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Pension funds back away from infrastructure investment

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By Daniel Schäfer in London

Pension funds globally are pulling back from infrastructure investments in a worrying trend for cash-strapped western governments seeking to attract private money to the sector.

In the past five years until the end of April 2012, pension funds around the world have reduced their allocation, or deployment of capital, to such investments by 8 per cent to $49.46bn, according to research by Infrastructure Investor, a publication for infrastructure finance and investment.

The news is a blow to European governments looking to revive their hamstrung economies by wooing pensions funds and other institutional investors to infrastructure investments. "At a time when governments around the world are increasingly seeing pension funds as a possible solution for the long-term funding gap for infrastructure, the overall decline in the availability of capital from the top pension funds is a sobering finding," said Andy Thomson, senior editor of Infrastructure Investor.

The UK government late last year launched an investment scheme to expand the country's network of motorways and rail tracks, a plan for which it hopes to attract £20bn in pension fund money.

But in the past 12 months, the global amount of private fund capital injected into investments that are seen as vital for any economy to operate has shrunk to $171.5bn compared with $183.1bn in the year before, according to the research.

Investment banks, which dominated the sector in the past decade, have been overtaken by independent fund managers for the first time, it shows.

Australian banks such as Macquarie and Babcock & Brown, as well as US investment banks such as Goldman Sachs and Morgan Stanley, used to be the biggest investors in the sector with private-equity style, often heavily leveraged, investment strategies.

That trend has reversed, with Babcock & Brown collapsing during the financial crisis and other banks pulling back as they seek to shrink their balance sheets.

The most recent example is Deutsche Bank, which is selling its Rreef infrastructure and real estate investment arm to Guggenheim Partners.

The research shows the emergence of a new breed of independent infrastructure investors such as Arcus and SteelRiver, both of which are run by former Babcock & Brown managers. It also highlights how Canadian pension funds such as QIC, Ontario Teachers' Pension Plan and Omers are pushing into the sector.

In addition, there is increasing interest from China. In January, China Investment Corporation, the $410bn sovereign wealth fund, took a 8.68 per cent stake in the holding company of Thames Water, the group that serves London's water network.