Newly established Westbourne Capital will focus on infrastructure debt funding.

Infrastructure fund lifts hopes

Patten
Sally Patten

The Gillard government will be hoping a new infrastructure debt fund, set up by a group of former Hastings Funds Management executives, will help finance some of the $450 billion of projects slated to be built over the next decade. At this stage, every little bit will help, particularly as banks are becoming less reliable sources of funding.

Melbourne-based Westbourne Capital has just raised $1 billion from superannuation funds to invest in infrastructure debt, with no less than the Future Fund as a keystone investor.

To the extent that having long-term financing commitments from large institutional investors in place might help to attract equity investors, Westbourne managing director David Ridley believes the fund could play a role in aiding the development of greenfield projects in Australia.

That said, meeting the government's social policy needs is hardly a primary motivator.

Westbourne's responsibility is to its investors. Apart from the Future Fund, Westbourne has attracted 11 super schemes, including SunSuper, Mercer Investments and Qantas Superannuation Plan.

Ridley and his team intend to invest in three main sectors: transport, utilities and telecommunications infrastructure.

To date, some $400 million has already been committed to seven projects in Australia and offshore.

Locally, Westbourne has lent to Connect East, the toll road company, while in the UK it has lent to Thames Water, the largest regulated water and sewerage company in Britain, and in BAA, the owner of Heathrow and Stansted airports.

The Westbourne team, which has been working in infrastructure debt since 1999, believes it is the right time to go it alone, given the changes in investor attitudes and in bank lending trends in the wake of the global financial crisis.

Before the turmoil, investors were more inclined to take on equity rather than debt when it came to infrastructure, because the former offered superior returns. But several burnt fingers later, investors are looking much more carefully at risk.

"Investors [before the crisis] were probably more interested in the overall return rather than the return for the level of risk they were taking," says Ridley.

While investors are focusing more on the relationship between risk and return, banks globally have reduced capacity to lend to infrastructure as they nurse losses and meet more stringent capital criteria.

This is particularly the case in Europe and it is no coincidence that one of the loans in the portfolio — to Connect East — involved the refinancing of a senior loan from a European bank. Indeed, Ridley expects that over the next two to three years there will be an abundance of refinancing opportunities in the European banking sector.

The other attraction from an investor's standpoint is that interest rates in Australia are high, leading to higher returns on local assets.

The expected annual return to the investors in the fund, which will invest in both senior and subordinated debt, is low single digits, says Ridley. The expected return on the Thames Water deal is 11 per cent. On BAA it is about 11.5 per cent.

The fund, he adds, is ready to lend for periods of up to 10 years, while the banks these days tend to limit their tenure to three to five years.

In line with the trend in the private equity universe, several of the investors have put money into the Westbourne fund on a segregated basis, rather than sticking their money into a central pool.

Creating separate accounts gives the super funds more control over their investments, including the flexibility to invest more down the track and change the return targets.

Of the total, some $915 million lies in separate accounts from six investors. Another six super schemes have opted for a general pool. That portion of the fund stands at $114 million, but Westbourne expects to take that to $250 million over the next few months as more investors sign up.

Ridley refuses to discuss the fees on the fund, saying only that they are less than that on an infrastructure equity fund.

"We are sitting comfortably with an acceptable fee structure within the returns we are providing," he says.

He welcomes the announcements made in last week's budget to create a designated list of priority projects that will be awarded tax incentives.

"Getting more clarity on projects and timing is helpful. The more clarity the better," Ridley says.

He rejects suggestions from some super schemes that the government needs to step in and take on development risk in the early stages to get projects off the ground.

Construction, he says, is not so much the issue but investors' over-exuberance about the returns.

■ *Barrie Dunstan is away.*

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