



Web site: [www.cppib.ca](http://www.cppib.ca)

## **Backgrounder Infrastructure Investing**

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### **Introduction**

This background paper summarizes the CPP Investment Board's approach to investing in this asset class.

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### **Overview: CPP Investment Board Investment Strategy**

The CPP Investment Board's mandate is to invest the assets of the Canada Pension Plan in a way that maximizes investment returns without undue risk of loss. The goal of the CPP Investment Board is to help ensure the future CPP benefits of 17 million Canadians.

The CPP Investment Board has adopted a strategy to broadly diversify the portfolio to enhance long-term returns. Within the \$152.3 billion CPP Fund (as at September 30, 2011), which is expected to grow significantly, real estate, infrastructure, and other inflation-sensitive assets play an important role because their underlying value tends to rise along with inflation. This characteristic makes them a good match for the long-term nature of CPP net liabilities given that CPP benefits are indexed to inflation.

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### **Infrastructure Investing**

Infrastructure comes in many forms and does not have a uniform definition or understanding.

Overall, we assess infrastructure assets based upon their risk and return profile rather than their simple physical characteristics, since no two infrastructure assets have identical attributes. We generally are interested in infrastructure assets that provide relatively stable long-term returns, operate in strong regulatory environments, have relatively low technology replacement risk, and possess minimal substitution risks. We look for long-term assets that can be held for periods of 20-30 years.

The types of global infrastructure assets that have these characteristics include: electricity transmission and distribution, gas transmission and distribution, water and

sewage companies, and certain transportation assets, such as toll roads, bridges and tunnels, airports, and ports. Regardless of the type of asset, however, we generally seek out investments that operate under long-term contractual agreements, or within transparent and dependable regulatory frameworks that balance the needs of both ratepayers and investors.

In the future, we may also look to invest in certain infrastructure assets that operate in more competitive environments. An example would be electrical power generation, where we might expect to benefit from our complementary focus on regulated power transmission and distribution.

Infrastructure investments benefit the CPP portfolio for the reasons previously noted, and the CPP Investment Board is also well-positioned to be a beneficial owner of these types of assets. In particular, our long-term approach to investing, our willingness to invest additional follow-on capital to foster growth and expansion, and our position as the professional investment organization for a national pension plan can make us preferred owners of privatized infrastructure assets.

Our current target investment size for infrastructure investments is \$300 million to \$1.5 billion, although given the right opportunity, we will make larger investments in a single infrastructure asset.

As a result of these factors, we currently are not seeking investments in social infrastructure, such as schools and hospitals, because they tend to be much smaller projects in equity investment terms.

We are prepared to act as a principal lead investor, typically as part of a larger consortium. In general, we will invest with partners whose interests align with ours and who will provide a competitive advantage to us.

We are certainly open to infrastructure opportunities within Canada if they have the stable financial and regulatory structures that would allow the CPP Fund to make satisfactory long-term, risk-adjusted returns.

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## **Global Diversification**

Given that we have approximately \$71.7 billion invested in Canada as of March 31, 2011, part of our international diversification strategy is to invest a higher proportion of the CPP Fund in global investments. As such, we are seeking global opportunities for infrastructure. It is also important to note that the Canadian market, by global standards, is relatively small. For these reasons, we anticipate that our primary focus will remain on international markets with particular attention to markets that have regulatory frameworks for infrastructure that are more advanced than in North America and that have a larger range of suitable investments.

Major direct investments comprising the \$8.7 billion, as at September 30, 2011, in infrastructure assets in the CPP Fund include:

- A 28.7 per cent interest in 407 ETR – the world's first all-electronic open access toll highway, which traverses the Greater Toronto Area, the largest urban centre in Canada.
- A 25 per cent interest in Westlink M7 - a fully electronic toll road that makes up 40 km of Sydney, Australia's 110 km orbital network and connects three of Sydney's busiest radial motorways.
- A 43.1 per cent interest in Airwave Solutions – a communication services provider to UK's police force and other public agencies.
- A 41.1 per cent interest in Arqiva – a communications infrastructure and media services company in UK.
- A 86.2 per cent interest in Broadcast Australia – a leading Australian broadcast transmission provider.
- A 31.6 per cent interest in Puget Energy Inc., Washington State's oldest and largest energy utility.
- A C\$1.1 billion purchase of a 33 per cent interest in AWG Plc., parent of Anglian Water, a U.K.-based water and sewage company.
- A 27.7 per cent ownership position in Transelec S.A., the largest electricity transmission company in Chile.
- A 19.6 per cent interest in Wales & West Utilities — a natural gas distribution network that serves Wales and southwest England.

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### **CPP Investment Board Infrastructure Investing Team**

Our Infrastructure investment team of 27 professionals operates within the Private Investments department. André Bourbonnais, Senior Vice-President - Private Investments, leads this group and is responsible for all of the CPP Investment Board's private equity and infrastructure investments. Prior to joining the CPP Investment Board in March 2006, André managed a combined private equity portfolio in excess of \$3 billion in financial services, telecommunications, media and entertainment sectors for another Canadian pension plan manager.

Working with André is Alain Carrier, Managing Director (Europe) and Head of Infrastructure, in the Private Investments Department. Alain is responsible for leading the global Infrastructure group and the Private Investments department in Europe. Alain has more than 17 years of financial industry experience. Prior to joining CPP Investment Board, Alain was Managing Director at Goldman Sachs & Co. in their Investment Banking division in New York and London.