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New Zealand Super bids to build Auckland light rail network

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Bloomberg

New Zealand Super — an Auckland-based sovereign wealth fund and advocate for long-term approaches to investing — is moving to put its money, and more, where its mouth is.

The NZ\$38 billion (\$26.9 billion) fund, which established a team last year to make sizable direct investments domestically, said last week it will seek to lead a consortium to design, build and operate a planned NZ\$6 billion light rail system for the city of Auckland.

Danya Levy, spokeswoman for Transport Minister Phil Twyford, said the unsolicited New Zealand Super bid marked the first time, at least in recent memory, that a leading institutional investor has submitted a proposal to take on a big infrastructure project — perhaps because projects of the Auckland light rail system's scale have been few and far

between in the country.

The government has earmarked NZ\$1.8 billion for the project in its recently announced 10-year transportation plan, said Ms. Levy.

New Zealand Super's annual report for the fiscal year ended June 30, 2017, highlighted the importance of identifying opportunities large enough for its new direct investments team to profitably pursue.

On that score, Matt Whineray, NZ Super's acting chief executive, said in a May 9 news release his team considers the Auckland light rail network to be "of sufficient scale and significance to be an attractive prospect for investment."

Catherine Etheredge, a spokeswoman for New Zealand Super, noted the fund is restricted from having more than a 50% interest in any operating company.

The government's NZ\$1.8 billion in seed money leaves a NZ\$4.2 billion gap in funding to be filled by equity and debt. One industry observer, who declined to be named, said depending on how many investors join the consortium, NZ Super's investment in the project could come to around NZ\$1 billion. That would more than double the infrastructure allocation of roughly NZ\$760 million the fund reported as of March 31.

Ms. Etheredge said CDPQ Infra, the wholly owned subsidiary of the \$238.2 billion Caisse de depot et placement du Quebec, would partner with New Zealand Super in the bid to design, build and operate the light rail system.

The NZ Super news release said CDPQ Infra, which has the contract to develop, build and operate Montreal's 41.6-mile light rail network, brings needed experience and expertise to the consortium.

Ms. Etheredge declined to provide further details of NZ Super's proposal, noting competing bidders could use such information to their advantage.

Allocations to infrastructure surged in recent years, but most institutions still favor established, operating "brownfield" airports, highways and ports over "greenfield" projects carrying risk of construction cost overruns and delays.

Advocates calling on institutional investors to adopt longer-term approaches in managing their portfolios have said that preference for investing in existing infrastructure assets suggests a focus on short-term results.

New Zealand Super has lent its weight to forums focused on promoting and encouraging longer-term approaches to investing, including Focusing Capital on the Long Term, a Boston-based non-profit organization launched in 2013. NZ Super is one of FCLT's 36 member organizations.

Broader infrastructure role

Keith P. Ambachtsheer, president of KPA Advisor Services and director emeritus of the International Centre for Pension Management at the University of Toronto's Rotman School of Management, contends sophisticated investors will increasingly prove willing to take on broader project roles in pursuit of achieving attractive long-term returns from infrastructure projects.

Others, looking at asset owners shouldering the design and development of city train networks, see mostly outsized risks.

"It's the most concentrated bet they can possibly make," said Frederic Blanc-Brude, Singapore-based director of EDHEC Asia-Pacific and EDHEC Infrastructure Institute. It's like saying "forget about investing in a well-diversified stock portfolio. Just buy this one stock that we really like," he added.

Mr. Ambachtsheer, in an email, noted CDPQ has roughly \$2 billion of exposure to the Montreal transit project within a well-diversified \$300 billion portfolio.

If a project with the scale of Auckland's light rail network would lower the diversification of New Zealand Super's portfolio, the fund's investment team would look to compensate by raising the return target the investment needs to clear, said David Iverson, the fund's head of asset allocation, in an interview.

Mr. Ambachtsheer said another trade-off — in the "multidimensional" sphere of private market investment decisions — is the one between diversification and local market knowledge. For example, knowledge of local politics and how to navigate it are critical factors to the success of an infrastructure investment, he said.

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