Rise of the pension fund infrastructure platform

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More than 18 years since Australia's IFM Investors began pooling pension fund capital into infrastructure investment funds, 2014 has seen a spike of activity in pension fund-led investment platforms in the US and Europe.

Last month alone the California State Teachers Retirement System (CalSTRS) announced it is to group together with other US pension funds to invest directly in US infrastructure in the first US platform of its kind, and the UK's Pensions Infrastructure Platform (PIP) appointed its first CEO and said it is planning two new funds.

These investor-led platforms seem to make perfect sense: pension funds are seeking long-term, low-risk moderate yield through infrastructure exposure without hefty external management fees. At the same time, US and European governments want to stimulate national infrastructure investment. By pooling their capital, small and medium-sized pensions can raise the significant sums needed to invest in infrastructure projects and take advantage of economies of scale to research the best deals.

However, the risk-averse and highly-regulated nature of pension funds means that developing such schemes has not been simple and the industry is keenly watching the progress of the UK and US models to see which solutions proves more successful.

An active year

In the US, enthusiasm for pension fund involvement in infrastructure – and now specifically in US infrastructure - has been high this year.

CalSTRS made its announcement at the first Build America Infrastructure Investment Summit in September, part of President Obama's initiative, launched this year, to find a broader mix of funding solutions for US infrastructure. Earlier in the year, 12 US pension funds had come together to launch a national infrastructure investment platform pilot initiated by the Fiduciary Infrastructure Initiative (FII). The scheme intends to bring a group of pension funds together with federal, state and local governmental agencies to identify a suitable model for investing in US infrastructure.

In Europe, ten Swiss pensions funds committed around CHF300 million ($333 million) at the first close in June 2014 of Swiss non-profit IST Investment Foundation's (IST) first infrastructure fund. Formed after major Swiss pension funds approached IST wanting infrastructure exposure, the fund differs slightly from US and UK national-focused initiatives in that a maximum of 30% of investments can be made in Swiss projects.

A complex undertaking

These forays into investor-led platforms have been inspired not just by the experience of IFM Investors, which is owned by a group of 30 Australian pension funds, but also by the UK's pension fund platform PIP. Many in the industry think, however, that PIP has not lived up to expectations.

It was proposed in 2011 during a UK government drive to boost infrastructure investment and construction, but has so far only attracted £260 million in commitments of its £2 billion target, and its founding pension funds have shown no willingness to invest in construction stage projects now or in the future.

PIP counters this interpretation by saying that working with a group of pension funds is a complicated process, a position supported by the fact that the FII pilot project in the US was designed specifically as a talking shop to see what sort of joint strategy individual funds can agree upon.

"Bringing pension schemes together to invest in infrastructure as an asset class has been a complex undertaking. Every scheme has its own idiosyncrasies and its own asset risk and return preferences so it is not easy to design a universally applicable investment strategy," new PIP CEO Mike Weston told *IJGlobal*. "Pension schemes are highly regulated entities."

In the end, PIP's founding pension schemes decided upon the following investment strategy: low asset management fees (around 50bps); low risk projects with no construction risk; availability based cash flows; and, long term, contractual, inflation linked cash flow return.

While risk has been a major factor in the course taken in the UK, regulation seems be a key determinant in the future of US pension fund investment in US infrastructure. Although CalSTRS CIO Christopher Ailman said the fund wants to invest $3-5 billion in infrastructure over the next five years, he also said that better investment structures need to be in place before large amounts of capital can enter the US infrastructure market.

These platforms are relatively uncharted territory, but as more initiatives enter the field – and as pension fund desire for infrastructure exposure increases – we are likely to see more activity in this sector as learning accelerates.

"It was a long journey for IFM to get where it is today, but I think PIP can develop more quickly given how investor appetite for infrastructure has grown," Weston said.