

CRITICAL EYE

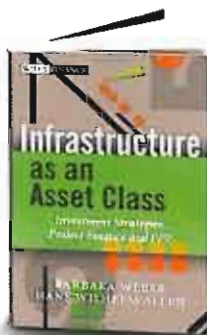
Through the investor's looking glass

Chris Lloyd, Managing Director of CAS asset management consultancy, reviews *Infrastructure as an Asset Class: Investment Strategies, Project Finance and PPP* by Barbara Weber and Hans Wilhelm Alfen (Wiley Finance 2010).

The asset management community, specifically the part that is concerned with physical assets, can be divided into those who understand the relationship between asset management and business finance and those who do not. This observation may not stand up to much scrutiny, but it is useful in understanding the value of this book.

Asset management thinking and practices build on the notion that a more strategic approach to managing the acquisition, operation, maintenance and disposal of physical assets will improve business performance.

Infrastructure as an Asset Class was



written by an investment banker and an economist. They set out in considerable detail how investors perceive asset-intensive businesses and which aspects of their capability and performance they regard as most important.

In doing so, they virtually create a mirror image of the models and criteria that the IAM is seeking to define in its Beyond PAS55 workstream. Early in the book, for example, the authors remark that

"In the interest of comparing the performance of different assets, it does not help that so far no established benchmark exists..."

The book provides an excellent introduction to anyone working in asset management who

wants to know more about project financing. It is well structured and full of useful references, explanations, tables and analyses – although the nature of the content and the fact that it has been translated from the original German makes it quite heavy going in places. The last two chapters on financing instruments and cashflow calculations and sensitivity analysis give excellent overviews of the reasoning behind PPPs (public private partnerships) and the use of debt, equity, mezzanine capital, asset backed securities, sale and leaseback.

In a world where there are more infrastructure companies and projects looking for investment than there are investors ready to fund them, the abilities of investors to tell the difference between good and bad investment prospects, and of businesses and governments to convince investors that they, or their projects are a good bet, are paramount.

Infrastructure as an Asset Class gives an important reminder of the financial context within which, for many, the effectiveness of asset management thinking and practices will be judged. It is particularly useful in separating out the interests of different parties to an investment.

One section on project finance leaps out: "The key criterion for project finance from the perspective of the financing banks is the ability of the project to generate sufficient cash flows to cover not only the investment and operating costs, but also the interest and principal payments (debt service) under the planned financing structure. In contrast, the sponsors are interested not in debt service, but in the generation of an appropriate return on their equity employed and/or a suitably high level of current income (yield)."

The message from this book is clear. Investors are attracted by the long-term lifecycle of infrastructure assets and the long-term predictable, stable income streams they appear to offer. Now they are looking for ways of assessing risk and return that go beyond the confines of financial due diligence.

Authors' biographies

Chris Lloyd is Managing Director of CAS, a consultancy that helps companies become asset management organisations. He chairs the IAM Qualifications and Professional Development Committee. His book, *Asset Management: Whole-life management of physical assets*, was published in March 2010 by Thomas Telford Ltd. Contact: chris.lloyd@casolutions.co.uk

