. At the end of week six weeks, 69% of members believed that infrastructure is an attractive investment. That infrastructure’s expected risk-adjusted return is definitely appealing, despite the fees involved.

McDade closed by saying “this is not surprising given the positive attributes of this asset class for pension plan investors. Challenging capital market environments, such as the one we are in now, create opportunities for thoughtful long-term investors in areas such as infrastructure. This may be a golden opportunity to make a fundamental change in the areas of fees and access for smaller funds.” ■