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Insight

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FOR THE WORLD'S INFRASTRUCTURE MARKETS



“ Clients have appreciated the speed and scale of our response ”

AMP CAPITAL'S EUROPEAN PLAN

FUNDRAISING

Beyond open and closed

BENELUX REPORT

The attraction of prisons

THE KKR STORY SO FAR

Raj Agrawal reflects on 2010

US HIGH-SPEED RAIL

Why it's ground to a halt

INFLATION

What does it mean for you?

RECEIVERSHIP

Why it's good news for some



(l) to (r): Boe Pahari, Stephen Dunne, Richard Shields

Keep calm and carry on

AMP Capital Investors, the Australian fund manager, has had to cope with the departure of a team of professionals from its London office while persuading would-be investors that there is still a place for an open-ended fund in Europe. Three of the firm's senior executives discuss how these challenges have been tackled. By [Andy Thomson](#)



“It’s certainly not lost on us that the closed-end fund is the prevailing model”

FM AT THE UK office of Sydney-based fund manager AMP Capital Investors (AMP Capital) in London’s Berkeley Square in the company of Stephen Dunne (chief executive officer), Richard Shields (managing director UK and continental Europe) and Boe Pahari (head of infrastructure, Europe) - and it’s clear that these guys are in it for the long run.

This is a literal observation in the case of one of those present. Prior to this 9am

assembly, Dunne - who has flown over from Sydney - has already been pounding the London streets in an attempt to shake off the remnants of jetlag. His one marathon to date was the Sydney version; his recollection of which is unwittingly rather poignant. Having soldiered to the finish line, he lay prostrate on the ground with shaking legs - unable to believe that such pain was possible. He then recalls the loneliness of at some point having

to simply get up, gather his things together and limp off to catch the train home alone (his wife having been unavoidably detained by a lunch arrangement).

Shields, meanwhile, was a brave participant in the recent Marathon of Marathons in Greece, the historic charity event organised by PEI and Campbell Lutyens. Despite his right leg “being held together by various bits of metal”, Shields walked the entire route in the company of Danny Latham, head of European infrastructure investment in the London office of rival Australian fund manager First State Investments. Shields recalls that Latham “walked with me for the full distance - except for the 100-metre sprint he put in at the end just to show me up”.

FIXED GAZE

The discipline to keep going for mile after mile is arguably the kind of preparation well suited to those managing and raising open-ended infrastructure funds. The ability to keep your gaze fixed on a far-distant horizon is a necessary quality. “We’ve bought into around 50 businesses [since first investing in the Sydney Harbour Tunnel in 1998] and we still own the majority of them,” says Shields. He pauses for a moment, and then adds: “We have sold a few but generally our clients want us to buy and then hold core infrastructure assets for them.”

The ability to show resilience in the face of adversity is another quality demanded of long-distance runners. And AMP Capital may yet require such resilience in raising the open-ended fund which it is currently in the market with. After all, as we report elsewhere in this issue, there are reasons to believe that - at least in a European context - open-ended funds have fallen out of favour with investors.

So far Shields, insists this is “not really an issue” with AMP Capital’s fundraising. “I spoke with a guy at a public authority pension programme in the UK the other day and asked him whether he was concerned about open-ended funds,” says Shields, who has responsibility for the firm’s fundraising activities. “I was putting words in his mouth because he hadn’t raised the issue but the response was that as far as he was concerned, an open-ended structure was a positive, if anything.”

With other managers such as First State having adapted the way they structure their funds (was this a subject of discussion during the Marathon of Marathons, one wonders), Pahari believes that “the space for open-ended funds is increasing”. He adds: “You get immediate yield with our fund. A lot of investors understand that we can hit the ground running, we can hold good assets for the long term, and there’s no conflict between different investors’ exit horizons.”

Adds Dunne: “We target core infrastructure, where you’re talking about assets with long-term contracts and where it makes sense to have a structure aligned to the purpose of the assets. If investors want a 15 percent return, then they will gravitate more towards emerging market, greenfield opportunities and quick exits. But if I’m here to take a position in high quality assets over 15 to 35 years, why would I insert an artificial point at which to sell and repurchase?”

Dunne is not slow to acknowledge that a closed-end structure is more suitable for certain strategies. This is not surprising, since AMP Capital is also currently raising a closed-end infrastructure debt fund. This underlines that the firm’s view of open-ended funds is pragmatic rather than ideological. “It’s certainly not lost on us that the closed-end fund is the prevailing model, but there is a growing groundswell of recognition for the positive elements of the open structure”, says Pahari.

BEYOND THE CORE

Fundraising has been the main preoccupation of Shields since he moved from Australia to London in 2008 with a brief to diversify the firm’s sources of funding. Up to that point the firm had mainly relied on its core Australian investors, comprising parent firm AMP - the life insurance business - and pension funds. Shields admits that the challenges of the global financial crisis and consequent ramifications for institutional portfolios have made his task a tough one.

“We haven’t so far raised what we wanted, but there has been a significant amount [of capital] from Europe and parts of Asia, including Japan. So far we have a spread of investors across Europe, Asia and Australia. One of the challenges initially was awareness

“There continues to be a subtle balancing of private capital between OECD countries and emerging markets”

of AMP, which is taken for granted in Australia - but it’s pretty well known in Europe now, and we have a good foundation.”

Awareness of AMP Capital in a European infrastructure context has grown through shareholdings in some well-known, core assets. These include: utility Thames Water and rolling stock leasing firm Angel Trains in the UK; oil transportation and storage firm CLH in Spain; and Hungarian hydro power firm Kenyeri Hydro.

As mentioned earlier, the firm is also raising an infrastructure debt fund. Shields says: “We’ve been investing in mezzanine for 10 years and enjoyed a lot of success. Initially we raised a fund that had a solely Australian investor focus, which is now closed and the capital is being returned. Now we’re raising a fund aimed at global institutions and the market response has been very positive.”

At the time of going to press, the firm was also expecting the imminent final close of its Asian Giants Infrastructure Fund, which targets opportunities primarily in China and India. The fund, which has a \$750 million target, posted a first close on \$95 million in March 2009, and it was announced earlier this year that it had raised a further \$66 million in aggregate from a UK pension and a Japanese pension.

DEPARTURES

One development which has certainly not made Shields’ job any easier was the departures of European head and other members of the London team in the latter part of last year. To come back to the ‘r’ word used earlier: AMP Capital has needed a healthy dose of resilience to emerge intact from this sudden loss of key personnel, which the firm admits came out of the blue.

“We lost no clients,” says Shields, cutting to the heart of the matter. A loss of investor confidence would have been what the firm dreaded most. “The initial response was what you’d expect. It was not an easy time. But Phil Garling [global head of infrastructure] came over to London for an extended period, Boe came straight over, we got on with the job and we got on the road and stressed [to investors] how important Europe was to us. Whether they had earlier misgivings or not, clients have appreciated the scale and speed



has spread its tentacles well beyond Europe and its Australian homeland. For example, the firm had an investment team on the ground in India as far back as 1999. As well as setting up a team in London in 2005, it also established one in Beijing in the same year. Then came the most recent addition last year, with Tom Majewski hired from Access Capital Advisers to run the firm's US operation out of New York. Majewski was joined in the move by Access colleagues Damien McDonald, Digby Beaumont and Farhad Billimoria.

GLOBAL NEEDS

"Our clients have global portfolio needs," says Pahari, explaining the reason for AMP Capital's international approach. It's also about diversifying risk/return profiles. "There is a need for balance between yield and growth," he adds. "In China, for example, you have growth but less yield, so it's a private equity-type model. In the UK and Australia you're talking about mature, transparent and de-risked markets - and it's more about yield."

This need for a balanced approach is reflected in the way the firm has gone about building its geographic presence. "Regulatory regimes are important to us, because we need to be able to price assets well and convince our investors that we are making solid long-term commitments," says Shields. Hence, it was natural for the firm to target somewhere like the UK, which it saw as a very similar market from a regulatory viewpoint.

"However," adds Dunne, "the broader macro view has to take in places like India and China where there is a greater risk premium and the regulatory frameworks are still evolving."

I raise the issue of Spain, a relatively mature infrastructure market where investors' assumptions about the regulatory framework were shaken when the government famously introduced retroactive measures to claw back money from investors in the country's

of our response and most clients are now very supportive."

Canvassed by *Infrastructure Investor*, one limited partner that is not invested with AMP Capital said the team was "very experienced and credible" but added that the frequent presence of other fund managers in the firm's deals was not a plus point as far as they were concerned. "We like managers that we know are in the driving seat," said the source.

Pahari's move is an important one in the context of AMP Capital's organisational structure. He was initially recruited in March last year to head the firm's infrastructure investments in Asia Pacific. But the departure of the London colleagues resulted in his swift relocation to London to take up the reins of the firm's European effort.

Had Pahari spent his career only in Asia, such a move may have jarred with investors. Crucially, Pahari had worked for 13 years in principal investing with Dutch

bank ABN AMRO, including spells in London and Amsterdam. "I had moved to Asia and it remains a great theatre for AMP," relates Pahari. "But I knew that the company would benefit most from me being here as I could hit the ground running." Presumably he must have had confidence that the Asia Pacific operation could continue to run smoothly in his absence? "I was very comfortable with the quality of people there," he says.

Of his new challenge, Pahari adds: "When the team left, it was an opportunity to review our commitment to Europe. We have brought in excellent talent from the network and new blood to Europeanise the business." The firm's most recent hire was Simon Ellis, who has joined the London office as chief operating officer from ING Infrastructure Funds.

For obvious reasons, the European operation has caught the eye of market observers in recent times. But AMP Capital

solar photovoltaic sector. Pahari acknowledges the issue: “Some people’s predictions have come true in terms of what happens when you have an over-reliance on subsidy. Governments need to try and balance the books and that means we remain focused on regulatory issues in relation to water, gas distribution etc – anywhere in fact where revenues are regulated by things like rates and tariffs.”

To Pahari, this reinforces the need to “go back to your core jurisdictions in Europe, where the regulations are most transparent and not venture out too far into other jurisdictions”.

FINANCING GAPS

The same fiscal pressures that may lead governments to penalise infrastructure investors in unexpected ways also, in the view of AMP Capital, have the capacity to present great opportunities. This is partly because governments need to address financing gaps, which will lead naturally to sales and privatisations. The firm also sees the private sector playing a major role in the transition to low-carbon economies given that, as Dunne points out, “governments are hamstrung by their current debt levels”.

This “supply-led availability” of

infrastructure in OECD economies provides a neat contrast, says Pahari, with the “demand-led need” for infrastructure in emerging markets, where a lack of infrastructure is seen as a bottleneck for economic growth. Interestingly, Pahari believes current dynamics work in favour of OECD countries. Post-Crisis, he says, the infrastructure markets

of the West are seeing lower gearing, more equity, high spreads and moderate valuations - “so the opportunity to enter [transactions] is quite dramatic”. Conversely, in emerging markets, valuations are demand-driven and more aggressive to reflect growth prospects.

As a result, there continues to be a subtle balancing of private capital for infrastructure between OECD countries and the emerging markets.

As he utters these words, I wonder whether Pahari is cognisant of how his own recent move reflects this predicted migration (or re-migration?) of capital. Perhaps of more significance, however, is his further point that fluctuations such as these are ephemeral: a point in time will come when the movement is back in the other direction.

What really matters for fund managers such as AMP Capital is building a diversified business over the long term that can ride out the unpredicted tremors that may damage a business too overweighted to a particular market or strategy. AMP Capital is undoubtedly striving to this end - and will hope that investors continue to share the view that it has the stamina to see it through. ■



AMP CAPITAL INVESTORS AT A GLANCE

Offices: Sydney, Beijing, Hong Kong, London, Luxembourg, Mumbai, New York, Singapore, Tokyo, Wellington (New Zealand)

First invested: 1988 (Sydney Harbour Tunnel)

Key sectors targeted: transport (roads, airports, rail, ports); utilities (electricity, gas, water); social (healthcare, education, aged care, government housing); communications (cell towers, cable networks, broadcast networks)

Selection of portfolio companies: Melbourne Airport (Australia); Sydney University Village (Australia); Quippo Telecom (India); Gujarat Pipavav Port (India); Arqiva (UK); Alpha Trains (Luxembourg); Duquesne Light (US)

Selection of key professionals: Stephen Dunne (chief executive officer); Richard Shields (managing director UK and continental Europe); Boe Pahari (head of infrastructure, Europe); Rob Verrion (head of asset management, Europe); Juhani Sillanpaa (investment director); Philip Garling (global head of infrastructure); Andrew Jones (managing director); Gerry Jennings (principal); Simon La Greca (principal), Richard Lane (principal)

Source: www.ampcapital.com

Global Top 15
Infrastructure
Investment Manager**

AMP Capital Investors 20-year infrastructure investment track record

Flagship European
portfolio celebrated
five-year anniversary



Investing in
Indian infrastructure
since 1994

Parent with 160 years
of experience in
financial services

A specialist investment manager with £53.9 billion* in funds under management, AMP Capital is one of the most experienced participants in European and Asian infrastructure. AMP Capital's international reach has helped establish our reputation among pension funds, governments and financial institutions across the world.

Transacted over 80
infrastructure equity and
debt investments
including: Thames Water
and Melbourne Airport

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