



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	<b>16</b>
24 November 2010	Public
10am	

## INFRASTRUCTURE

**Responsible Officer** Graham Chidlow

e-mail: [graham.chidlow@shropshire.gov.uk](mailto:graham.chidlow@shropshire.gov.uk)

Tel: (01743) 252072

### Summary

Members will be aware that in March 2009 the Committee agreed to make a 3% allocation to infrastructure. This report informs Members that following the appointment of AON Hewitt as its investment advisor the Fund is now in a position to commence a tender process for the appointment of one of more infrastructure managers. The report outlines the work conducted by officers and the tender timetable. It also provides Members with background information on infrastructure investments.

### Decisions Required

Members are asked to:-

- A) Note the timetable for the selection of an Infrastructure Manager.

## REPORT

### Background

1. Members will recall that in 2009 a review of the Funds strategic asset allocation was conducted and a number of changes to where the Fund invests were recommended. In March 2009 the Committee agreed a number of changes to the strategic asset allocation which would be implemented over time. The Committee agreed to reduce the allocation to UK Equities by 15% so as:-
  - to make a new allocation to a Global Equities of 10%,
  - to increase the allocation to Private Equity by 2%.
  - to make a new allocation to Infrastructure of 3%,

2. Members will be aware that the Fund has appointed MFS to manage its new allocation to Global Equities and also increased the allocation to Private Equity (managed by HarbourVest).
3. Following the appointment of AON Hewitt as its investment advisor at the September Committee the Fund is now in a position to progress with making a 3% allocation to infrastructure.

## Research

4. Following the decision to make an allocation to Infrastructure in March 2009 officers have been researching the asset class with a view to establishing the most appropriate way in which to implement a 3% allocation to this new asset class. A number of fact finding meetings have been held with managers in the asset class including Alinda, Antin Infrastructure Partners, Barclays, and Credit Suisse. These meetings have proved useful in assessing the wide range of opportunities available in the asset class and given officers a greater understanding of the risks and return characteristics of infrastructure.
5. Training sessions have also been provided to the Committee on this new area of investment. Members will recall that at the training day in February 2009, David Morley, from Henderson Global Investors presented on investing in infrastructure and the issues to consider when appointing an infrastructure manager.
6. Members will also recall at the training day in April 2010, Emily McGuire, from AON Hewitt presented on the range of infrastructure assets, how to access infrastructure investments, the risk/return characteristics and the key areas to consider when appointing an infrastructure manager.

## Infrastructure Investment

7. Infrastructure assets typically have monopolistic pricing power and stable long term cash flows with sensitivity to inflation. These can produce attractive cash flows to pension funds. With early stage infrastructure, it is possible to earn additional return premium for construction risk.
8. Infrastructure assets include ;-
  - Transportation Assets  
Toll roads, airports, bridges etc.
  - Energy & Utilities  
Oil and gas pipelines, water distribution and treatment etc.

- Social Infrastructure  
Educational facilities, healthcare facilities etc
  - Communications  
Cable networks, communication towers etc
9. It is only in the last 4-5 years that it has become possible to invest in infrastructure. An allocation to Infrastructure would provide an alternative source of return for the Fund.
10. AON Hewitt believe that infrastructure offers attractive risk / return characteristics and will have a positive contribution to the Fund. AON Hewitt have produced a short paper for the Committee on Infrastructure (attached at Appendix A) and will give a verbal update at the meeting.

### **Tender Process**

11. The nature of infrastructure investment is that investment managers look to raise funds over a limited period of time and then look to deploy the assets raised. Not all infrastructure managers are open to investment at a particular time. It is therefore necessary to use the OJEU accelerated procedure when tendering for infrastructure managers.
12. The Fund will seek one or more infrastructure managers with a view to ensuring that the Fund has sufficient diversification in its investments. The timetable for selection is shown at Appendix B.
13. Officers will keep the Committee informed of progress on the appointment process.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee, 3 March 2009, Investment Strategy Review.

**Human Rights Act Appraisal**

The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

**Environmental Appraisal**

Impossible to quantify.

**Risk Management Appraisal**

Pro-active action has been taken in terms of reviewing the Fund's investment strategy to enable the Funds strategic asset allocation to be revised to take account of new investment opportunities.

**Community / Consultations Appraisal**

N/A

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

A. AON Hewitt paper – Infrastructure Investment

B. Timetable