



# Infratil Portfolio Strategy

Paul Newfield, CIO

Infratil Investor Day

April 2018

# Bringing you inside the Infratil Portfolio Strategy Process

Taking a portfolio-wide view to maximise risk-adjusted returns

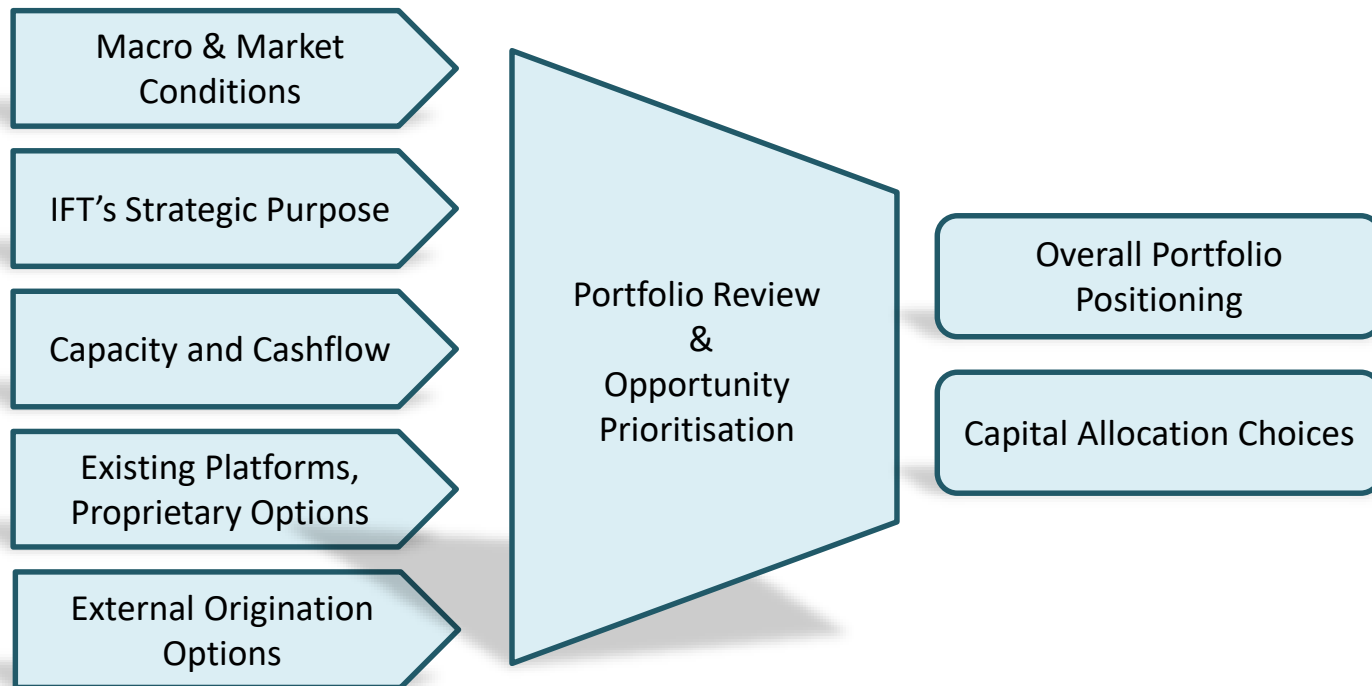


- IFT Investor Day is the culmination of our annual investment strategy review process
- Presentations today aimed to provide greater insight into the performance and prospects of **individual portfolio companies**
- This final session summarises IFT's
  - approach to **portfolio strategy**
  - updated **macro views**
  - top-down views on **upcoming options**
  - anticipated **capital allocation choices**



# The Infratil Portfolio Strategy Process

Prioritising capital across an option-rich portfolio



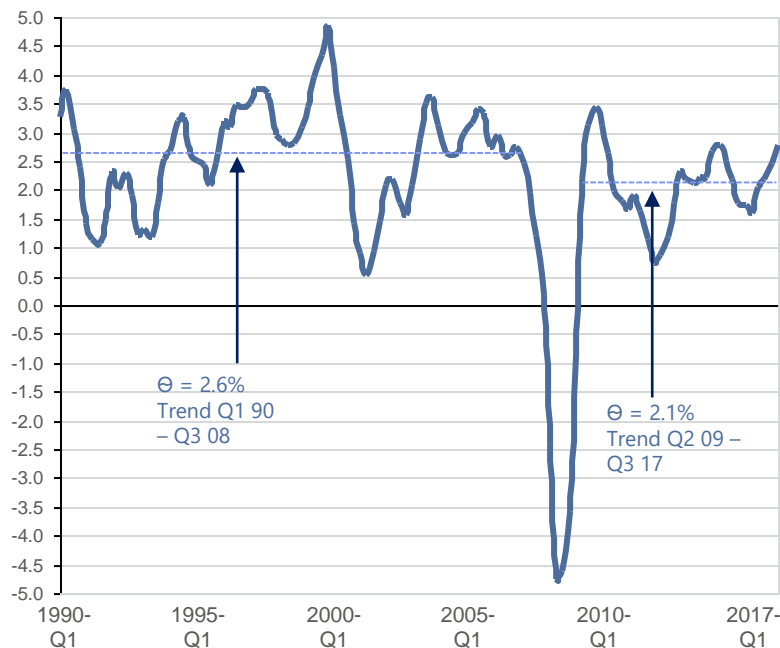
# Macro & Market Environment

Developed economies recovering, but long term growth capacity remains constrained



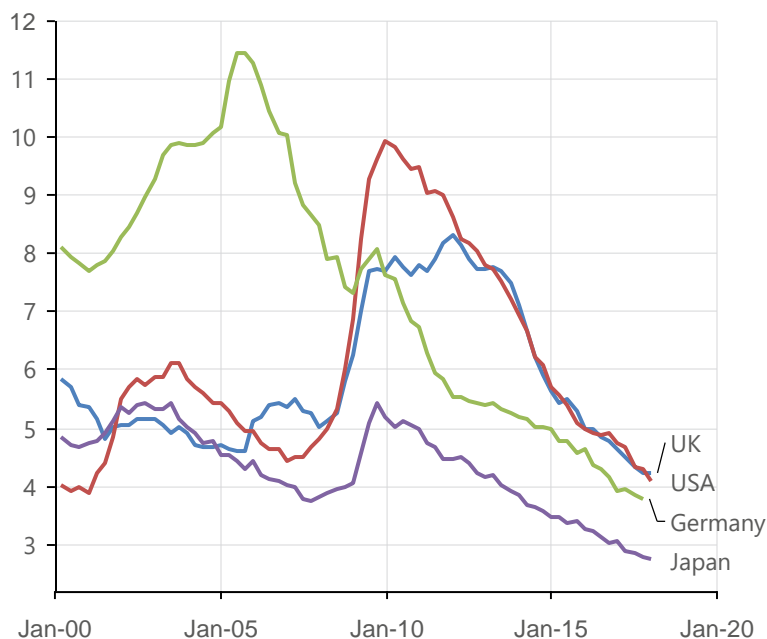
## OECD Real GDP Growth

% change from year earlier



## Unemployment – Four largest advanced economies

% of labour force



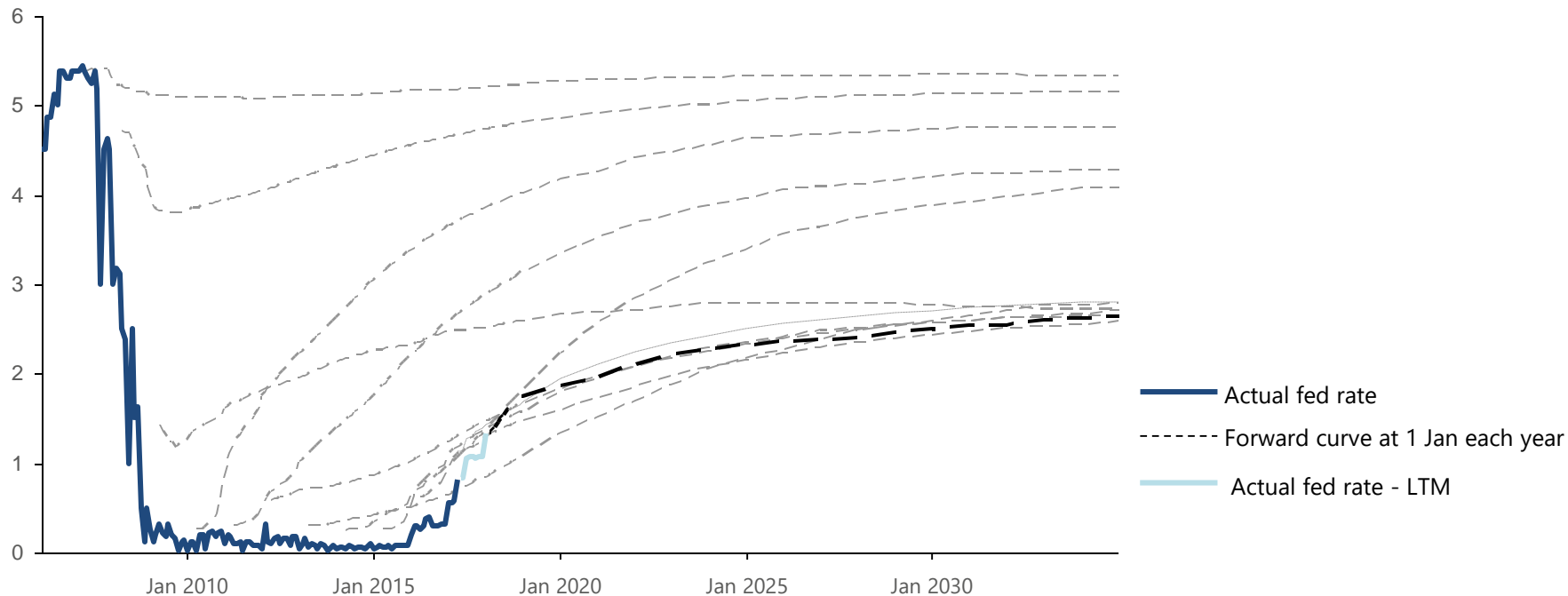
# Macro & Market Environment

Interest rate outlook starting to turn



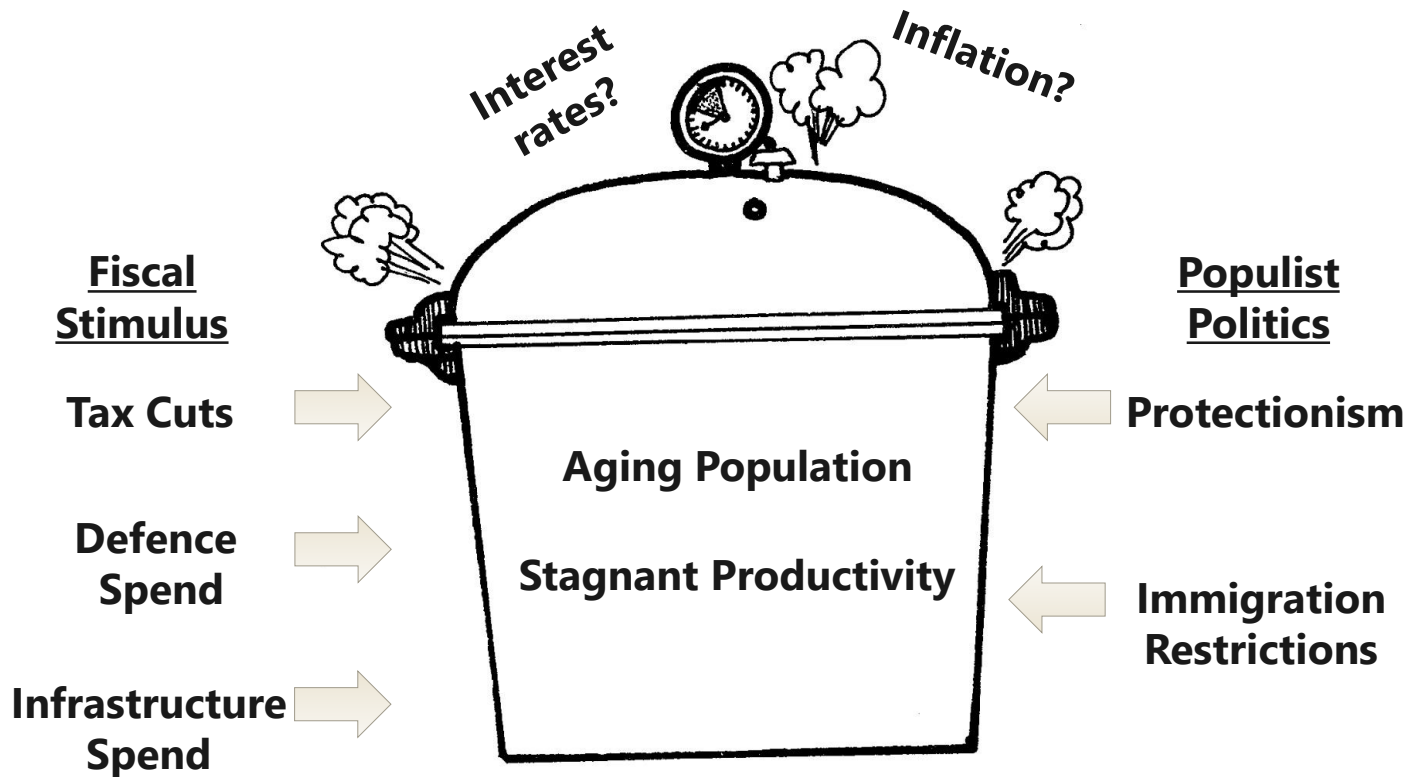
## Changing Interest Rate Expectations since the GFC

US Federal reserve rate and forward curves as at 1 Jan each year (2007-2018), %



# Macro & Market Environment

Last year we flagged our fear of a US “Pressure Cooker Economy”, all the ingredients are now in place





# Macro & Market Environment

Rising trend of nationalism & interventionism



FEBRUARY 2 2018

SAVE PRINT LICENSE ARTICLE

'Power to the people': Let's nationalise Australia's grid, Greens say

Cole Latimer

**Polls backing nationalisation show just how out of touch Theresa May's Tories are**

stuff

Nationalise electricity

Voices

*Jeremy Corbyn's nationalisation policies are grounded in cold, hard economic sense. Europe proves it*

**Jeremy Corbyn promises to nationalise Britain's energy companies in order to avoid 'climate catastrophe'**

Adam Bier

stuff

business



Government could nationalise water

**Virgin's East Coast line could be nationalised in months as Transport Secretary reveals it's running out of money and likely to break up before 2020**

**Shorten must rule out nationalising the electricity grid**

JOSH FRYDENBERG  
The Australian | 12:00AM February 5, 2018

Energy bill woes are down but support for market intervention remains strong

READER REPORT:

NZ needs nationalisation

ROLAND ASKEW



EXCLUSIVE POLITICS VICTORIA

**Public wants government to force power companies to offer cheaper deals, poll finds**

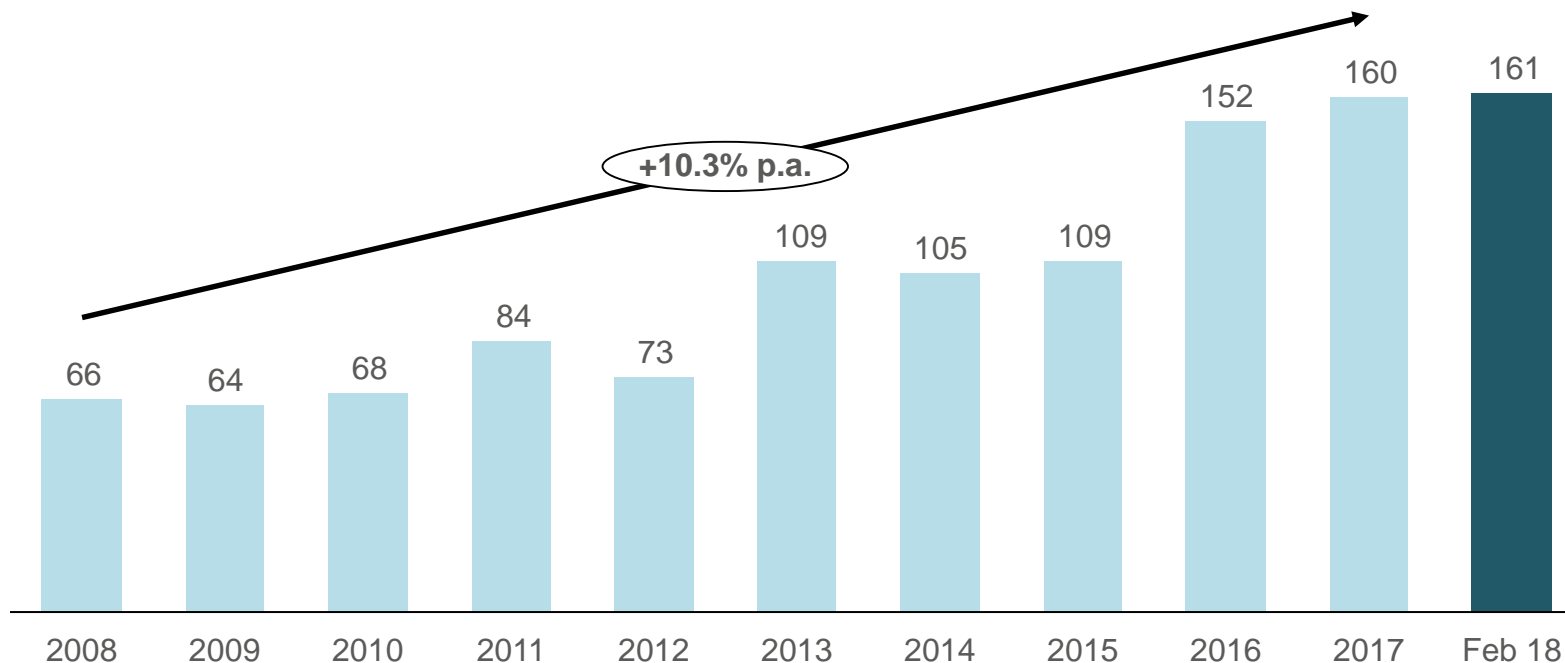
# The flow of capital into infrastructure shows no sign of abating

Institutions increasing allocations, a mountain of dry powder is forming



Unlisted Infrastructure Fund Dry Powder (excludes Direct Investors)

Total World (\$bn)





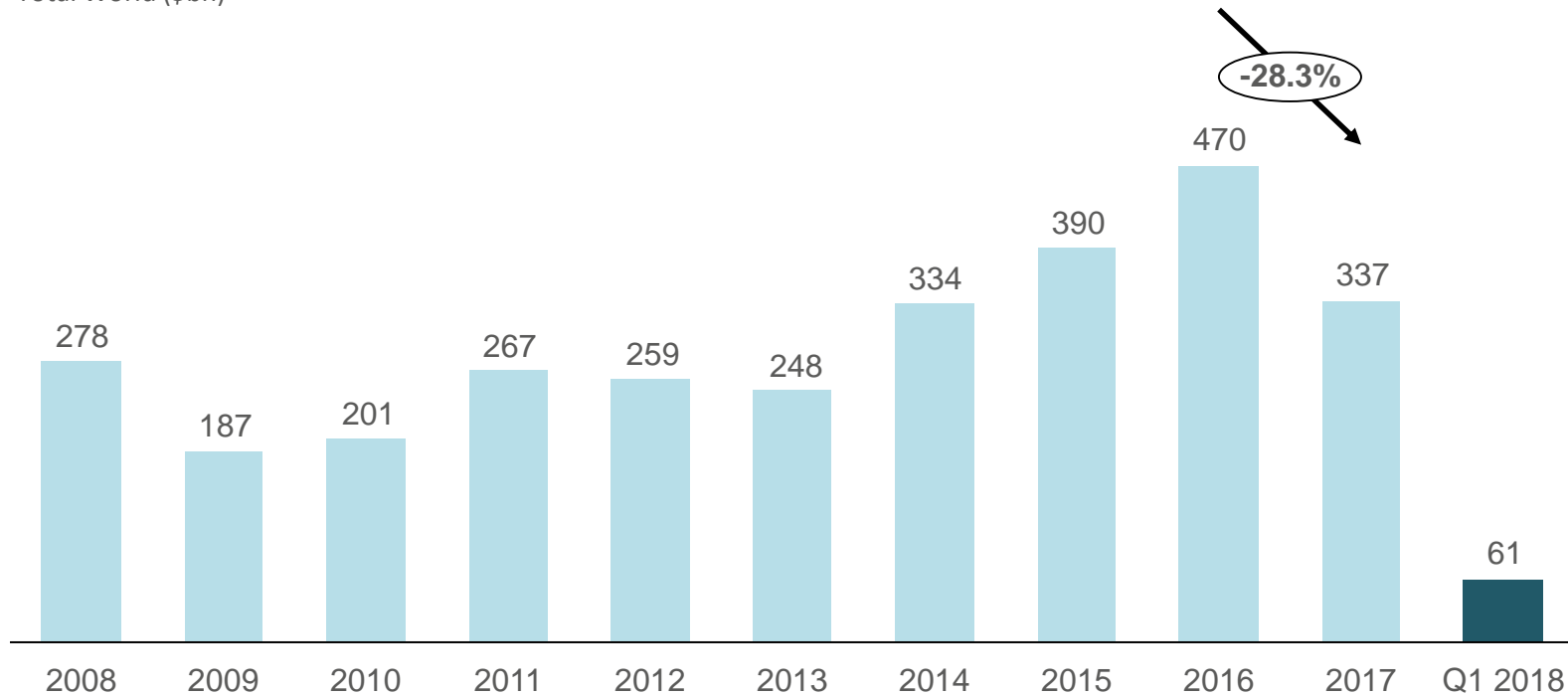
# However deal flow is declining as major privatizations dry up

Decline particularly notable in Australian core infrastructure



## Aggregate infrastructure deal value

Total World (\$bn)



# Macro and market conditions: Summary



## Observations

- Short term, stimulus-driven growth
- Increasing short term pressure on rates
- Longer term growth constrained by demographic fundamentals
- Protectionism and interventionism make matters worse
- Ever-rising infra allocations adding to a mountain of dry powder
- Deal volumes dropping from peaks, few major privatizations on the horizon

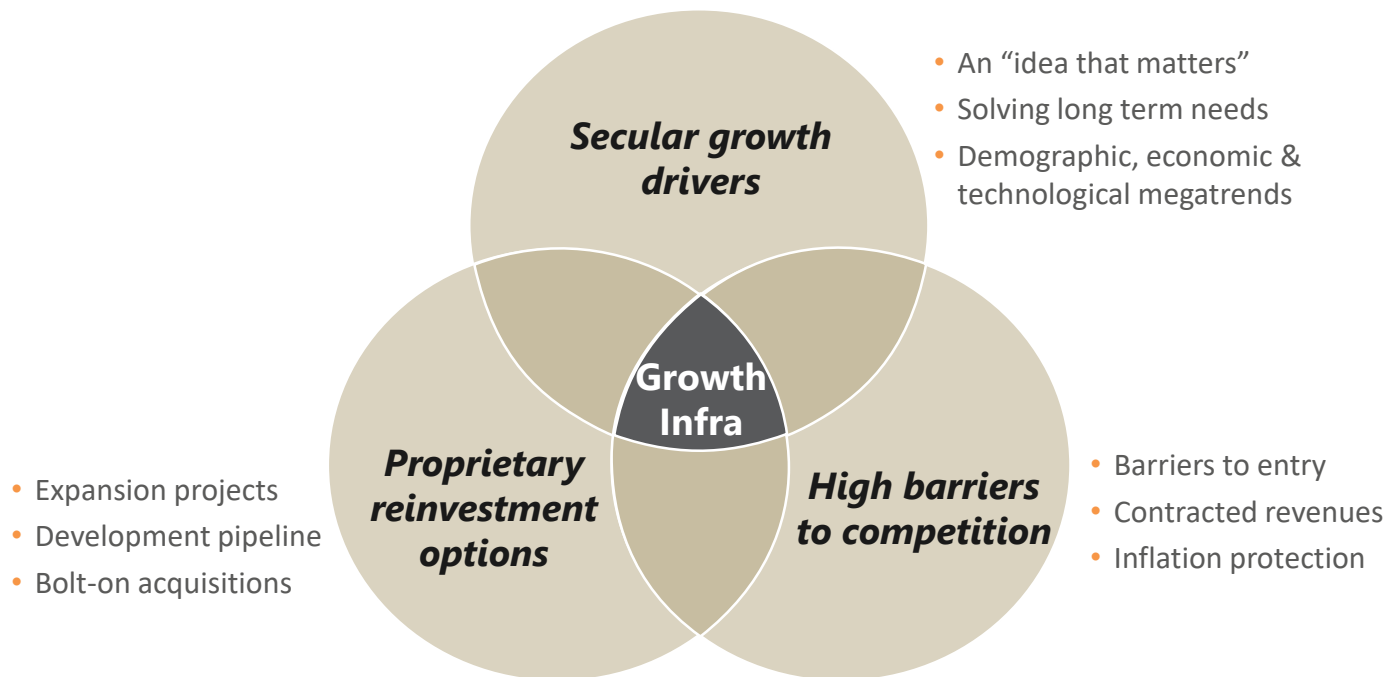


## IFT Implications

- Manage IFT equity allocation aggressively
- Term out debt positions
- Prioritise embedded options within existing platforms and leverage NZ home advantage
- Invest in early stage research to stay ahead of the pack

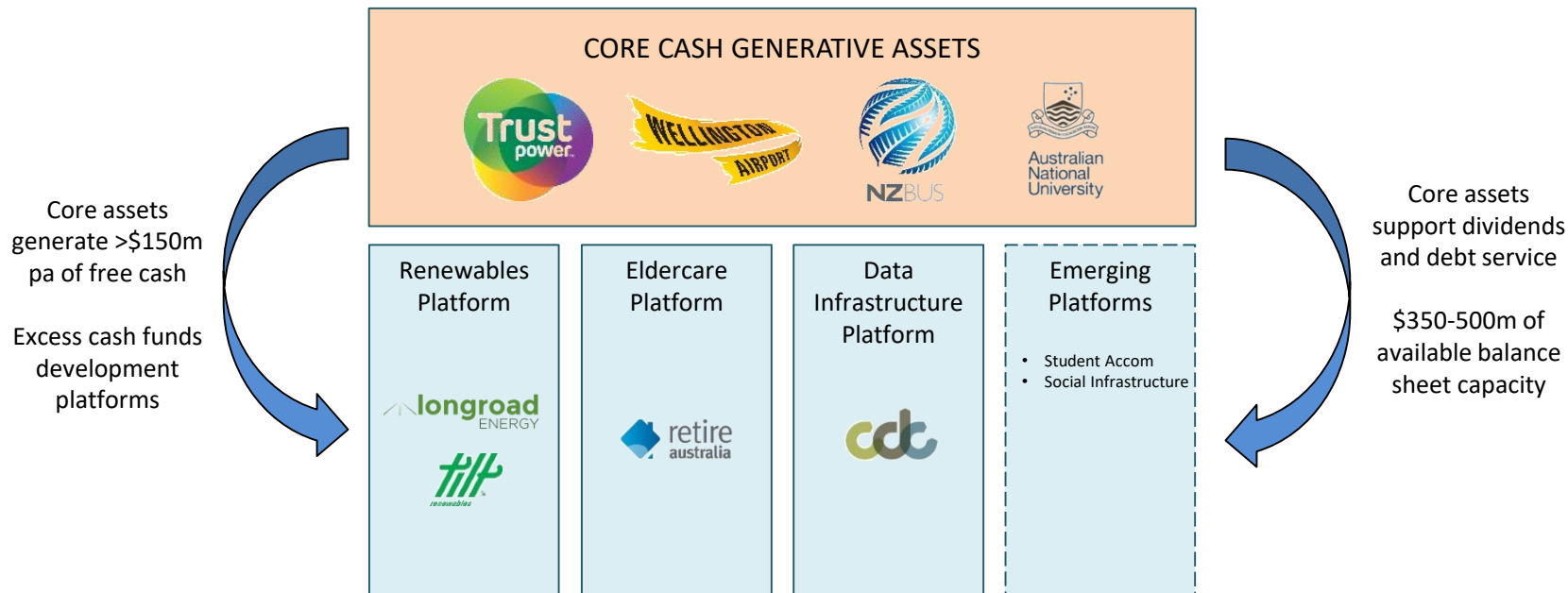
# Infratil's Strategic Purpose: Excess Returns from Growth Infrastructure

## Recap: Our Definition of "Growth Infrastructure"



# Capacity and Cashflow

IFT's core assets providing balance sheet strength and cashflows to support reinvestment



# Capacity & Cashflow: Prudent Management of IFT Balance Sheet

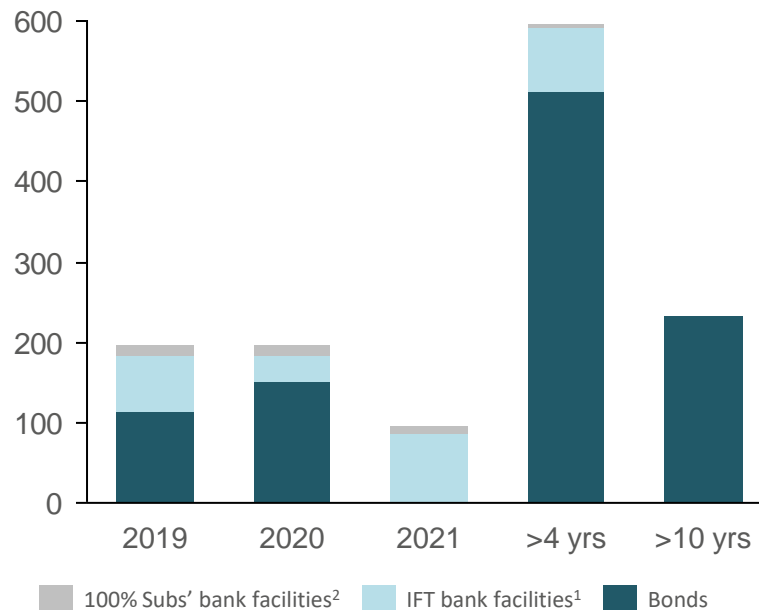
Current gearing headroom provides opportunity for further investment



- **Maintaining IFT balance sheet capacity**
  - \$269 million (excluding ECGD) of undrawn bank facilities and \$250+ million in cash
  - Next bond maturities are \$111.4 million in Nov 2018 and \$68.5 million in Nov 2019
- **Wholly Owned Group gearing ~30% as at 31 Mar 2018**
- **Recent refinancing activity across portfolio**
  - RetireAustralia: New 5 year facility, reduced core debt, expanded development facility
  - CDC: Early refinancing, pushing maturities from 2019 & 2021 to 2023 & 2025
  - Tilt: New corporate facilities secured to support Dundonnell development

Infratil debt maturity profile

NZ\$m



# Existing platforms presenting proprietary investment options

Multi-year programme of option development is now bearing fruit



## CORE CASH GENERATIVE ASSETS



Material pipeline of investment options across existing platforms (>\$1b over next 3 years)

### Renewables Platform



### Eldercare Platform



### Data Infrastructure Platform



### Emerging Platforms

- Student Accom
- Social Infrastructure

Continue R&D on emerging platforms

- Essential to remain ahead of market
- Willing to exit when ideas don't grow to scale

Current investment options exceed balance sheet capacity so capital prioritisation will be key

Current areas of research focus:

- Telco infra
- Healthcare
- Carbon markets
- Water
- Waste
- Infratech

# Existing Platforms: Renewable Energy

IFT's established positions place it ahead of the pack

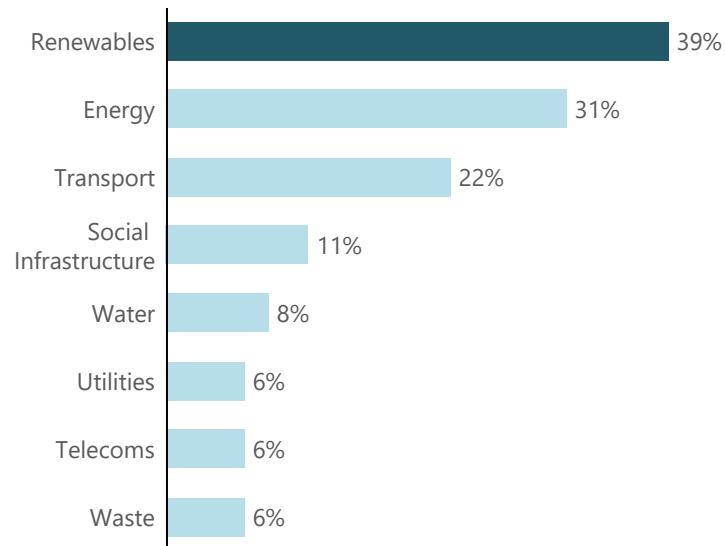


## Tilt and Longroad offer attractive access points...

- Renewable energy is the most active infrastructure sector regionally and globally
  - >US\$250b of global renewables investment in 2017
  - >50% of 2017 infra deal flow by volume in Australia
- However, long term PPA-backed assets are increasingly hard to secure and sought-after in Australia
  - Lack of PPA availability forcing core infrastructure investors to look elsewhere for Renewable energy exposure
- Tilt and Longroad offer a rare combination
  - Stable long term contracted cashflows
  - Potentially high returning development options

## ...to the most sought after infrastructure asset class

% of investors specifically targeting each sub-sector





# Existing Platforms: Data Infrastructure

Data Centres increasingly in the cross-hairs of infrastructure investors



Risk/Return attributes increasingly understood...

- “Data Centres: Essential infrastructure for digital lives”  
— AXA, 2017
- “Data centres are the factories of 50 years ago”  
— OP Trust, 2018
- “We believe secular growth in data consumption will generate attractive returns in the data centre sector”  
— GIC, 2018
- “Communications infrastructure has become an essential service in the modern world, including fibre, wireless and data centres”  
— AMP Capital, 2018

...And valuation metrics are rising accordingly

Australian data centre operator NTM EV/EBITDA(R)<sup>1</sup> multiples (x)



# IFT Portfolio Positioning & Capital Allocation

Attractive set of investment options will force tough capital allocation calls



- **IFT portfolio is well set to deliver excess returns**
  - Strong cashflow generation and capacity for new investment
  - New platforms delivering high returning proprietary options
- **Market not yet valuing IFT's more recently established platforms**
  - Consistent with previous cycles of IFT portfolio evolution
- **Reinforces the need to manage capital allocation aggressively**
  - Only the best options will receive IFT equity funding
  - Strongest options currently in our Renewables and Data Platforms
  - Core assets such as WIAL also demonstrating growth capacity



# IFT Portfolio Strategy: Ultimate Focus on Shareholder Returns

Recognising the need for portfolio simplification, while sowing seeds for future value



- **Small assets struggle for recognition within the IFT share price**
  - Implies a tightening of the portfolio
  - Growth platforms will always start small, but those that fail to scale in a reasonable period will be candidates for divestment
- **Translating underlying value creation into TSR remains the focus**
  - Flow development gains through to special dividends where appropriate
- **We will maintain an active research and origination programme and a dynamic capital allocation model**
  - IFT's track record is built on being "ahead of the pack"
  - Market uncertainty implies a need for flexibility
  - Ongoing capital contestability drives optimal returns

