Infrastructure Investing Education

Toronto Investment Board

Prepared by Aon Solutions Canada Inc.

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Infrastructure Basics

Why Invest in Infrastructure

1

Diversification

Infrastructure projects tend to be broadly uncorrelated to most traditional asset classes and, given the deal-based nature and relative infancy of the infrastructure market, there are more opportunities to generate returns.

2

Stable income, Inflation Hedge, Liability Matching

Infrastructure investments tend to have fairly stable long-term cash flows with inflation linkages in many cases.

3

Downside Protection / Resilience

Infrastructure's asset-backed nature provides high levels of protection to investors (both equity and debt).

4

Growth Seeking

The deal-based nature of the asset class provides opportunity for high returns, but backed by high levels of security.

Infrastructure by Sectors and Stage / Strategy

Sector

Transportation

- Toll roads, bridges, tunnels
- Airports, ports
- Rail and mass transit networks

Energy and Utilities

- Power generation (conventional and renewable)
- Oil and gas pipelines
- Regulated transmission/distribution assets
- Water distribution and treatment

Social infrastructure

- Education facilities
- Healthcare facilities
- Courts, police stations and prisons

Communications

- Fibre-optic networks
- Broadcast and mobile towers
- Data centres

Stage / Strategy

Development/Construction

- New infrastructure
- Development/construction premium to compensate for additional risks of development and construction, and revenue forecasting (e.g. traffic)

Operational (Mature) or Core

- Operational assets with regulated or contracted revenue streams, limited investment needs and high cash yield (e.g. regulated transmission network)
- Expected returns 6-8%

Operational / Value-Add

- Operating assets/businesses with growth opportunities (add-on, roll-up) and/or operational improvement potential (e.g. airport, fibre optic network)
- Expected returns 8-12%+

Current Economic Conditions for Infrastructure

- Higher-for-longer inflation environment
- AI and data centers required major capex
- Shifting US energy policy
- Fiscal stimulus and infrastructure development
- Geopolitics risk, shifting trade policy and re-shoring

Emerging Winners

- Inflation linked infrastructure assets
- Power and Utilities
- Assets with repowering opportunities
- Non-US energy renewables and transition
- Fully contracted data centers

Potential Risks

- US renewable power developers
- Container ports reliant on global (Asia-US) shipping
- Utilities with weak regulatory frameworks
- Data centers in marginal markets with weak counterparties

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Returns Expectations / Historical Performance

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Private Infrastructure Returns Expectations

	Core	Core+	Value Add
Revenue Model	▪ Resilient Cash flow underpinned by regulation or concession ▪ Limited price and volume risk	▪ Cash flow underpinned by medium to long term contracts, strong market position, or concession ▪ Some price/volume risk	▪ Medium term contracts ▪ Some to significant volume and price risk, ramp-up risk ▪ Growth opportunities (add-on, roll-up) ▪ Core/core-plus Greenfield assets
Leverage	40-60%, IG[1]	50-70%, IG[1]	40-60%, IG or sub-IG[1]
Operating Risk	Low to medium	Low to medium	Medium to high
Market Risk	Low	Low to moderate	Moderate to high
Yield	High	Medium to high	Low to medium
Growth Potential	Low	Low to Medium	High
Returns (net)	7-8%	8-10%	12%+

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Investment Vehicles

Open Ended Funded

Perpetual open-ended funds that buy-and-hold infrastructure companies

MF: 0.75%-1.3%
PF: 10-15% on total returns over 8% hurdle or 5% on distributions

- ✓ Periodic subscription
- ✓ Faster deployment
- ✓ Immediate access to visible, vintage diversified portfolio
- ✓ Redemption option
- ✓ Shallower J-curve
- ✓ Lower fee load
- ✓ Buy-and-hold
- ✓ Income oriented
- ✓ DRIP

- x Limited universe
- x Usually targets core / Core+ infrastructure
- x Performance fee is partially based on unrealized valuations

Closed-End Primary Funds

Limited life closed-end funds that buy-grow or fix-sell infrastructure companies

MF: 1.5%
PF: 20% over 8% hurdle

- ✓ Largest opportunity set
- ✓ Diversification by sector, geography, etc.
- ✓ Ability to make tactical allocations to core+, value-add and greenfield strategies
- ✓ Allocations can be tailored directly to overall plan's risk appetite

- x Time sensitive
- x Blind pool risk
- x Fees and J-Curve
- x Illiquidity
- x Vintage concentration
- x Reinvestment risk

Closed-End Fund of Funds

Limited life closed-end funds that invests in other closed-end primary funds

MF: 0.85-1.25%
PF: 10-15% over 8% hurdle

- ✓ Higher diversification with low governance and administrative burden
- ✓ Access and aggregation benefits especially for small investors
- ✓ Diversification by manager

- x Time sensitive
- x Blind pool risk
- x J-Curve
- x Illiquidity
- x Reinvestment risk
- x Double layer of fees leading to lower net returns

Closed-End Secondary Funds

Limited life closed-end funds that acquire LP interests in other closed-end primary funds from secondary market

MF: 0.85-1.25%
PF: 10-15% over 8% hurdle

- ✓ Higher diversification
- ✓ Diversification by manager
- ✓ Can backfill missing vintage year exposure
- ✓ Immediate yield potential
- ✓ Shallower J-curve compared to primaries
- ✓ Potential embedded value or discount to NAV at entry

- x Time sensitive
- x Blind pool risk
- x Illiquidity
- x Reinvestment risk
- x Double layer of fees leading to lower net returns

Directs/Co-Invests

- ✓ Greater control over investment selection
- ✓ immediate deployment
- ✓ Lower fees
- ✓ Can be used to fill certain gaps (sector or geography)

- x Requires specialist resource
- x Time sensitive
- x Single asset concentration

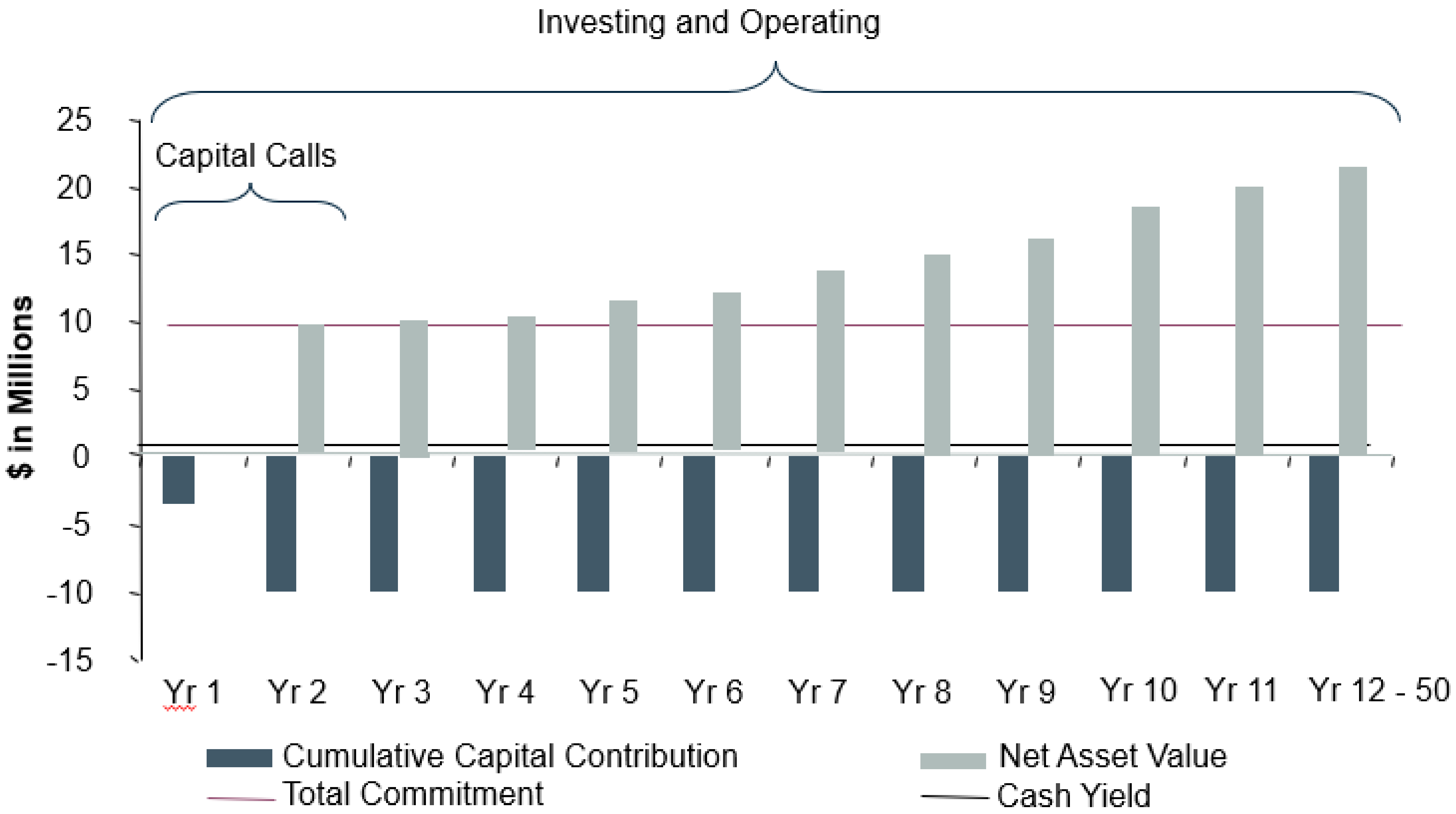
MF = Management Fee
PF = Performance Fee

Sample Portfolio Construction

Strategy	Return Objective	Investment Fund / Strategy			Aon Value Added	Risk Management
Non-Core / Return Seeking <40%	10-15% Return	Closed-ended funds			•Manager Selection •Thematic	•Vintage Risk •Manager risk
Core / Core+ 60%+	7-9% Return 4-5% Yield •Beta + •Diversification •Income	Open-Ended Infra Fund #1	Open-Ended Infra Fund #2	Open-Ended Infra Fund #3	•Manager Selection •Fee Aggregation	•FX •Sector •Geography •Stage/risk •Liquidity •Valuation •Manager risk

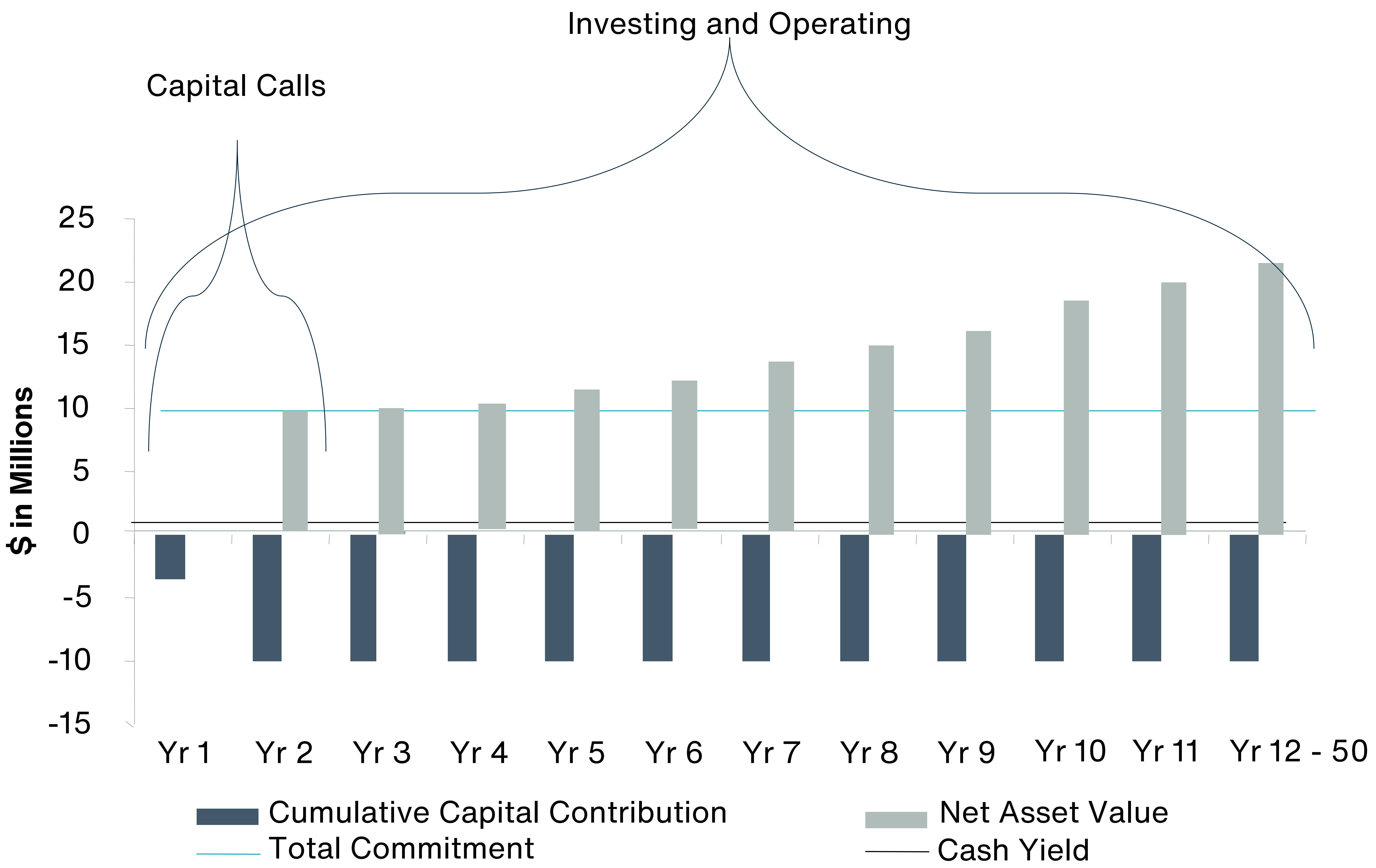
Appendix

Cash Flow Profile: Open-Ended Funds



Open-ended funds usually follow buy and hold approach and do not frequently sell investments. NAV grows over time . . .

Cash Flow Profile: Open-Ended Funds



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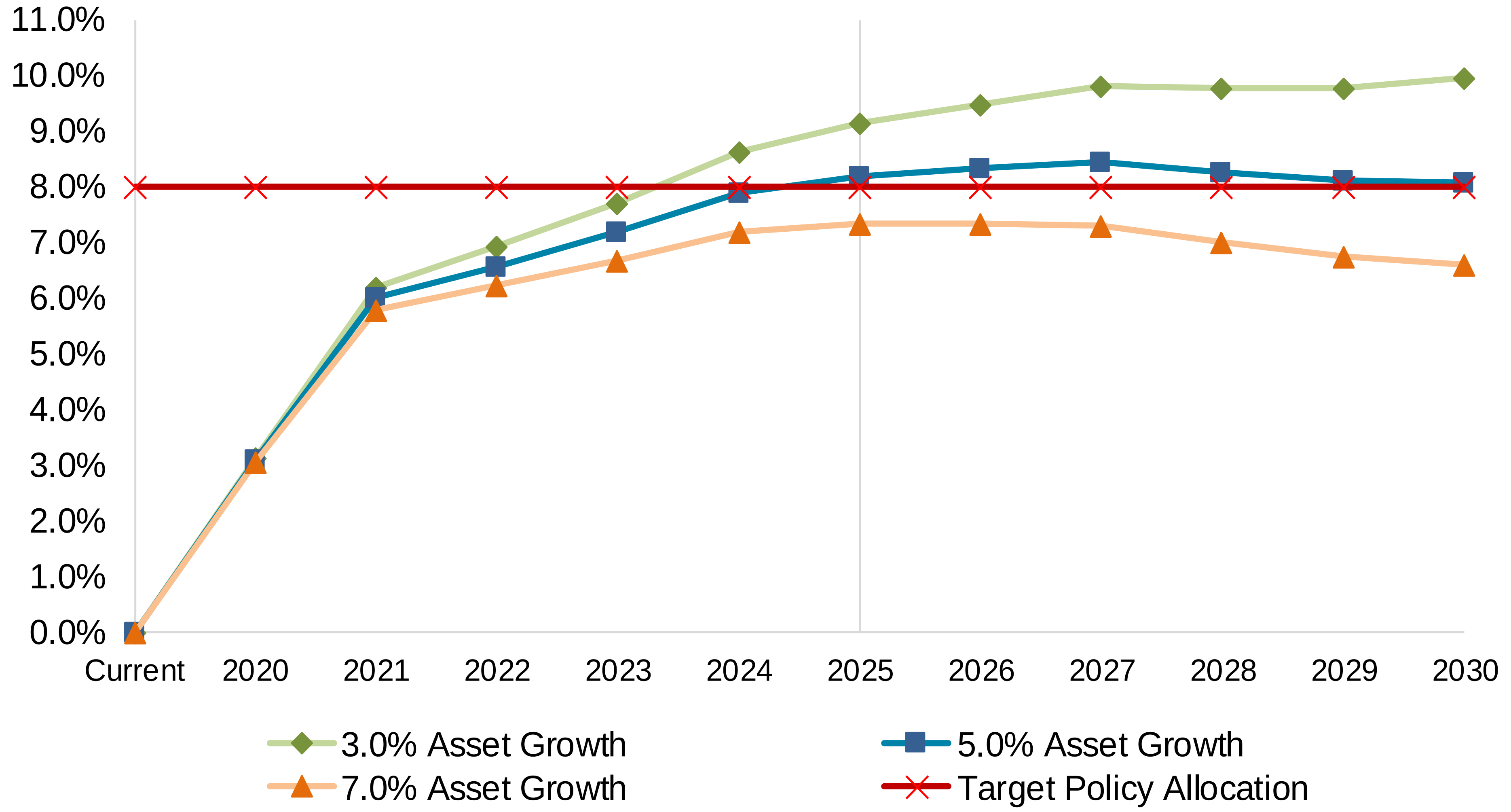
Building for Objectives—Model Portfolio

			Model Portfolio	
Primary Objective		**Inflation / Income / Liability Matching**	**Balanced**	**Growth**
Target Strategy		Core (equity and debt)	Core / Core+ / Some Value Add	Value Add / Opportunistic / Niche
Target Sector		PPP / Social / Transportation	Energy & Utilities, Transporation, Power, Communication, Social	Diversified with some sector bias
Investment Stage		Brownfield	Mainly Brownfield / Some Greenfield	Greenfield, Distressed or Value Brownfield, Complex Deals, Niche
Target Geographies		OECD Countries	OECD Countries	OECD Countries + Emerging Markets
Revenue Model		Availability Based / Concessions	Regulated / Contracted with some volume and price risk (generally low)	Additional exposure to price, volume, political and regulatory risk
Contractual Life		15-30+ Years	10-20+ Years	Relatively Shorter Contracts
Indicative Inflation Linkage		High (60%+)	Medium (40-60%)	Low to Medium (20-60%)
Sensitivity to Economic Changes		Low	Low to Medium	Medium to High
Main Return Drivers		Income Distribution	Income Distribution + Capital Appreciation	Greenfield Premium + Capital Appreciation + Income Distribution
Expected Returns		5-7%	7-12%	12%+
Available funds to implement		- Closed-end Private Funds - Open-ended Private Funds	- Closed-end Private Funds - Open-ended Private Funds - Listed Infrastructure Funds	- Closed-end Private Funds
Allocation Guidance		Up to 20% of the program size	60 - 100% of the program size	Up to 20% of the program size
Minimum # of Managers	**Governance / Diversification**			
	Low	None	Up to 2 Open-Ended Funds	None
	Moderate	**Up to 1 Manager**	**2 Open-Ended and 2+ Closed-End**	**Up to 1 Manager**
	High	Up to 2 Managers	2+ Open-Ended and 4+ Closed-End	Up to 2 Managers
			Largest Opportunity Set	

Pacing Analysis

Our proprietary pacing model incorporates cash flow assumptions and desired diversification and present a comprehensive plan for program development

Projected NAV of Infrastructure as a % of Total Assets



Annual Commitment Pace
In C$ Millions

Year	Open-End	Closed-end	Total
2020	170.0	140.0	310.0
2021	0.0	0.0	0.0
2022	0.0	0.0	0.0
2023	0.0	110.0	110.0
2024	0.0	0.0	0.0
2025	0.0	0.0	0.0
2026	0.0	110.0	110.0
2027	0.0	0.0	0.0
2028	0.0	0.0	0.0
2029	0.0	110.0	110.0
2030	0.0	0.0	0.0
Total	**170.0**	**470.0**	**640.0**

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Infrastructure NAV @ Beginning of Year	**$0.0**	**$121.7**	**$248.2**	**$285.1**	**$327.6**	**$377.8**	**$411.4**	**$440.4**	**$468.1**	**$481.4**	**$495.2**
Capital Called	**(114.7)**	**(116.2)**	**(33.6)**	**(41.0)**	**(46.1)**	**(32.7)**	**(34.7)**	**(44.0)**	**(31.4)**	**(34.7)**	**(44.0)**
Capital Called - Existing Commitments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Called - New Commitments	(114.7)	(116.2)	(33.6)	(41.0)	(46.1)	(32.7)	(34.7)	(44.0)	(31.4)	(34.7)	(44.0)
Distributions	**0.0**	**0.0**	**2.5**	**8.3**	**17.0**	**30.4**	**45.5**	**61.8**	**64.1**	**68.0**	**67.8**
Distributions - Existing Commitments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributions - New Commitments	0.0	0.0	2.5	8.3	17.0	30.4	45.5	61.8	64.1	68.0	67.8
Net Cash Flow	**(114.7)**	**(116.2)**	**(31.1)**	**(32.6)**	**(29.1)**	**(2.3)**	**10.9**	**17.8**	**32.8**	**33.4**	**23.8**
Appreciation	**7.0**	**10.3**	**5.8**	**9.9**	**21.2**	**31.3**	**39.9**	**45.6**	**46.1**	**47.1**	**47.9**
Appreciation - Existing Commitments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Appreciation - New Commitments	7.0	10.3	5.8	9.9	21.2	31.3	39.9	45.6	46.1	47.1	47.9
Infrastructure NAV @ End of Year	**$121.7**	**$248.2**	**$285.1**	**$327.6**	**$377.8**	**$411.4**	**$440.4**	**$468.1**	**$481.4**	**$495.2**	**$519.2**
Infrastructure as % of Total Program (1)	**3.1%**	**6.0%**	**6.6%**	**7.2%**	**7.9%**	**8.2%**	**8.3%**	**8.4%**	**8.3%**	**8.1%**	**8.1%**

1) at base case growth *For Illustrative Purpose only*

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