



Morrison & Co Infrastructure Market Perspectives

Infratil Investor Day 2015



Infrastructure Market Update

The Supply of Capital

- **Ultra-low interest rate conditions** and **increasing institutional allocations** continue to drive **strong supply of capital for infrastructure**
- **Full valuations** evident for many **core defensive infrastructure assets**
- Equity pricing for **growth-oriented** and **greenfield** infrastructure remains more attractive

The Demand for Infrastructure

- Continued demand for **new** and **expanded** infrastructure driven by a number of familiar **megatrends**
- Morrison & Co focus areas include **aging populations; climate change pressures; changing energy supply/demand balance**

Understanding the interplay between these forces is critical to infrastructure investment strategy



As foreshadowed last year, the introduction of tapering is not felt consistently across all infrastructure sub-sectors

Growth infrastructure has generally outperformed over the last 12 months

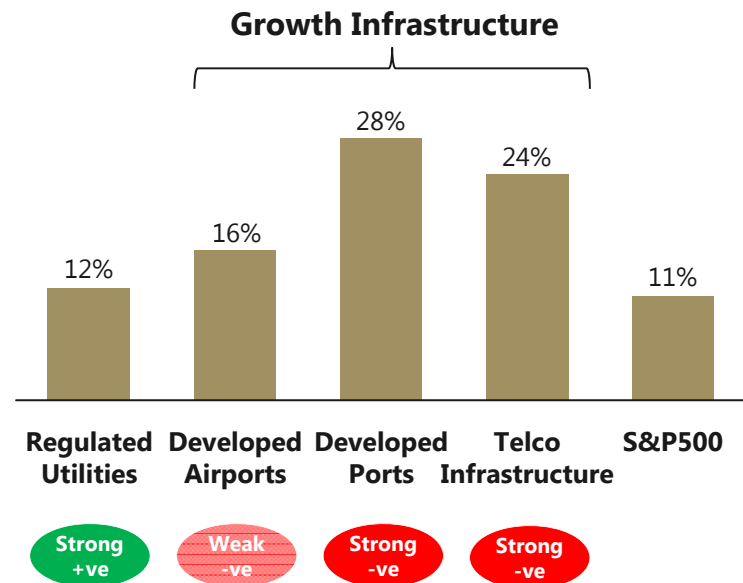
Observations

- MCO distinguishes between **growth** and **defensive** infrastructure sub-sectors
- During QE, most sub-sectors responded positively to long term base rate reductions, with defensive infra most 'bond-like'
- Defensive infrastructure still trading as 'bond-proxy', whereas growth infrastructure has remained negatively correlated to bond prices
- During a period of flat or increasing interest rates, we expect growth infrastructure to outperform

Correlation
to Bond
Prices

Last 12 months

Annualised TSR Performance

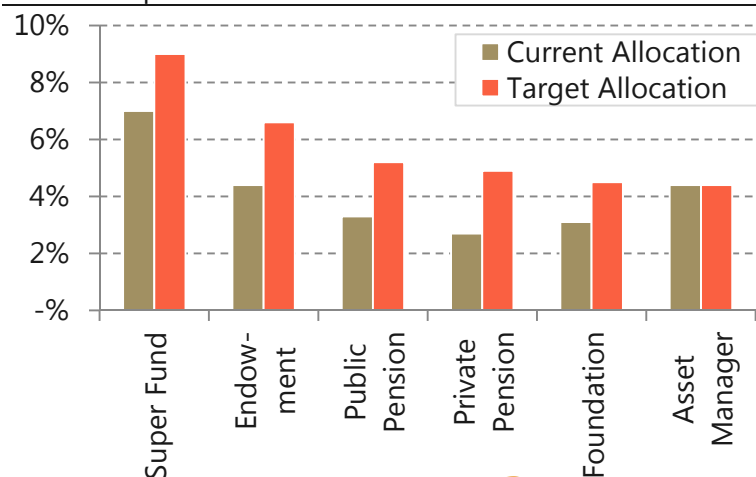


Source: Bloomberg; MCO Analysis

Pools of capital available for infrastructure investment continue to grow

Pension & SWF investors are increasing infra allocations

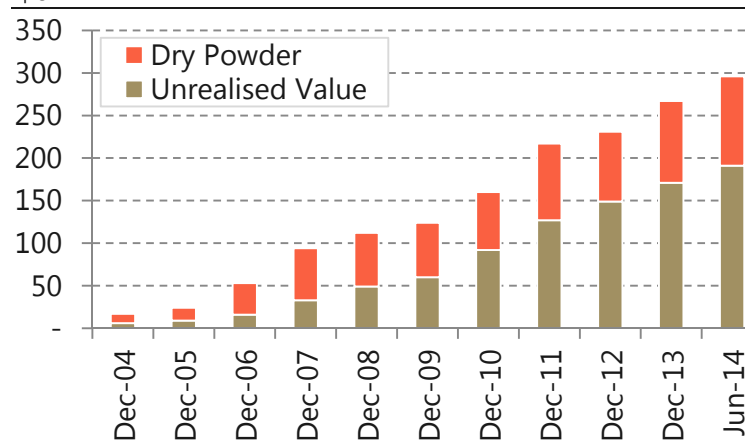
Investor intentions for infrastructure allocations % of total portfolio



While pools of discretionary infra capital continue to be raised

Unlisted Infrastructure Investable Capital

\$bn



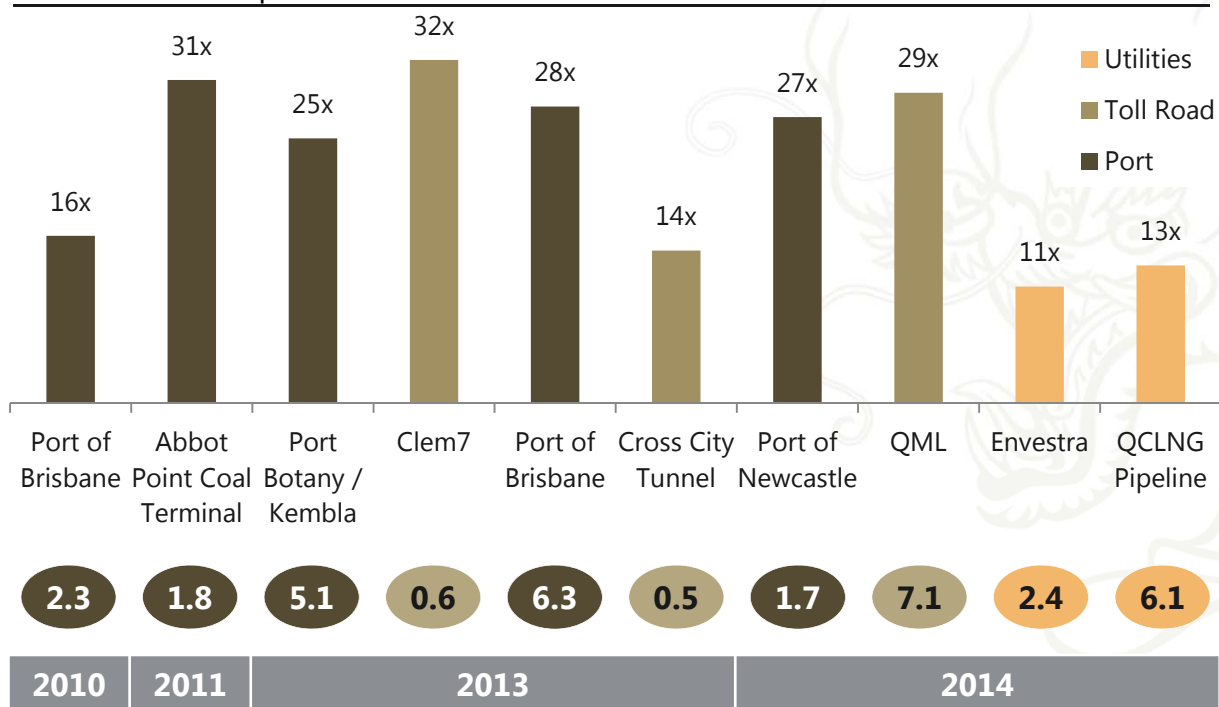
- 67% of investors plan to increase their allocations to infrastructure over the long term
- 0% of investors plan to decrease their allocation
- Australian investors have more than double the average infrastructure allocation of global peers



Source: Towers Watson – Global Pension Assets Study 2015, SWF Institute, Prequin – 2015 Global Infrastructure Report

Strong investor appetite reflected in full prices paid for unlisted Australian infrastructure

Major Australian core infrastructure transactions
EV/EBITDA multiple



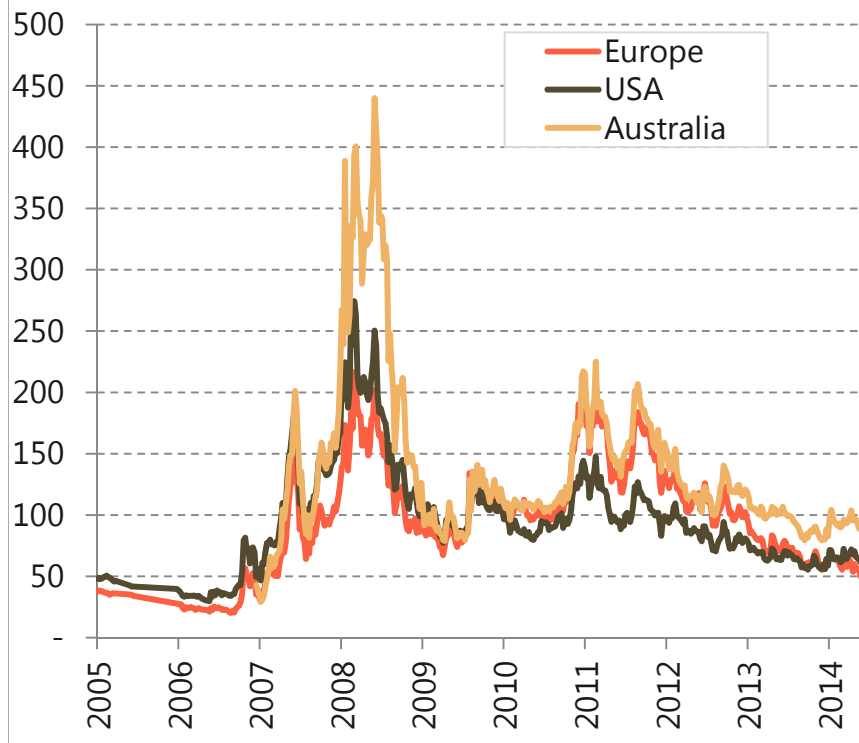
Observations

- Australian assets transacting at high earnings multiples
- Stable, low-growth assets transacting at single digit equity returns
- Greenfield less contested, with potential for attractive risk-adjusted returns
- Privatisations attracting global attention despite political uncertainty

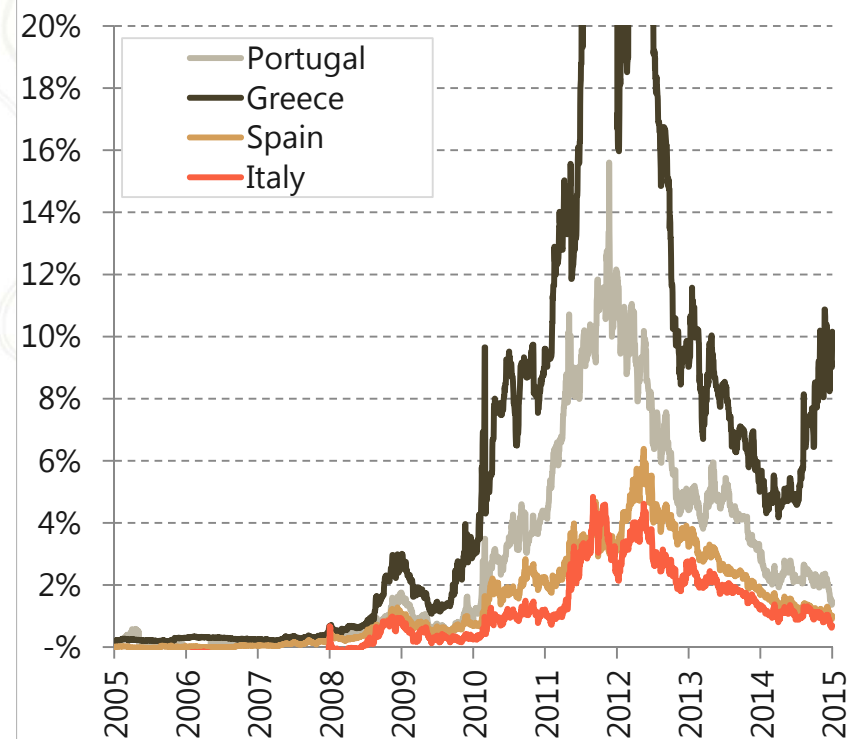


Lower for longer expectations, but systemic risks remain

Investment Grade Credit Default Swaps are at or nearing pre-GFC lows



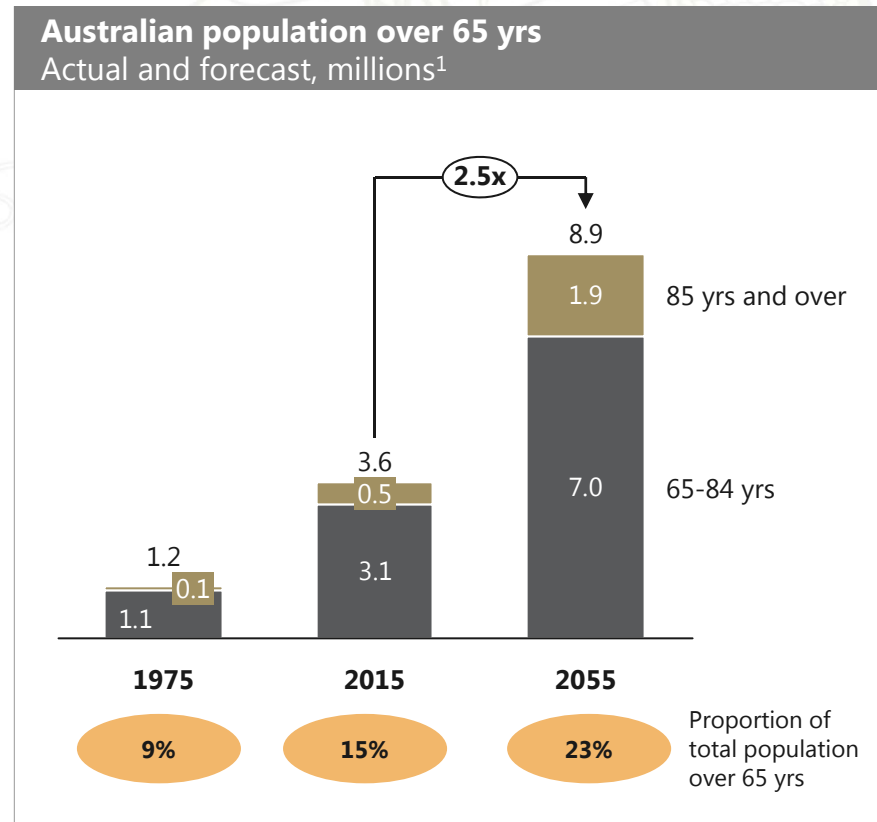
Eurozone sovereign premia¹ now at multi-year lows



Source: Bloomberg. Notes: 1. Sovereign yield premium is the underlying 10yr government bond yield in excess of the German 10yr government bond yield

Major demographic shift creating new demand for social infrastructure and services to support the aging population

- Aging population megatrend well understood
- Retirement Living and Aged Care sectors an obvious access point
 - Attractive investment fundamentals
 - Greenfield & brownfield growth
 - Key is finding well priced entry
- A range of related opportunities
 - Innovative aged care service models
 - Social and affordable housing



Source: ¹Australian Treasury Intergenerational Report 2015; ²Accenture 2015

Social housing a potential related opportunity

- NZ Govt initiative to separate ownership of social housing from provision of welfare
 - Realign property portfolio to changing demographic needs
 - Increase transparency and efficiency
 - Introduce private sector asset management expertise
- Potentially a good match with IFT capabilities and capital
 - IFT already provides housing to ~11,000 retirees
 - Long term capital with a long term partnership approach
 - Project delivery, asset mgmt and capital recycling discipline
 - Potential to partner with social service & care providers
- Detail of Government's proposed approach remains TBC
 - Govt objectives are clear and laudable
 - Economic model and implementation approach will be key



The pressures of climate change continue to stimulate investment into renewable energy around the world

Major climate change progress globally since Apr 2014



- US targets net greenhouse gas emissions of 26-28% below 2005 levels by 2025



- China targets peak CO₂ emissions by 2030 - with intention to peak earlier
- Targeting non-fossil fuel share of all energy at 20% by 2030



- EU confirms its 2030 climate targets (40% emissions cut, 27% renewables)
- France sets a new carbon tax on coal, natural gas, heating oil and, from 2015, liquid fuels

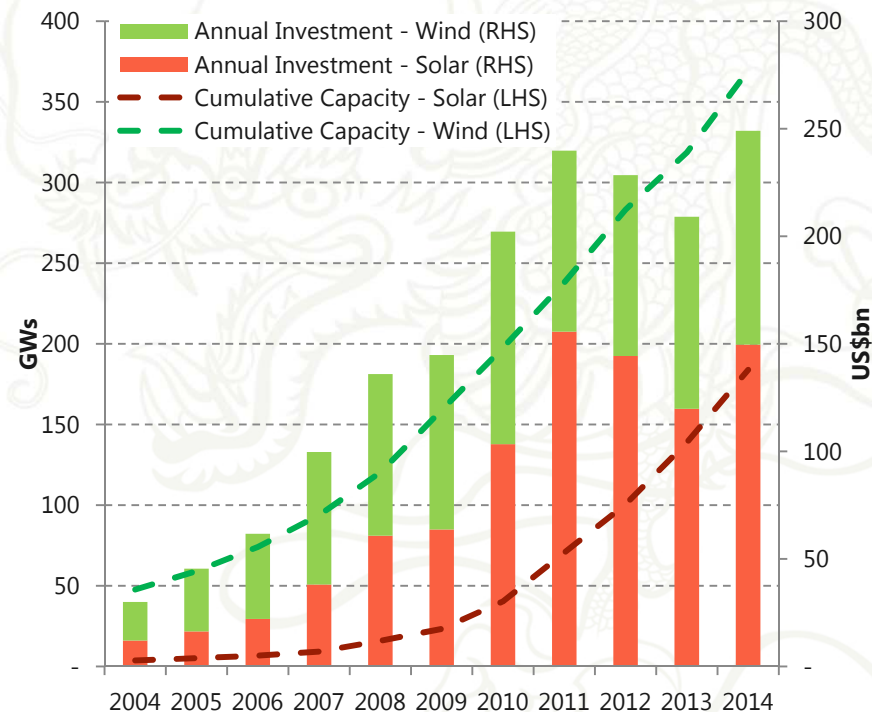


- Chile legislates South America's first carbon tax



Source: BNEF, IHS

Global investment in solar & wind



Meanwhile in Australia...

Climate change policy remains heavily politicised

Policy Framework

1. Repeal of the carbon tax

- Complete

2. Implementation of the “Direct Action” policy

- Uncertainty remains

3. Review of the Renewable Energy Target

- Negotiations ongoing



Australia's renewable sector has been stalled by uncertainty, however resolution may be around the corner

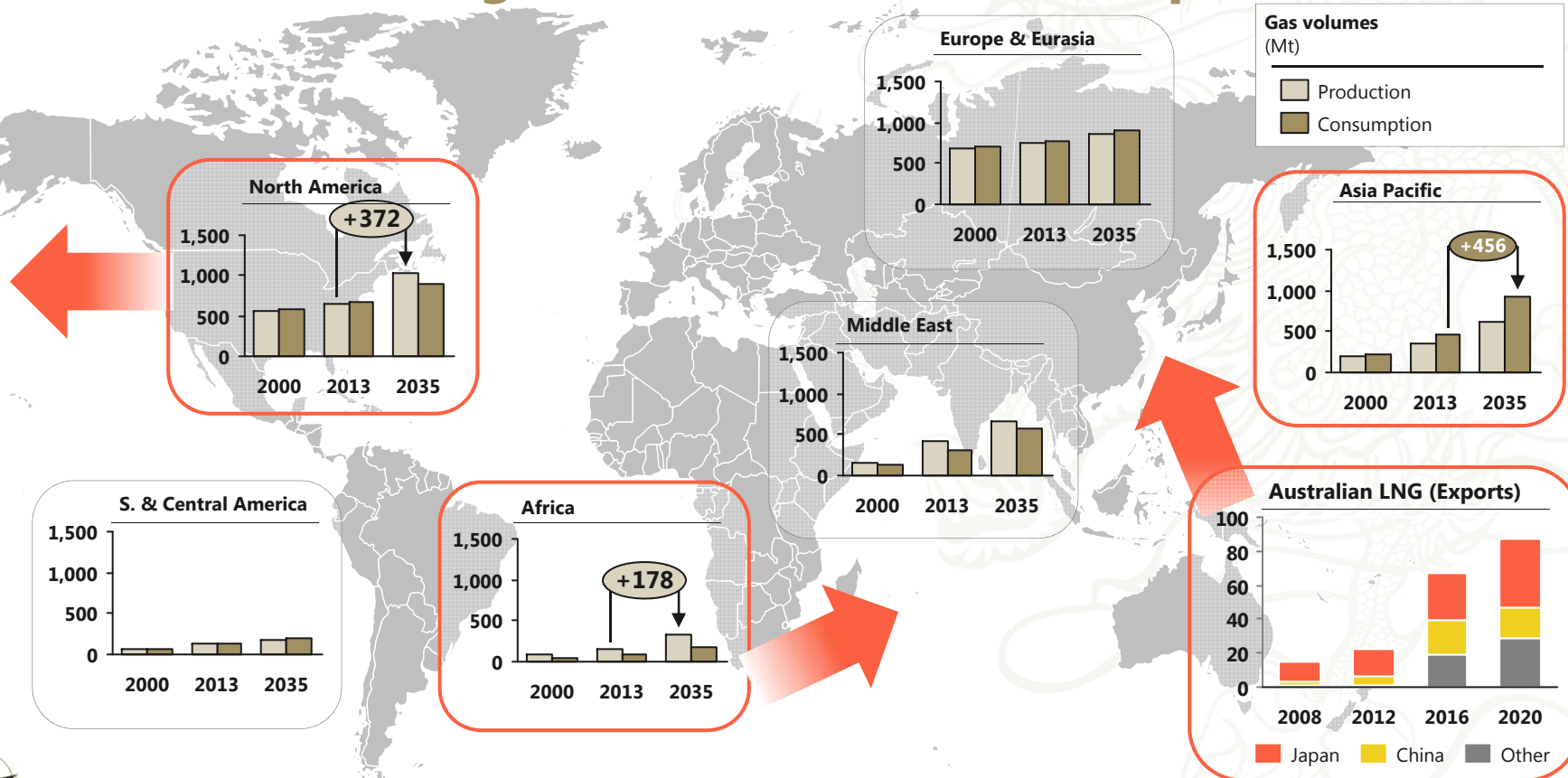
A range of potential RET review outcomes

Renewable Energy Target level	1 26,000 GWh by 2020	2 30,000 - 35,000 GWh by 2020	3 41,000 GWh by 2020
Description	<ul style="list-style-type: none"> Warburton review recommendation "Real 20%" by 2020 	<ul style="list-style-type: none"> Current negotiation range 	<ul style="list-style-type: none"> Current legislated target
New renewables required	<ul style="list-style-type: none"> <3,000 MW 	<ul style="list-style-type: none"> 4,500 – 6,000 MW 	<ul style="list-style-type: none"> 9,000 MW
Capital required	<ul style="list-style-type: none"> \$5-6bn 	<ul style="list-style-type: none"> \$10-12bn 	<ul style="list-style-type: none"> \$18+bn



Source: ACIL Allen RET Review Modelling, RET Review report

Changing supply & demand balance of global energy markets is resulting in new infrastructure requirements



Source: BP Energy Outlook 2035, RBA

\$200b investment in Australian LNG industry underway, creating opportunities for infrastructure investors

Major investment has occurred in Australian LNG projects

- 7 Australian LNG schemes under development
 - 4 north coast of WA projects
 - 3 Queensland CSG-LNG projects
- In total, more than \$200 billion of LNG projects under construction
- Major investment in supporting infrastructure
 - gas gathering & processing
 - water treatment
 - transmission pipelines
 - liquefaction facilities
- O&G players seeking infrastructure investors to build out these assets or recycle capital

Commodity price uncertainty could force capital recycling

Brent crude price, USD/bbl



Source: Bloomberg

Putting it all together

The market for infrastructure

- “Lower for longer” expectations
- Growing infrastructure capital pools
- Upward pressure on mature asset prices
- Familiar mega trends continuing to drive demand for new and expanded infrastructure
 - Aging populations
 - Climate change imperative
 - Changing global energy balances
- Political & regulatory issues remain high on the investor’s agenda

Implications for our investment strategy

- ✓ **Growth infrastructure** focus
- ✓ **Investment platforms** offering additional capital deployment options; avoid hotly contested auctions
- ✓ **Greenfield development** where delivery capability is more important than cost of equity
- ✓ Ability to take on **complex assets** or major transition issues as assets are extracted **from corporate owners**
- ✓ **Balance sheet flexibility** to preserve optionality and capitalise on changes in market conditions – which may come faster than many commentators believe
- ✓ Willingness to **recycle capital from mature assets** into new assets and sectors





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