

Infrastructure Investment A trendy Asset Class



Context

Infrastructure is a very broad term that encompasses all facilities that enable a country, a region, a municipality to operate economically. Infrastructure investments can be split into three main categories:

- transportation (roads, airports, etc.);
- utilities (telecommunications, water management, etc.); and,
- social infrastructure (hospitals, schools, etc.).

These infrastructure investments had in the past mainly been financed by governments. In recent years, and accelerated by the crisis, governments have sought to partner with private investors to invest in infrastructure related companies.

An attractive asset class

The on-going privatisation of infrastructure investments is bringing unique opportunities for investors to diversify their portfolios. The key advantages of investing in this asset class are that they bring predictable and reliable long-term cash flows.

A large portion of the return is generated by income instead of investment appreciation: this enables to provide better reliability of investment returns over time. Moreover, income generated is usually inelastic to prices, and the use of facilities is generally unaffected by cost increases.

Key challenges

Since it is a relatively new asset class, there is limited long term track record of returns and history of volatility on such investments, making them challenging for investment managers to derive long term trends from existing data.

The second challenge for investment managers is that these investments can be heavily dependent on local regulation, which can prove unpredictable – especially in countries with less stable economic and political outlook.

An infrastructure investment structuring will face the following challenges:

1. Choice of the appropriate fund vehicle
2. Set-up of the vehicle structure by e.g.:
 - obtaining required regulatory approvals
 - establishing the fund and its general partner/management company
 - putting in place structuring strategies including acquisitions, life cycle and repatriation mechanisms
3. Valuation of infrastructure investments
4. Governance
5. Compliance with legal, regulatory, tax and accounting obligations during the life of the structure
6. Exit alternatives

Our Services

We have a track record in assisting our clients with tailored-made solutions in order to establish an infrastructure investment vehicle.

Our services can be articulated over the different steps of the life such a vehicle:

Pre-launch services

- Distribution and marketing analysis
- Introduction to and selection of the main service providers
- Tax advisory services

Launch services

- Set-up of the Fund structure in Luxembourg (including regulatory approvals) and special purpose vehicle(s) (if needed)
- Assistance with the development of Procedures and Policies
- Management/Performance fee structuring (including carried interest structuring)
- Confirmation of the tax treatment applicable to the Fund structure as a whole, including the General Partner/Management Company of the Fund
- Coordination with external service providers

On-going services

- Tax advisory and compliance services
- Accounting services
- Valuation services – Fair Value Center
- Audit services

Exit

- Advising on liquidation and exit strategies

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