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Rethinking infrastructure: An interview with Mark Wiseman

Mark Wiseman, president and CEO of the Canada Pension Plan Investment Board, explains how his fund assesses investments in infrastructure projects and how governments can compete more successfully for investment capital by reducing risk for investors.

Why invest in infrastructure?

At CPPIB, you have to remember that we're a long-term investor. And we're investing in order to fund liabilities that are multigenerational in nature. So as the manager of the reserve fund for Canada's national pension plan, we're looking to be able to fund pensions 25, 50, 75 years out. And when you think about that, and then you compare it to the infrastructure asset class, there's a great alignment for us in investing in infrastructure.

From the institutional investor's point of view, we're not looking for these assets to play a role like private equity would in our portfolio, delivering some sort of pop or sizzle to the portfolio. What we're looking for is boring, predictable, long-term cash flows. And so the more seasoned the asset is, the more interesting it becomes to us, the more we're willing to pay, and the better the alignment of interest.

One example I like to give is how we actually model our infrastructure assets. One thing that we insist on is that we don't actually build in exit assumptions. Literally, when we buy an asset, we assume that we will hold it indefinitely or until the end of the concession.

Attracting institutional investors

To really make infrastructure investing attractive in a given jurisdiction for us, we need that consistency and predictability of the regulatory framework. When you're investing (as I like to say) in quarter centuries, as opposed to the next quarter, 90 days, that regulatory framework and that consistency have to actually transcend any given government. Because the asset is going to outlive a government, which may only be around for five years, let's say, in a typical democratic state.

If a jurisdiction can prove that and demonstrate that over a period of time, capital will find its way to that jurisdiction. The United Kingdom, Australia, and Chile are the three best

examples in our mind. Others are coming along. But we think those are the leading lights. By and large, in emerging markets, it's actually still difficult to get appropriately rewarded for the risk associated with investing in infrastructure.

When you think about it, what is your alternative? Your alternative is you can buy a liquid long bond. And the spread of the infrastructure asset against that long bond in some cases is nil. So I think governments have to be focused on trying to reduce that idiosyncratic risk by the nature of the concessions and the nature of the regulatory environment, as much as they can.

There's a tremendous amount of capital right now that's interested in investing. So it's not a question of there not being a supply of capital. The question is, "Can you, in your jurisdiction, compete for that capital effectively by reducing that idiosyncratic risk?" So we're willing to take on the risk of, let's say, a toll road—a risk on the traffic and how much traffic will be there.

What we're worried about, though, is the risk that the regulatory environment might change. We're worried about the risks involved with certain promises or undertakings, in terms of what roads are going to connect in with that toll road, the ability of somebody to build a competing road next door, et cetera, et cetera. That's the idiosyncratic risk to the asset, that it essentially widens the spread over the long bond. And so I think what government should be thinking about doing is, "How do we create an environment that we can narrow that spread as tight as we can?" □

Mark Wiseman is president and CEO of the Canada Pension Plan Investment Board. This is an edited transcript of the interview, which was conducted by McKinsey's **Rik Kirkland**.