



The Next 150
FORTIFYING
RETIREMENT FOR THE FUTURE

2018 ACPM
NATIONAL
CONFERENCE



Québec City, QC
Fairmont Le Château Frontenac
SEPTEMBER 11-13, 2018

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Workshop 1

Infrastructure is the New Black

Speakers:

Michael Keenan, *Bimcor Inc.*

Bruno Guilmette, *Canadian Infrastructure Bank*

Moderator:

Ross Dunlop, *Ellement Consulting*

Infrastructure is the New Black

Michael Keenan
Chief Investment Officer
Bimcor Inc.

Main Messages

- Infrastructure is not the new black, but is an option worth considering for pension plans seeking assets with an equity-like return and moderate volatility
- Pension funds considering a private infrastructure program should assess whether they are built to succeed in terms of governance, resources and expertise as there is a gap between the theory and the practice
- *Past performance is no guarantee of future results* - historical returns have been materially flattered by the decline in interest rates over the past decade. Expect lower returns going forward

Introduction

- Bimcor is the investment manager for the pension funds of the Bell Canada group of companies
 - Invested in infrastructure asset class for ~10 years
 - ~\$850M portfolio which is mix (~50/50) of funds and co-investments
- Portfolio construction based on following targets
 - Traditional core to core+ assets
 - Geographic focus on North America and Western Europe with home country bias
 - Investment grade metrics for underlying companies / assets
- Investment strategy based on relatively concentrated portfolio of fund relationships with the potential for co-investments
 - Our strategy reflects (relatively small) size of internal team and an outsourced investment model

Implementation challenges

Alternative asset classes generally

1. Importance of manager selection
2. High fees
3. Contractual complexity
4. Illiquid with lumpy investment profile
5. Benchmarking

Infrastructure in particular

6. “Preferred” LP fund model still evolving (term to maturity, extension options, open vs closed)
7. Portfolios tend to be concentrated with a “credit-like” return profile
8. Relatively high event-risk at the asset level, in particular for regulated assets
9. Highly leverage-able assets, so a tendency for prices to be set by debt availability
10. U.S. not necessarily the easiest place to invest from a Canadian perspective (energy market & “tax-heavy”)

The theory and the practice

Theory	In practice
Essential assets with monopoly-like characteristics	√√
Stable return profile driven largely by income	√
Portfolio diversifier	√
Inflation protection	√
Value added potential from active management	√
Less efficient than public markets	?
Capture an illiquidity premium	?

Return outlook - 7 is the new 11?

9-11% Renewable Energy Investment 10 years ago?

Long-term (20 years+) off-taker contract in place

Limited value ascribed to post-contracted period so no real need to take a view on forward market environment

Stand-alone operating assets with no expectation of portfolio growth

Relatively limited resource history

Newer and less tested technology

9-11% Renewable Energy Investment Today?

Medium term (10-15 years) off-taker contract in place

Material value ascribed to post-contracted period so forward market environment a key driver of returns

Operating assets expected to serve as a base for developing a larger platform

Longer and more reliable resource history

Technology winners & losers easier to identify

Conclusions

- There is much to like about infrastructure, both in theory and in practice. Bell experience has been positive overall and business plan calls for continued growth going forward
- But...implementation of a successful program within most alternative asset classes requires hard work, dedicated resources, domain expertise, and a governance environment that is commercial enough to manage illiquidity and a degree of complexity
- Publicly traded infrastructure companies are a reasonable alternative for pension funds preferring a simpler implementation approach than a private program
- Market currently seems to price core assets for mid-to-high single digit returns (before fees). The value of active management to improve returns has likely increased

Infrastructure is the New Black

Bruno Guilmette
Board Member,
Canada Infrastructure Bank

Canada Infrastructure Bank

- Canada Infrastructure Bank (CIB) was established in June 2017.
- Crown corporation, operating at arm's length from government.
- CIB will co-invest and convene private capital to help close Canada's infrastructure gap.
- Governed by an independent Board of Directors and led by an experienced executive team.



Janice Fukakusa
Chair of the Board



Pierre Lavallée
CEO



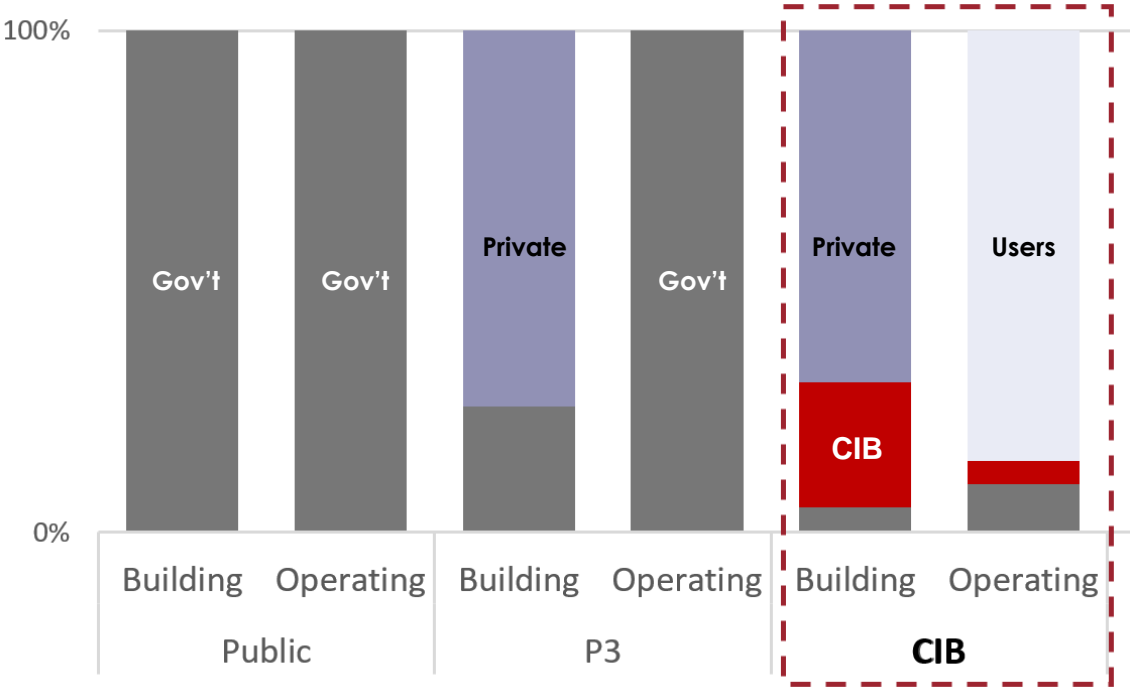
Annie Ropar
CFO & CAO

Mandate

“The purpose of the Bank is to invest, and seek to attract investment from private sector investors and institutional investors, in infrastructure projects in Canada or partly in Canada that will generate revenue and that will be in the public interest...” (CIB Act)

- Invest up to \$35 billion
- Attract private capital into new revenue-generating infrastructure that is in the public interest.
- Provide advisory services including best practices, data, information, and a National Infrastructure Projects Inventory

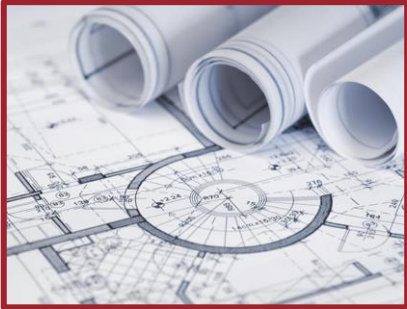
CIB complements existing financing models



CIB's role through the project lifecycle



Advisory
& New Projects



Co-invest &
Convene Capital



Manage
Investments

CIB has three main focus areas



Green
Infrastructure



Public
Transit

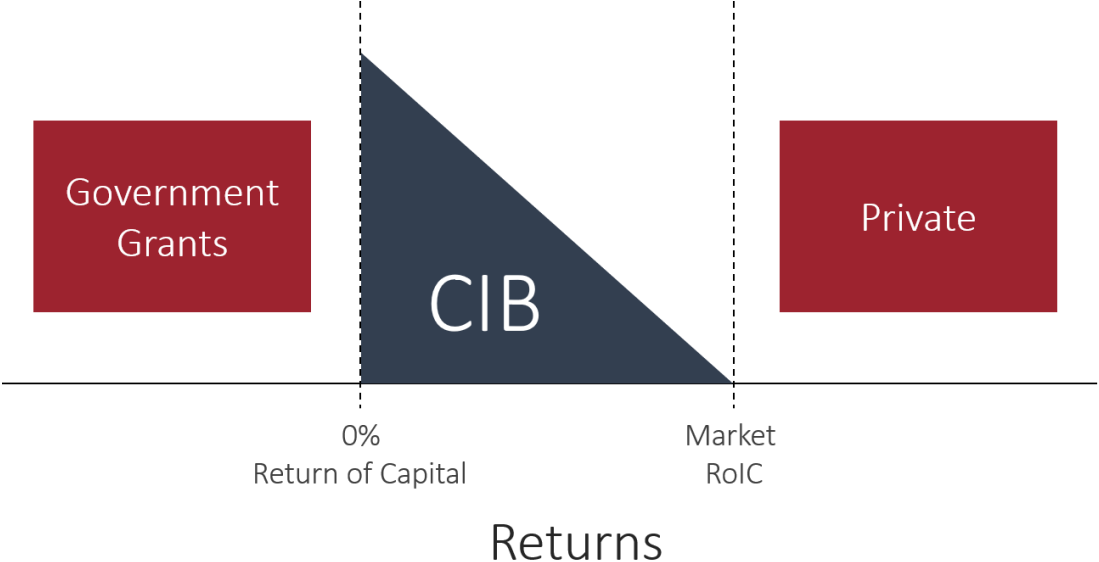


Transport and
Trade

CIB investment criteria

- Alignment with governments' infrastructure priorities
 - Public interest
 - Within one of the three main focus areas
 - Greenfield or major redevelopment
 - In Canada or partly in Canada
 - Revenue generating, from non-government sources (user-pay)
- Private investment suitability
- Deliverability

CIB participation



Standard investment approval process...



...within a regular planning and budgeting process



CIB continues to build capacity

- Recruiting a Chief Investment Officer, other senior personnel
- Engaging with project proponents and investors
- Building capability to assess projects (project information outline)
- Developing project intake process

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