



Your investment for life

Investments

Infrastructure The Investors prospective



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Robbert Coomans
Advisor to the Board
ABP Investments

Topics

- Background information on ABP Pension Fund and ABP Investments
- Infrastructure
 - Why
 - Definition
 - Characteristics
 - Attractiveness
 - Key features
- Opportunities
- Risk / Return
- How to invest
- Strategic Asset Mix

Background information on ABP Pension Fund

- Pension fund for Dutch civil servants and teachers
- Defined benefit, partly indexation
- Almost 2.4 million customers
 - 1,000,000 Active participants
 - 700,000 Pensioners
 - 700,000 Sleepers
- Mission statement:
 - Provide index pensions at a rate which takes into account the financial position of the fund
 - High service level
 - Low and transparent management costs

Background information on ABP Investments

- Assets under management EUR 218 billion *
- Actual mix: 38% Fixed Income, 36% Equity, 10% Real Estate, 16% Alternative Assets*
- Coverage ratio above 140%*
- More than 400 employees at offices in Heerlen, Amsterdam, New York and Hong Kong
- Mission statement:
 - Global leading player
 - Alpha generation through multi-alpha strategies
 - Strong in-house organisation
 - Leads to robust financial position
- Core values: Return, Control, Trust and Simplicity

Infrastructure

- Governments have growing interest in public-private financing of infrastructure projects
- Investments characteristics attractive especially for pension funds
 - Long term illiquid investments
 - Low volatility
 - Not necessarily correlated to other assets
 - High correlation to inflation

Infrastructure

- Projects meeting following characteristics:
 - Provision of essential services to the community
 - Strong and predictable cash generation; limited exposure to demand and pricing risk and limited dependence on the economic cycle
 - Regulated industry or near-monopoly market position or business underpinned by long term supply, off take and/or concession agreements (or equivalent)
- Definition noise: there will always be a grey area of infrastructure-like projects with a heterogeneous nature.
Instead of exclusion of opportunities: limitation (say <15%).

Infrastructure

Attractiveness

- Ability to serve a social responsibility role and at the same time earn an attractive return with an inflation component
- Investment return expectations; cash returns between 7% and 9%, overall returns between 12% and 14%
- Sufficient market (growth) opportunities to exploit

Infrastructure

Key features

- Different sectors:
 - Social (i.e. schools, hospitals, court houses, prisons and police complexes)
 - Economic (i.e. toll roads, airports, seaports, water treatment plants and energy projects)
- Different phases: greenfield, construction (combined called the development phase), ramp up, growth, maturity
- Geographical immovableness
- Essential (public) services
- Defensive regulated assets
- Strategic & competitive advantage
- Political risk (i.e. changing regulations)

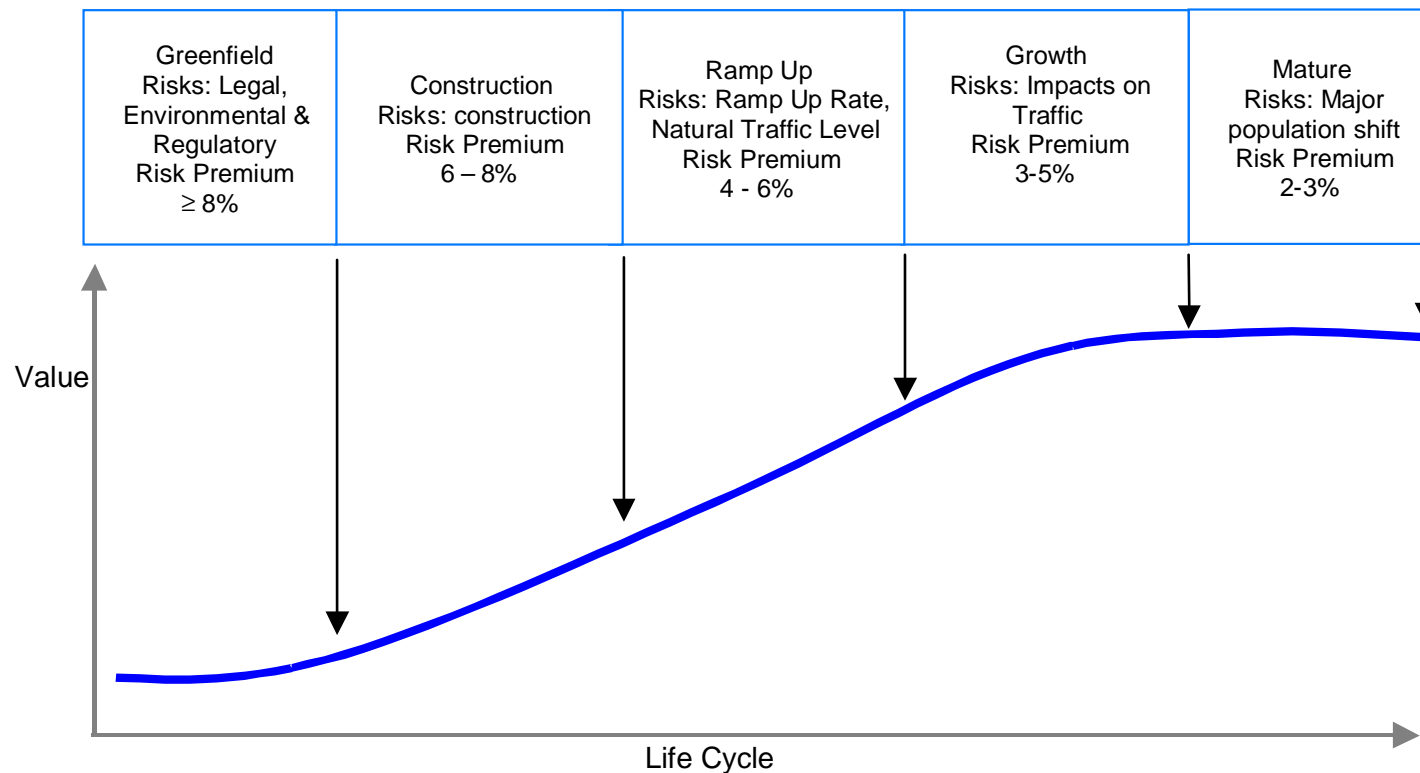
Market Opportunity

- Around \$1000 billion opportunity over the next 5 years:
 - Equity: 10-15%: \$100 – 150 billion
 - Debt: 85-90%: \$850 – 900 billion
- Regional opportunities in infrastructure equity:
 - US/Canada 40%: \$40 – 60 billion
 - Europe 40%: \$40 – 60 billion
 - Asia/Australia 20%: \$20 – 30 billion
- Opportunities to participate in both senior debt and junior debt:
 - Senior debt; typically investment grade, low spreads
 - Mezzanine / junior debt; high spreads: +300 / 400 bpt
 - So far, fixed income opportunities have received little attention
 - Needed knowledge, experience and network point at placing these investments with Structured Investments (private equity, infrastructure and credits and loans)

Global Opportunities

- We expect strong demand driven by fundamental macroeconomic, regulatory and structural changes
- We expect that over the next 5 years (2007 – 2011) the global infrastructure equity market will grow with 100 – 150 bn
- Translated into exposure terms, this suggests that a strategic target of 2.0% exposure to infrastructure in 3 years time is feasible

Risk premiums over the lifecycle of a typical infrastructure project



Note: risk premium over risk free rate (local 10Y bond yield)

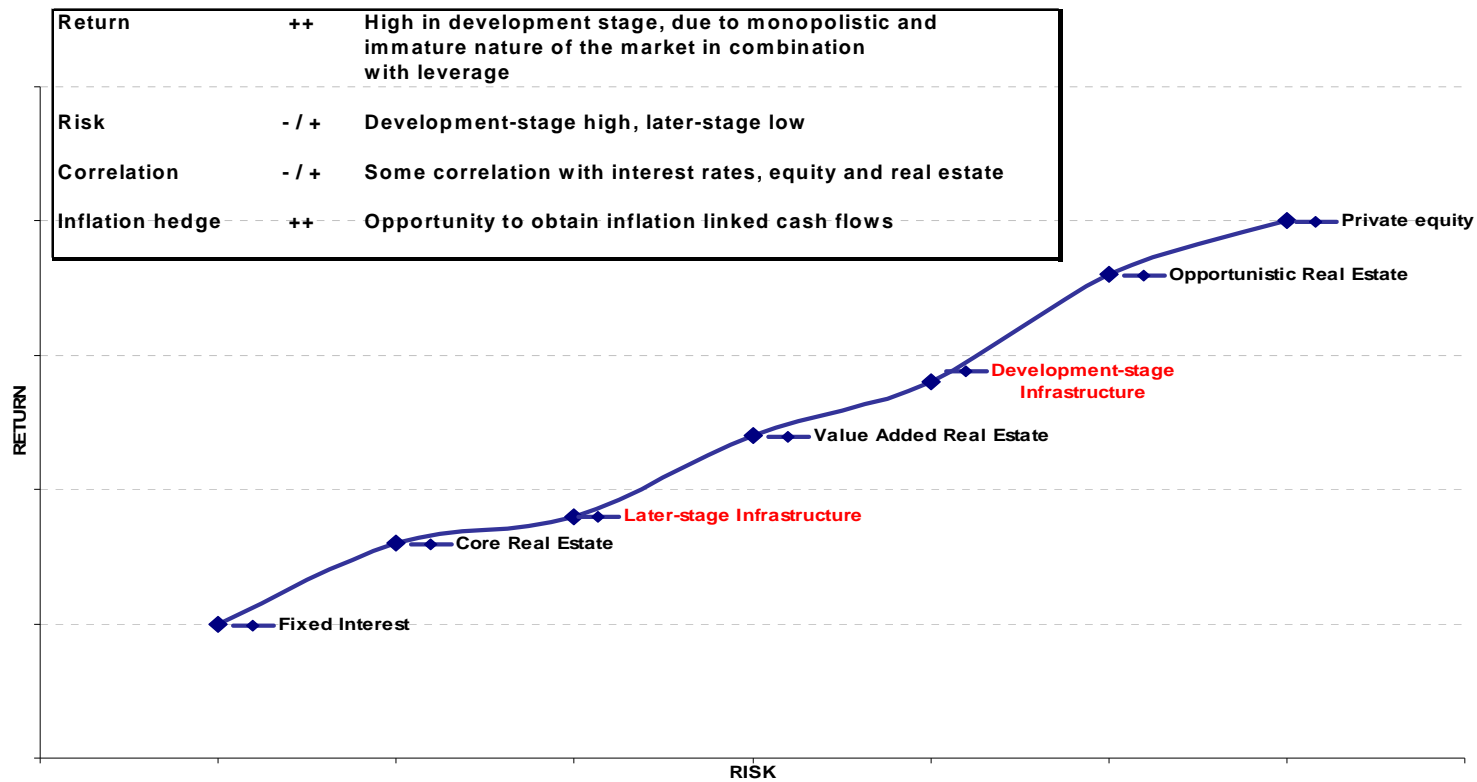
Return profiles across the infrastructure spectrum

Asset	Relative risk within infrastructure sector	Average returns (IRR)	Cash yields (average yrs 1-5)	Capital growth	Average/ approx gearing
Toll roads – greenfield	Medium to high	12-16%	3-5%	Yes	65-75%
Toll roads – operating	Low	8-12%	8-10%	Limited	75-85%
Airports	Medium to high	15-20%	5-10%	Yes	30-70%
Regulated utilities	Low to medium	11-16%	8-12%	Limited	75-85%
Rail	Low to medium	12-20%	8-12%	Limited	65-90%
PPP	Low to medium	9-14%	6-12%	Limited	75-90%

How to invest in infrastructure?

	PROS	CONS
<u>Direct - internal</u>	<ul style="list-style-type: none"> Better alignment of interests Easier monitoring More liquidity in single names Much control Learning curve Better ALM matching 	<ul style="list-style-type: none"> High impact on organisation (both people and systems) Limited deal access Slow Reputation impact
<u>Indirect - external</u>		
Funds	<ul style="list-style-type: none"> Ability to select top quartile managers Good diversification Higher investment speed Steeper learning curve 	<ul style="list-style-type: none"> Due diligence Higher fees Agency problems / dis-alignment of interests No influence on investment decisions Weaker ALM matching
Co-investments:		
"Passive"	<ul style="list-style-type: none"> Higher returns due to small management costs Acceleration in investment speed Limited organizational impact 	<ul style="list-style-type: none"> Investment by invitation
"Active"	<ul style="list-style-type: none"> High returns due to lack of management fee Better alignment of interests Influence on investment decisions More control 	<ul style="list-style-type: none"> Large impact on organization

Conceptual risk / return profile



ABP's strategic expectations

Based upon scarce data we derive the following macro estimates for TRR's of broadly diversified asset portfolios:

	Risk	Return	Correlation				
			PE	RE	IFS	T bonds	L
Private equity	25.0%	15.0%	1.00				
Real estate	9.0%	6.0%		1.00			
Infrastructure portfolio	7.0%	10.0%	0.00	0.50	1.00		
10Y T bonds	4.0%	4.5%			-0.25	1.00	
Liabilities	5.0%	5.0%			-0.30	0.95	1.00

ABP's strategic asset mix

	<u>ABP LT</u>
	(4)
Public equities	34,0%
Private equity	5,0%
Fixed income, nominal	33,0%
Real estate	9,0%
ILB's	7,0%
Infrastructure	2,0%
Commodities	3,0%
Hedge funds	5,0%
Innovatie	2,0%
	<u>100,0%</u>