



Infrastructure Landscape
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Topics for discussion

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Section 1

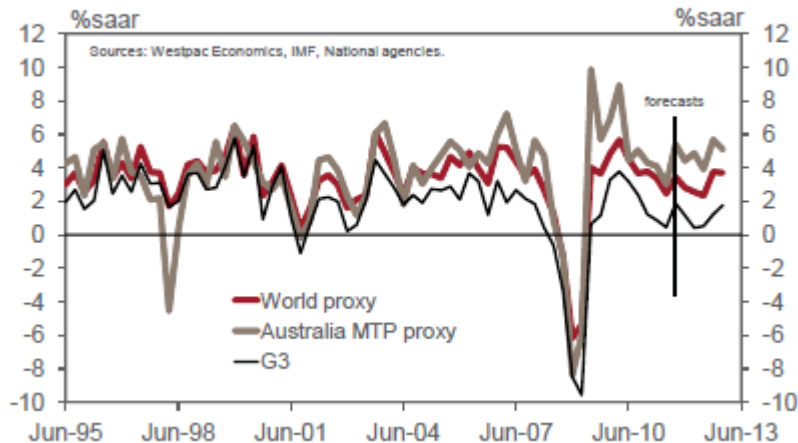
Drivers of investment opportunities

Australia's economy has performed well, supported by strong demand from China

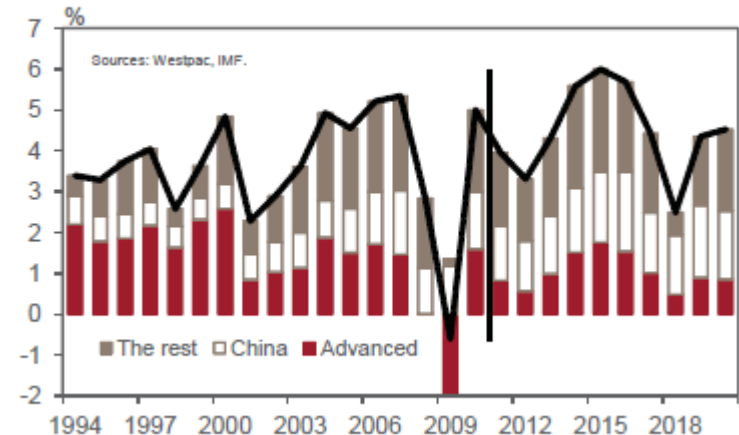
Australia has enjoyed strong relative economic growth

Buoyed by the evolution of the global economic landscape

World growth momentum



Contributions to world growth

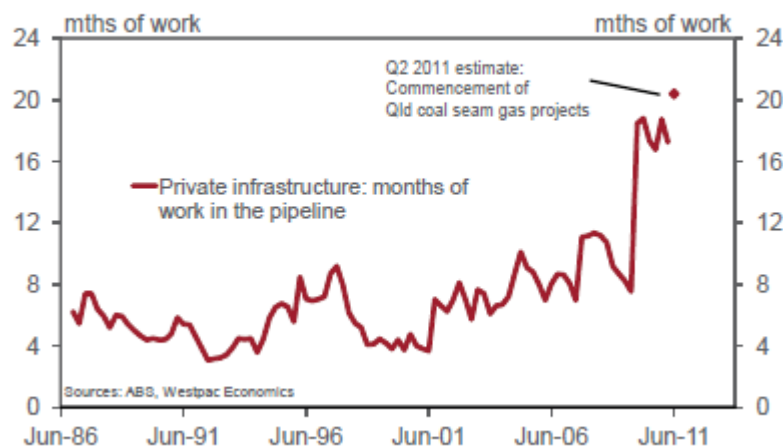


Resource demand has driven investment growth, but constraints are growing

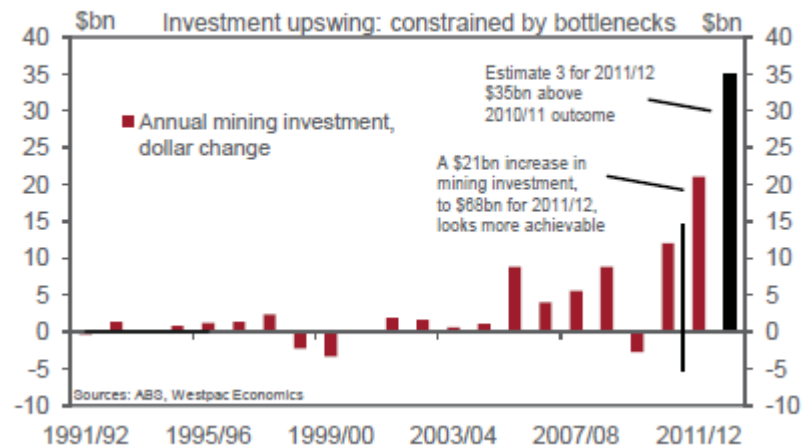
The private infrastructure pipeline has grown massively

But investment constraints are emerging which may limit this growth

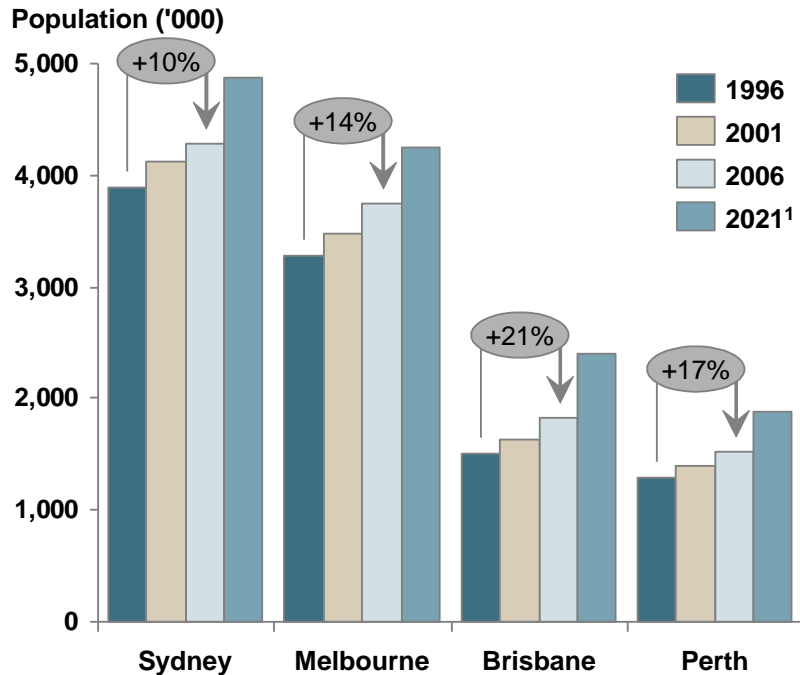
Private infrastructure pipeline balloons



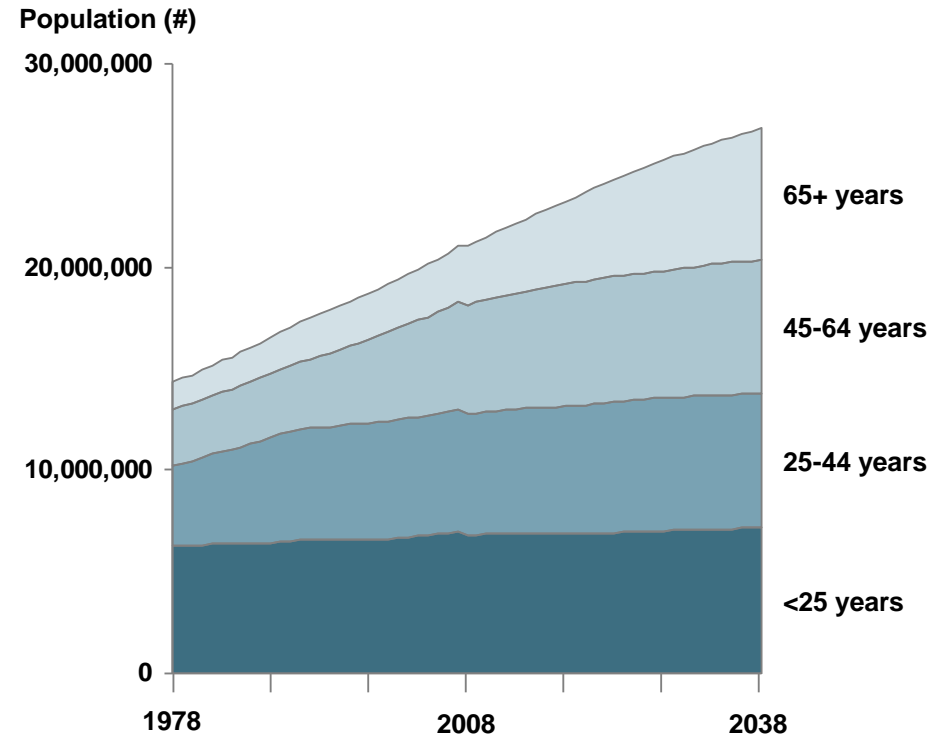
Mining investment: slippage to continue



Our major cities have experienced significant population growth...



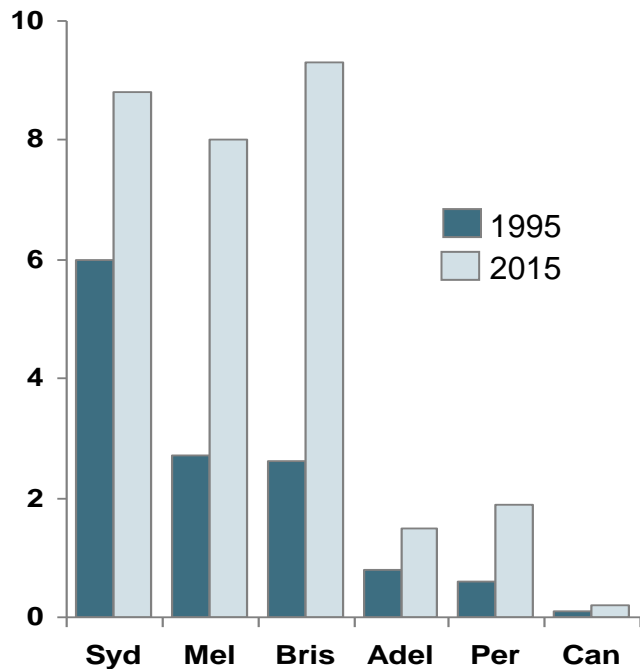
Total population by age: 1978-2038



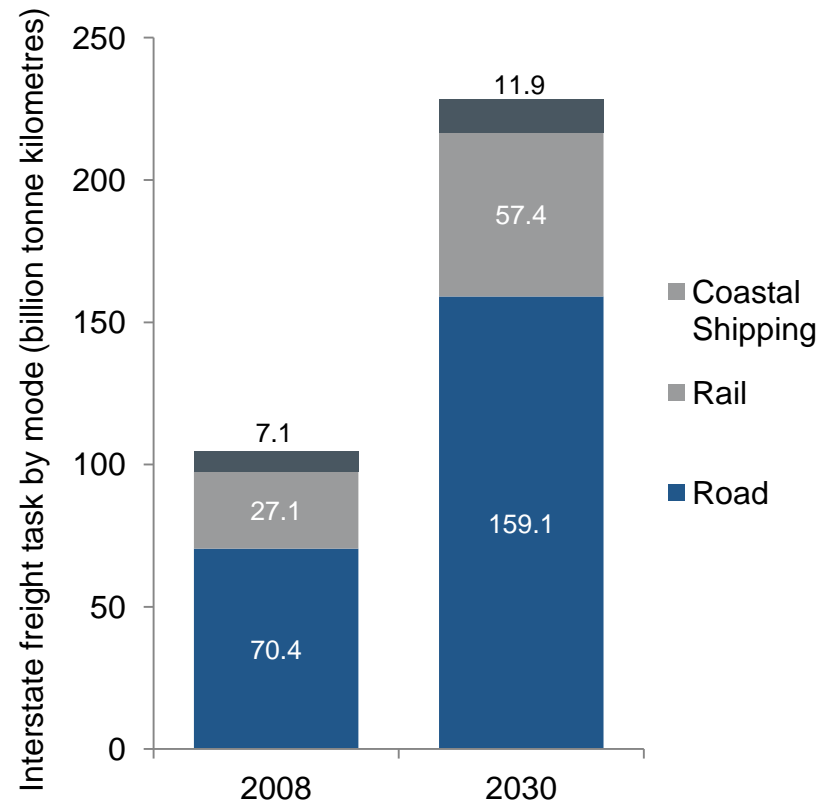
These factors are driving the need for material future infrastructure investment..... in transport

The costs of road congestion are forecast to rise

Forecast costs of congestion in capital cities: 1995-2015 (A\$b)

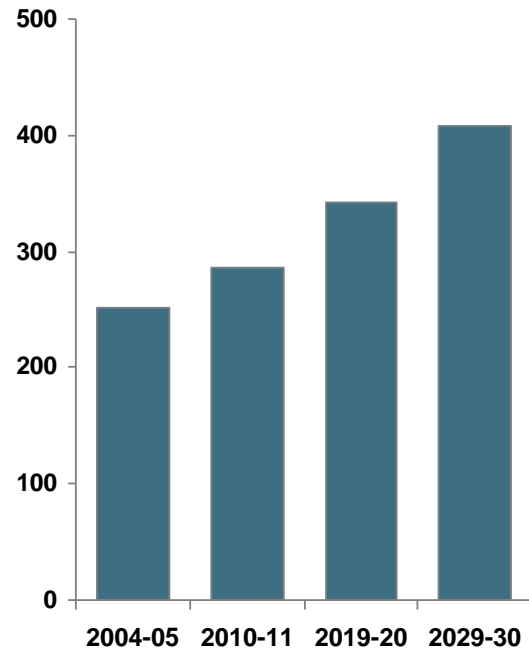


Interstate freight haulage is growing dramatically

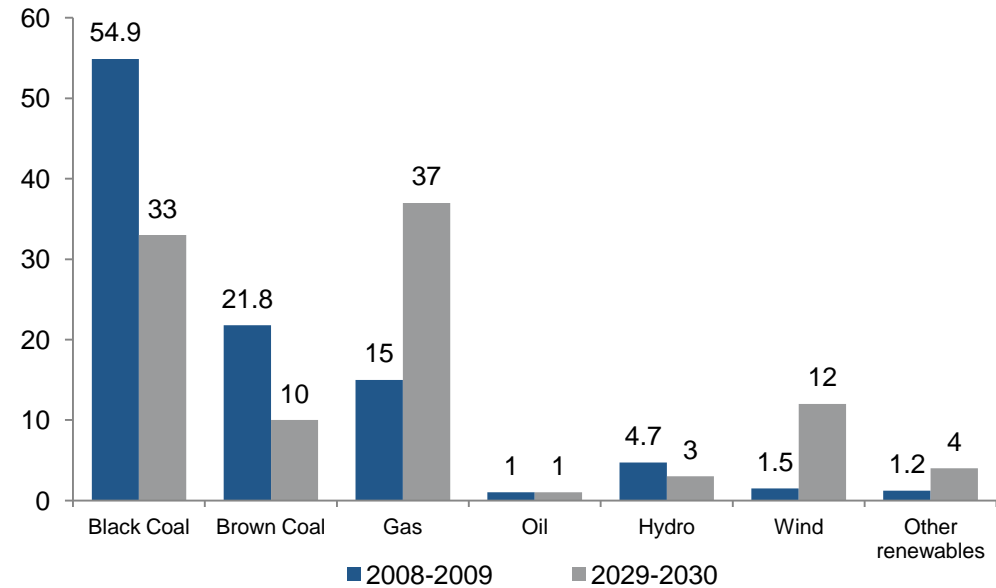


New electricity generation capacity is required

Projected future energy demand:
2004/05-2029/30 (TWh)



And climate change policies will drive investment in cleaner energy sources



Australia's infrastructure scorecard

Current infrastructure is barely adequate

- Infrastructure networks are barely adequate for current needs
- Beginning to impose significant long term costs on the economy

Leading to declining productivity

- Productivity has declined and represents a key challenge for Australia's future
- Inadequate infrastructure is a material contributor

Public sector investment has declined

Fiscal constraints

- Governments have adopted greater fiscal disciplines due to concerns about public debt and the sustainability of budget deficits
- GFC has negatively impacted the fiscal condition of Governments requiring greater austerity across developed nations

We are falling behind

- Historic underinvestment in maintenance and replacement of existing assets
- Public investment by Australian Governments in infrastructure as a proportion of GDP is less than other countries

Funding shortfall requires solutions

- Growing gap between community expectations about the quality of our infrastructure and the financial capacity of Government to fund
- Investment shortfall is estimated at \$70 billion a year over the next 10 years
- \$83 billion of national infrastructure projects delayed due to lack of Federal Government funding
- Demand management and pricing reforms (including user pays) are part of the solution

Section 2

Private sector investment considerations

Why invest in unlisted infrastructure equity?

Positives	Considerations	Role of Manager
<ul style="list-style-type: none"> • Diversification benefits <ul style="list-style-type: none"> - Low correlation to traditional markets - Lower volatility than equities • Long term investment profile with stable return • Predictable revenue stream • Help match long dated liabilities that are subject to inflation risk • Valuations reflect fundamentals not sentiment 	<ul style="list-style-type: none"> • Low liquidity of investments • Sovereign and regulatory risk • High relative leverage • Access to expertise and resources necessary to invest and manage • Cost of access • Reliance on appraisal based valuations • Governance 	<ul style="list-style-type: none"> • Expertise and resources • Scale • Greater and more efficient access to opportunities • Ability to add value through opportunity selection, acquisition pricing and ongoing management and exit

GFC has impacted investor attitudes

Exposed by GFC

- Lack of price discipline
- Extent of market beta
- Inappropriate financial engineering
- Alignment and agency issues
- Liquidity and marketability
- Ability to influence outcomes
- Lack of resources to manage risk

Investor concerns

- Sovereign risk
- Regulatory risk
- Excessive leverage
- Veracity of valuations
- Lack of liquidity of investments
- Fee leakage
- Demand risk on greenfield investing

Investor response

- Return to “core” infrastructure focus
- Increased importance of yield
- Reduced leverage
- Greater valuation rigour
- More cautious about identity of co-investors
- Less willingness to pay alpha for beta
- Focus on fees and direct investing

Fundraising environment

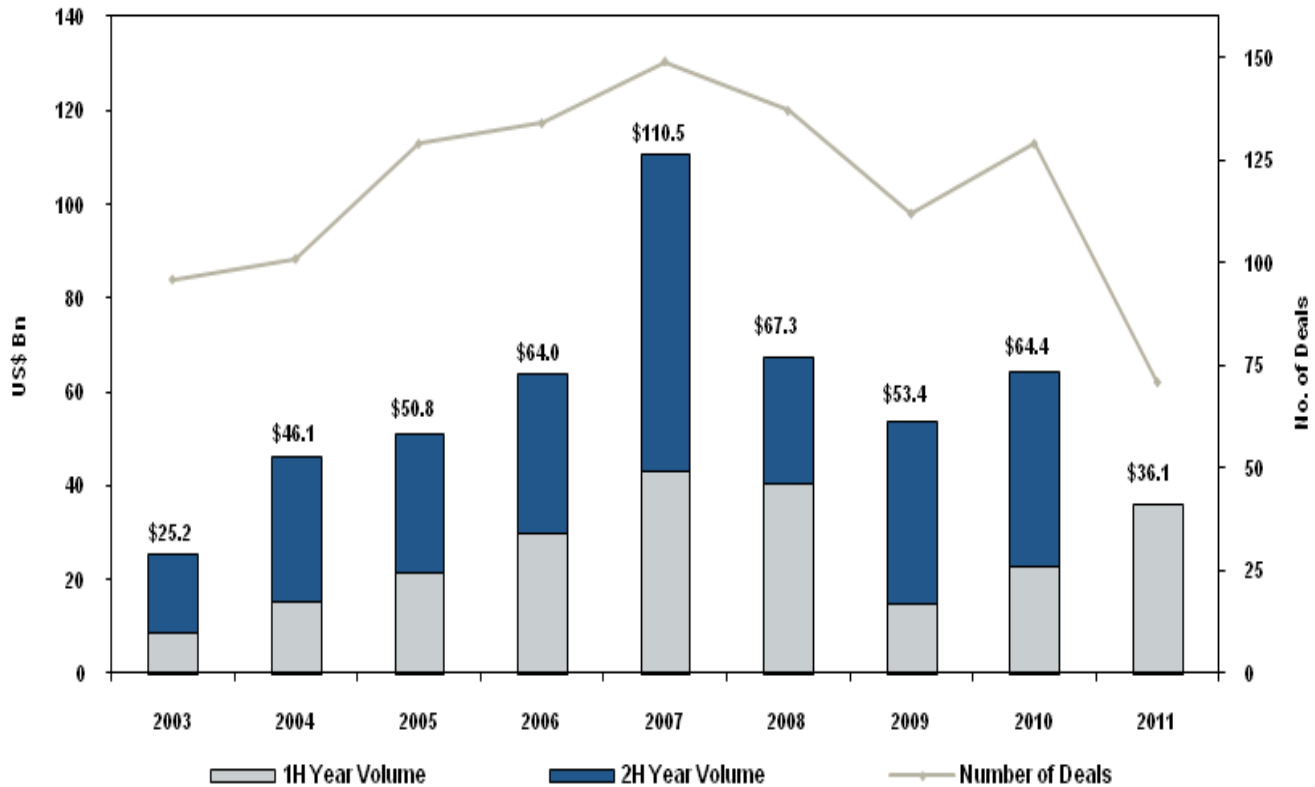
- Pre-GFC**
 - Excess investor demand for too few infrastructure assets created a supply / demand imbalance which drove prices above long term value
 - GFC ended the sustained growth in fundraising for unlisted infrastructure
 - Listed infrastructure companies were prepared to transact at prices reflecting a margin above their cost of debt or use their share price as currency

- Post-GFC**
 - Constrained market for the supply of capital
 - Unlisted market experienced a significant fundraising recovery in 2010, but much of this was committed before the GFC
 - Latest market data suggests fundraising continues to recover and investors are more willing to deploy capital to the sector
 - Listed infrastructure companies raised significant amounts of capital to reduce debt
 - But many continue to trade at a significant discount to NTA making them uncompetitive for new transactions
 - Price / value disconnect appears largely market or sentiment driven
 - Listed toll road experience has tainted the Australian market

 - Port of Brisbane privatisation shows capital is available for the right projects

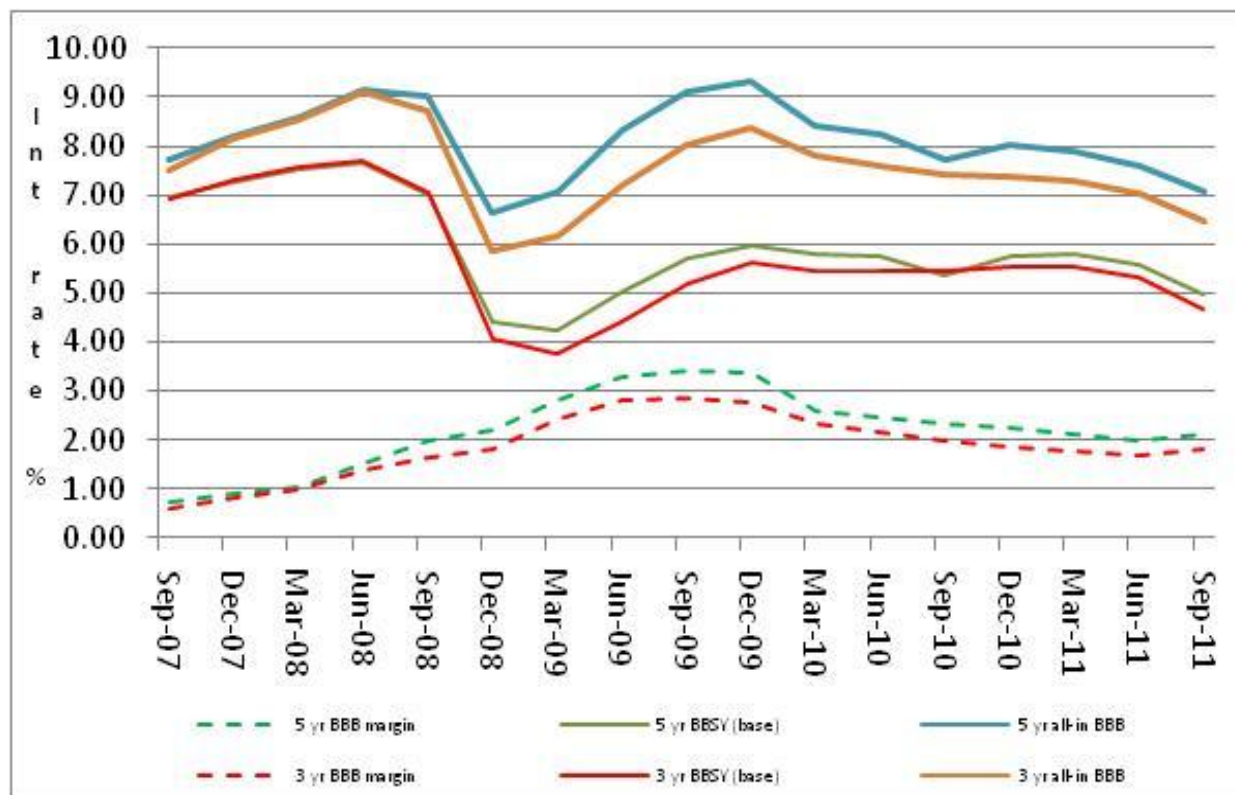
Bank market volumes have improved

Australian Historic Bank Loan Market Volumes



So has bank loan pricing

All in rates for BBB corporates (indicative)



What issues are constraining investment?

Issue	Potential Impacts	Potential Mitigants
Investor scale	<ul style="list-style-type: none"> Internal investment capacity Portfolio diversification Investment influence 	<ul style="list-style-type: none"> Industry consolidation Pooled vehicles Collective investment approach
Complexity	<ul style="list-style-type: none"> Cost of access Mispriced risk Information asymmetry 	<ul style="list-style-type: none"> Skills, expertise and resources Efficient investment process
Limited opportunity pipeline	<ul style="list-style-type: none"> Mobilisation costs Bid costs Agency issues 	<ul style="list-style-type: none"> Transaction standardization Diversity of access points
At risk acquisition costs	<ul style="list-style-type: none"> Cost of access Alignment 	<ul style="list-style-type: none"> Proprietary deal flow Government contributions
Alignment of interests	<ul style="list-style-type: none"> Management of sponsor and peer relationships 	<ul style="list-style-type: none"> Build relationships across manager, management teams and equity holders

What are the key investor concerns?

Concerns	Dimensions
Liquidity	<ul style="list-style-type: none"> • Ability to exit an investment quickly at value • Determining current market value • Allocating value between continuing and departing fund members • Impact of undrawn commitments on portfolio balance in periods of volatility
Method of access	<ul style="list-style-type: none"> • Debt or equity; direct or indirect • Cost of access – transaction costs and management fees • Choice of manager and ability to change manager
Market Risk	<ul style="list-style-type: none"> • Lack of operating history for demand forecasts on greenfield projects • Agency issues
Regulatory / sovereign risk	<ul style="list-style-type: none"> • Predictability, transparency and reliability • Event risk, particularly around regulatory decisions • Degree of independence from political influences • Policy or regulatory uncertainty • Discriminatory or retrospective law changes
Capital Structure and Leverage	<ul style="list-style-type: none"> • Maturity profiles, liquidity risk, diversification of credit markets • Banking and lending relationships

The Government's role

Policy settings

- Provide transparent, reliable and predictable regulatory environment
 - Price regulation can deter or encourage investment depending on the adequacy of the return allowed
 - Complexity of access regimes can lead to inefficient outcomes
- Policy and regulatory uncertainty remains a major impediment to investing

Integrated planning

- Co-ordinated and integrated approach to planning
- Support infrastructure projects whether in public or private ownership

Disciplined investment and funding decisions

- Can community welfare be improved by the Government allocating resources to create, expand or augment infrastructure?
- Should user charges or taxes over time pay for the ongoing infrastructure costs?

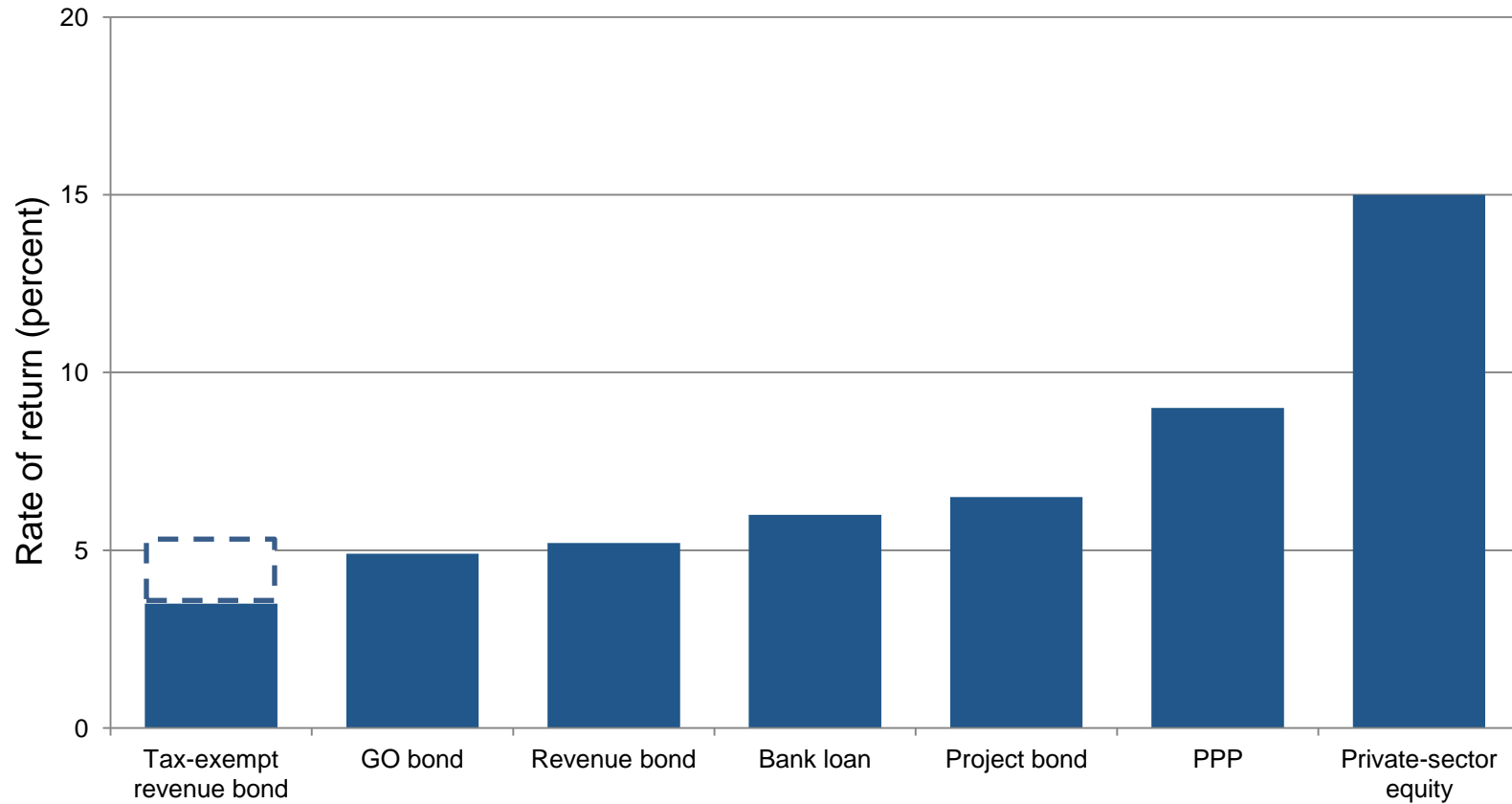
Financing solutions

- Solution should align responsibility for managing project risks with incentives to do so
- Central question is which financing method best manages project risk

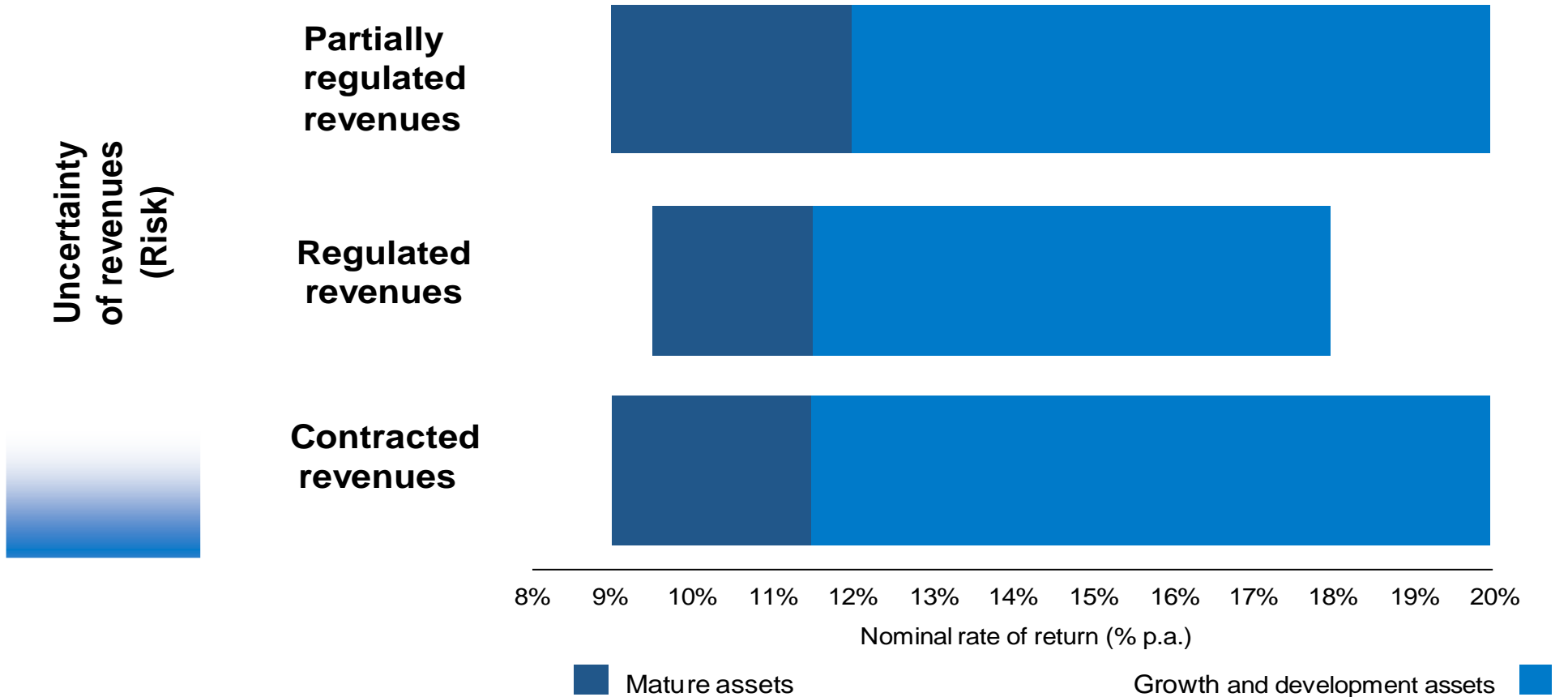
Section 3

Expected returns

Indicative relative returns of financing options



Uncertainty drives private sector return expectations



Section 4

Conclusion

Conclusion

Macro environment

- Existing infrastructure is barely adequate for current needs
- Public sector investment in infrastructure has declined despite historic underinvestment
- Economic conditions, technology, population and demographic changes continue to drive demand for infrastructure
- Climate change policies and responses will drive demand further

Funding challenge

- Fiscal constraints of Governments necessitate private sector solutions to help bridge funding gap
- Investor demand recovering, but capital raising environment remains challenging
- Loan volumes and pricing improving, but recent European uncertainties are impacting

Investor perspective

- Pricing and opportunity pipeline are favourable
- Investors remain concerned about
 - Liquidity
 - Policy and regulatory uncertainty
 - Demand risk
 - Leverage
- Concerns remain about accessing infrastructure opportunities

Section 5

About Hastings

About Hastings Funds Management



Specialist
infrastructure
manager

Value proposition

- Hastings Funds Management (Hastings) is a specialist infrastructure fund manager dedicated to delivering reliable, consistent and repeatable investment returns to a wide range of institutional and retail investors

Experience

How we compete

- 17 year track record of successful investing in infrastructure equity and debt

Access

- Strong market presence and strategic and operating relationships

Discipline

- Stringent approach to investment focused on providing long-term value for investors

Reliability

- Measured approach to gearing

Innovation

- Active management to achieve long term value
- New insight driven ideas and solutions

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