Infrastructure Policy Framework

To meet the strategic objectives of the Fund, the proposed investment in infrastructure should incorporate the following characteristics:

(1) Target a return of gilts +2.5% p.a. net of fees, as set out in the SIP; (this is currently equivalent to a 7% return p.a. over the long term)

(2) Invest in an unlisted fund investing in unlisted infrastructure assets, based on the low correlation with equity markets and to take advantage of the illiquidity premium;

(3) Implement a global mandate giving the infrastructure manager the discretion to select where investments are made (geographically) to take advantage of all opportunities based on the risk/return characteristics of each deal. It is expected that the majority of exposure will be in developed markets and in core investments.

(4) Enable investment across core, value-add and opportunistic assets to ensure a steady and predictable yield whilst still meeting the return target of gilts +2.5%;

(5) Diversification across sectors to reduce sector concentration risk within the portfolio;

(6) Allow greenfield investments in addition to brownfield in order to meet return target of gilts +2.5% p.a.

(7) Allow debt to be considered under manager discretion for effective risk management of the portfolio

(8) No leverage at the fund level to enhance returns (accepting that a small amount of leverage maybe required over short term periods for operational reasons). Evaluate whether an appropriate limit on use of leverage in underlying investments is necessary or indeed feasible (especially if investing via pooled funds).

(9) Preference for one manager to manage the whole allocation but retain flexibility to appoint two managers if this is necessary to achieve the spread of investments needed to meet strategic aims. Invest in either in a direct fund structure or a fund of funds structure

The tender process will evaluate how each manager manages the various risks associated with infrastructure investing including financial (for example leverage), ESG, regulatory, and reputational risks, as well as how they select investments and allocate geographically.