Press Release **Nice, London, Singapore, March 6, 2012**

EDHEC-Risk Institute research sees social infrastructure as too small and risky to be attractive to pension funds

In a new study entitled "*Pension Fund Investment in Social Infrastructure: Insights from the 2012 reform of the private finance initiative in the United Kingdom*," EDHEC-Risk Institute has identified two fundamental issues that make social infrastructure potentially unattractive to pension funds: **in-built political risk and limited asset pool size**. *Social* infrastructure investments deliver public assets and services, such as schools and hospital buildings, in exchange for a revenue stream paid directly by the public sector. It is typically opposed to *economic* infrastructure, which collects revenues from end users and can include toll roads, airports or power generation.

According to the author of the research, Frédéric Blanc-Brude, Research Director at EDHEC Risk Institute—Asia, addressing the uncertainty created by political risk through a transparent and independent regulatory framework for long-term buy-and-hold investors like pension funds would make individual social infrastructure assets much more desirable investments in an asset-liability management context. However, until a much larger asset pool has been created, it is unlikely that pension funds will treat social infrastructure as an asset class demanding specific allocations, which would considerably increase the flow of funds towards social infrastructure that cash-strapped governments are now keen to see.

- **Risk transfer without transparent regulation breeds political risk**

The mechanism creating the investment characteristics of social infrastructure investment generates political risk for investors: the political cycle almost always leads to the public sector reneging on prior commitments and re-regulating contracts. The current reform of the PFI is a case in point. Future reforms should aim to create a transparent and independent regulatory framework committing the public sector more effectively, while capping returns.

- **Social infrastructure is still too small to be considered an asset class**

The current size of the social infrastructure asset pool (USD100bn invested globally between 1995 and 2010, **mostly in the UK**) is such that modest allocations by major pension funds would lead to a rapid rarefaction of these assets. This could be the most challenging dimension of the promotion of infrastructure investment by pension funds. Infrastructure debt – the bulk of social infrastructure capital investment – is unlikely to be treated as a separate asset class by pension funds and thus to be the object of a specific asset allocation at the strategic level.

A copy of the EDHEC-Risk Institute study can be found here:

EDHEC-Risk Publication Pension Investment in Social Infrastructure

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About EDHEC-Risk Institute

Since 2001, EDHEC has been pursuing an ambitious policy in terms of international research. This policy, known as “Research for Business”, aims to make EDHEC an academic institution of reference for the industry in a small number of areas in which the school has reached critical mass in terms of expertise and research results.

Among these areas, asset and risk management have occupied privileged positions, leading to the creation in 2001 of a major research facility: EDHEC-Risk Institute. This institute now boasts a team of 80 permanent professors, engineers and support staff, as well as 18 research associates from the financial industry and 6 affiliate professors.

EDHEC-Risk Institute is located at campuses in Singapore, which was established at the invitation of the Monetary Authority of Singapore (MAS), the City of London in the United Kingdom, and Nice, France. In addition, it has a research team located in the United States.

The philosophy of the institute is to validate its work by publication in prestigious academic journals, but also to make it available to professionals and to participate in industry debate through its Position Papers, published studies and conferences. Each year, EDHEC-Risk organises two conferences for professionals in order to present the results of its research, one in London (EDHEC-Risk Days – Europe) and one in Singapore (EDHEC-Risk Days – Asia), attracting more than 2,000 professional delegates.

To ensure the distribution of its research to the industry, EDHEC-Risk also provides professionals with access to its website, www.edhec-risk.com, which is entirely devoted to international risk and asset management research. The website, which has more than 50,000 regular visitors, is aimed at professionals who wish to benefit from EDHEC-Risk’s analysis and expertise in the area of applied portfolio management research. Its monthly newsletter is distributed to more than 1,000,000 readers.

EDHEC-Risk Institute also has highly significant executive education activities for professionals. In partnership with CFA Institute, it has developed advanced seminars based on its research which are available to CFA charterholders and have been taking place since 2008 in New York, Singapore and London.

EDHEC-Risk Institute has an original PhD in Finance programme which, in addition to its highly selective residential track for young talents worldwide, has an executive track for high level professionals who already have masters degrees from prestigious universities and significant industry experience. Complementing the core faculty, this unique PhD in Finance programme has highly prestigious affiliate faculty from universities such as Princeton, Wharton, Oxford, Chicago and CalTech.

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