



# Macro Outlook and Implications for Infratil Investment Strategy

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Infratil Investor Day 2017

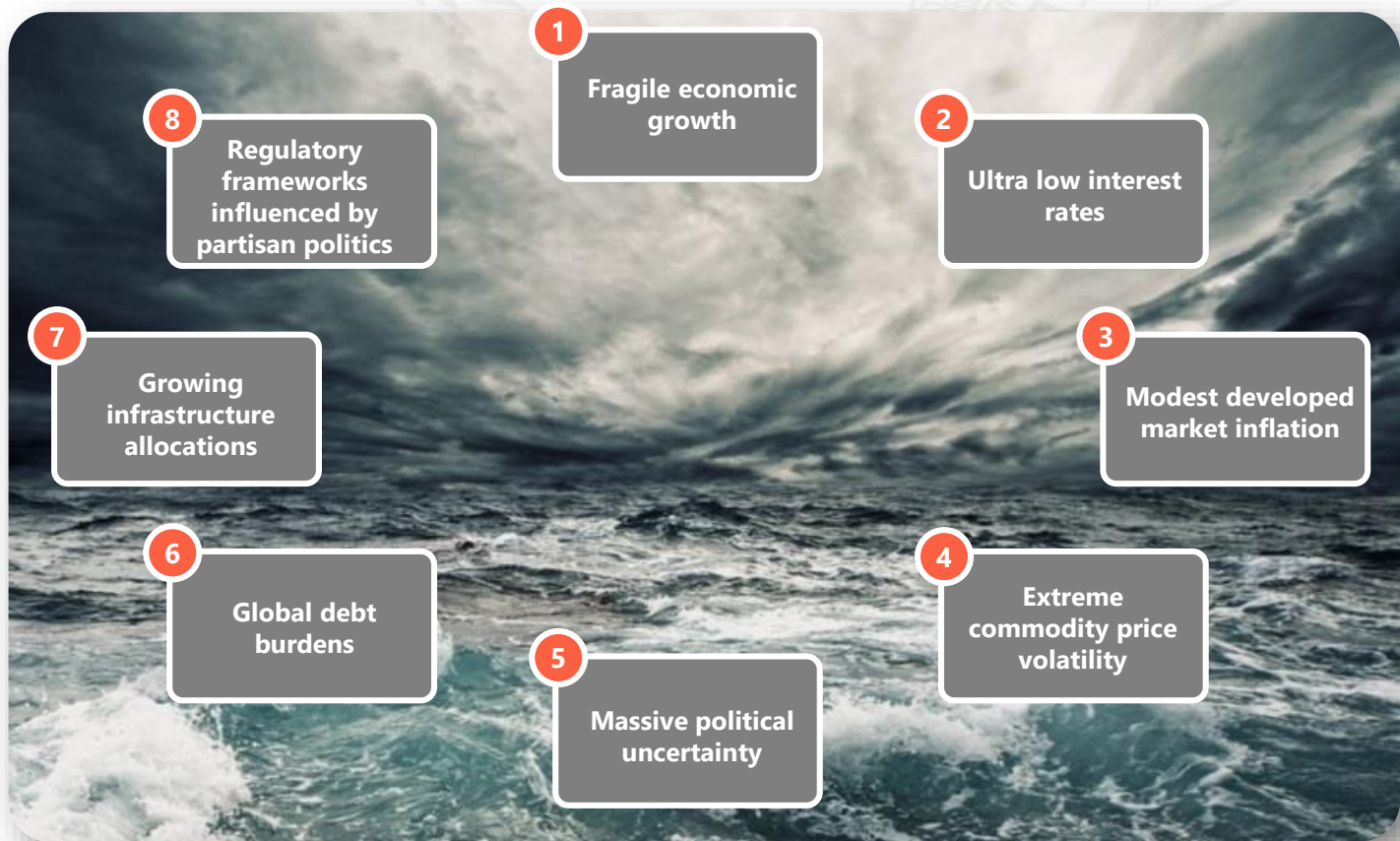


# FAQs (and Alternative FAQs)

- 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

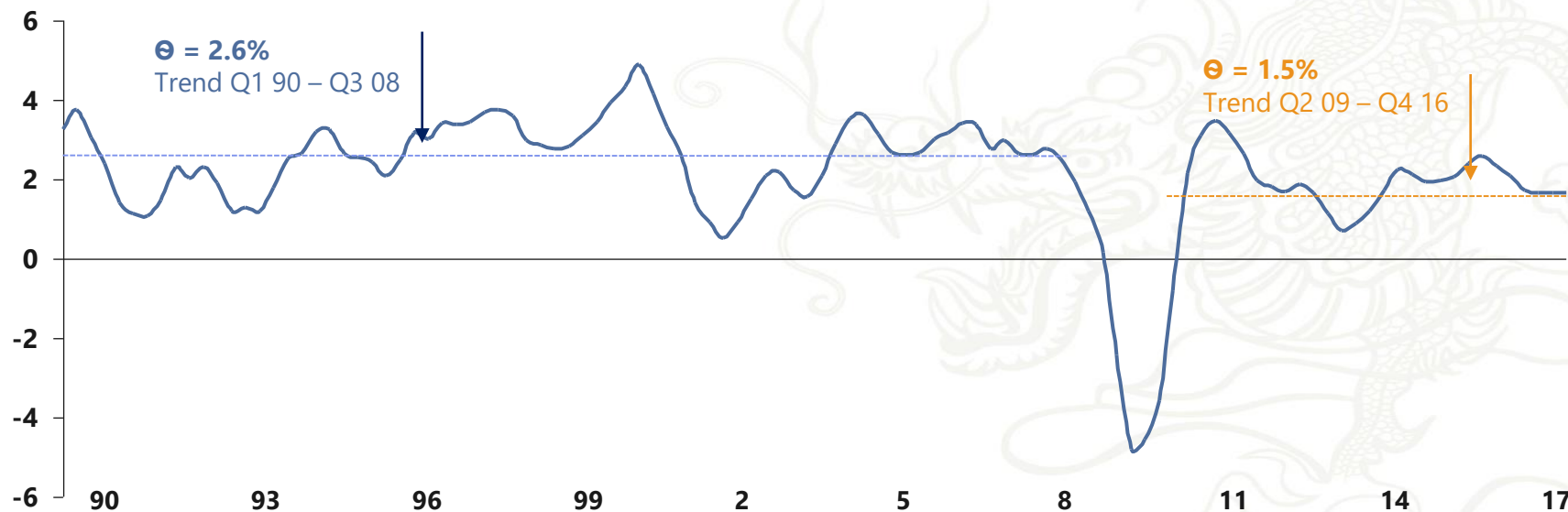


## ROW



# The OECD has experienced a sustained downshift in growth

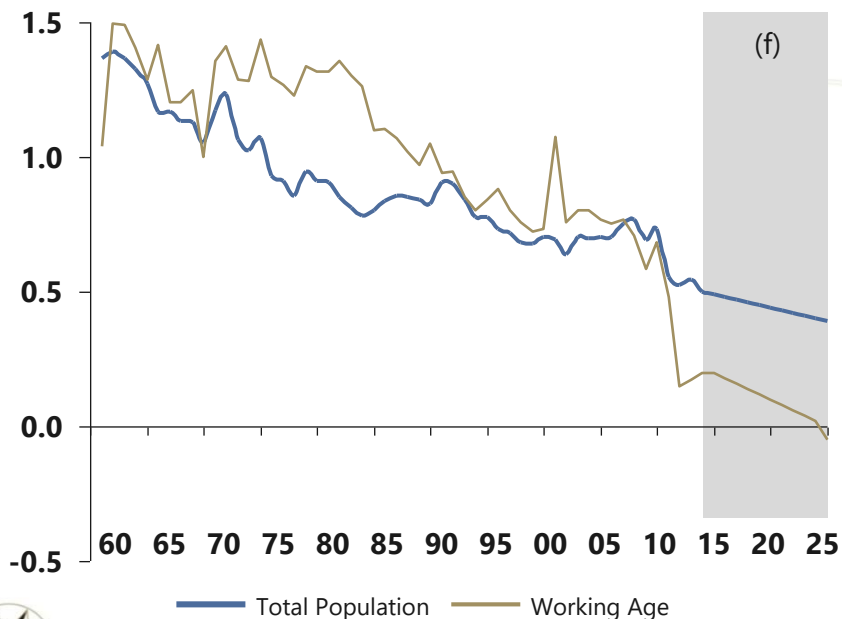
OECD Real GDP Growth, % change from year earlier



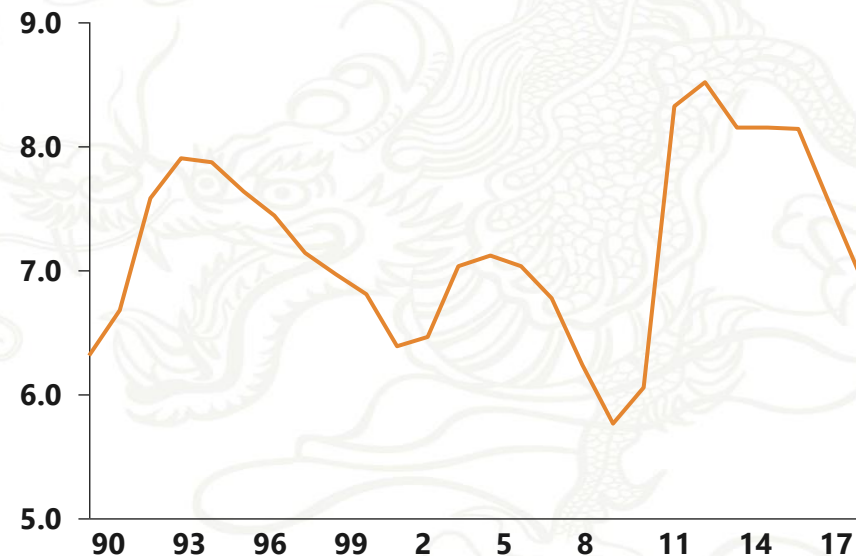
Source: Organization for Economic Co-operation & Development (OECD).

# Nearing full employment in many developed economies

OECD Population Growth, % change from year earlier

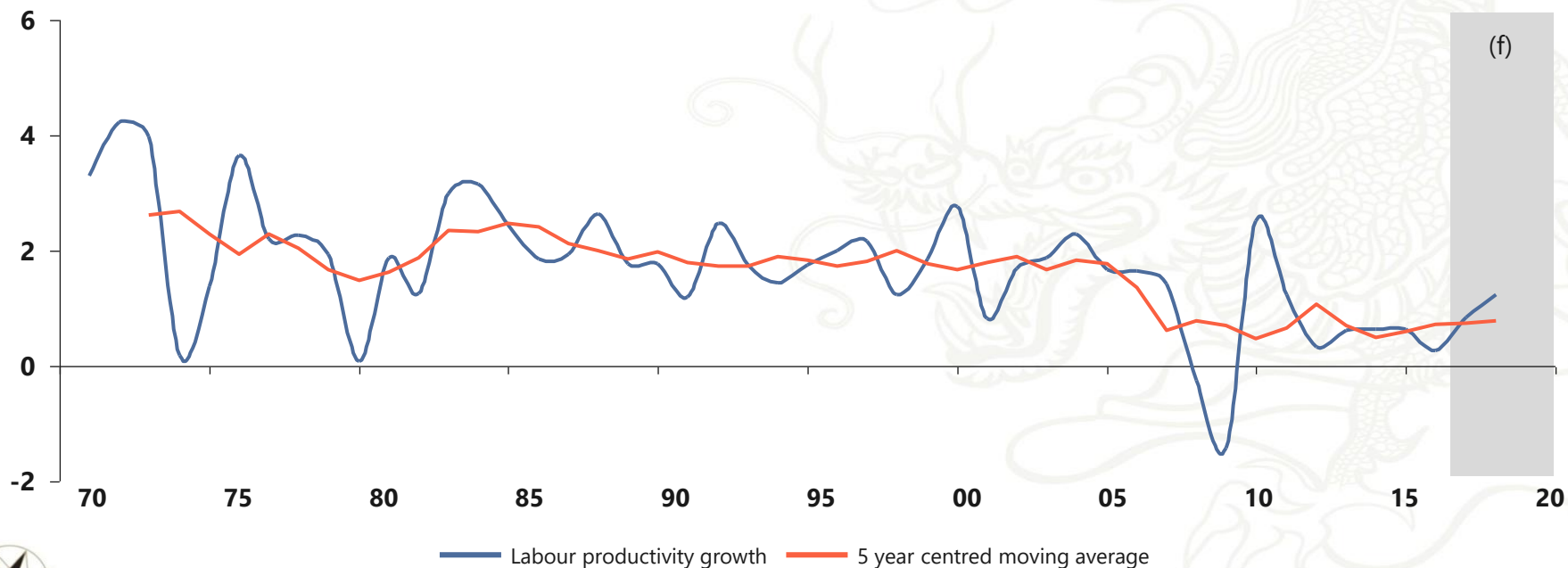


OECD Unemployment Rate, % working age (15-64)



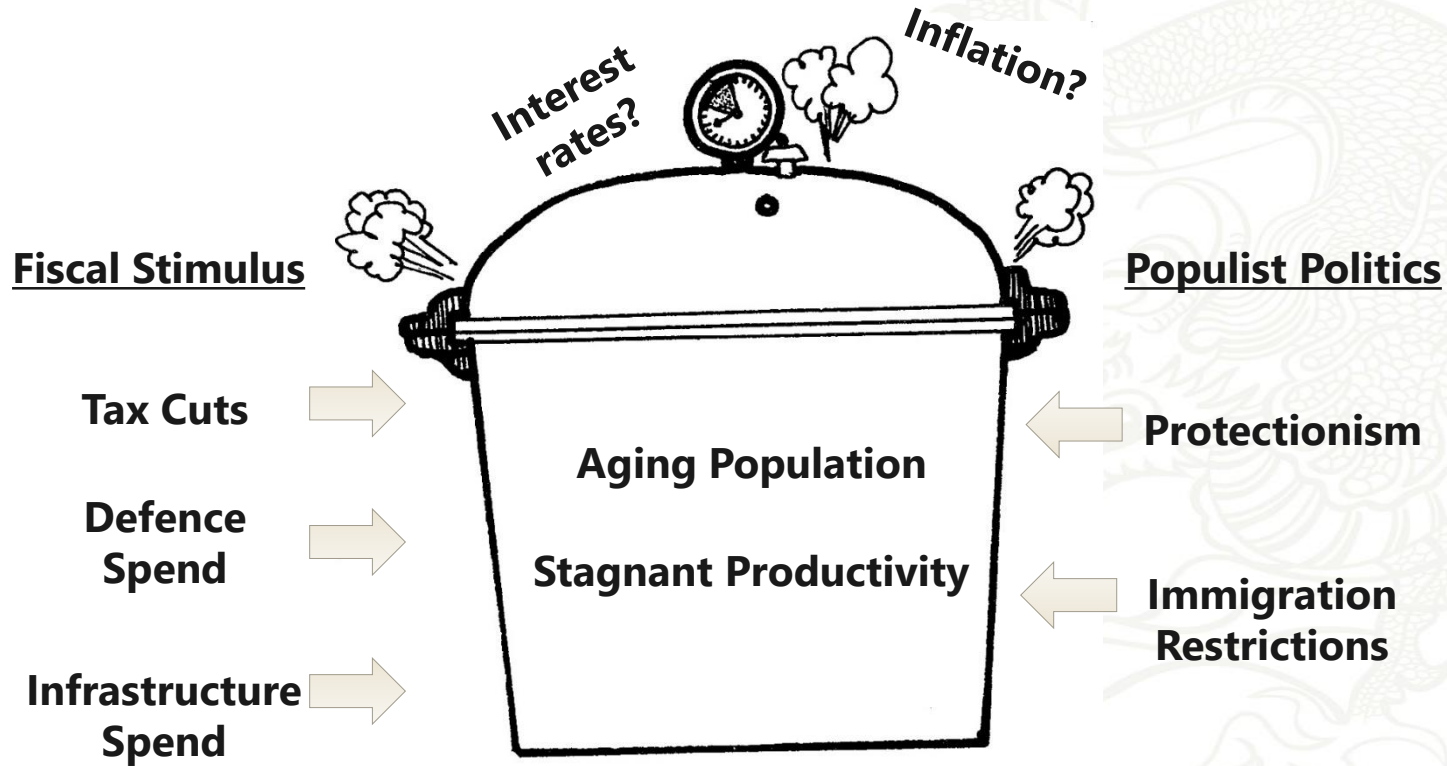
# Labour productivity is not filling the gap

OECD area Labour Productivity Growth, % pa



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

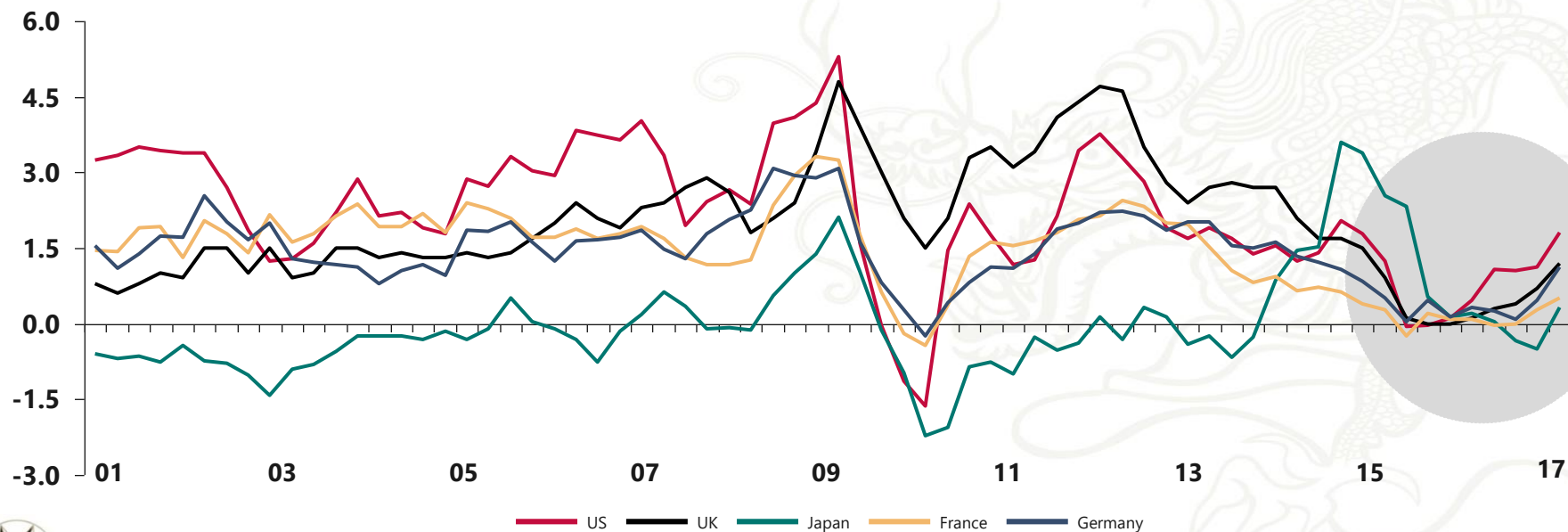
# The pressure cooker economy?





# Early signs of inflation returning...

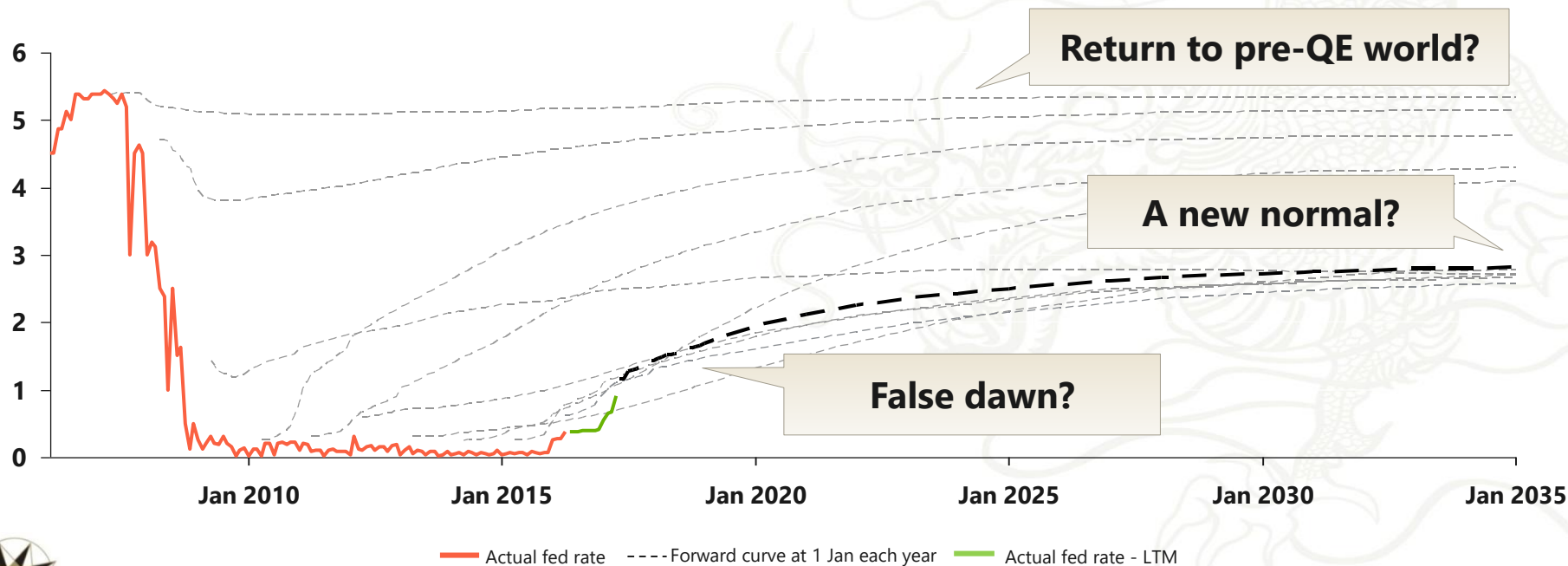
OECD CPI, % change from year earlier



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**



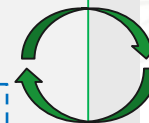
# Strategic priorities for the IFT portfolio

## 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

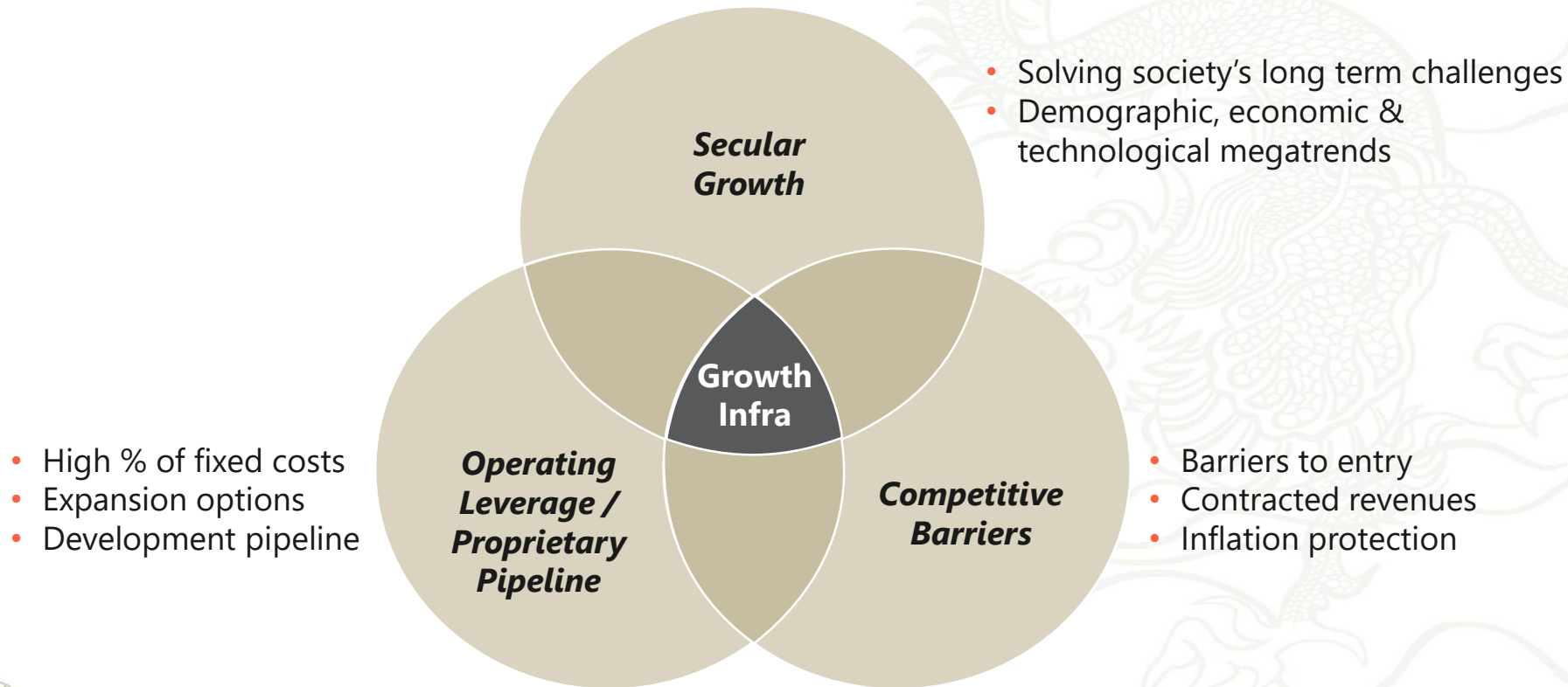
Manage debt levels and maturity profile, assess capital management initiatives relative to internal and external investment options

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

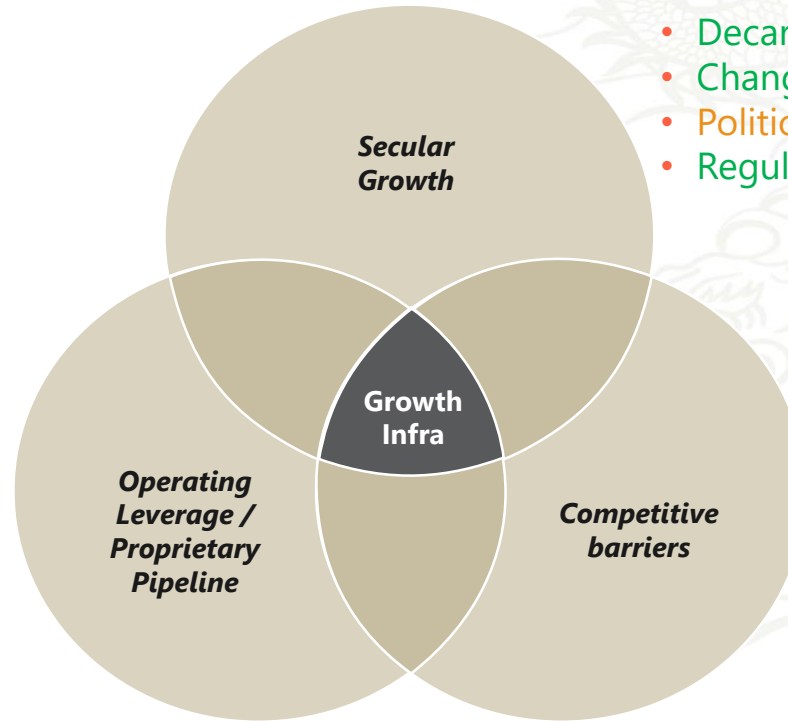




# What do we mean by Growth Infrastructure Platforms?



# Renewable Energy Growth Platform



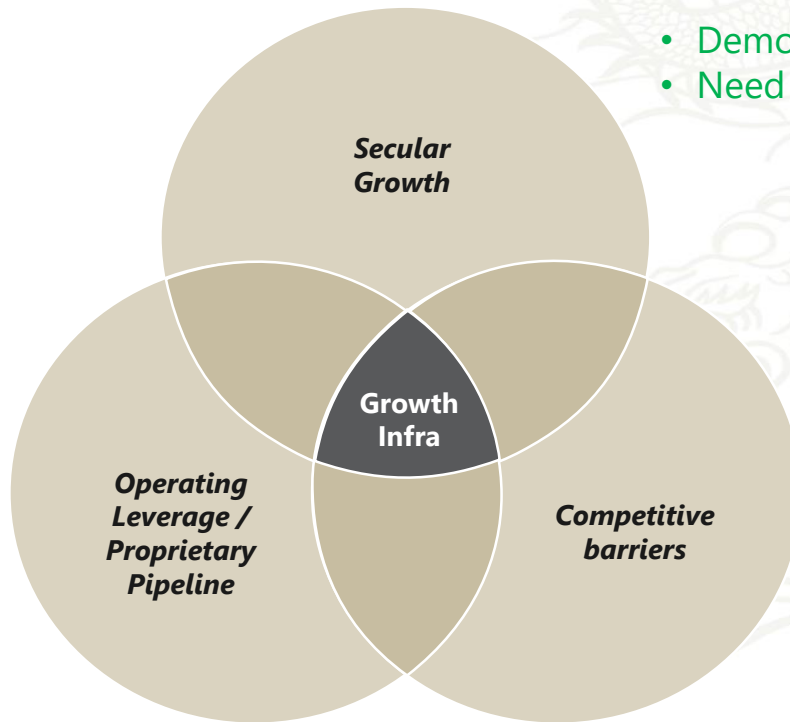
- Large and growing pipeline
- Low holding-cost options
- Complementary assets

- 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

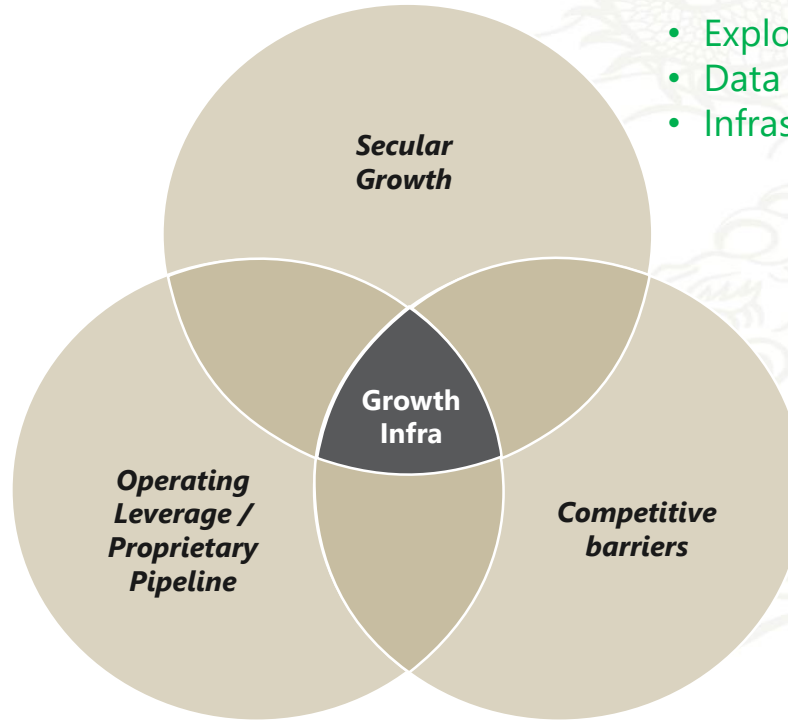
- Demographic tail winds
- Need for private sector solutions

- 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

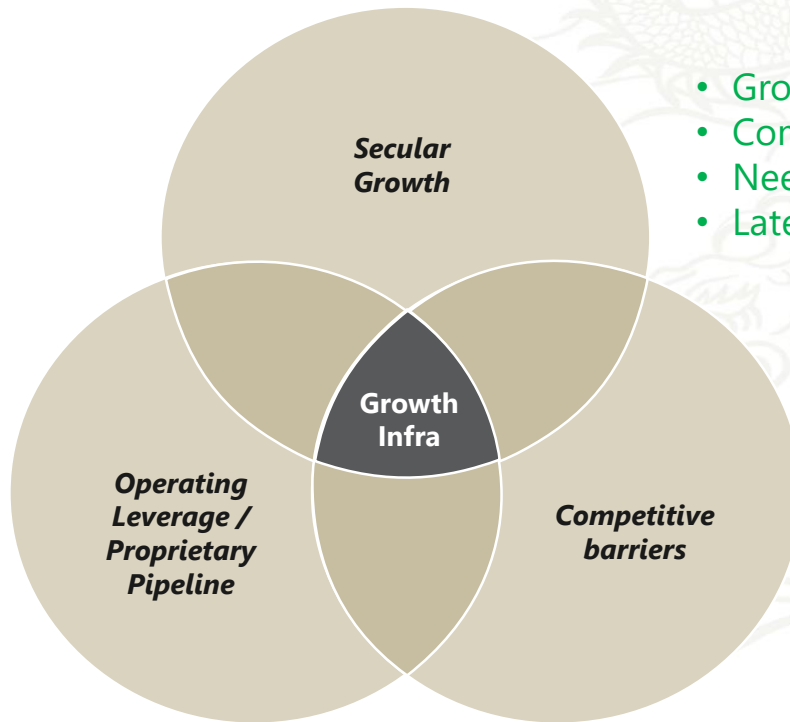
- Contracted revenues
- Co-location benefits
- Switching costs
- ICON-connection





# 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



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

- PBSA expansion rights
- Campus development

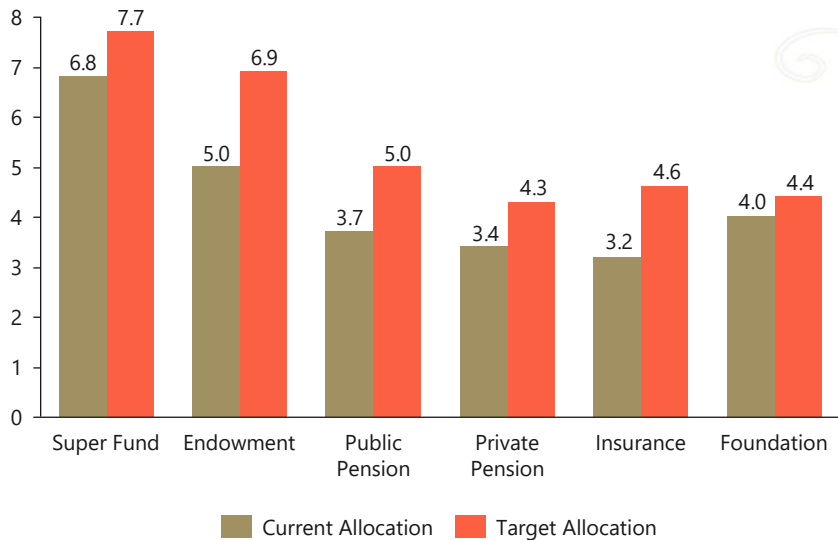
- Long-term concession
- Below-market rents
- On-campus, pastoral care
- CPI-linked cashflows



# Private capital flows reinforce value of IFT Growth Platforms

## Pension & SWF investors are increasing infra allocations

% of total portfolio



## 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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