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Australia's Biggest Pension Fund Eyes U.S. Infrastructure.

- AustralianSuper prefers assets such as toll roads, airports
- Could be four years before money committed, Delaney says

President Donald Trump's plan to fix America's crumbling infrastructure with \$1 trillion of private and public investment over a decade is drawing interest from 10,000 miles away.

AustralianSuper Pty, Australia's biggest pension fund with over A\$100 billion (\$75 billion) in assets, is eyeing the U.S. market for infrastructure debt and equity investment prospects, said Mark Delaney, its Melbourne-based chief investment officer.

"Anyone who has traveled to the U.S. would say there are aspects of the infrastructure that could do with updating," he said in an interview. While the fund is somewhat cautious on valuations, "if there are additional infrastructure opportunities available, we will certainly look at them," he said.

The U.S. faces a \$1.4 trillion infrastructure funding shortfall in the period from 2016 to 2025, according to estimates by The American Society of Civil Engineers. Without improvement, the U.S. will lose \$3.9 trillion in economic output by 2025, ASCE data show. There are signs that, at least globally, infrastructure is becoming more appealing after investors thirsting for stable income pumped a record \$413 billion into the asset class last year, according to data provider Preqin.

At the same time, the lack of detail in Trump's plans is tempering interest both in Australia and elsewhere. Public private partnerships are evolving slowly in the U.S and account for less than 5 percent of infrastructure investment, according to data from Bloomberg Intelligence.

Much of the U.S.'s infrastructure assets are held on government balance sheets and funded out of the municipal bond market, making it difficult for funds to get involved. Sam Pollock, head of Brookfield Asset Management Inc.'s infrastructure group, told Bloomberg in March that the amount of red tape involved, modest equity required and small returns would act as a deterrent.

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Delaney said with the shape of any new U.S. infrastructure program still unclear, it could easily be three or four years before actual dollars are committed, but he was clear about what assets are of interest: "We have a preference for less volatile assets: toll roads, airports or things like that."

AustralianSuper has historically partnered with other investors to buy infrastructure assets. Last year, in conjunction with IFM Investors Pty, the fund bought a A\$6 billion stake in the New South Wales state power network Ausgrid and this is "an approach we want to follow in North America," Delaney said. AustralianSuper has about A\$9.14 billion, or just under 10 percent of its investment portfolio, in infrastructure assets, according to its 2015-2016 annual report.

The fund is not alone in its appetite for infrastructure investments. AMP Capital Investors Ltd., one of Australia's biggest money managers, has said Asian pension funds and insurers are ramping up investments in infrastructure debt globally as they seek to combat waning returns from traditional

fixed income assets.

Michael Hanna, head of Australian infrastructure at IFM Investors, expects there will be significant opportunities in the U.S. “The infrastructure deficit in the U.S. is quite extraordinary,” he said by telephone. Since Trump’s election, there had been very strong interest in IFM’s funds from both new and existing investors, and “everyone’s feeling more positive about there being more deals in the U.S. space,” he said.

Australia’s pension fund industry collectively sits on A\$2.2 trillion of assets, making it the fourth largest in the world. The wall of money means the funds are increasingly looking for global opportunities. “The big drivers of the portfolio are based outside of Australia,” Delaney said.

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