



Macro Outlook and Implications for Infratil Investment Strategy

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Infratil Investor Day 2017

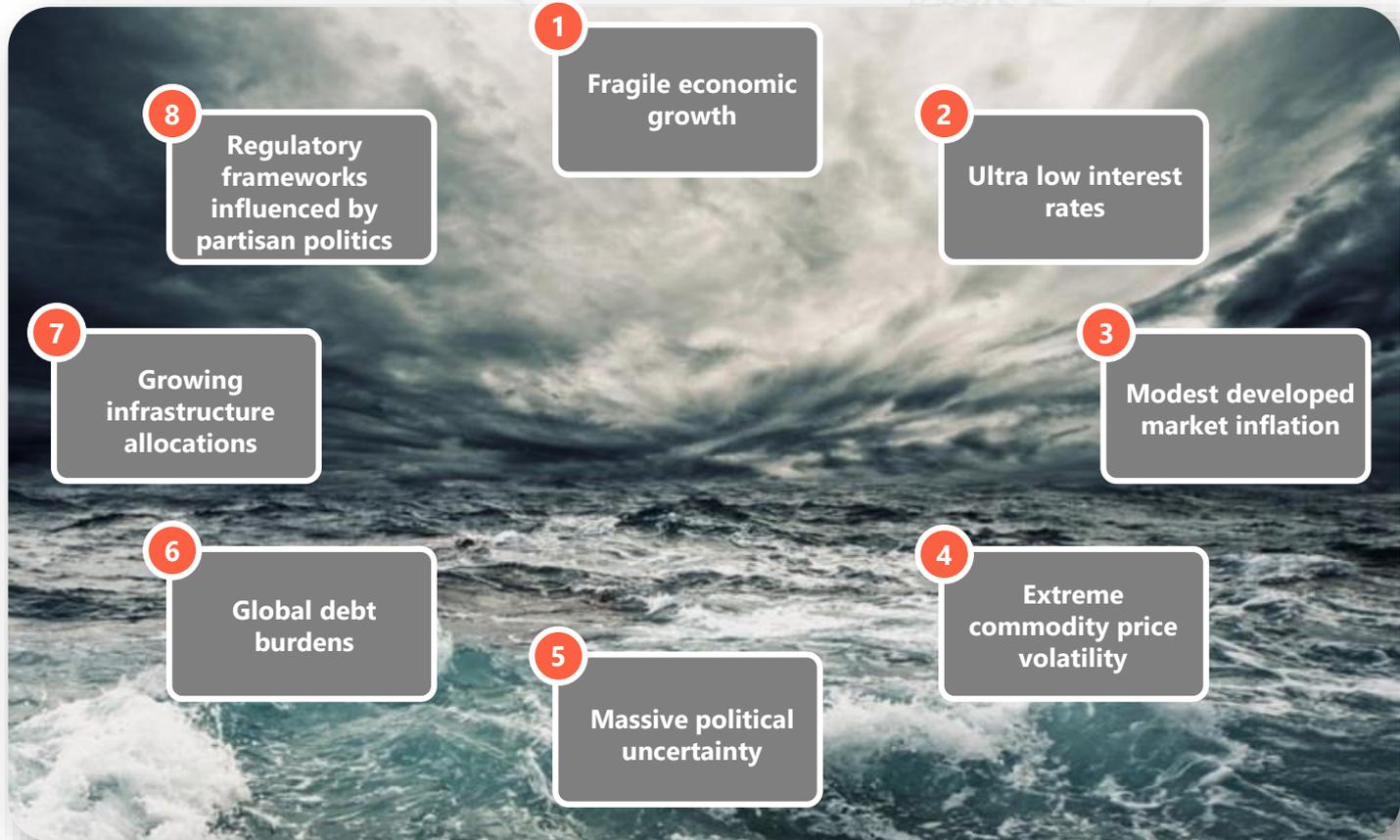


FAQs (and Alternative FAQs)

- How has the **macro environment** changed since last year? (or “What does Trump mean for markets?”)
- What are the **implications for infrastructure**? (or “Is infra just a bond proxy?”)
- Where is **Infratil focusing its capital**? (or “What do you mean by Growth Infra Platforms?”)



Last year we highlighted a multitude of risks on the horizon



The political risks have largely come to fruition

(An internal page from last February that I deemed unfit for public consumption)

US



Europe

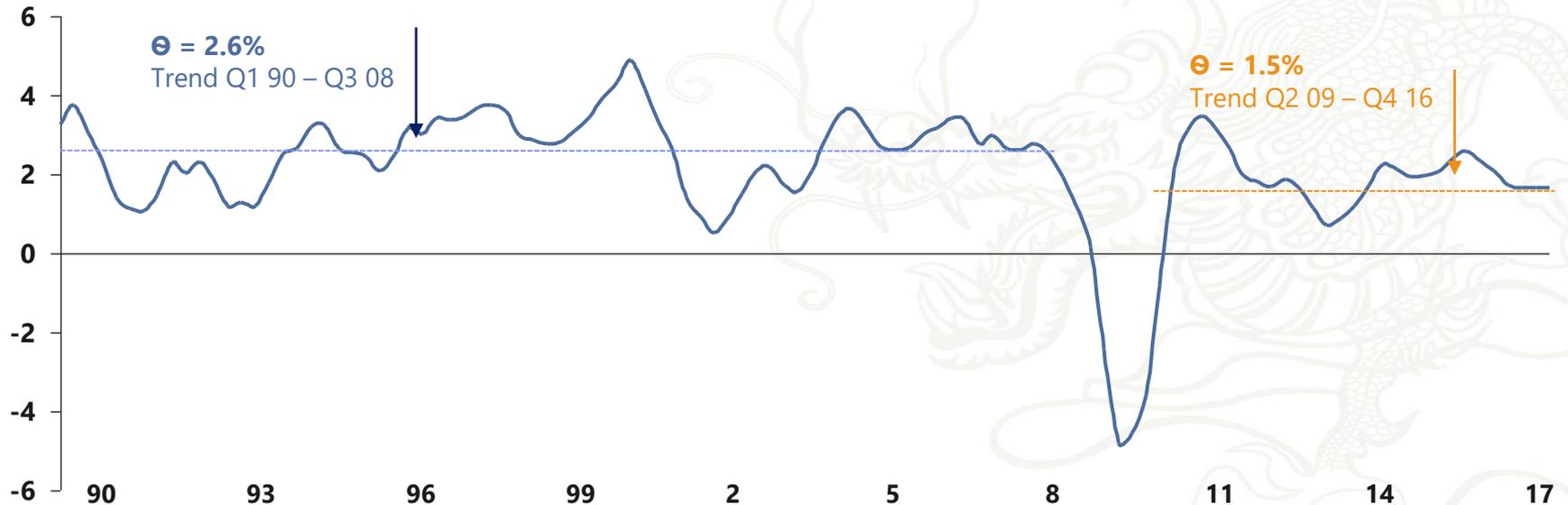


ROW



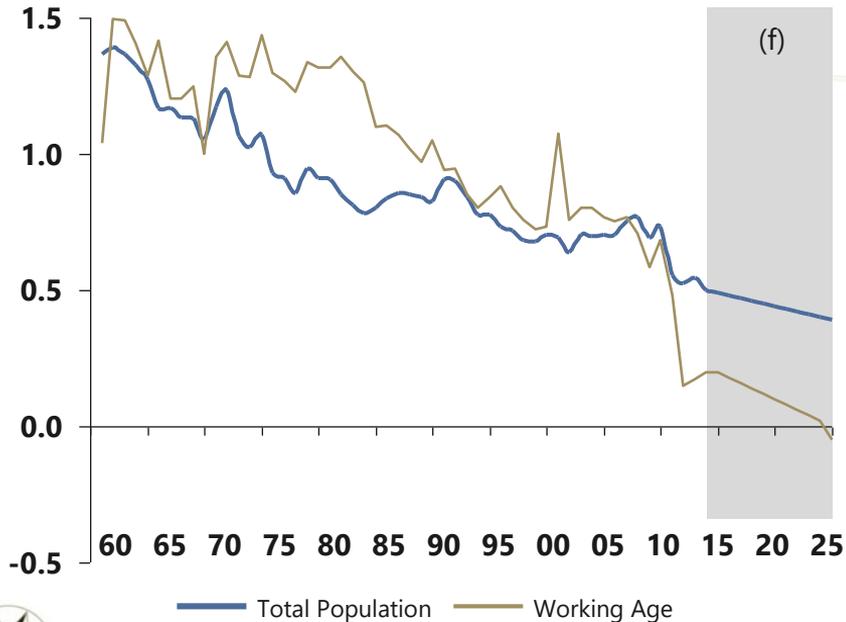
The OECD has experienced a sustained downshift in growth

OECD Real GDP Growth, % change from year earlier

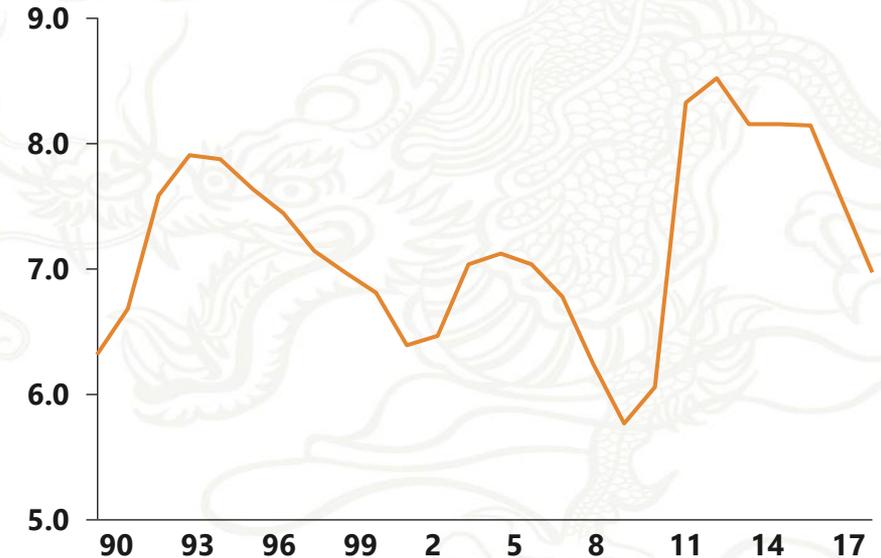


Nearing full employment in many developed economies

OECD Population Growth, % change from year earlier

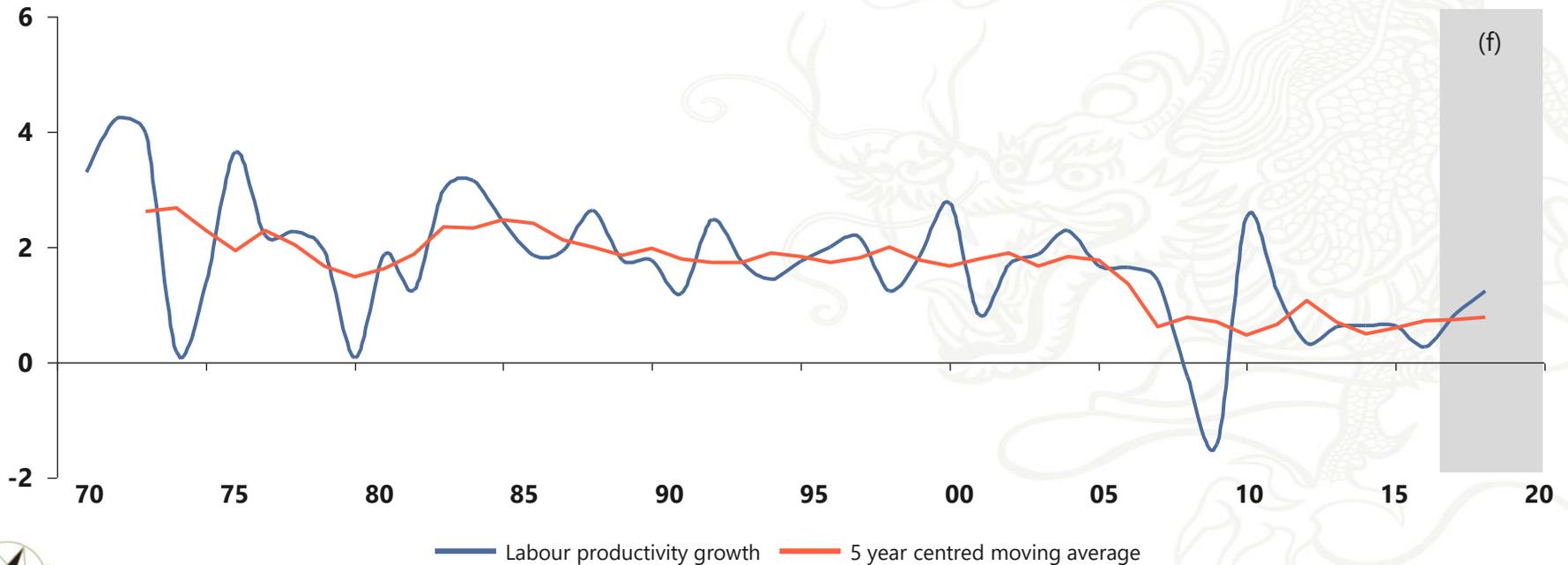


OECD Unemployment Rate, % working age (15-64)



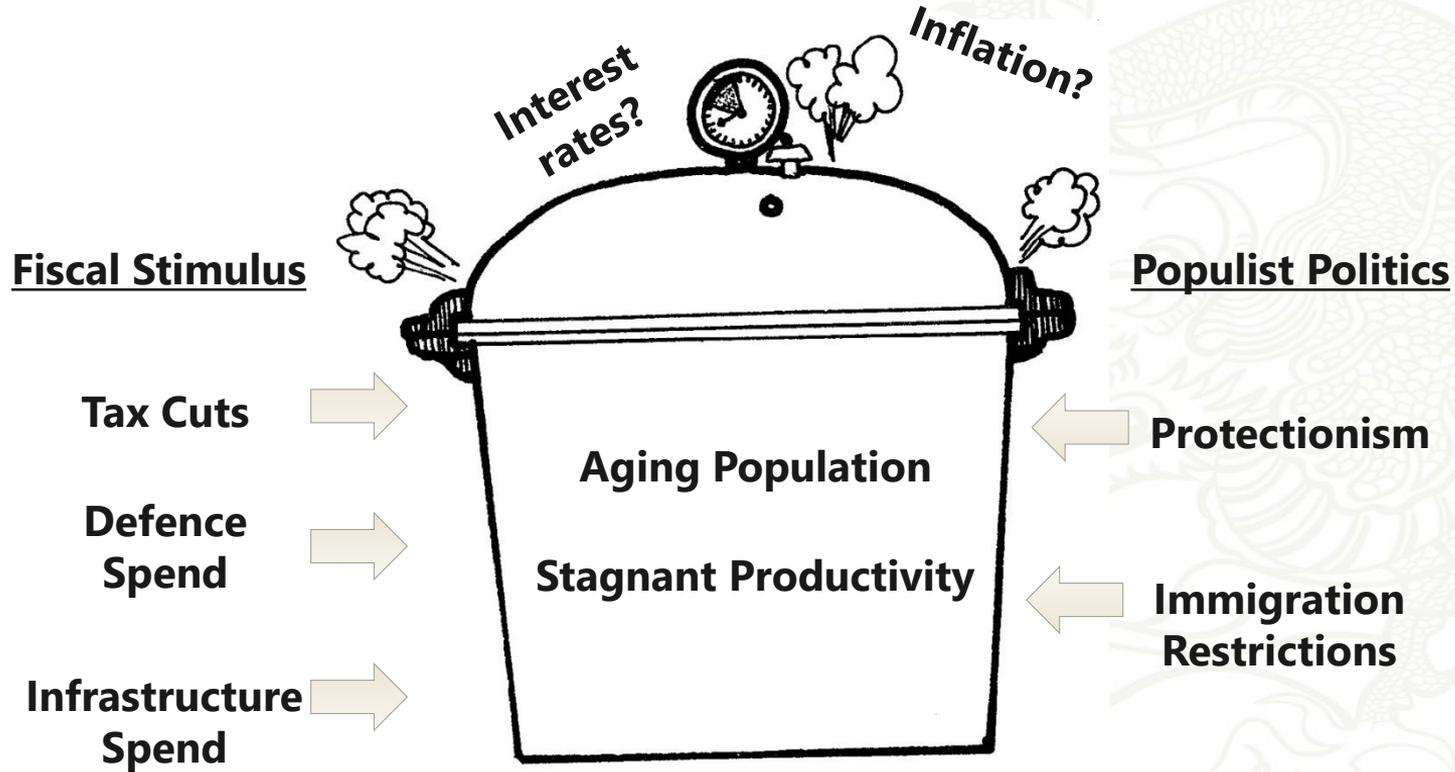
Labour productivity is not filling the gap

OECD area Labour Productivity Growth, % pa



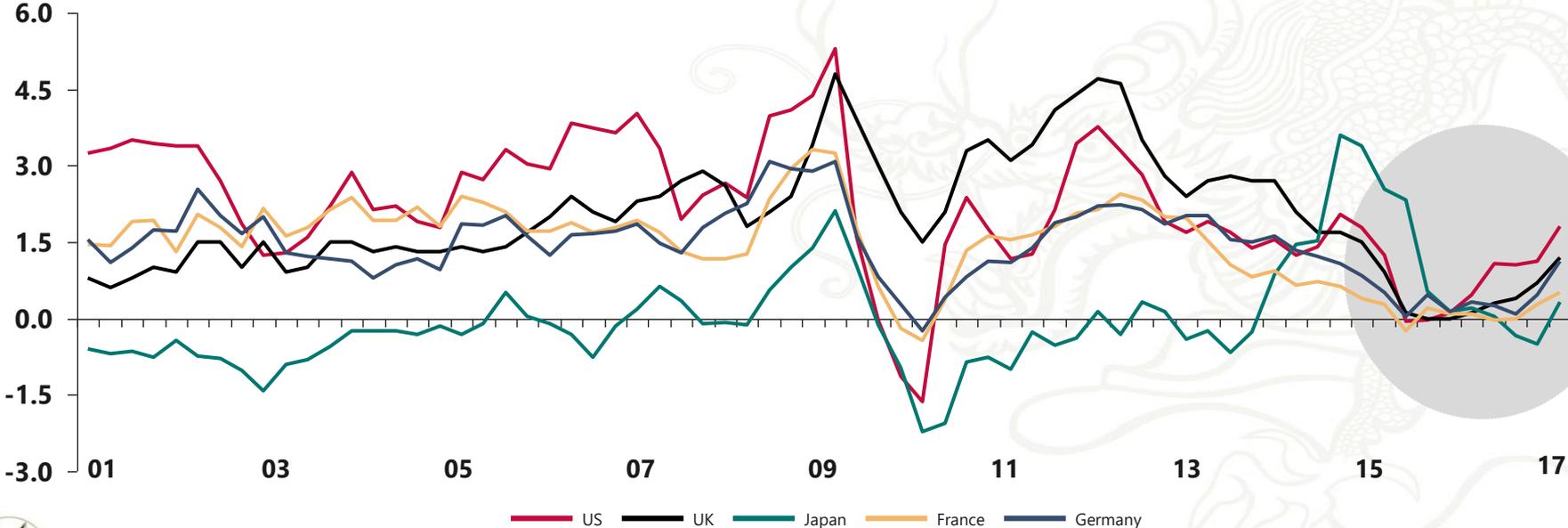
Source: Organization for Economic Co-operation & Development (OECD).

The pressure cooker economy?



Early signs of inflation returning...

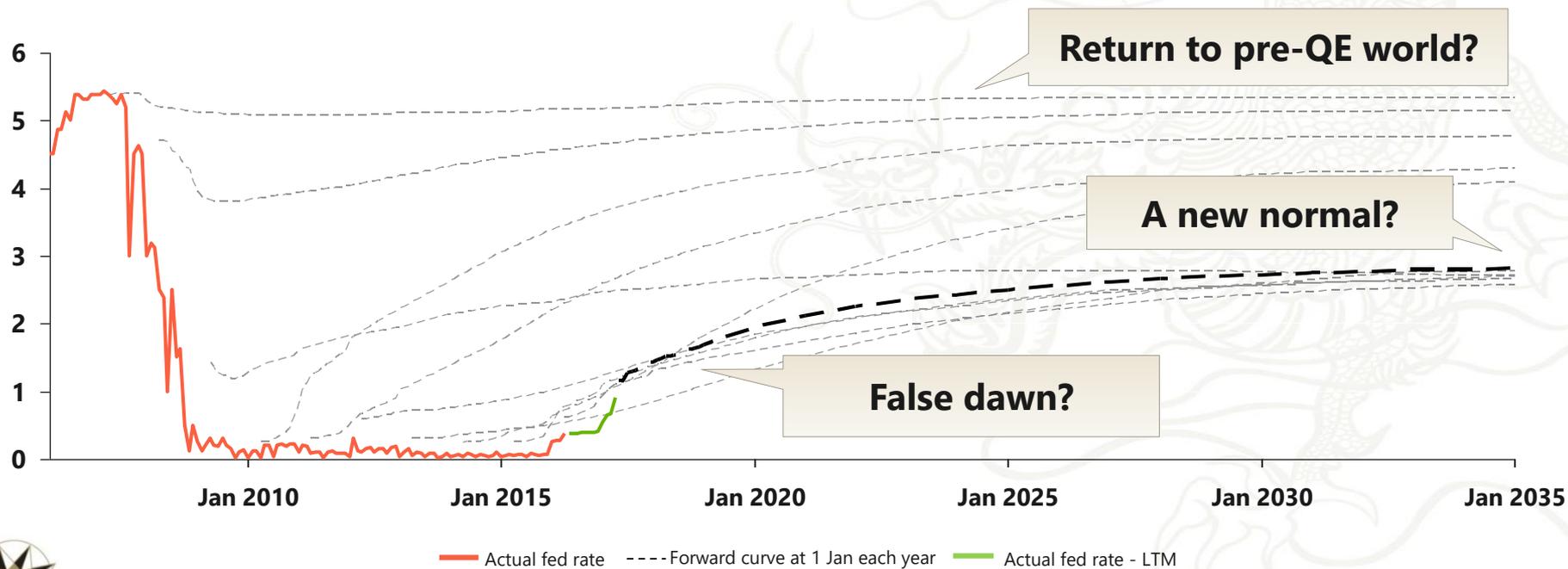
OECD CPI, % change from year earlier



Source: Organization for Economic Co-operation & Development (OECD).

...and interest rate expectations are rebounding (again)

US Federal Reserve Rate and Forward Curves, as at 1 Jan each year (2007-2017), %



What does this mean for IFT investment strategy?

Macro Context

- **Near term stimulus?**
- **Rebound in interest rates and CPI?**
- **Longer term growth constraints**
- **Geopolitical risk**
- **Equity markets near all time high**

Strategic Implications for IFT

- ✓ **Focus on secular, not cyclical, growth**
- ✓ **Weight investment to growth infra**
- ✓ **Seek inflation protection**
- ✓ **Drive cash generation from the core**
- ✓ **Maintain balance sheet flex, stand ready to capitalize on market events**



Strategic priorities for the IFT portfolio

Asset Management

Drive operational performance within existing core portfolio

Manage through periods of higher risk and deliver development returns

CORE CASH GENERATIVE PORTFOLIO



Renewables Platform



Eldercare Platform



Data Infrastructure Platform



Emerging Platforms

- Student accommodation / social infrastructure

Portfolio Management

Rotate out of businesses with declining outlooks, replace with attractive cash generators

Prioritise capital and execute on reinvestment options

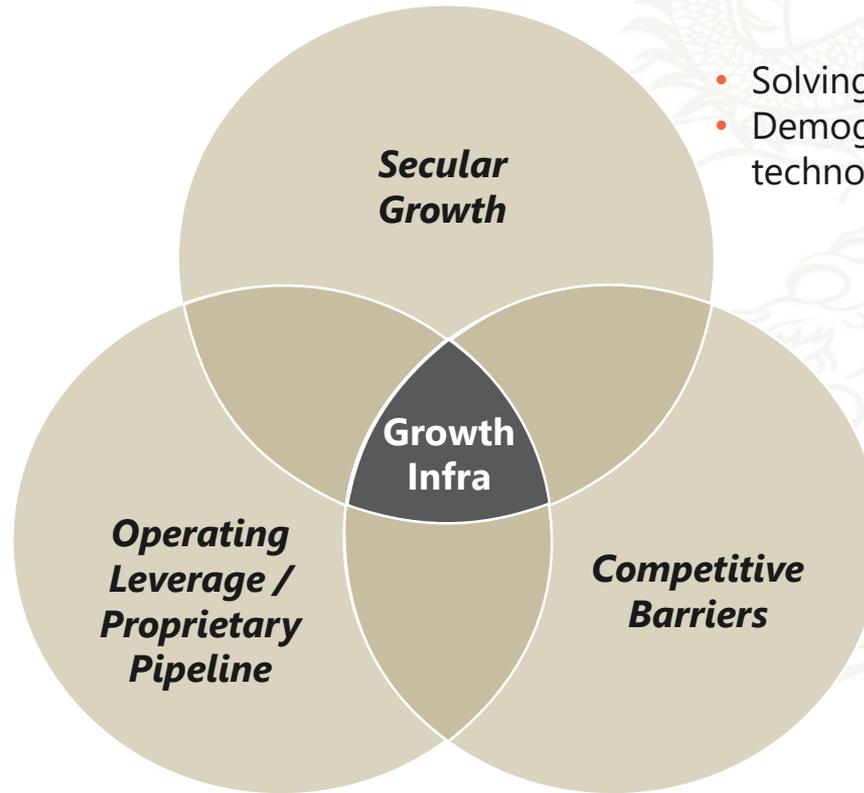
Balance Sheet Management

Manage debt levels and maturity profile, assess capital management initiatives relative to internal and external investment options

Maintain flexibility to accelerate or defer re-investment based on market conditions



What do we mean by Growth Infrastructure Platforms?



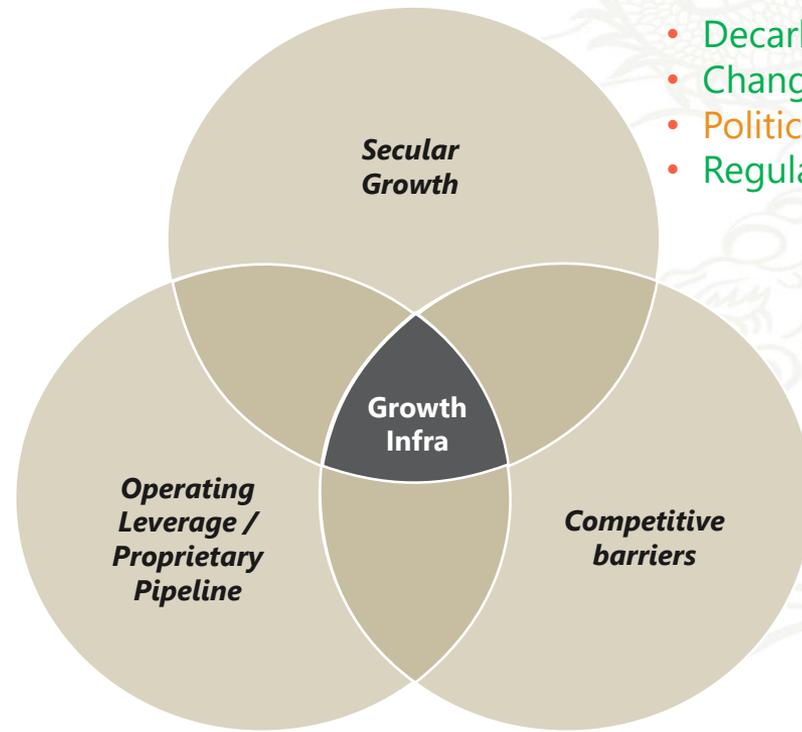
- High % of fixed costs
- Expansion options
- Development pipeline

- Solving society's long term challenges
- Demographic, economic & technological megatrends

- Barriers to entry
- Contracted revenues
- Inflation protection



Renewable Energy Growth Platform



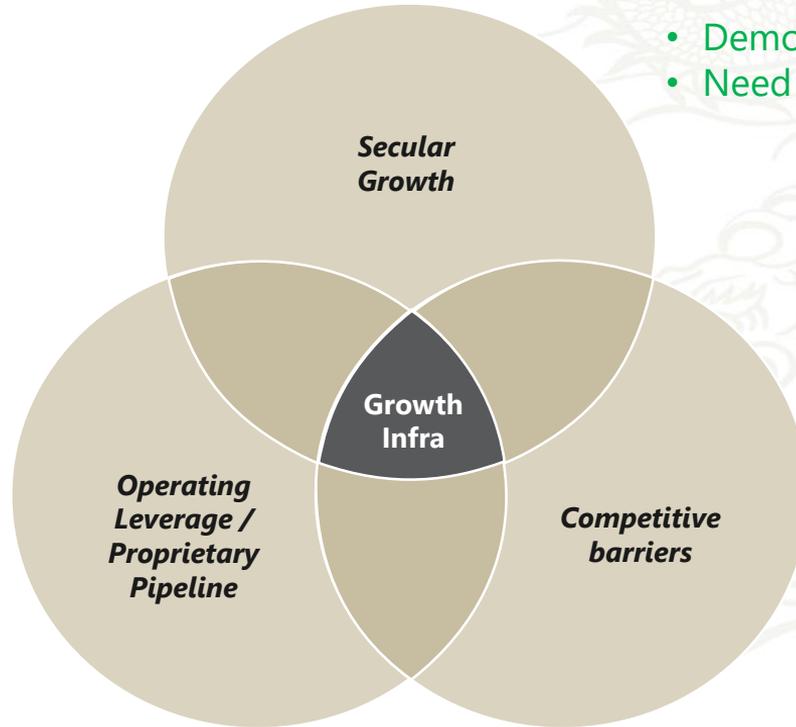
- Large and growing pipeline
- Low holding-cost options
- Complementary assets

- Decarbonisation
- Changing economics
- Political uncertainty
- Regulatory diversification

- Long term contracts
- Advantaged options
- Merchant exposure?



Eldercare Growth Platform



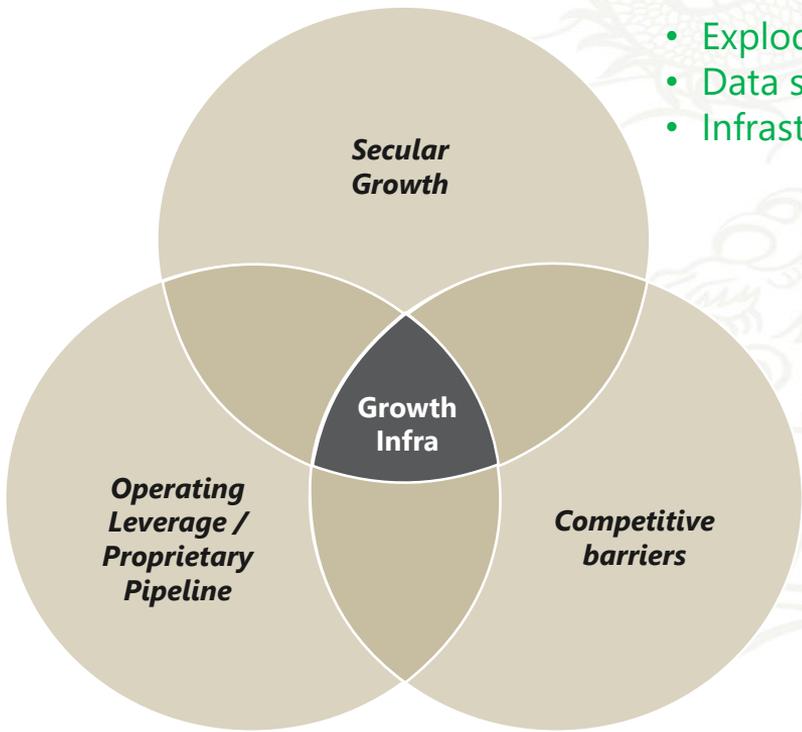
- Brownfield expansions
- Greenfield pipeline
- Scale advantages in development and care

- Demographic tail winds
- Need for private sector solutions

- Local competition is key
- Exposure to broader housing markets
- Care services as a differentiator and market risk mitigant



Data Infrastructure Growth Platform



- Fill-out of new facilities
- Brownfield expansions
- Growing with customers
- Related data infra

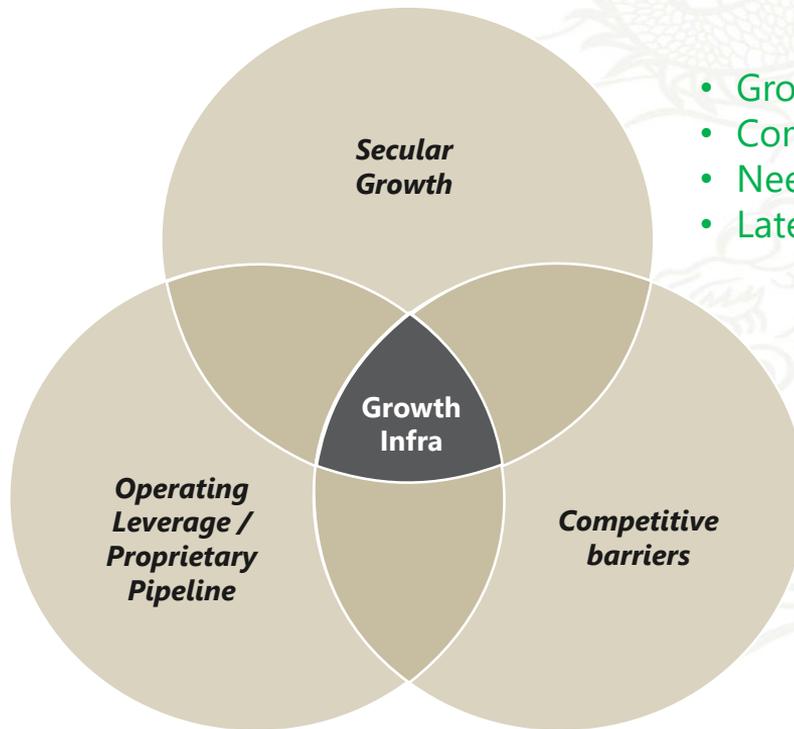
- Exploding data demands
- Data security focus
- Infrastructure outsourcing

- Contracted revenues
- Co-location benefits
- Switching costs
- ICON-connection



Can we build a Social Infra Growth Platform?

ANU investment fits in IFT's cash generative core, potential for follow-on investments to create a growth platform



- PBSA expansion rights
- Campus development

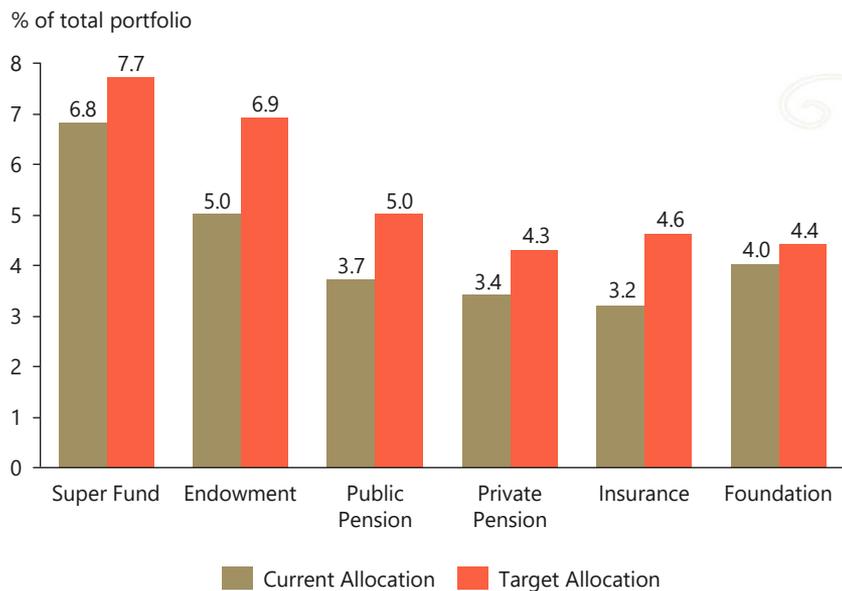
- Growing EM middle class
- Competitive education market
- Need for private capital
- Latent demand

- Long-term concession
- Below-market rents
- On-campus, pastoral care
- CPI-linked cashflows



Private capital flows reinforce value of IFT Growth Platforms

Pension & SWF investors are increasing infra allocations



Source: Preqin Investor Outlook: Alternative Assets H1 2017.

Growing institutional appetite for "Growth Infra" assets

CPPIB forms JV to acquire US\$555m Portfolio of **Senior Housing**:

"This portfolio is well-positioned to benefit from long-term demographic trends and is an attractive entry into the US senior housing sector for CPPIB"

CPPIB announcement, February 2016

CPPIB's head of Asia-Pacific, says the fund is interested in a range of infrastructure assets in Australia, from **renewable energy to data centres**.

Australian Financial Review, February 2017

A joint venture entity formed by sovereign wealth fund **GIC**, the Canada Pension Plan Investment Board (**CPPIB**) and The Scion Group have acquired three United States **student housing** portfolios for approximately US\$1.6b.

The Strait Times, March 2017



Takeaways for Infratil Investors

1. We are increasingly **cautious in our market outlook**
2. In this uncertain environment our focus is on
 - **driving performance** in the cash generating core
 - **exercising embedded options** in our growth platforms
 - maintaining **balance sheet flexibility**
3. We have confidence that, even in a low growth world, the platforms we've established will provide us with **high returning, proprietary growth options** through exposure to
 - **Decarbonisation**
 - **Aging**
 - **Demand for secure data infrastructure**
4. This implies a **high bar for investments that fall outside our current growth platforms**
 - We will remain ready to act if market disruptions provide highly attractive opportunities



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