



Co-Investment Options in Infrastructure

A GUIDE FOR INSTITUTIONAL INVESTORS

IN PARTNERSHIP WITH



Creating Markets, Creating Opportunities

About IFC

IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries.

In fiscal year 2021, IFC committed a record \$31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic.

For more information, visit www.ifc.org.

IFC's work in the Pacific region is guided by the Pacific Partnership. Australia, New Zealand, and IFC are working together through the partnership to stimulate private sector investment and reduce poverty in the Pacific.

Written by

Please cite the work as follows: Ekaterina Gratcheva, Aaron Levine, Jonathan Mirrlees-Black, Benjamin Osenius-Eite, Mark Brennan. 2021. "Co-Investment Options in Infrastructure: A Guide for Institutional Investors", IFC Publication. Washington DC. World Bank.

Acknowledgements

The authors would like to thank the following colleagues for their valuable input: Jenni Henderson for her substantive inputs and editorial leadership, our peer reviewers, Mark Davis, Marc Mezey and Bilal Aslam, and support from Anderson Silva, Paramita Dasgupta and Fiona Stewart.

Disclaimer

The findings, interpretations, views, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the Executive Directors of IFC or of the World Bank or the governments they represent. While IFC believes that the information provided is accurate, the information is provided on a strictly "as-is" basis, without assurance or representation of any kind. IFC may not require all or any of the described practices in its own investments, and in its sole discretion may not agree to finance or assist companies or projects that adhere to those practices. Any such practices or proposed practices would be evaluated by IFC on a case-by-case basis with due regard for the particular circumstances of the project.

© International Finance Corporation 2021. All rights reserved. The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law.

Cover photo: Solar Infrastructure. Photo by Jeremy Bishop on Unsplash, <https://unsplash.com/photos/Ilpf2eUPpUE>

Foreword

Across the Pacific, investment fund members of the Pacific Islands Investment Forum (PIIF) play critical roles in financial systems. They strive for the best returns for their investors and their performance is of paramount importance to livelihoods and wellbeing of people across the region.

Our members have an important shared objective: to channel their capital within the Pacific region, enabling economic development opportunities for member countries, in the spirit of improving regional collaboration.



We know that investments in industries, services and infrastructure across the Pacific represent a huge opportunity for our members. But around the world and in the Pacific, there are significant barriers to cross border investments directly into assets in emerging economies. Investors need to find structures that meet regulatory and operational requirements, and they also often contend with skills shortages in originating, preparing, and executing such investments. In the Pacific we also contend with constraints including undeveloped domestic financial markets and limited access to non-sovereign global capital.

As a regional network of 18 provident, superannuation, trust and sovereign wealth funds from 12 countries with approximately USD\$8 billion under management, our vision at PIIF is to promote economic prosperity through financial stability in the Pacific. Formalized in 2018, PIIF facilitates collaboration, educational programs, and co-investments in the Pacific, seeking to promote the free flow of capital in pursuit of long-term Pacific economic prosperity.

Working with the support of the International Finance Corporation (IFC), we are developing a co-investment function to put long-term capital directly into attractive investments such as infrastructure. This is intended to enable our members to access high quality cross border investments in the Pacific that previously would have been out of reach for most.

By creating a co-investment function, PIIF will be an important facilitator of reviewing investment opportunities for member countries and helping determine which should progress under the PIIF's commercial investment criteria. It will help PIIF members to efficiently allocate capital, use industry expertise to manage direct investments and confer key benefits of portfolio management, such as: reduction in concentration risk and diversification of assets and economies. This smart allocation of capital and reduction of risk would provide flow on stabilization benefits to the broader financial sectors of Pacific countries.

This Guide, which draws on the analysis done by IFC for PIIF, identifies six co-investment options building on successful global case studies, weighing up several elements including level of control by investors, flexibility, and barriers to setting them up. As well as explaining the merits of different models, the guide details factors that facilitate success.

Our overarching objective at PIIF is to improve investment outcomes for the stakeholders of our Member Funds: pension members and contributors, investors, and governments. We encourage other investors looking to co-invest in emerging economies to be guided by these options, in the same way our members are doing to select the best way forward for the Pacific.

A handwritten signature in black ink, appearing to be 'PS' or similar initials.

Pauli Prince Suhren
PIIF Chairman and Samoa National Provident Fund CEO

Foreword

Pacific nations face many challenges in the delivery of essential infrastructure in sectors such as sustainable energy, health, transport, logistics and telecommunications. Among them are some of the smallest independent states in the world, which lack the economies of scale. Scattered across 16,000 kilometers of ocean, the Pacific is also remote.

It's estimated that from 2016 through to 2030, US\$46 billion in investment is needed to overcome the region's infrastructure deficit. There is a clear need for capital as well as a steady stream of opportunities; governments around the region have faced hurdles in attracting the funds needed to finance infrastructure, with most of having come in the form of subsidized debt and grants from donor agencies and sovereigns, all of which have their own limitations, even more so now in the wake of increased fiscal constraints due to COVID-19.

A regional network of provident, superannuation, trust and sovereign wealth funds—all members of the Pacific Islands Investment Forum (PIIF)—is now seeking to overcome this massive infrastructure gap. Importantly, the livelihoods of the millions of people around the region are at the heart of the PIIF's strategy which targets good returns while ensuring sustainable development of member states. It will do this by exploring the best way to enable its members to co-invest, making cross-border investments together across the Pacific in industries, services and important projects that deliver economic gains and benefit the people. This approach makes sense.

International Finance Corporation (IFC)—the largest global development institution focused on the private sector in emerging markets—is pleased to support PIIF as it works to facilitate Pacific cross border investment. Our assistance to PIIF is supported by the Pacific Partnership, through which the governments of Australia, New Zealand and IFC work to stimulate the private sector and reduce poverty.

This carefully curated set of case studies, a product of our technical support to PIIF, comes at a time that our work to mobilize long-term private capital is even more critical. Amid the global shock caused by the COVID-19 pandemic, there has been a heavy human toll and deep economic impact on the Pacific region. Addressing the need for better infrastructure and helping to stimulate a sustainable economic recovery, supporting jobs, investments and livelihoods, is crucial to helping people across the region overcome these unprecedented setbacks.

This guide draws on global examples from a variety of sources, including IFC's Managed Co-Lending Portfolio Program, detailing different ways long-term investors make collaboration and mobilization work in the international investment landscape. Once a platform is in place, it could facilitate new investment opportunities. For instance, a co-investment approach might enable greater uptake of Public-Private Partnership (PPP) investments across the Pacific, further leveraging the benefits of the private sector.

We also see many opportunities in the Pacific for investments that help combat climate change while conferring developmental and investment benefits. Pacific nations are among those most at threat from harmful climate change. The co-investment model being adopted by PIIF looms as a conduit for facilitating sustainable investment in climate-smart infrastructure and as an opportunity to crowd investors into green solutions.

We intend for this guide to serve as a useful and structured starting point for other institutional investors and their advisers as they review various co-investment options. We aim for it to facilitate significant, valuable cross border investments, driving climate-smart developmental and economic growth in the Pacific.



A handwritten signature in black ink, appearing to read 'Thomas J. Jacobs'.

Thomas J. Jacobs

IFC Country Manager for Australia, New Zealand, Papua New Guinea and the Pacific Islands



Caption: Vanuatu, bank workers (Source: IFC)

Contents

Acknowledgements	III
Forewords	IV
Executive Summary	VIII
1. Introduction	3
2. Options	6
2.1 Options for co-investment	6
2.2 Investment platform or vehicle	7
3. Co-Investment approaches	9
3.1 What are the member objectives?	9
3.2 Pooling of funds: fund manager-led or investor-led	10
3.3 Agreeing Functions for Success	12
3.4 Key drivers of Platform Choices	13
4. Case Study Structures for Co-investment	16
4.1 Option 1: Information/Collaboration Platform	17
4.2 Option 2: Co-investment platform	18
4.3 Option 3: Joint-owned fund manager	20
4.4 Option 4: Specific investment instrument	22
4.5 Option 5: Appoint independent fund manager	24
4.6 Option 6: Listed company	26
4.7 Options Compared	28
5. Further case study findings	30
5.1 Objectives	30
5.2 Investment strategy	31
5.3 Regulatory Factors	33
5.4 Effectiveness	34
5.5 Enablers for Success	34
Summary Guidance	36



Caption: Kiribati, Coast line aerial (Source: <https://earthview.withgoogle.com>)

Executive Summary

The global shock caused by the COVID-19 pandemic has only deepened the need to mobilize long term private capital to meet multi trillion-dollar infrastructure gaps, and to stimulate a sustainable economic recovery to support jobs, investment, and livelihoods of people in emerging economies. Persistent low interest rates are making the 'chase for yield' that much more difficult for investors, paving the way towards an increasing focus on direct investing. Significant wealth sits with institutional investors, including pension, sovereign wealth, mutual funds, and insurance companies, but deploying that wealth across borders in direct infrastructure investments, particularly in emerging economies, faces significant barriers. These include the availability of structures meeting investors' regulatory and operational requirements, as well as a shortage of the skills required to originate, prepare, and execute direct investments.

We are now witnessing the emergence of groupings of institutional investors globally looking for solutions to these challenges by collaborating and pooling resources and expertise to channel their capital towards direct investing opportunities. One example in the Pacific region—the Pacific Islands Investment Forum (PIIF)—is an association of investment funds including provident, superannuation, sovereign, and trust funds. The International Finance Corporation (IFC) is supporting members of PIIF to explore co-investment opportunities for funds to invest in other countries' industries, services, and infrastructure across the Pacific. An initial step in that support has been to distil relevant lessons from effective global practices for the Pacific context through an analysis of different approaches to collaboration among long-term investors in the international investment landscape.

Drawing from successful global examples, and informed by IFC's engagement with the Pacific funds, this note presents and weighs the relative merits of six different co-investment options, supported by practical case studies, with each option covering a broad spectrum of investment approaches to fit different investor preferences and circumstances. These case studies can serve as a starting point to guide other institutional investors and their advisers who are considering co-investment.

Options for Co-investment

We identified six different investment approaches through which investors collaborate to make infrastructure investments (a) an information/collaboration platform, (b) a co-investment platform, (c) a joint-owned fund manager, (d) a specific investment instrument, (e) appointment of an independent fund manager and (f) a listed company. Generally, the earlier approaches favour flexibility and a higher degree of member control. The latter options present higher barriers to establishment and greater internal capability in the structure.

Enablers for Success

Whichever investment approach is chosen, there are key enablers for success in co-investing.

A motivated organisation is often the key driver, facilitating the establishment of the platform, persuading members to participate, and ensuring support from relevant stakeholders.

An **established** network with strong relationships between potential members prior to creating a formal platform.

Funding to support a platform prior to making the first investment, including organising meetings and coordinating members. Members need to be willing to incur these costs.

Flexibility to evolve over time. This can include adding or removing members, changing where functions are carried out or launching new investment vehicles to better align with evolving members' needs or market environment.

A source of **capability** drawn from members, established in the platform itself or acquired from external advisors.

A solid **investment pipeline** so that capital can be put to work.

Settling on the most effective **number of partners**. The larger the number of partners, the harder it will be to align their interests and the more costly it will be to coordinate their actions.

Appropriate **legal and corporate structures** for operational management, tax obligations, and compliance.

1



Caption: Papua New Guinea, Construction workers (Source: IFC)

1. Introduction

Domestic institutional investors in emerging economies often play key roles not only for social protection, but as a significant participant in their nations' financial sectors and as long-term investors in both public and private sector projects. In most emerging market contexts, the scale and influence of many of these funds lead them to experience constraints within their own market where appropriate investment opportunities are limited, resulting in an increased concentration risk to the domestic market.

We are now witnessing the emergence of groupings of institutional investors globally, particularly pension funds, who are looking for solutions to collaborate so they can pool financial resources and expertise to channel their capital towards direct investing and accessing cross-border investment opportunities. This guide is the product of IFC technical support to an association of provident, superannuation, sovereign, and trust funds, the Pacific Islands Investment Forum (PIIF), seeking co-investment options for direct infrastructure investments.⁽¹⁾ As illustrated in Box 1, the Pacific funds operate in an environment characterised by strong sovereign allegiances, constraints on cross-border capital flows, undeveloped domestic financial markets and limited access to non-sovereign global capital, lack of availability of adequately trained staff, and often being integral to their respective governments' development objectives being the largest source of national capital.

Box 1. Pacific Island States—Heterogeneous Group of Small States and Territories



While many of the PIIF funds have some exposure to offshore public asset classes for diversification purposes, they share a common objective to channel their capital within the Pacific region to enable economic development opportunities for their own member countries and in the spirit of improving regional collaboration.

This note draws on the analysis done by IFC for PIIF by identifying six different co-investment options to represent a range of investment preferences and circumstances. These case studies drew on publicly available information and interviews with practitioners involved in their establishment and operation. Each option considers the level of control by investors, the level of capability, their flexibility, and barriers to their establishment. They each build on successful global case studies from both emerging and developed market contexts. This note aims to serve as a useful, structured starting point to guide other institutional investors and their advisers as they consider various co-investment options.

1 The International Finance Corporation (IFC) is supporting members of PIIF to explore co-investment opportunities for funds to invest in other countries' industries, services, and infrastructure across the Pacific.

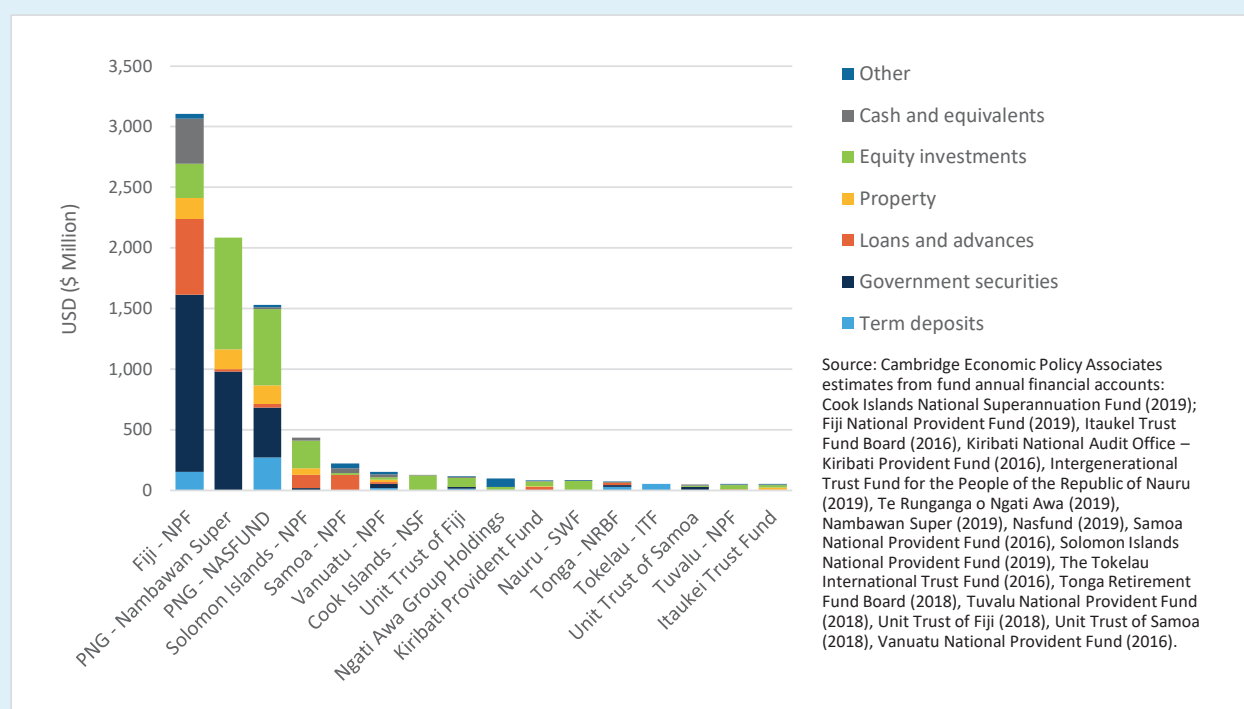
Box 2: The PIIF—Pacific Funds seeking regional co-investment opportunities

With the geographic sparseness and lack of scale of the Pacific region, there are numerous challenges in the delivery of essential infrastructure such as telecommunications, transport, sustainable energy, financial services, health, and water. Pacific governments also have limited scope to attract private investment capital to fund this infrastructure, instead depending on subsidized debt and grants from donor agencies and sovereigns as their main funding mechanism.

Pacific nations have had the foresight to develop various pension-type funds such as provident, pension and sovereign wealth funds as a mechanism to build a financial platform for the post-work years of the working population. With the collection of member contributions over an extended period, many of these funds have reached relative scale and significantly influence the financial systems of each of the Pacific nations, with pension assets ranging between 30% and 70% of their countries' GDPs, and sovereign funds between two to four times their respective GDPs in the case of Tuvalu and Kiribati. These nations have undeveloped capital markets, a limited domestic investment opportunity set, and are vulnerable to external shocks (particularly climate change.) The economic purposes of these funds can include macro-stabilisation, intergenerational wealth transfer, pension reserves and economic development, with some funds pursuing multiple objectives.

The Pacific Islands Investment Forum (PIIF) was established to provide an opportunity for dialogue and support for investment and co-investment by funds around the Pacific. There are currently 18 PIIF members from 12 countries with approximately USD\$8 billion under management. The size of these funds relative to the GDP of the countries that host them varies considerably, for example Tokelau's International Trust Fund's assets are many multiples of annual GDP, while PNG's Nambawan Super is approximately 8% of GDP. While the value of assets under management may be small compared to other countries' sovereign funds, in the Pacific, these are often the largest single asset owner and investor. Figure 1.1 presents investment portfolios of PIIF members.

Figure 1.1: PIIF members investment portfolio



2



Caption: Vanuatu, Port Vila, Rooftop solar installations (Source: IFC)

2. Options

Institutional investors have many options for collaboration and co-investment. This chapter provides an overview of six different platform approaches.

2.1 Options for co-investment

An investment platform is a framework through which investors collaborate to make investments. We present six different investment approaches that have been successful in delivering on their overall objectives:



Option 1: Information/collaboration platform. This is a loose arrangement, in which investors would share information about investment opportunities and related matters, but with limited formal cooperation.



The current **Pacific Islands Investment Forum (PIIF)** collaboration.



Option 2: Co-investment platform. Here, a platform would coordinate investigation of tangible investment opportunities and facilitate investment. Some activities would be undertaken through advisors to the platform.



The **Pension Infrastructure Platform (PiP)**, a UK co-investment platform founded in 2012 to enable UK pension schemes of various sizes to invest in UK infrastructure; <https://pipfunds.co.uk/>.



The **Caribbean Investment Facility (CIF)**, an EU sponsored regional blending facility established to leverage additional investments from European and regional development finance institutions and the private sector to make investments in the Caribbean; <https://www.eu-cif.eu/en/about-cif>.



Option 3: Joint-owned fund manager. An entity would be established in which all relevant investors would have an ownership stake. The entity would take an active role in the development and management of investment products with a permanent staff able to deliver most investment functions.



Industry Funds Management (IFM), an Australian co-investment platform for industry superfunds which evolved over the last 30 years to become a significant co-owned fund manager; <https://www.ifminvestors.com/>.



Option 4: Specific investment instrument. A trust, partnership, or private company would be established which would be the main entity through which investors would organise collaboration of investment activity. This would need to have a significant internal investment capability.

PINAI

The Philippine Investment Alliance for Infrastructure (PINAI), a 10-year closed-end unlisted fund established in 2012 allowing four co-investors to make equity and equity-linked investments in core infrastructure assets in the Philippines.



Option 5: Appointment of an independent fund manager. Like option 3, this organisation would undertake many investment functions. However, it would only need to supply services when required, potentially allowing lower ongoing costs.



H.R.L Morrison & Co, a New Zealand based investment fund manager that acts as a platform for investors, such as sovereign wealth funds, to invest primarily in infrastructure in developed markets.



Option 6: A listed company. Investors would own shares in this company, which would undertake a full range of investment activities to meet the objectives of its shareholders.



Elia, a Belgian transmission operator that has several different municipalities as shareholders, which provide Elia with financing for transactions and investments.

2.2 Investment platform or vehicle

It is helpful to distinguish between investment **platforms**, which are used by members to collaborate, and investment **vehicles**, which are the legal entities used to hold investments. Investment vehicles can be companies, partnerships, or trusts, with a variety of holding structures and varying relationships between investors and the entity. An investment platform may establish or facilitate the establishment of several investment vehicles.

In practice there is sometimes an overlap between platforms and vehicles. An investment vehicle might only hold a single asset. However, an investment vehicle may also be used by its owners/ investors as the mechanism that produces collaboration, being both the vehicle and a platform.

Our case studies provide examples of both, where the functions of a platform are separate from investment vehicles and where they are combined. If the platform is separate from the vehicle this can provide more flexibility to members in collaborating through the establishment of alternative investment vehicles. We refer to options 1 and 2 specifically as “platforms” because of these entities’ primary emphasis on member coordination for co-investment that is distinct from the investment vehicles which are or may be established under it. However, in some sections of this paper we use the term “platform” when referencing the particular part of all six co-investment options that facilitates members collaboration in relation to investment activities.

3



Caption: Solomon Islands, Sol Tuna production (Source: IFC)

3. Co-Investment approaches

This chapter outlines key parameters for investors to consider when determining which approach to co-investment is right for them.

3.1 What are the member objectives?

Key guidance: *As a starting point there must be member agreement on the core objectives. This will then shape the structural decision for what co-investment approach is most appropriate to meet these objectives, its functions, and how it relates to the unique operating context and market it sits within.*

A wide range of different co-investment approaches have been used by investors, demonstrating that a range of forms can be successful. However, the specific forms for co-investment are driven by what members want to achieve. This means the definition of success varies for each approach:

- **Buy and hold for asset-liabilities management:** The collaboration of funds in the UK's PIP (an example of Option 2 – Co-investment Platform) has facilitated investment by its members and other investors through several different vehicles in a portfolio of infrastructure assets, mostly with inflation-linked returns or providing an essential service. The funds follow a “buy and hold” strategy, delivering long-term cash flows which reflect the liabilities of the pension scheme members.
- **Crowding in through blended finance:** The Caribbean Investment Facility (an example of Option 2– Co-investment Platform) set out to create opportunities for co-investment in Caribbean infrastructure, mainly through concessional financing. It has contributed €128m of funds, facilitating investments of €1.13bn.
- **Managing cost:** IFM in Australia has a 30-year history and is now an investor-led fund manager (an example of Option 3- Joint-owned fund manager). It now has over A\$150bn under management dominated by infrastructure but includes other asset classes. These are managed at a lower cost than industry private equity managers.
- **Meet infrastructure development objectives:** PINAI (Option 4 – Specific Investment Instrument) brought together four partners to make substantial investments in infrastructure projects in the Philippines. While investment returns are not public, industry sources indicate returns have been attractive and targets met. The fund has also contributed to the development of a secondary market in infrastructure assets, supporting development objectives to develop domestic capital markets and the private equity sector.
- **Long-term thematic focused infrastructure:** HRL Morrison & Co (Option 5 – Independent Fund Manager) has acted as investment advisor for leading government sponsored funds in infrastructure and related businesses. Publicly disclosed investment returns on its assets over long periods have been attractive, its funds under management have grown to A\$15bn, and investors continue to use the firm as an investment partner for this class of assets.
- **Operational control in a single sector:** Elia (Option 6 – Listed Company) has a specialised structure that allows municipal institutions in Belgium to control the listed company, bringing in outside capital and supporting growth outside its initial core operations in Belgium.

We conclude from our analysis that each type of approach can allow participants to meet member's objectives, and the case studies show that they allow for co-investment and can achieve this with a relatively low fee/cost structure. Hence, member's objectives sit over and above each platform option; the same structure might not suit different investor groups and their different goals. Additionally, it is worth noting that the co-investment approach should be influenced by the participating funds' investment mandates explicitly defining whether the funds are pursuing purely commercial or also developmental objectives, requiring all members to be aligned at the early stage of the design process.

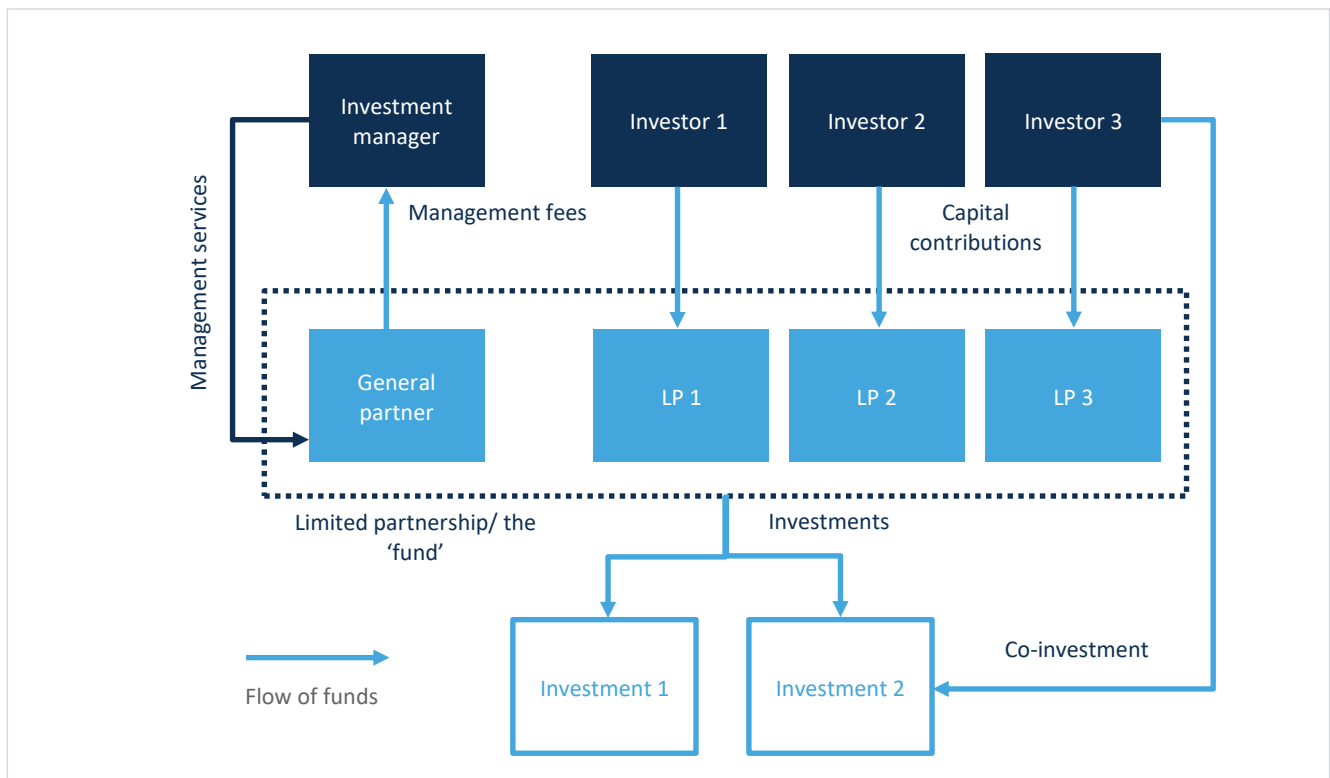
3.2 Pooling of funds: fund manager-led or investor-led

Key guidance: Pooling of investor funds is typically arranged either as fund manager-led or investor-led. Under the former, a limited partnership is the most common vehicle. It allows parties to commit funds, acting as limited partners (LP), while an investment manager controls the fund as general partner (GP). The investor-led model allows parties to pool funds as partner investors rather than relying on a fund manager. It can be preferred when investors desire to exercise more control over investment strategy and decisions.

Globally the pooling of investor funds is common. A substantial proportion of pooled funds are **fund manager led**. A common model for pooling investments (especially private equity) and a good place to start when considering pooling funds under a fund manager-led model is the **limited partnership**. In this model an investment manager acts as a **general partner** (GP) and the other parties act as **limited partners** (LPs).

The GP controls the fund while the LPs commit capital. The figure below provides an overview. In some cases, investors have been able to negotiate co-investment rights. These rights allow an investor to make a direct investment in addition to their investment through the fund. The overall GP-LP model allows investors to pool capital while the investment manager earns a fee for providing this opportunity.⁽²⁾

Figure 3.1: Traditional GP-LP investment model—fund manager led



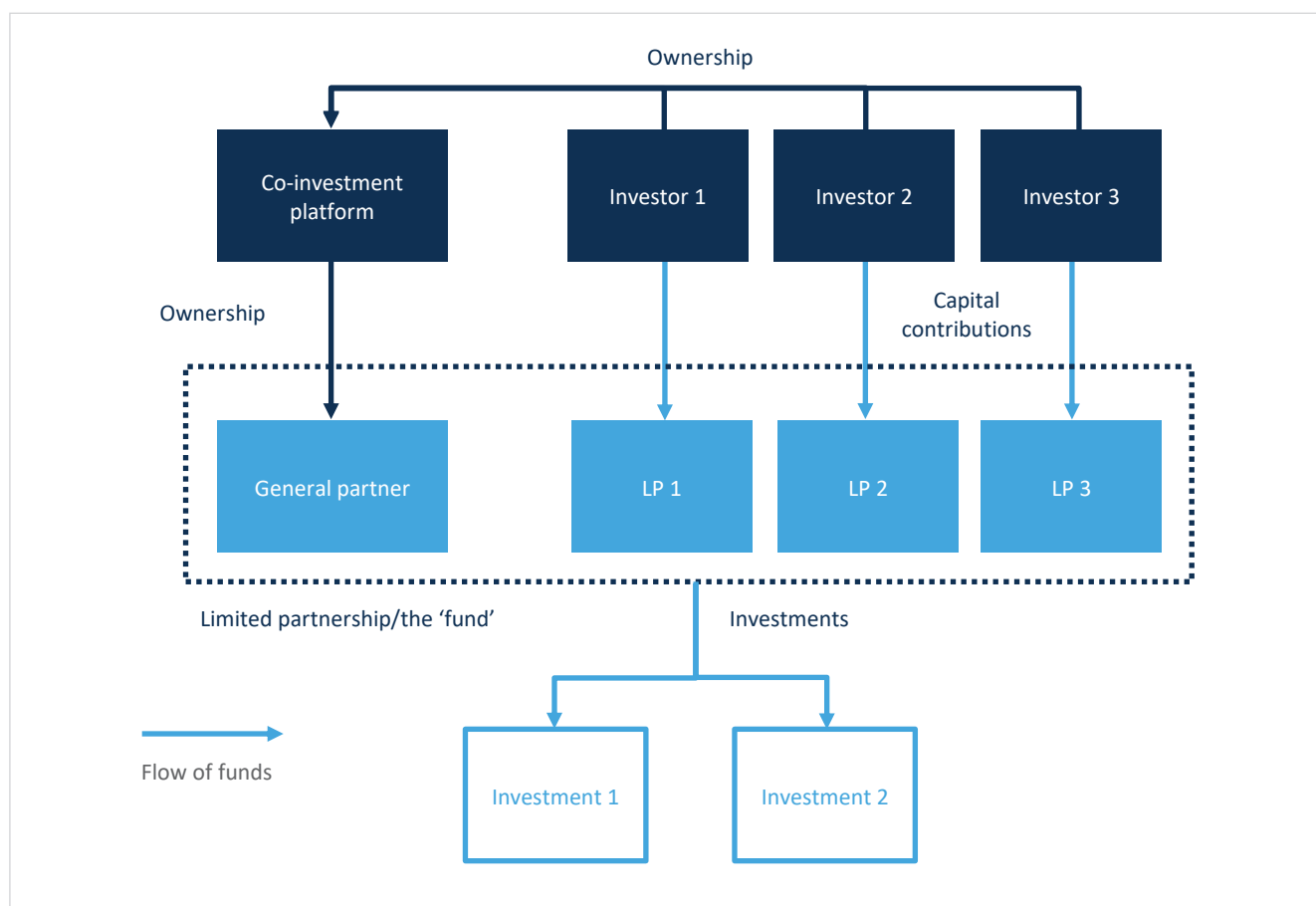
Source: Adapted from Monk et al (2017)

2 The typical economics of this structure follow the 2 and 20 rule. This refers to a management fee of 2% of the assets under management, to compensate the fund GP for their work establishing and running the fund, and the 20% refers to their incentive or 'carried interest', which is charged on profits achieved from the fund itself that exceed a certain pre-agreed level.

An alternative to the fund manager led model is an **investor-led** model. These investor-led models are relevant for funds to consider as large investors wishing to pool their funds; and specifically, when they desire to exercise **more control** over investment strategy and decisions. There are advantages and disadvantages to taking the lead and attempting to pool capital as partner investors rather than relying on a fund manager. The case studies we examined outline some of the ways in which this has been done successfully elsewhere in the world.

Under the investor-led model, the co-investment platform is separate from the investment vehicle itself. In the traditional GP-LP model, the platform consists of the investment manager, their relationships with investors, and a set of contractual agreements. The investment vehicle in an investor-led model is the limited partnership often established with specific and sometimes time limited objectives. The figure below demonstrates an example of a formal arrangement for co-investment led by investors. A company has been established to act as the co-investment platform, but a limited partnership is still used as the investment vehicle. It is possible for a co-investment platform to have several investment vehicles.

Figure 3.2: Co-investment platform (corporate structure)—investor led



Source: Adapted from Monk et al (2017)

3.3 Agreeing Functions for Success

Key guidance: *When deciding on the form of the platform, members need to decide who carries out key functions—strategy, due diligence, investment decisions, asset management etc.— and whether they are delegated to another party. As a platform matures it may be able to perform more of these functions in house.*

For an investment to be successful several functions need to be carried out which are outlined in the figure below. One of the distinguishing factors between the six options is the allocation of responsibility for these functions. When deciding how the co-investment will operate, members will need to agree which functions will be run in house or externally, considering the expertise and resources available to them. Over time, once the skills are developed outsourced functions could be brought back in house. This was a common theme in the case studies.

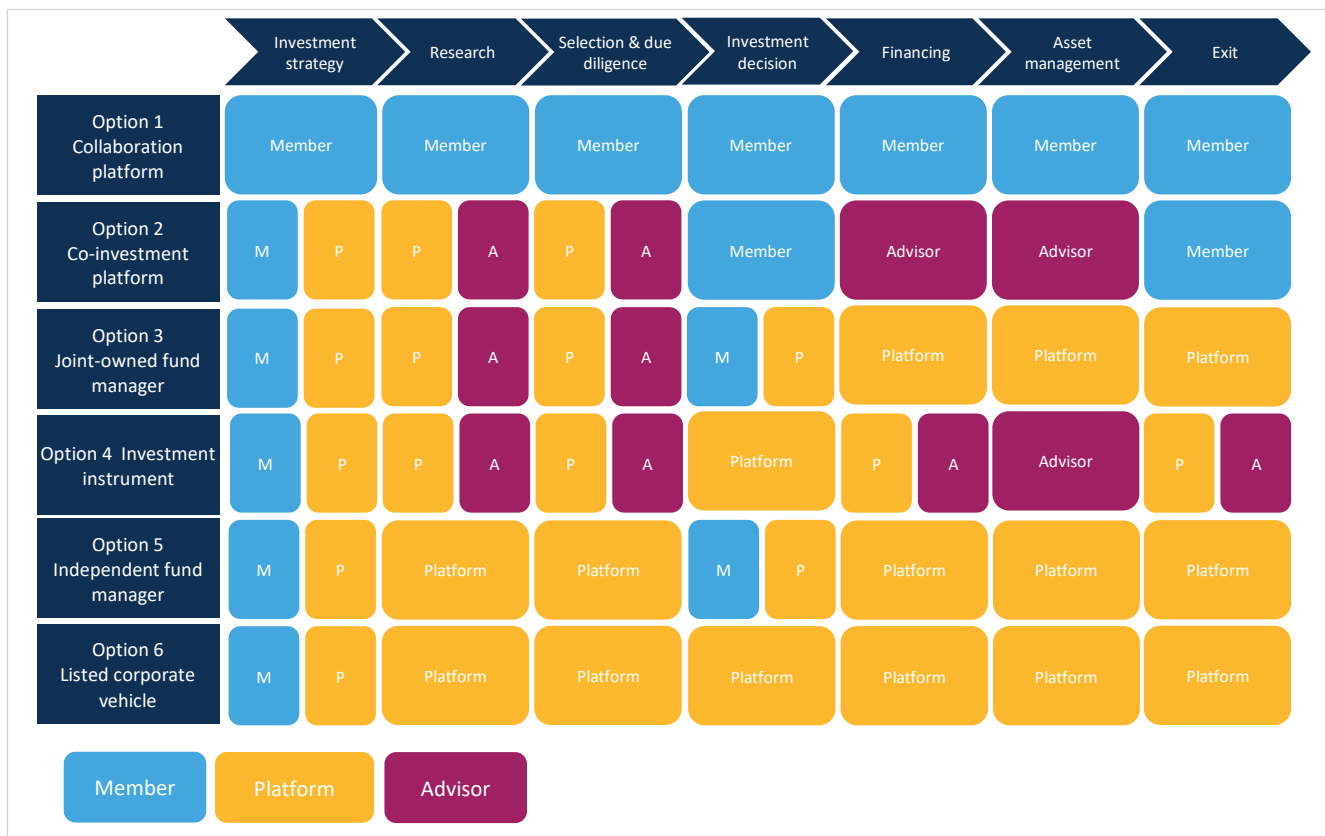
The role of external advisors varies between the co-investment options presented in Figure 3.3 depending on the level of capability of the part of the structure that facilitates co-investment collaboration: a platform with only a board and no staff will be unable to carry out most of the functions without external assistance.

In general, a platform can obtain capability by:

- Building its own team, which is likely to require investment by members.
- Hiring external advisors, such as asset managers, to undertake these functions.
- Utilising the staff and expertise available from members. This could take the form of secondments or contractual provisions between the platform and members.

The case studies discussed in the following chapters provide a variety of examples for sourcing this capability.

Figure 3.3: Allocation of investment functions by option



Source: CEPA analysis, investment functions from WEO (2014)

3.4 Key drivers of Platform Choices

Key guidance: Control, capability, flexibility, and barriers to establishment (including costs) are key drivers of platform choices. An assessment of these drivers can guide members towards their preferred options, as demonstrated by the case studies. The relative weighting, or importance, that investors place each of these drivers given their overarching goals and objectives will influence the decisions they make for collaboration.

There are key questions which can guide members towards their preferred options as demonstrated by the case studies.



Control

- The level and type of control over platform decisions.
- Direct member control or some control is delegated to the platform or its advisors.



Capability

- The ability of the platform to undertake key investment functions.
- Which investment functions are performed by members versus the platform.



Flexibility

- Flexibility to decide to participate in investment opportunities offered by the platform.
- Flexibility for the investment strategy to change over time.



Barriers to establishment

- Cost of establishment which might be **incurred upfront** or require an **ongoing commitment**.
- Establishment or procurement of capacity.
- Negotiation of terms in advance between members.

How much control do members wish to retain? The level and type of control that members have over decisions influences the option choice. In some structures, members may have direct control, in others, control may be delegated to the platform or advisors, with members having influence.

- **How flexible do members want to be in their ongoing participation?** The flexibility for members to decide how they participate in particular investment opportunities will influence member choices. In specific investment vehicles, for example, shareholder structures may provide limited flexibility for members to decide investment exposures, whereas other platforms may allow the investment strategy of members to evolve.
- **Which capabilities are outsourced, and which are retained in-house?** The capability of the platform to undertake the key functions of an investment process influences the member choices. Platforms may undertake certain activities, allow members to retain such activities, or rely on external advisors to undertake the required investment functions.
- **What level of resources are members prepared to commit?** Members need to assess the barriers to establishing a particular type of platform, reflecting cost, availability of resources, and the need for members to reach agreement on detailed implementation matters. Costs might be incurred upfront or require ongoing commitment by members to fund platform functions until it can support itself.

The table below sets out our assessment of each option against these characteristics.

Table 1: Key differentiating factors between platforms

	 CONTROL	 FLEXIBILITY	 CAPABILITY REQUIREMENT	 BARRIERS TO ESTABLISHMENT
 Option 1 Collaboration platform	 High	 High	 Low	 Low
 Option 2 Co-investment platform	 High	 High	 Low/medium	 Low/medium
 Option 3 Jointly owned fund manager	 Medium	 Medium	 High	 High
 Option 4 Specific investment instrument	 Low	 Low	 High	 Medium/high
 Option 5 Independent fund manager	 Low	 Low	 Low	 Medium
 Option 6 Listed company	 Low	 Low	 High	 High

In addition, providing a **lower service fee** than is typically available in the market was a key driver for many of the members of the platforms we examined. Specifically, seeking an option that charged lower fees than the typical managed private equity fund, which charges a standard 2% of assets under management and a 20% incentive based carried interest on profits made above a certain profit threshold. We found evidence that IFM has low fees compared to typical managed private equity funds charging between 0.5% - 0.6%; PiP is similarly charging around 0.5%.

4



Caption: Fiji, Vanua Levu Town of Savusavu, Bridge under construction (Source: IFC)

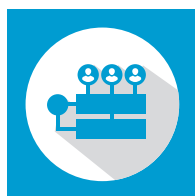
4. Case Study Structures for Co-investment

This chapter outlines specific structural and governance approaches for institutional investors looking at co-investment options.

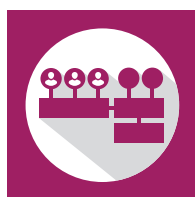
There are numerous combinations and examples of co-investment platforms and structures globally. Six successful case studies⁽³⁾ were selected which cover the broad spectrum of options.



Option 1: Information/collaboration. This is a loose arrangement, in which investors would share information about investment opportunities and related matters, but with limited cooperation.



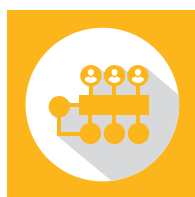
Option 2: Co-investment platform. The platform would coordinate investigation of tangible investment opportunities and facilitate investment. Some activities would be undertaken through advisors to the platform.



Option 3: Joint-owned fund manager. An entity would be established in which all relevant investors would have an ownership stake. The entity would take an active role in the development and management of investment products and would be staffed to deliver.



Option 4: Specific investment instrument. A trust, partnership, or private company would be established which would be the main entity through which investors would organise collaboration of investment activity. This would need to have a significant internal investment capability.



Option 5: Appointment of an independent fund manager. Like option 3, this organisation would undertake many investment functions. However, it would only need to supply services when required, and charge lower fees accordingly.



Option 6: A listed company. Investors would own shares in this company, which would undertake a full range of investment activities to meet the objectives of its shareholders.

3 To identify case studies, we undertook a review of global investment platforms using examples from previous IFC work, a focused literature review, and the authors' knowledge and experience. The final list of case studies was drawn from a long list, and were chosen on the basis of their level of success, and their applicability to the Pacific Islands context.



4.1 Option 1: Information/Collaboration Platform

Case study: PIIF in its current form

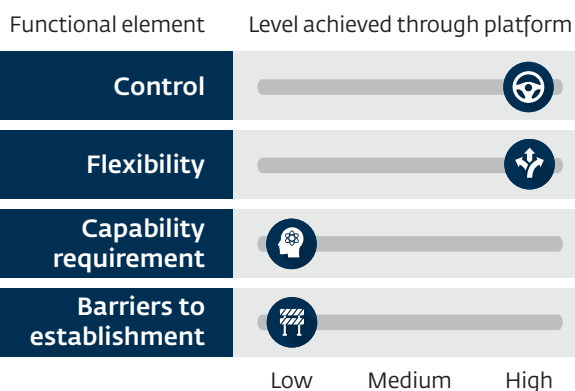
Option 1 represents a less formal platform than the other options. We consider that PIIF in its current form would represent option 1. We have not undertaken a specific case study for this option, though successful examples of this option exist.

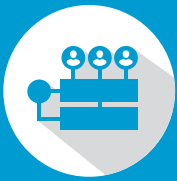
These include Mobilising Institutional Investors to Develop Africa's Infrastructure (MiDA) and the Long-Term Investors Club (LTIC). These examples highlight that an option 1 platform can successfully support co-investment. For example, LTIC members went on to launch a separate formal co-investment platform (Maguerite).

The key features of this option are:

- The platform does not necessarily have a formal legal form (for example a company).
- The platform is used by members for collaboration.
- The platform takes on none of the investment functions and has no capacity to assign these functions elsewhere.
- Unlike the other options this option does not have an explicit commitment mechanism. Members do not explicitly agree to undertake investment activities.

Structural Differentiating Factors—Option 1





4.2 Option 2: Co-investment platform

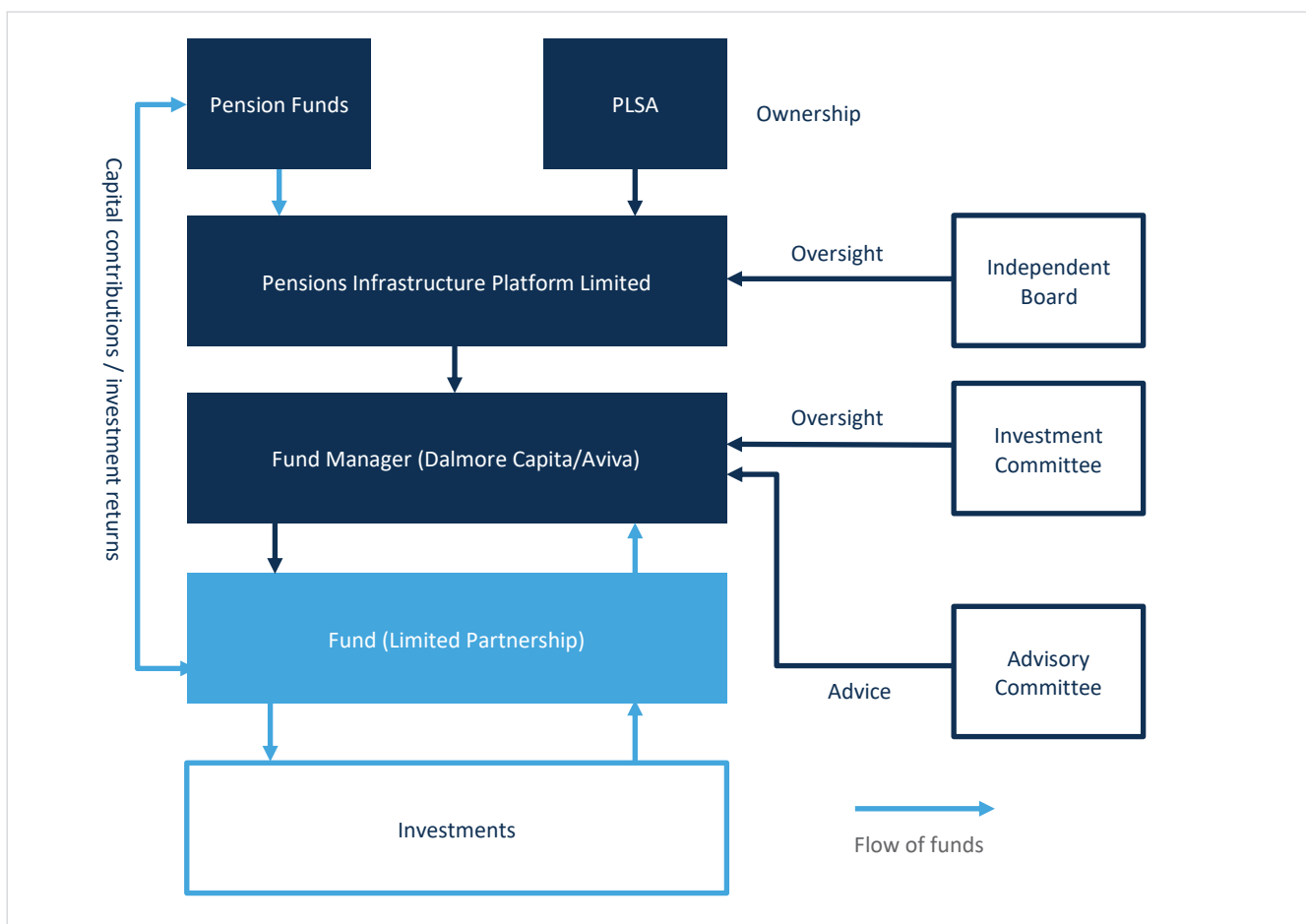
Case studies: Pension Infrastructure Platform (PIP) – UK & Caribbean Investment Facility (CIF)

We examined two case studies for option 2. These are the Pension Infrastructure Platform (PiP) during its early years, and the Caribbean Infrastructure Facility (CIF).

The key features that distinguish this option from others include:

- A formal platform is created with the goal of coordinating members' activities. This formal platform might take the form of a company.
- The creation of a formal platform means members incur development costs. This formal platform is likely to have permanent staff.
- The members might be common owners of the platform, but this is not a requirement.
- Fund management services are contracted in. Members are expected to pay fund management fees once the investment vehicle is established.
- It is a lower fee option compared to Option 4's GP-LP structure.

Figure 4.1: Structure of option 2—Co-investment platform (PiP)



Source: CEPA analysis

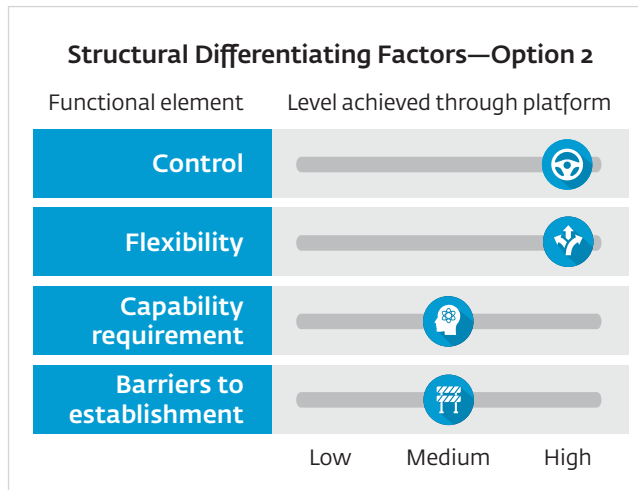
An example of a high-level structure for option 2 is shown above. The formal co-investment platform is represented here by Pensions Infrastructure Platform Limited (PiP Limited). This is a UK limited company which is fully owned by the Pensions Lifetime Savings Association (PLSA). PLSA itself is a not-for-profit company limited by guarantee. The members (in this case, UK pension funds) contributed to the development costs of the company which included hiring a small permanent staff. An independent board provides oversight of PiP Limited. The board has equal representation from the PLSA and members and chooses an independent chairman.

In terms of investment functions, many of these have been carried out by a fund manager chosen by PiP. These include identification and evaluation of potential investments as well as management of these assets. On specific investment decisions members have influence via an advisory committee. The first and second funds launched by the PiP were structured as a limited partnership with ten founding pension funds as limited partners (LPs), while the general partner (GP) of the fund was an external asset manager. To note, by the launch of its third fund in 2016, the PiP had moved its investment functions to an in-house team — aligning it more closely with option 3.

CIF's structure is similar in many ways. A permanent structure, in this case an office within the European Commission, was established which includes permanent staff. As one of the European Union's (EU) regional blending facilities, the European Union incurred development costs for CIF. Nonetheless, in terms of investment functions CIF appears to play a lesser role than PiP Limited. CIF depends on its investment partners to undertake many of the functions which may include bringing in outside investment managers and advisors. Actual project proposals must be identified, developed, and submitted for approval by one of the eligible financial institutions, because each project must include the provision of a loan or other type of financing from one or more co-financing institution. The CIF acts as a catalyst fund, a platform that aims to make development projects possible that might otherwise struggle to be financed.

Each of these vehicles proved to be the right structure to deliver their members objectives. The PiP states that its mission is to provide pension schemes with better alignment, better value, and better governance. It achieved this through a buy and hold investment strategy to deliver long-term cash flows to pension scheme investors to match their long-term cash flow needs (whereas previous vehicles for pension schemes to invest in infrastructure were structured in a way which incentivised managers to sell investments). Five PiP founding investors committed an initial £260 million commitments to the fund. At final close in October 2015, this figure had increased to £534.4 million. The fund became fully committed in 2018 and comprises of 18 investments with exposure to 51 underlying assets. Since then, it has launched additional funds across a variety of sectors, including in small-scale solar photovoltaic (PV) installations in the UK. The values of investments range from debt-refinancing projects of £20-£30 million, to the acquisition of a £400 million portfolio of PPP projects.

The CIF, by contrast, has objectives explicitly linked to sustainable development. It finances projects in the Caribbean region, and improving various forms of infrastructure (ITC, transport, water and sanitation, social services etc.) is its priority. The CIF has provided a total contribution of almost €128m (US\$145m) to finance 15 projects in the Caribbean region with a total investment budget of over €1.1 billion (US\$1.24m). To date, the 15 CIF contributions total almost €128 million, and have leveraged around €1.13 billion in investment from financial institutions and other actors. This represents a multiplier effect of around €9 for every €1 invested. It's achieved its members objectives in infrastructure investment through supporting a range of projects in of total project cost; the largest project supported to date is the Geothermal Risk Mitigation Programme for the Eastern Caribbean (€412m) and the smallest is the development of Geothermal Energy in Dominica (€8.5m).





4.3 Option 3: Joint-owned fund manager

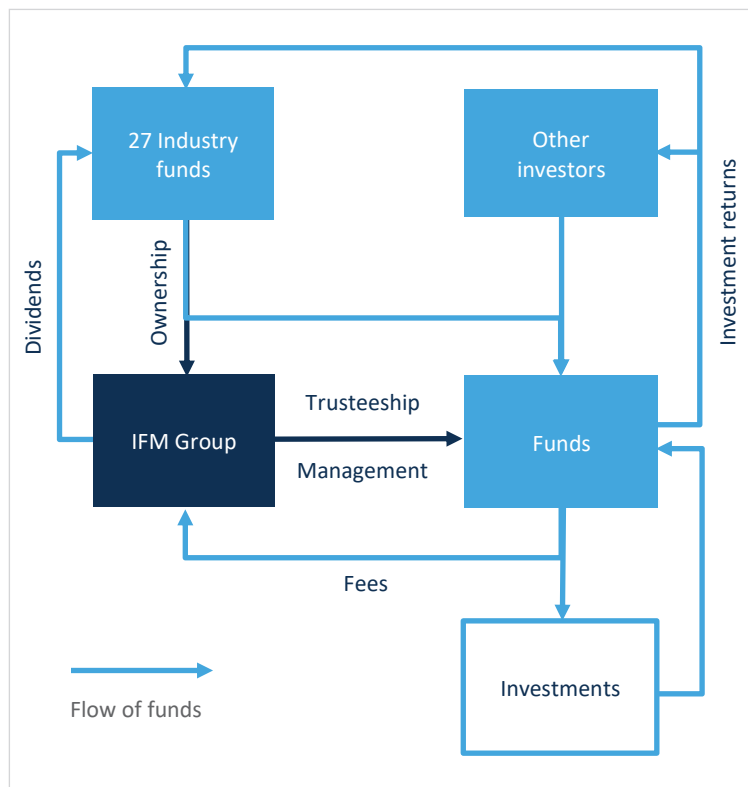
Case study: Industry Funds Management (IFM) – Australia

Option 3 is similar to option 2 but includes bringing the fund manager function in-house. We examined one case study that represents option 3, IFM Investors. It took several years for IFM to develop a fund manager function. Prior to this IFM was very similar to option 2.

The key features of this option include:

- A formal platform is created with the goal of coordinating members' activities. This formal platform might take the form of a company.
- The creation of a formal platform means members incur development costs. This formal platform has permanent staff. These development costs are likely to be higher than option 2.
- The members are common owners of the platform. If this is a company structure, then the company is held in shares by the members.
- The platform provides the full suite of investment management functions with limited reliance on external advisors.
- It is a lower fee option compared to Option 4's GP-LP structure.

Figure 4.2: Structure of option 3—Joint owned fund manager (IFM)



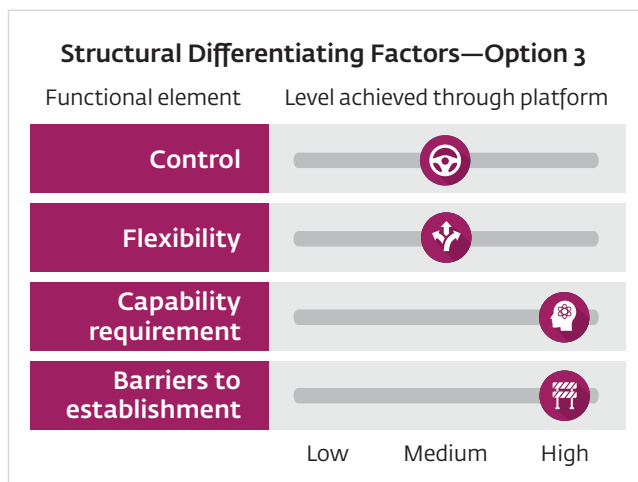
Source: CEPA analysis

An example of option 3 is shown in Figure 4.2. IFM evolved over 30 years. Originally it was launched as the predecessor organisation Development Australia Fund (DAF) in a collaboration between five industry funds, the Australian Chamber of Manufacturers (a group representing businesses) and AMP Society (a financial services firm).

The figure represents IFM in its current form, achieved in 2004. The members in this example are 27 industry funds, which are a type of pension fund. They have joint ownership of IFM Group which provides several functions. IFM Group in turn acts as a trustee for a set of trusts with each trust being its own separate fund. IFM Group is also the investment manager for each of these funds. Hence, two legal structures now underpin IFM Group's operations: i) A holding company owned by industry funds limited by shares, through which the management and trustee functions are undertaken; and ii) A pooled superannuation trust, which is a unit trust which is regulated and can only accept certain types of funds (such as superannuation contributions), which are then used to make the investments.

We observe that for IFM the creation of the capability to act as a fund manager took time. The PiP, discussed in option 2, similarly built fund management capabilities over time and, therefore, in its present form has evolved to become more like option 3. In many jurisdictions, even with capability, fund managers are regulated, and may need to undertake lengthy licensing processes and agree to undertake significant responsibilities. We understand that PiP initially set out to be its own fund manager but initially had to abandon this effort appointing Dalmore Capital and then Aviva to act as the fund manager. After making a series of successful investments, PiP brought these functions in-house.

IFM's structure allows its members to choose how much they invest into each of IFM's funds. These funds are also open to outside investors. IFM now manages funds not only for its 27 owners but also 470 other institutional investors. IFM Group, acting as the investment manager, charges fees and is regularly profitable. These profits are paid to the IFM's owners in the form of dividends. These are in addition to any investment returns the funds produce. The number of areas in which IFM invests has grown but a stated part of the investment strategy has been on the long term with a focus on infrastructure. IFM segments its investments into four areas—infrastructure, debt, listed equities, and other non-listed equities—it then operates several funds under each segment and IFM's owners can select which funds they invest in and to what degree. The funds managed by IFM, including the IFM Australian Infrastructure Fund (launched in 1995), have generally met or exceeded their targets. In 2013 the IFM Australian Infrastructure Fund had achieved 12.1% annual growth after fees since inception. This is compared to a target of 10%. A further objective has been to deliver low-cost options for its owners, especially in infrastructure.



Case study: IFM and the Evolution of Platforms over time

There are examples like IFM which start off as a lighter version of platform, but while delivering the objectives of its members, evolve into a more complex forms over time. This evolving structure creates time for members to have an operational consensus before committing to costlier options, which are only beneficial if a large highly probable pipeline is in sight. In the case of IFM, its predecessor 'DAF' was established in 1990 with an objective of investing in private and public companies and infrastructure assets. By 2004 it became IFM and had brought more functions in-house, including advisory and investment management. In early years, though the overall investment strategy was always driven by the owners, the implementation of its strategy relied heavily on outside advisors and asset managers. Its evolution has also seen the number of areas in which IFM invests develop over time. A stated part of the investment strategy has been on the long-term with a focus on infrastructure. This long-term focus aligns with the long-term liabilities of the superannuation fund owners. The initial driver in the early 1990s was to create a vehicle that allowed industry funds to aggregate their scale and invest in Australian private and public companies and infrastructure at low cost. It now also holds other debt investments, listed equities, and non-listed equities.



4.4 Option 4: Specific investment instrument

Case study: Philippine Investment Alliance for Infrastructure (PINAI)

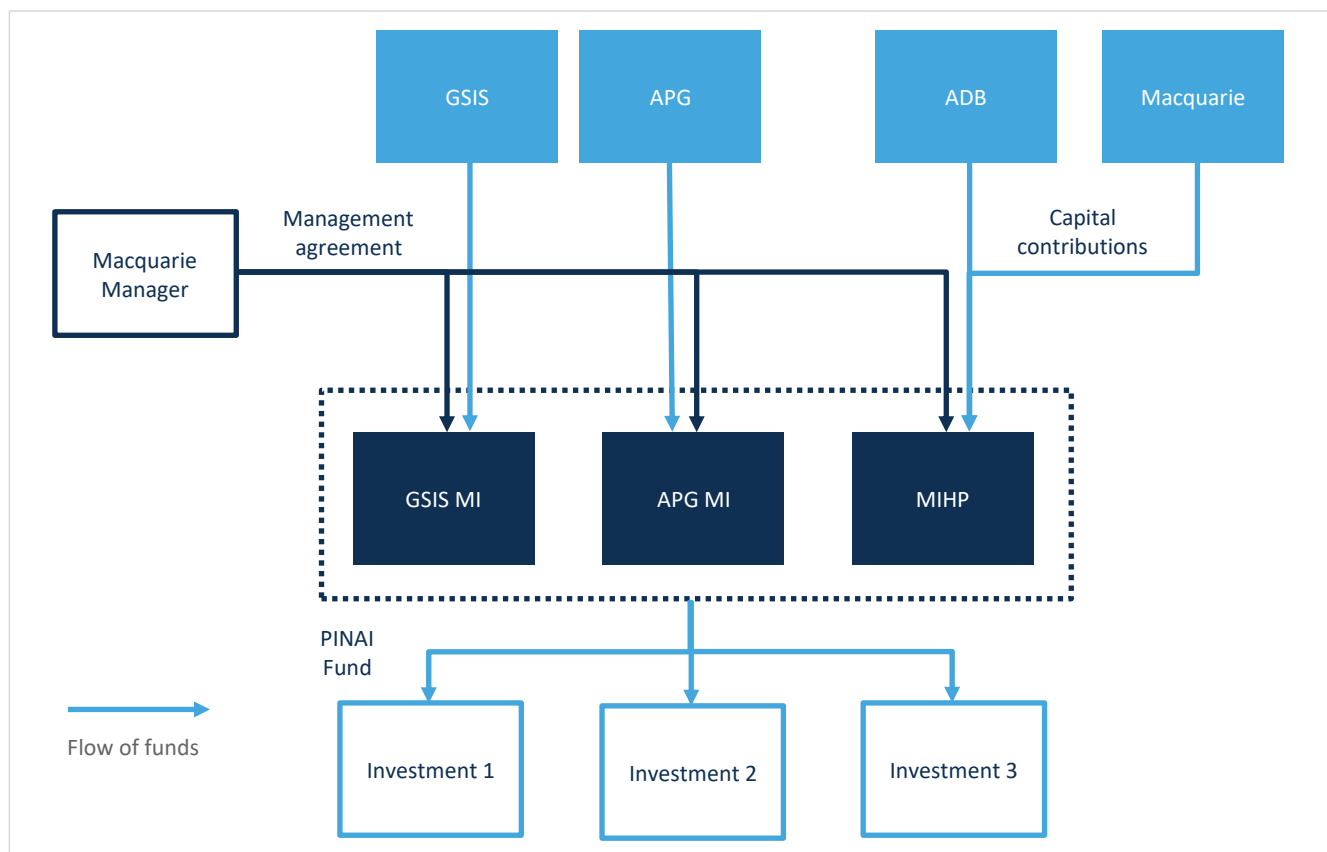
Our option four considers a scenario where the objective is to develop a specific investment instrument. In this scenario, no other formal structure for coordinating members' activities is established. If the investment instrument is a trust, the trust board is the platform. The case study for this option is the Philippine Investment Alliance for Infrastructure (PINAI). The platform in this case is an overseas domiciled pooling vehicle (Macquarie Infrastructure Holdings Philippines—MIHP), a contractual management agreement and a traditional GP-LP structure which is fund manager led.

The key features of this option include:

- No formal platform apart from the investment instrument is established. The instrument itself can take the form of a company, trust etc. that then pools funds.
- Members make capital commitments to this platform.

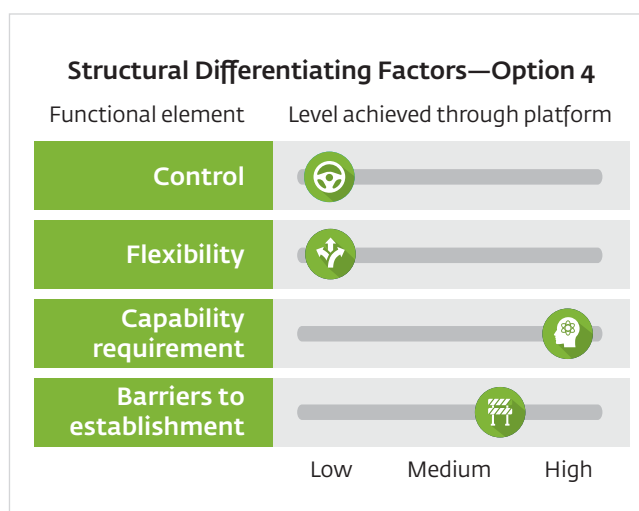
One member might take the lead in coordinating other members, including establishing the investment instrument, or, the members, if already clear on their mandate, would appoint an independent fund manager who would then arrange for management agreements to be signed between the fund manager and the trust. Members are expected to pay management fees.

Figure 4.3: Structure of option 4—Specific investment instrument (PINAI)



Source: Adapted from OECD (2014)

In the case of PINAI the lead organising entity was the Asian Development Bank. They took the lead in bringing the partners together and appointing the investment manager. ADB used a competitive process for selecting the manager. The investment manager (Macquarie) established a Singapore domiciled pooling vehicle (MIHP). This allowed funds to be pooled between the ADB and Macquarie. The PINAI Fund itself was a traditional GP-LP relationship with Macquarie acting as the GP. In the above diagram the Macquarie Manager is the GP while the other parties are LPs. The Philippine Government Service Insurance System (GSIS) and APG, the Dutch pension manager are cornerstone investors alongside ADB and Macquarie. This model demonstrates that the traditional GP-LP can be used to pool investments across jurisdictions.



In this model most investment functions are performed by Macquarie as the fund manager. An advisory committee was also established which includes representatives from each of the investors, though typically it will be made up of the major investors. In this particular case, the committee was able to change or expand the fund’s mandate, however this is unusual as the advisory committee typically only has authority over conflicts, waivers of restrictions, valuations and general oversight. The identification, structuring, execution and management of investments is retained by Macquarie as the fund manager. PINAI was established in 2012, as a US\$625m 10-year closed-end unlisted fund to focus on equity and equity-linked investments in core infrastructure assets in the Philippines. Its founding objectives were to facilitate and catalyse private investment in the country’s infrastructure (transport, energy, water, education, and health), foster competition in domestic infrastructure finance, and establish a secondary market for well-performing infrastructure assets. To this end it has targeted investments between US\$50m and US\$125m with a horizon of up to 10 years. Information on PINAI’s financial performance is not publicly available, however, reportedly the initial target was 20% nominal returns and the fund is on track to achieve this.

Case Study: A Motivated Organisation—IFC’s Managed Co-Lending Portfolio Program (MCP)

The MCP is an innovative syndications platform launched by the IFC in 2013 to create diversified portfolios of emerging market loans. It is an example of an investment instrument revolving around a pre-agreed set of rules for co-investing by institutional investors. MCP-Infrastructure offers a solution for channelling greater investment into emerging-market infrastructure by demonstrating a clear path for other investors. It does this through the MCP creating a loan portfolio for an investor that mirrors the portfolio IFC is creating for its own account—similar to an index fund. Investors and IFC sign upfront administration agreements determining the makeup of the portfolio based on agreed eligibility. Investors pledge capital upfront and then as IFC identifies eligible deals, investor exposure is allocated alongside IFC’s own per the terms of the agreement. Depending on the type of investor, the program can offer a variety of structures:

- IFC can set up a dedicated Trust Fund to hold investors’ funds. IFC signs borrowers’ loan agreements for its own account and as “implementer” on behalf of the investor(s) for the trust fund.
- Investors can also establish an investment vehicle and contract with IFC to originate transactions. IFC lends for its own account and is the sole lender on record with the borrower, and investors buy a participation through ‘B Loans’ from IFC.
- Unfunded structures can be used to provide IFC with credit insurance or risk guarantees. IFC lends for its own account, with insurers’ credit coverage on a portion.

Project appraisal, approval, commitment, and supervision are delegated to IFC. To this end, the IFC plays the role of a ‘motivated organisation’ which mobilises and facilitates other investors investment in infrastructure.



4.5 Option 5: Appoint independent fund manager

Case study: H.R.L Morrison & Co—New Zealand

In the previous options, collaboration is undertaken through an organisation that is controlled by the investors. The main difference between Option 5 and the other options is that the collaboration is undertaken through an independent organisation.

The key features of this option include:

- No separate formal platform is created by members. The platform is hosted by an independent fund manager.
- Members make capital commitments to investment vehicles hosted by the platform.
- The independent fund manager undertakes most of the investment functions. Members are expected to pay management fees.

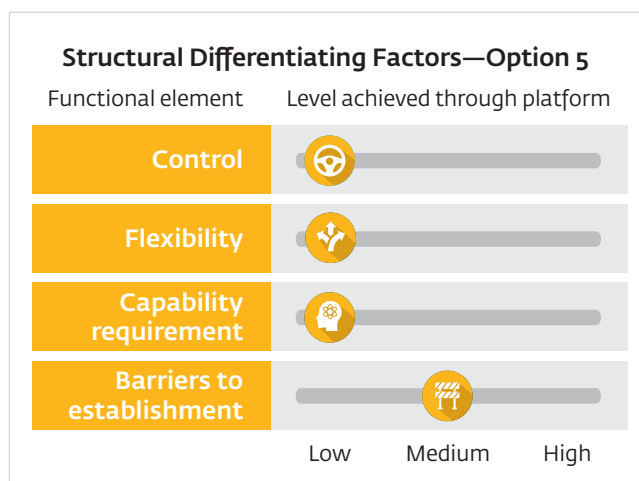
Many independently owned fund managers allow a form of pooling between investors. These bring investors a number of advantages over direct investment, including: investing efficiently at scale; liquidity, so that the value of investments can be realised without the termination of the investment vehicle; and the use of specialised investment expertise that would not be economic for individual fund managers to replicate. There are several private companies that provide these services.⁽⁴⁾

These organisations typically provide a range of different investment opportunities for their clients. They offer funds differentiated by sector, geography, size of opportunity, investment strategy, target distribution, target return etc. However, while they allow pooling, they may not provide this specifically for collaboration, meaning that investors are giving up a degree of control over investment decisions: the fund manager is providing an investment approach, and investors entrust their funds with the fund manager if they agree with the approach. For our case study, we chose to examine closely one specialised asset manager, HRL Morrison & Co (MCO) as we consider they have a distinct approach to investment that could potentially align with institutional investors using this guide. This example is chosen as an illustration. Any choice of an asset manager should be done consistently with procurement, or other relevant selection process, based on an assessment against members needs and objectives.

MCO's activities span the full range of investment activities, from identification and assessment of opportunities, execution, through to asset management and reporting. MCO offers a range of different investment fund structures: it manages the infrastructure assets of a listed company (Infratil); it manages the assets on behalf of a trust (UTA) which is a fund of infrastructure assets; and it runs partnership fund structures to invest in specific types of assets. Overall, MCO manages assets on behalf of clients of over A\$15bn, with a purpose to "invest wisely in ideas that matter". While "infrastructure type" assets are its focus asset class, these are broadly defined and investments categorised by themes (decarbonisation, digitalisation, mobility, ageing population). Of the investment fund structures MCO offers different target returns and objectives are met. Infratil aims at a 11-15% return to shareholders per annum and has delivered 16.6% compound annual returns over 26 years (as of 31 March 2020). For UTA, managed by Morrison & Co since 1 July 2018, its objectives is a total return of 10-year Australian Government bonds plus 4%; in 25 years to 30 June 2020, the net return has been quoted at 10.6% compound annual growth rate. Other specific fund structures include a \$115m Public Infrastructure Partners Fund which focused on social infrastructure in New Zealand and Australia, and a \$580m Growth Infrastructure Fund which MCO manages on behalf of The Australian Government's Clean Energy Finance Corporation (CEFC) and other institutional investors.

4 Two examples of many are Brookfield Asset Management and Macquarie.

It also runs individually agreed investment mandates on behalf of large institutions (an approach used with NZ Super). Individual mandates are broad in scope, giving a high degree of flexibility to MCO in its action on behalf of these clients. However, the broad scope in contractual arrangements is different from how it operates in practice. Investment ideas are discussed with investors in advance of deal origination, and by the time a specific transaction is available and ready to execute, the investor and MCO are usually aligned in their thinking. This relationship has developed over many years which has led to a high degree of trust between the parties allowing a strong flow of information. Investment ideas can be presented to clients and then executed directly for that client, and/ or within portfolios of other investment vehicles.



The approach depends on the size, risk, capital structure, capital requirements, growth prospects, and the needs of the investors themselves.

What this indicates is that it is possible for an independent fund manager to act flexibly in the interests of investors, and as a partner in the investment process. Clients can have a range of levels of expertise and be supported by such an organisation.

Case Study: The role of DFIs—IFC Global Infrastructure fund

The IFC Global Infrastructure fund makes equity and equity-related infrastructure investments. It is a USD \$1.2 billion fund managed under the IFC Asset Management Company (AMC) based in Washington, D.C. and Singapore. The fund received capital commitments from 11 investors: IFC and GIC (the Singapore sovereign wealth fund), acted as anchor investors, mobilising a further nine sovereign and pension fund investors from Asia, the Middle East, Europe, and North America.

Established in 2013, under the mandate to make equity and equity-related investments alongside IFC in a broad range of infrastructure sectors in developing countries, the fund has leveraged IFC's investment expertise, distinct transaction pipeline, and organizational networks, to offer institutional investors a cost-efficient platform to make direct infrastructure investments in markets where barriers to entry and transaction costs for investors can be a significant deterrent. Its aim is to create a well-balanced portfolio diversified by region and by sub-sector; through LPco-investments the fund has facilitated investment in companies focused on power, transportation, water, telecommunications, oil and gas midstream and downstream sectors.

The fund was designed to fill gaps in long-term risk capital for infrastructure and leverage IFC's extensive experience investing in infrastructure to crowd-in private sector investors. Since its inception it has led consortium investors in significant and diverse emerging market infrastructure investments, for example, in the expansion of Aegea, a water and sanitation business in Brazil, and Azure Power, a fast-growing Indian solar business, and in Colombia to improve logistics in the oil and gas sector and help solve bottlenecks that have constrained growth in the industry, through investment in Pacific Midstream Ltd.

By 2019, the fund's value reached USD \$1.42 billion.⁽⁵⁾

5 https://www.ifcamc.org/sites/amc/files/IF3509_AMC_Annual_Review_2018%2014_LR_SPREADS.pdf



4.6 Option 6: Listed company

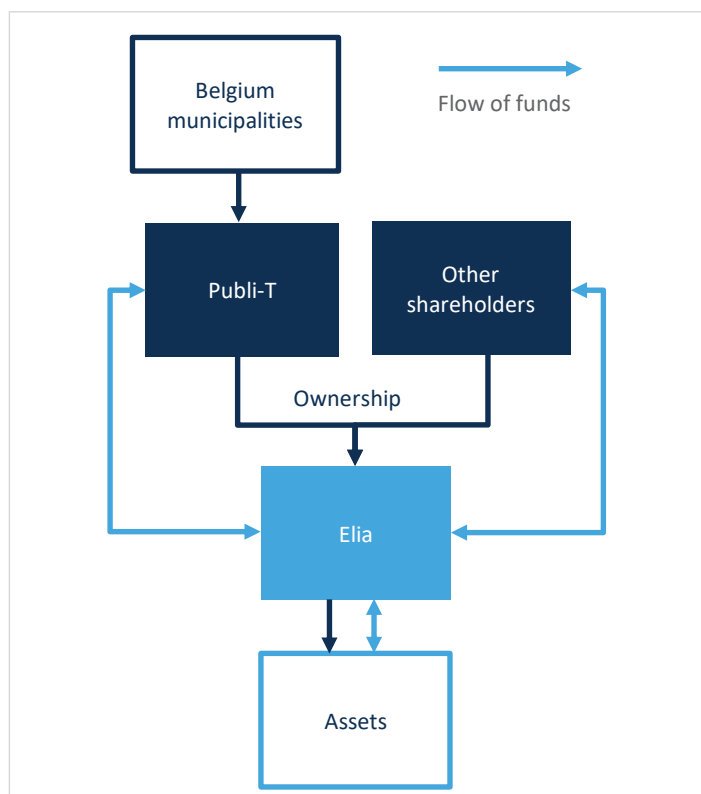
Case study: Elia – Belgium

For our final option we considered using a listed company as the co-investment platform. In this case there does not need to be any separation between the platform and the investment vehicle—though this is still possible as the Elia example demonstrates below. As the company would be listed this allows other entities to invest in the company. The company would be responsible for undertaking investments and managing them. The company would need to meet the requirements of listing in an appropriate jurisdiction. This requirement may be more burdensome from a legal and regulatory viewpoint than other platform options. The case study we use is Elia, a Belgium electricity transmission operator.

The key features of this option include:

- A company structure is established which is owned in shares by members. Members appoint representatives to the company's board.
- The company is listed on a stock exchange allowing shares to be bought and sold by non-members. Members do not necessarily own all shares of the company, but control of the company is maintained by members (within the limits of the company having to act in the interests of all its members).
- Capital to undertake investments or acquisitions is raised from shareholders. Capital raisings occur when investments are required.
- The company manages the investments and effectively acts as a fund manager.

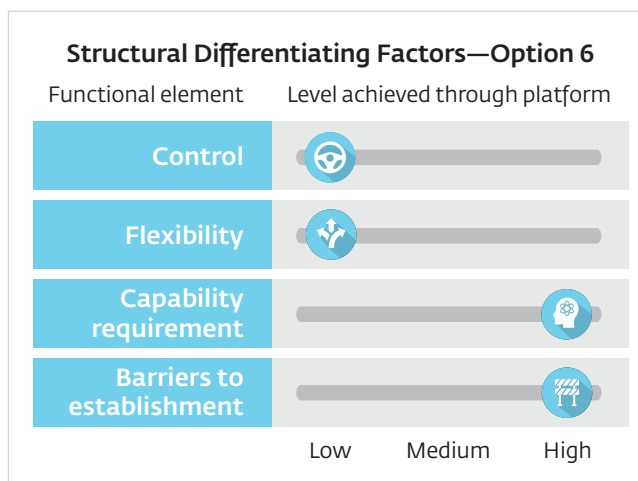
Figure 4.1: Structure of option 6—Listed company (Elia)



Source: CEPA analysis of Elia (2019)

Figure 4.1 provides a simplification of shareholdings in Elia. The members in this example are Belgium municipalities. They hold shares in a holding company called Publi-T. Publi-T in turn holds shares in Elia. As Elia is listed a proportion of shares are freely traded and ownership is shared with other shareholders. In this case the platform (Publi-T) is separate from the investment vehicle (Elia). However, it is possible for members to also hold shares directly in the company.


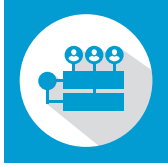

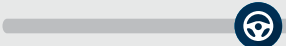
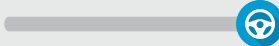

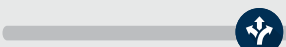
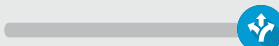




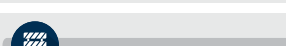
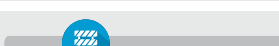
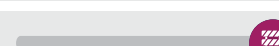



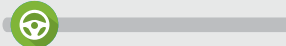
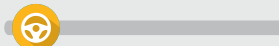
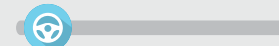
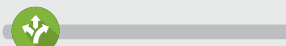
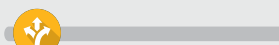
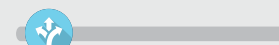



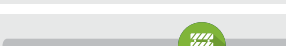

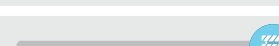
Elia does not have a standard shareholding structure and there are three share classes (A, B and C). Class A and C shares have special rights with regards to appointing company directors and voting on certain types of shareholder’s resolutions. Publi-T holds a different class of shares than other shareholders. This allows Publi-T to exercise more control over Elia than its shareholdings would normally allow. A key part of Elia’s governance is its board; even though Publi-T holds less than half of shares overall, it maintains the ability to appoint half of board members. Hence, Elia demonstrates the possibility of disposing of shares in excess of 50% while still maintaining control of certain decisions—it is not however integral to this approach.



When Elia undertakes a substantial transaction, for example an acquisition, it issues additional shares. Members must then raise the required capital if they are to maintain their proportion of shareholdings. An advantage of being listed is if members cannot raise the required capital, then this capital can be raised from other investors. Investment returns are returned to shareholders via dividends.

In terms of investment functions, as Elia is an operational company it is well positioned to manage its acquisitions without external support. Nonetheless, we understand that advisors are brought on board when substantial transactions occur. Unlike some of the other case studies, because Elia is an operational company it has a different set of objectives. The core tasks of Elia include grid ownership, market facilitation and electricity system control. Elia is not a traditional example of a co-investment vehicle but effectively acts as one for Belgium’s municipalities who are a major shareholder. Hence, in 2010 Elia raised €299.4 million for the acquisition of 50Hertz, a German transmission provider. This acquisition was done as a co-investment with IFM. Elia took a 60% stake and operational control while IFM took the remaining 40%. Elia also raised €299.4 million to acquire Nemo Link (a high-voltage submarine power cable linking Belgium to the UK). Publi-T must ask its shareholders (the municipalities) for any additional capital it provides Elia. Individual municipalities may vote to increase their subscriptions to Publi-T. Elia pays an annual dividend which currently yields approximately 1.3% to Publi-T. While the relationships between the various municipalities in Belgium is complicated, in all the large transactions Elia has undertaken, Publi-T has maintained or increased its proportion of shareholdings (it did not need to rely on outside investors). This demonstrates that it has been successful as a mechanism for co-investment.

4.7 Options Compared

	 Option 1 Collaboration Platform	 Option 2 Co-investment platform	 Option 3 Joint Owned Fund Manager
Control			
Flexibility			
Capability requirement			
Barriers to establishment			
	Low Medium High	Low Medium High	Low Medium High
	<p>Loose arrangement by which investors share information about investment opportunities but with limited formal cooperation.</p>	<p>Formal platform established with the goal of coordinating members' activities. Can take the form of a company. Fund management services are contracted in, and members will pay management fees on the investment vehicle. Lower fee option compared to a specific investment instrument.</p>	<p>Formal platform whereby the fund management function is brought inhouse, with limited reliance on external advisors. Members are common owners of the platform, holding shares if it is a company structure. Lower fee option compared to a specific investment instrument.</p>
	 Option 4 Specific Investment Instrument	 Option 5 Independent Fund Manager	 Option 6 Listed Company
Control			
Flexibility			
Capability requirement			
Barriers to establishment			
	Low Medium High	Low Medium High	Low Medium High
	<p>No formal platform apart from the investment instrument. The instrument pools funds and can take the form of a company or trust. Members make capital commitments to the instrument and might appoint an independent fund manager, or one member might lead coordinating investments.</p>	<p>Collaboration is undertaken through an independent organisation. No separate formal platform is created. Members make capital commitments to investment vehicles hosted by the independent organisation /fund manager, which undertakes most of the investment functions.</p>	<p>A company structure, owned by members. Members do not necessarily own all shares, but control of the company is maintained by members who also appoint representatives to the company's board. The company manages investments and acts as fund manager.</p>

5



Caption: Solomon Islands, Export preparations (Source: IFC)

5. Further case study findings

This chapter provides a further overview of key findings from the six case studies, as well as key factors contributing to their success.

For each of the case studies we explored:

- The **objectives** of the members and what they were attempting to achieve with their involvement in the platform and the platform's objectives.
- The **governance** of the platform, what legal structures (as defined and discussed in the preceding chapter) were used, and how the various investment functions were allocated.
- The **type of investments** the platform undertook including the stated risk tolerance, stage of investment, how these were structured, the type of investment vehicle and scale of opportunities targeted.
- The **regulatory** issues that needed to be overcome.
- Whether there was evidence that these platforms were **effective** in meeting members' objectives.

We also considered whether there were any common factors that contributed to their success.

5.1 Objectives

Finding alignment between different investor's objectives is an important first step when deciding on a particular co-investment approach. We explored what members of the various platforms in our case studies were seeking to achieve out of their involvement:

- **Size and type of investments:** The pooling of investments by several partners could open up opportunities to make investments that were not possible if investors proceeded on their own. This is a feature of both PiP (option 2) and IFM (option 3) where members sought to make investments in infrastructure but, without a platform, were either unable to do so or could only do so at a high fee. In the case of PINAI (option 4) the platform allowed APG to access investments in a foreign country it may not otherwise been able to. CIF (option 2) explicitly set out to use their investments to leverage larger co-investments from other partners. Their annual reports provide estimates for how much additional investment their contribution successfully brought in.
- **Diversification of risk:** In many of our case studies the members are pension funds or similar entities. These organisations have responsibilities to their members, in particular, requirements on liquidity and risk allocation. Even if an organisation had the available capital to make an investment it may not be wise to commit a large proportion of funds. This is certainly the case for PiP (option 2) and IFM (option 3) where the investment focus is on infrastructure. Members would not want to have a large exposure to illiquid assets. Even in the case of Elia (option 6), where the entity was listed and shares traded, a single municipality wouldn't want a large exposure to a single investment.
- **Reduced fees:** For some of the case studies truly new opportunities were not necessarily opened up to members by the creation of the platform. For example, for PiP (option 2) and IFM (option 3) infrastructure exposure was possible for members through alternative venues, for example managed private equity funds. However, the cost of doing so was considered too high. Charging low fees is one of the key features advertised by some of the platforms, both PiP (option 2) and IFM (option 3) explicitly advertise their low fee model.

- **Creation of capability:** The pooling of resources also acts as an opportunity to access or build capability that a member does not already possess. For some members, the platform may act as an opportunity to learn from other, perhaps larger, investors. In other cases, the platform itself is used to build an independent source of capability all members can draw on. An example of this is IFM (option 3) where early in the process a separate advisory company (IFS) was established. IFS not only provided advisory services to IFM but also to its members.
- **Socio-economic and development impact:** The impact investment industry has grown rapidly in recent years around the world, as investors increasingly seek investments that align with ethical or environmental and social criteria as well as financial returns. Similarly, institutional investors may have development objectives for their co-investment platform; CIF has clear development goals aligning with the UN's commitments to the Sustainable Development Goals, while PINAI was conceptualised by the government of the Philippines to facilitate and catalyse private investment in the country's infrastructure (transport, energy, water, education, and health). By pooling resources, the investors can more rapidly meet their development objectives than if they each had to act on their own.

The platforms themselves set out to meet their members' objectives. This was achieved through their governance, allocation of functions and chosen investment strategy. These are described in more detail below.

5.2 Investment strategy

Successful platforms adopt investment strategies that meet members' objectives. In theory a co-investment platform can pursue any investment strategy that its members support. Nonetheless, we found some similarities in the type of investments that co-investment platforms undertook especially during their early stages:

- **Brownfield versus greenfield:** A greenfield investment provides financing to build a new asset, for example constructing a new airport. Brownfield investments acquire existing operational assets. Greenfield assets are generally considered to have higher expected returns and higher risk. Our case studies demonstrate a preference for brownfield assets. PiP and PINAI consider investments in greenfield assets but only for a small part of their overall portfolios. In the case of PINAI, this was partly driven by market forces, where large domestic conglomerates and specialist developers are willing to take greenfield risk, then once construction and completion risks are reduced, have their capital recycled more rapidly to new projects, allowing brownfield focused investors to step into the projects.
- **Role of infrastructure:** The case studies we examined were heavily focused on infrastructure assets, generally aiming to take equity stakes in companies that operated infrastructure assets. IFM, PiP, PINAI and Morrison & Co all explicitly set out to invest in infrastructure from the start. We consider this suggests there were limited opportunities to invest in these types of assets at the time these platforms were created. The platforms set out to meet a member objective—investment in infrastructure—that was not already being met elsewhere in the market. It is, however, important to note that infrastructure as an asset class typically receives a small allocation of funds in the asset allocation policies of most long-term institutional investors.
- **Diversity of products:** Platforms generally begin by pursuing their investment strategy through one investment vehicle. However, over time successful platforms expand and start offering a diversity of products. IFM started by offering a vehicle that invested in infrastructure assets but now provides investment vehicles which focus on debt, listed equities and unlisted private equity outside of infrastructure. PiP followed a similar path. The diversity of products demonstrates the wide variety of member objectives cannot be reconciled using one product.

Case study: Lessons Learned from IFC's investment in Non-bank Finance Corporations (NBFCs)

IFC has worked with NBFCs as a platform for investing in infrastructure. Several examples—Indonesia Infrastructure Finance (IIF), FDN Columbia and Infrastructure Development Funds Corporations (IDFC - India)—provide useful lessons for investors looking at infrastructure co-investment options.

In 2010, Indonesia Infrastructure Finance (IIF) was established as a private non-bank financial institution under the Ministry of Finance. IIF aims to catalyse infrastructure development in Indonesia and offers a variety of products, fund based, non-fund based, and fee-based services including syndication and financial advisory services, in order to meet the financing needs of infrastructure projects in Indonesia. It represented the combined efforts of multilaterals (where IFC led a 19% shareholding), government and an international commercial bank. Given the variety of key stakeholders, consensus building among shareholders was not always smooth. Nevertheless, the shareholding structure helped build credibility of IIF among potential 'B Loan' participants during syndication and the participation of a commercial bank was crucial for bringing international expertise in project finance.

FDN Colombia was established through IFC (who had a 20% equity stake) and the Development Bank of Latin America (CAF) to mobilize finance for infrastructure projects in Colombia. A private investor was also to be brought by IFC within 18 to 36 months of its launch to provide straight equity investments in infrastructure. A key lesson from its successful establishment was the importance of early engagement at a high level to guarantee commitment from both the government and IFC, as well as agreement on the main terms prior to establishment to ensure smooth negotiations. Several other elements also contributed to its success, namely, a clear market opportunity was identified in large infrastructure finance (including a particular toll road project), there was high commitment for key players including the government, there was a sound local capital market to enable sustainable long-term funding in local currency, and CAF had a track record in performance and good governance.

Key lessons for co-investing in infrastructure that both IIF and FDN provide, can be distilled:

- Align interests amongst the shareholders and (at minimum) ensure the support of a strong Board of Directors and on the ground support, particularly at the start-up phase; competent and committed counterparties are crucial.
- Environment & Social risk management is critical. Negotiate one E&S standard (if possible) and involve E & S experts in building up capacity and to establish guidelines for high-risk sectors (e.g., coal).
- Tailor financial covenants to reflect reality of the infrastructure finance sector.
- Intensive portfolio management at the initial stage of the institutional establishment.
- Identify and retain the right talent, particularly at the board and management levels.

In these examples, IFC's infrastructure teams' expertise was also critical to analyze credit risk in project finance.

5.3 Regulatory Factors

Regulatory rules are jurisdiction specific and the way in which these issues are dealt within the case studies may not be helpful for informing all readers and **specialist advice should always be sought**. Nevertheless, the six options we explored should be general enough to be implementable in most jurisdictions as well as allowing cross-jurisdictional co-investment. The appropriate legal form will be influenced by jurisdiction specific considerations. Despite the range of case studies there were some regulatory issues/factors that were common to more than one:

- **None of the co-investment case studies we examined required regulatory changes to be implemented.** Existing rules allowed the platforms to be established. The platforms themselves were limited companies or trusts which can be formed in most jurisdictions. The investment vehicles were limited partnerships, which are traditionally used in many jurisdictions for pooling investor capital, or unit trusts. While the case studies we examined did not require such changes, there are other examples of jurisdictions that have made changes to make the formation of certain types of investment vehicle possible, including most recently India, Singapore and Hong Kong who are seeking to attract further private equity funds to their jurisdictions.
- **Many jurisdictions allow the formation of limited partnerships, and these were commonly used by the platforms in our case studies.** One of the reasons investment funds use this form is that it allows tax pass-through where⁽⁶⁾ investors are taxed on profits as if they had invested in the underlying asset directly. Nonetheless, there is substantial variation across jurisdictions in how limited partnerships are treated. The use of a limited partnership as the investment vehicle may not be appropriate for all institutional investors considering co-investment options and specialist tax and structuring advice should be sought and aligned with the broader objectives of institutional investors. This is because the jurisdictions they operate in may not allow limited partnerships, or limited partnerships may not provide the same tax advantages.
- **There are potentially additional barriers to investing in assets in foreign jurisdictions.** These include foreign ownership restrictions and currency risk. If a platform takes a formal legal form (be it a partnership, trust, or company) it will likely need to be domiciled in a country. Co-investors may have specific operational rules or taxation structuring preferences that drive the selection of jurisdiction of the entity. For example, the ADB, when setting up PINAI, the domicile of the various entities in the limited partnership structure was driven by the tax status and requirements of the investors. For example, APG (a Netherlands pension fund) set up a Luxembourg domiciled entity as it was tax efficient for them to do so. ADB used a Singapore domiciled entity as its operational rules only allow it to participate in certain jurisdictions. Several of our other case studies, such as IFM, also invest in foreign jurisdictions— usually setting up specific investment vehicles for doing so. This is typical of funds, where the jurisdiction of the actual pooling vehicle is typically in a low tax jurisdiction, regardless of whether the ultimate investments are made. Such decisions rely on specialist advice when considering the most appropriate structure.

6 BVCA, [The importance of UK Limited Partnerships for Private Equity & Venture Capital](#).

5.4 Effectiveness

We consider all the platforms we examined to be successful. As highlighted in the section above, members had a wide range of objectives. It has been more difficult to examine whether all these objectives have been met. Nonetheless, the fact that these platforms continue to exist today with many of the same members being involved suggests members' objectives are generally being met. There are, moreover, some clear indications of success:

- **Successfully bringing partners together:** All the platforms we examined successfully brought several investors together and made at least one investment. In practice this is very difficult to achieve, demonstrated by the large financial intermediation industry and the reliance on external fund managers to pool funding. Many of the platforms we examined have gone on to use the relationships and networks they built from their first investment to undertake further investments. This has led to some platforms having substantial longevity, in the case of IFM, more than 30 years.
- **Achieving targeted investment returns:** We found evidence that the platforms we examined have generally been successful in meeting their target investment returns. For example, IFM's longest running investment vehicle (IFM Australia Infrastructure Fund) has exceeded their target returns. The recent takeover of PiP by Foresight Group, an investment manager, also suggests success. PINAI targeted 20% returns and we understand they achieved this.
- **Providing a lower fee service:** An objective of many of the members of the platforms we examined was not only to undertake investments in certain asset classes, but to do so on a lower fee basis than otherwise available (for example through a managed private equity fund). We found evidence that IFM has low fees compared to typical managed private equity funds charging between 0.5% - 0.6%; PiP is similarly charging around 0.5%. This is compared to the standard 2% charged by managed private equity funds, with a 20% incentive based carried interest on profits made above a certain profit threshold.

5.5 Enablers for Success

We also identified **enablers** that allowed these platforms to succeed:

- **An established network:** Partnerships do not occur in a vacuum. In the case studies we examined there was evidence that all partners had built strong relationships prior to launching the platform. Sometimes this was under a formal umbrella organisation such as the Pensions and Lifetime Savings Association (PLSA) for PiP. Conversations and collaborations prior to the establishment of a more formal platform are necessary. This helps members discover any potential alignment of interests as well as developing trust.
- **A motivated organisation:** In several of the case studies we examined we identified a single motivated organisation that pushed forward the initiative. The existence of a network of like-minded investors is necessary but not enough to create the platform. In the case of PiP this was the Pensions and Lifetime Savings Association, for Elia it was the Belgium government and for PINAI it was the ADB. A motivated organisation that has a clear appreciation of the benefits if the partnership is successful and the ability to incur some of the coordination costs appears crucial.
- **Funding:** Even prior to making their first investments most platforms incurred development costs above those of simply coordinating the partners. In the case of CIF and PINAI, an organisation with a development focus put forward the required funding (the European Union and the ADB respectively). In the case of PiP the members paid for the development costs in equal shares but several members exited prior to the first investment. This demonstrates the risk that development costs may be incurred but the platform is unsuccessful or ends up not aligning with an individual member's interests.

- **Flexibility:** Each of the platforms we examined evolved over time. At a high level this included adding and removing partners, changing where functions are carried out and launching different products to better align with members' interests. This evolution suggests a level of flexibility with structures changing to suit the investment landscape and shifting member demands. The variety of different successful structures used to build platforms provides further evidence that no single structure is necessarily ideal.
- **Capability:** Any successful investment whether it is with partners or alone requires some level of capability be it to source investments, undertake due diligence or manage the investment. For several of the case studies this capability was acquired from an external manager. This includes IFM which initially relied on AMP, PiP which relied on Dalmore Capital and PINAI which relied on Macquarie. In some cases, this reliance was not a permanent feature with both IFM and PiP eventually bringing the fund manager function in-house. However, a lesson from the case studies is any attempt to build fund manager capability should be considered a long-term project taking several years. Furthermore, there are alternative ways in which capability can be sourced; for example, explicitly provided by one of the partners.⁽⁷⁾ Additionally, relevant regional/geographic expertise and networks can be an important criterion for selecting fund managers or developing in-house capabilities, as investment will require coordination with numerous stakeholders to develop a strong pipeline with country priorities.
- **Investment pipeline:** The existence of a clear set of investable opportunities can act as a catalyst for the platform. An investable opportunity acts as demonstration that the platform can meet members' needs. When PINAI picked a fund manager one of the key criteria was they could demonstrate an investment pipeline. In the case of Elia, the investable opportunity was initially the assets inside Elia itself. In addition, the target investment was clear prior to capital raising for each of the large investments/acquisitions Elia has undertaken since. The only case study that did not necessarily have a clear investable opportunity to begin with was CIF. However, the goal of CIF was to find such opportunities and it was not targeting a financial return to meet its own costs, as core funding was available from the EU.
- **Number of partners:** As the number of partners on a platform grows so does complexity which can turn into a barrier. In the case of IFM there were initially 7 organisations involved with five investors, with CIF most investments only have two partners and in the case of PINAI there were 4. For PiP there were 10 investors to start with but 3 left prior to the first fund being established, demonstrating the difficulty of aligning the interests of several organisations. A counter example is Elia where an incredibly complex partnership between several organisations was successful. This success may have been partly contingent on history where the members had worked together, albeit under different platforms, for several decades. In addition, the Belgium government played a crucial coordinating role bringing the partners together. There are benefits to bringing partners onboard, but each additional partner brings with it a set of coordination costs and makes it more difficult to align interests.

⁷ An example of an alternative set up is Cubico Sustainable Investments. One of the partners was Santander and the required capability was formally seconded from them.

Summary Guidance

This guide has set out to provide a useful, structured starting point to guide institutional investors and their advisers as they consider various co-investment options. Drawing on case study analysis done for the PIIF of six different co-investment options we show that, when it comes to co-investment, success can take various forms.

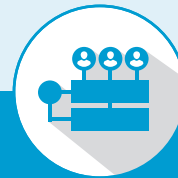
Research in the preparation of this guide was global. Successful case studies selected to represent each option were drawn from both emerging and developed market contexts.

Overview of Options



Option 1: Information / Collaboration Platform

Case study: PIIF in its current form



Option 2: Co-investment platform

Case studies: Pension Infrastructure Platform (PiP) – UK & Caribbean Investment Facility (CIF)



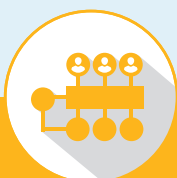
Option 3: Joint-owned fund manager

Case study: Industry Funds Management (IFM) – Australia



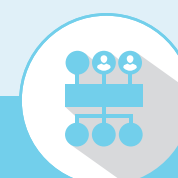
Option 4: Specific investment instrument

Case study: Philippine Investment Alliance for Infrastructure (PINAI)



Option 5: Appoint independent fund manager

Case study: H.R.L Morrison & Co – New Zealand

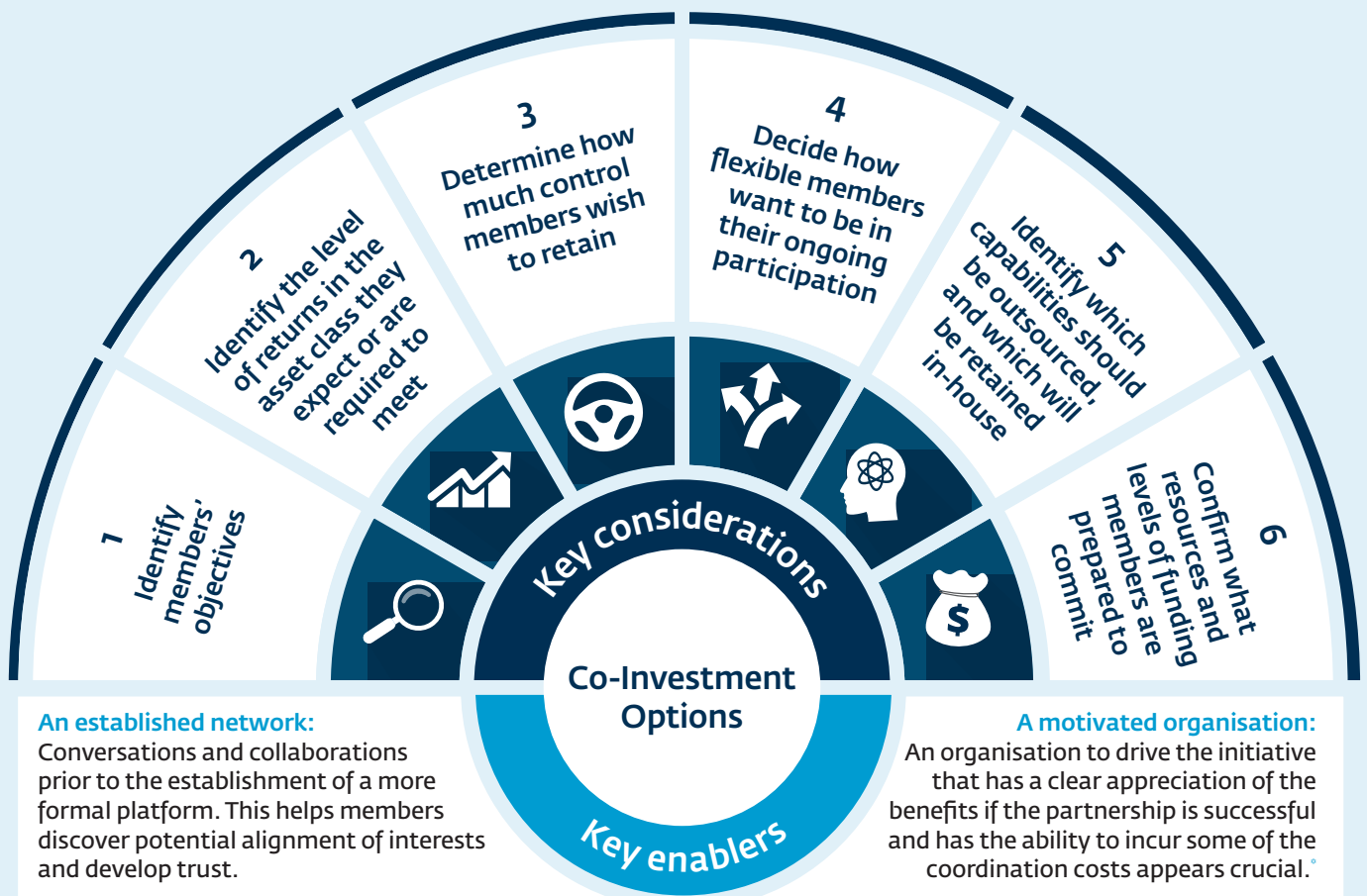


Option 6: Listed company

Case study: Elia – Belgium

Key considerations

Though there are various models to choose from, consideration of several elements will help investors looking at co-investment to determine which option is best suited to their unique context and needs.



Funding: prior to making their first investments most platforms will incur development costs above those of simply coordinating the partners.

Flexibility: Investors benefit from flexibility; when structures can change over time to suit the investment landscape and shifting member demands.

Capability: some level of capability be it to source investments, undertake due diligence or manage the investment is required. For several of the case studies this capability was acquired from an external manager.

Investment Pipeline: An early set of investable opportunities demonstrates that the platform can meet members' needs.

Number of Partners: There is no perfect number of partners. There are benefits to bringing partners onboard, however, as the number of partners on a platform grows so does complexity and coordination costs, which can turn into a barrier. The right partners—aligned in their objectives—are more important than the total number.

Key enablers

Several factors facilitate success regardless of the objectives and form taken for the investment platform. These 'enablers' of success were common across the six case studies.

*An international finance institution, such as International Finance Corporation, with a development mandate and strong mobilisation capabilities are often the catalysts for establishing these kinds of platforms with the case study examples of the Managed Co-Lending Portfolio Program and the IFC Global Infrastructure Fund, highlighted in section 4 of the report.

Contact

International Finance Corporation
Level 18, CML Building
14 Martin Place
Sydney, NSW 2000
Tel: (+61) 2 9235 6519

Stay Connected

-  www.ifc.org/eastasia
-  www.twitter.com/IFC_EAP
-  www.facebook.com/IFCeap

Nov 2021