Long-term
Infrastructure
Investors
Association

Session 2 – Infrastructure Benchmark

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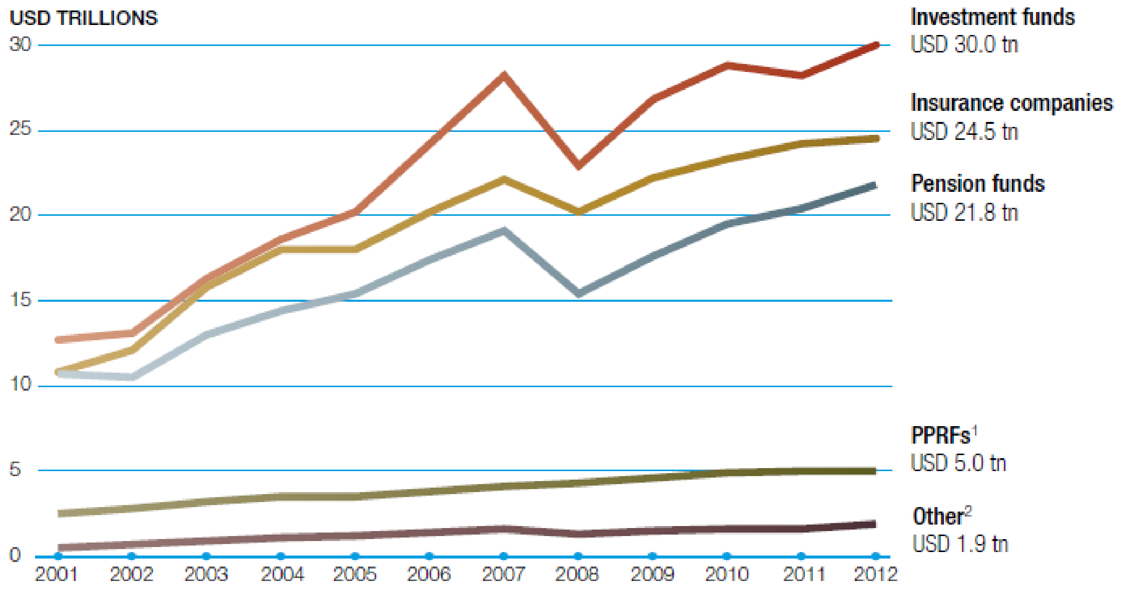
Why an infrastructure benchmark?

Institutional investors have about USD83tr under management (2012 data)

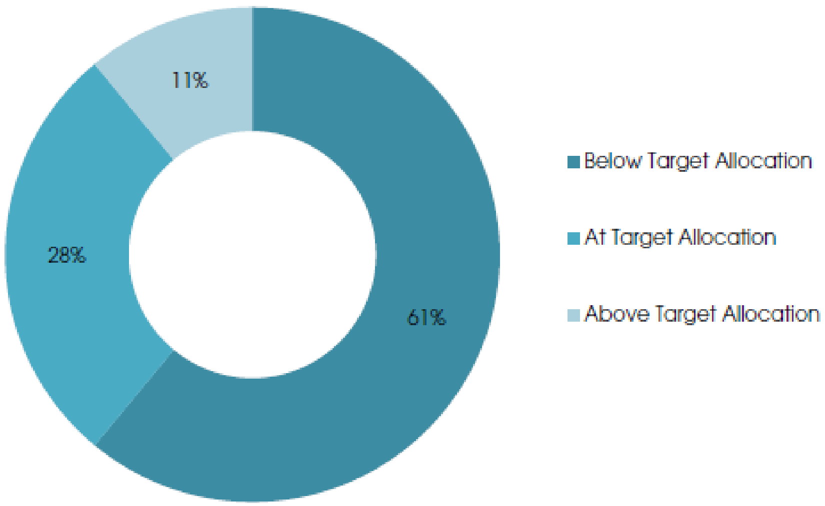


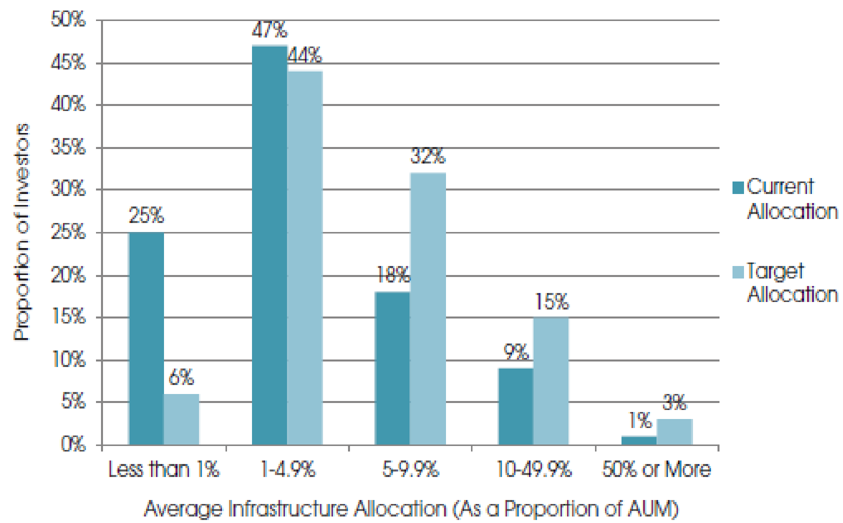
Investors are more and more interested in financing infrastructure projects because:

- These investments are liability-driven
- These investments allow to diversify away from capital market volatility

Source: OECD

Mean allocation in infrastructure is expected to rise from about 1% to about 3% (i.e. additional USD2000bn)





Source: Preqin (2014)

Why is a benchmark needed? (1/2)

Recent illustration: EU Solvency-2 framework makes no reference to infrastructure investments:

Infrastructure is the “invisible man” as being:

- Neither fixed income, whose stress rate depends on rating and duration. In this case, long-term infrastructure debt is penalized compare to short-term corporate debt
- Nor property, whose stress rate is 25%
- Nor global listed equity, whose stress rate is 39%
- … and ended up in the “alternative asset class” (as emerging markets, hedge funds and PE) with much higher capital requirements, meaning a 49% shock plus or minus the symmetric adjustment. If this equity investment fulfills the criteria to be of a “*strategic nature*”, it would be subject to a 22% shock.

Why is a benchmark needed? (2/2)

Why a difference of treatment between property and infrastructure?

- Property had its index as opposed to infrastructure:

  The stress rate for property was "based on IPD total returns indices for the UK market between 1987 and 2008" – EIOPA (December 2013), Technical Report on Standard Formula Design and Calibration for Certain Long Term Investments

- For infrastructure, EIOPA also recognizes a benchmark would change the regulatory regime:

  "Some of the [regulatory] barriers will become less relevant over time as standards and benchmarks develop". EIOPA (December 2013), Technical Report on Standard Formula Design and Calibration for Certain Long Term Investments

Benchmark/indices should help to tackle the following issues:

- Improve valuation methodologies
- legitimate and improve asset allocations
- Integrate infrastructure investment in an asset-liability framework
- better calibrate risk-based prudential frameworks and improve the industry's discussions with the regulators
- …and create an independent asset class

Questions & Answers

Panel discussion with Pr. Frederic Blanc-Brude (EDHEC)

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