

Mr Jay Clayton  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549  
United States

Nice, September 21, 2017

Dear Chairman,

EDHEC Infrastructure Institute is a component of EDHEC Business School, a not-for-profit academic organisation that is one of the Tier 1 business schools worldwide.

As with every major academic institution, research is a core activity for EDHEC. Since 2005, the positioning of our research in finance has been to build a bridge between academic research results and the practices and questions of professionals.

As such, EDHEC has often participated in the public debate on regulatory questions, whether it be the relevance of taxes on financial transactions, the short selling ban or the regulation of final indices and ETFs.

More recently, in 2013, EDHEC participated actively in the calibration of capital requirements for infrastructure investment as part of the work of the European Insurance and Occupational Pensions Authority (EIOPA), by showing that these investments, due to their level of interest and especially due to their risk profile, deserved special treatment on the part of the regulator.

It is as part of this recognition of the specific characteristics of infrastructure that we approach you through this open letter that is intended to draw your attention, and that of investors, to the risks that investment in so-called 'listed infrastructure' can represent. To develop the arguments that are presented succinctly in this letter, we are publishing a new position paper, which you will find enclosed with this letter, summarising our research.

In this position paper, we document the dangerous rise of the so-called listed-infrastructure asset class, an ill-defined series of financial products initially targeting retail and increasingly institutional investors, which now represent close to a third of investors in such products.

Promising to deliver the benefits of an 'infrastructure investment narrative', listed infrastructure has been growing by 15% annually for a decade, reaching USD57bn of assets under management (AUM) today.

◆ LILLE	◆ NICE	◆ PARIS	◆ LONDON	◆ SINGAPORE
24 avenue Gustave Delory CS 50411 59057 Roubaix Cedex 1 France T +33(0)3 20 15 45 00 F +33(0)3 20 15 45 01	393 Promenade des Anglais BP 3116 06202 Nice Cedex 3 France T +33(0)4 93 18 99 66 F +33(0)4 93 83 08 10	16-18 rue du 4 Septembre 75002 Paris France T +33(0)1 53 32 76 30 F +33(0)1 53 32 76 31	10 Fleet Place, Ludgate London EC4M 7RB England T +44(0)207 871 6740 F +44(0)207 2482 209	1 George Street #07-02 Singapore 049145 T +65 64380030 F +65 64389891

But serious research shows that listed infrastructure is failing to deliver on its many promises and, in our view, the number of false claims made about listed infrastructure products is high enough to consider a case of mis-selling.

Our review of the marketing documentation for 144 listed infrastructure products representing 85% of the sector by AUM concludes that such products typically make near-identical claims compared to private infrastructure products.

In such a context of false promises – which echoes concerns expressed in the Risk Alert on Advertising published by the Office of Compliance Inspections and Examinations in the 14th of September 2017 (Volume VI, issue 6) about the mis-representation of certain investment characteristics – the growth of listed infrastructure products is problematic because of the damage that their proliferation will eventually do to proper infrastructure investing.

We also find that active listed infrastructure managers have invested in close to 1,900 different stocks over the past decade, many of which cannot possibly be considered to be ‘infrastructure’ under any definition.

In such a context of false promises, the growth of listed infrastructure products is problematic because of the damage that their proliferation will eventually do to proper infrastructure investing.

We believe in the potential of infrastructure debt and equity investment for asset owners. We also see no reason why – in principle – some of the products used to access the characteristics of underlying infrastructure assets could not be listed on public markets.

Today, however, a large number of listed infrastructure products that can be commercialised in the form of mutual funds, or even of exchange-traded funds, will disappoint. They are comparatively expensive compared to traditional funds and will leave investors without the promised low-risk, stable, inflation-linked returns that characterise the pay-offs of real infrastructure investment. As a result, these ‘fake’ infrastructure investment vehicles could give a bad name to infrastructure investing in general.

This ‘fake infra’ – as we call it – could reverse years of educating investors about the potential of infrastructure assets as sources of portfolio diversification and liability-hedging instruments.

As such, it may jeopardise the involvement of institutional investors in the next generation of public-private partnerships that underpins so much of the national infrastructure plans being put forward by most Organisation for Economic Co-operation and Development (OECD) governments.<sup>1</sup>

Listed infrastructure managers are not all equally responsible for the state of the sector described in this paper. Some have been involved in trying to create access to infrastructure businesses through listed products honestly and for a long time, but at

---

<sup>1</sup> Common listed infrastructure indices have a 20% tracking error with private infrastructure equity indices such as the ones published by EDHEC*infra* (BBG:EIPEE)

this stage it is impossible for investors to be able to tell the difference between these products, because they all have the same qualifiers.

As a result, we strongly recommend stricter regulatory oversight of these products including the obligation to include the word 'listed' in their name to avoid misleading investors, as well as the obligation to include information in marketing documents and information kits warning investors that listed infrastructure may not deliver the same performance as unlisted infrastructure investments.

These precautions will *de facto* be an incentive for investors to distinguish between the different forms of investment in infrastructure and to conduct in-depth due diligence with respect to the products that are offered to them.


With our thanks in advance for your attention to this letter,

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Noël Amenc', with a stylized flourish at the end.

Noël Amenc

Professor of Finance, Associate Dean for Business Development, EDHEC Business School

A handwritten signature in black ink, appearing to read 'Frédéric Blanc-Brude', written in a cursive style.

Frédéric Blanc-Brude

Director, EDHEC Infrastructure Institute

Encl. EDHEC Infrastructure Institute Position Paper: The Rise of "Fake Infra"