M. NICOLAS J. FIRZLI IS DIRECTOR-GENERAL OF THE WORLD PENSIONS COUNCIL (WPC), THE INTERNATIONAL ASSOCIATION OF PENSION, and social security funds, Co-Chair of the World Pensions Forum (WPF) held annually in a G10 capital, Chairman of the Asia Pacific Leadership Council (APAC LC) and Cofounding Member & Advisory Councillor of the World Bank Group Global Infrastructure Facility (GIF). He has developed new notions in the fields of corporate/investment governance and financial economics such as "The Pension Wealth of Nations", "Modern Trusteeship and Fiduciary Capitalism", "Country Risk and Territorial Attractiveness" and "The SDG–Driven Firm of the Future".

Infrastructure Investment in 2019: Glad Tidings and Rising Geoeconomic Tides

The last weeks of 2018 have set new records in net new institutional investment flows into infrastructure funds, with more generalist private equity and investment management players joining this strategic asset class par excellence, as the trend is likely to continue well into 2019 – 2020. The author, one of the original coiners of the term 'infrastructure as a new asset class', looks at the underlying dynamics of this important market trend, happening, as it were, at the crossroads where finance and geoeconomics meet.

As traditional asset managers and investment bankers struggle to stay afloat in adverse circumstances pressuring market participants large and small, there is an asset class which, paradoxically, never had it so good: "Private-equity firms are on track to raise a record amount for infrastructure investing in 2018, as money managers bet on the growing need to upgrade and expand the world's railroads, natural-gas pipelines and data centers. The firms collectively raised $68.2 billion in the first three quarters of the year, up 18% over the same period in 2017 and already surpassing the $66.2 billion they amassed in all of 2016, according to data from **Preqin**."[1]

FIFTEEN YEARS ON, INFRASTRUCTURE AS AN ASSET CLASS

In North America, Christina Currier of the **Texas Department of Transportation** and Mark A. Weisdorf, then Head of Real Assets at the **Canada Pension Plan Investment Board** (CPPIB), were the first to advance the notion that infrastructure might one day become a full-fledged "new asset class" for pension investors the world over. In Europe, similar research and advocacy efforts were conducted by Georg Inderst and Juan Yermo, **OECD**, and M. Nicolas J. Firzli, **World Pensions Council** (WPC) in the quarters leading up to the inaugural World Pensions Forum (WPF) held in Paris in December 2010[2].

In the last months of 2018, the World Pensions Council has witnessed a clear acceleration of the secular rise of infrastructure as a "new" asset class for pension investors, SWFs and other limited partners (LPs), an analysis corroborated by leading experts on Wall Street, Singapore and the City. Based on the Coller Capital Winter 2018 Barometer, David Jolly, Partner, **Coller Capital**, confirms that "over half of LPs are taking steps to position their portfolio ahead of a change in the economic cycle. In that context, investments in real assets, in particular real estate and renewable energy infrastructure, are finding favour."

Similarly, François Bergère, Executive Director, **Long-Term Infrastructure Investors Association** (LTIIA), shares a positive long-term outlook, but sounds a cautionary note regarding financial regulation in certain jurisdictions, which "can [also] affect the growth trend and direction of that market by its requirements […] Infrastructure investment in Europe [hasn't] yet caught up to its pre-2008 crisis level, and regulatory reforms and prudential approach focused on short-term risk and liquidity (like Solvency 2) may have resulted in unintended consequences, such as pro-cyclical effects and penalising LT investment."

CLEAN ENERGY AT COMPETITIVE COST

On December 18 2018, **New York City** Mayor de Blasio, Comptroller Stringer, and pension fund trustees (board members) for the influential **New York City Employees' Retirement System** (NYCERS) issued a formal request-for-proposal (RFP), seeking advisers to "analyze, evaluate, and recommend prudent fossil fuel divestment strategies" comprehensively, across all asset classes, which constitutes "an unprecedented process and the first-of-its-kind in the United States." Clearly, this is a major turning point, which happens to coincide with a micro-economic breakthrough on the other side of the Atlantic: in Western Europe, technological change, pension money and industrial ingenuity are reshaping energy markets.

As industry veteran Simon Eaves, Head of Clean Energy Infrastructure, Europe, **Capital Dynamics**, puts it: ▶

"renewable power infrastructure in specific parts of Europe can now, under the right management, compete directly with conventional fossil-fueled technology in providing a country's new power generation capacity. In addition, with increasingly stringent decarbonization targets being set in legislation across many European countries, the push for renewable generation has never been stronger […] The identification, construction, operation and financing of projects that deliver attractive risk-adjusted returns in this new landscape require specialized knowledge across many aspects of power market operation".

DIVERSIFICATION AND FINANCIAL INNOVATION

But institutional asset owners' thirst for infrastructure assets goes beyond clean energy and green finance, as it straddles both the debt and the equity side of the non-listed investment remit: "in Europe, insurers under Solvency II benefit of discounted capital cost when investing in 'qualified' infrastructure debt, making infrastructure even more attractive compared to other investment-grade fixed income strategies. With the persistently low interest rate environment, investors have been scrambling for additional yield […] [Contrary to other types of lending], we have not seen a fall in underwriting quality in infrastructure debt, and there is no reason to expect to see such a fall in the near future." says Charles Dupont, President, Schroder Aida, a Paris-based infrastructure finance investment company, part of **Schroders**.

Emerging Markets and Developing Economies (EMDEs), where the **World Bank** (WB) has "turn[ed] innovative ideas into thriving deals" for more than 70 years[3], also constitute an important field for the deployment of infrastructure-orientated capital. At the World Bank-led **Global Infrastructure Facility** (GIF) Advisory Council (AC) meeting held in Singapore on October 16 2018, Joaquim V. Levy, Chief Financial Officer & Managing Director, World Bank Group, and the many GIF AC members in attendance were delighted to hear **Singapore**'s Senior Minister of State Chee Hong Tat reconfirm his nation's commitment to the GIF: "for us, who benefited from the World Bank's support in the 1960s, it's also a way to give back to the global community." Earlier in the year (April 5 2018), Finance Minister Heng Swee Keat had announced that "Singapore can support infrastructure development throughout **ASEAN**: [We] will set up an **Infrastructure Office**, which we have named Infrastructure Asia [IA]. This office will harness the networks and collective capabilities of public sector agencies and private sector firms across the region to […] meet Asia's infrastructure needs", thus putting the city-state at the heart of the infrastructure-driven industrial revolution.

Financial innovation and co-investment, including blended finance, are playing an essential part in the development of the asset class. In that perspective, Thierry Déau, chairman and CEO of **Meridiam**, a global player investing in public infrastructure in Europe, North America and Africa, explains that e.g. "in Turkey, Meridiam, the **EBRD** and **MIGA**[4] (WBG) jointly structured a unique credit enhancement structure, enabling **Moody's** to assign a Baa2 rating (two notches above the rating of Turkey at the time) […] The IFC (WBG) and France's **Proparco** supported the bond as anchor investors, further mobilizing investors from Europe, Japan and China."

CHINA'S NEW SILK ROAD AND THE EURASIAN CONTINUUM

I, personally, was one of the first experts to argue that the New Silk Road ("La Nouvelle Route de la Soie") would transform the world economy, in a speech delivered at the École Nationale des Ponts et Chaussées (ENPC) in March 1995: back then, I was an MBA student at the HEC Paris School of Management, where Frédéric Dervieux and I co-founded the Conseil Économique Franco-Chinois (CEFC) with the backing notably of Jacques Chirac, then mayor of Paris, a Sinophile and Slavophile center-right policy maker, and Max Gallo, a distinguished Napoleonic historian and former Press Secretary under President Mitterrand – both firm believers in the notion of "Eurasian Renaissance."

Back then, China's economy was smaller than that of Canada, Spain and Italy... Fast forward today, China's GDP is nearly three times bigger than Japan's and the Belt and Road Initiative (BRI), Beijing's globe-spanning, trillion-dollar infrastructure investment initiative, has become one of the main geoeconomic forces of our time: from Vienna and Vilna to Vladivostok and Vancouver, Chinese civil engineers and investment bankers are busy building and financing new ports, airports, high-speed rail networks and gigantic logistical platforms, transforming the world economy in the process[5]. ■

(1) Gottfried, Miriam. "Investment in Infrastructure Is Booming." The Wall Street Journal, October 7, 2018. https://www.wsj.com/articles/investment-in-infrastructure-is-booming-despite-lack-of-progress-on-trumps-pledges-1538920801

(2) Bazi, Vincent, and M. Nicolas Firzli. "1st Edition of the World Pensions & Investments Forum held at the OECD." Revue Analyse Financiere 39 (2011): 7.

(3) https://www.worldbank.org/en/news/feature/2018/06/29/turning-innovative-ideas-into-thriving-deals

(4) EBRD: European Bank for Reconstruction and Development ; MIGA : Multilateral Investment Guarantee Agency.

(5) Firzli, M. Nicolas. "Chinese Revolution Could Lure Overseas Investment." Dow Jones Financial News, October 12, 2015. https://www.fnlondon.com/articles/chinese-revolution-could-lure-overseas-investment-nicholas-firzli-20151012