



CHAPEL HILL DENHAM

Leveraging the Debt Capital Markets for Infrastructure Development

August 2020

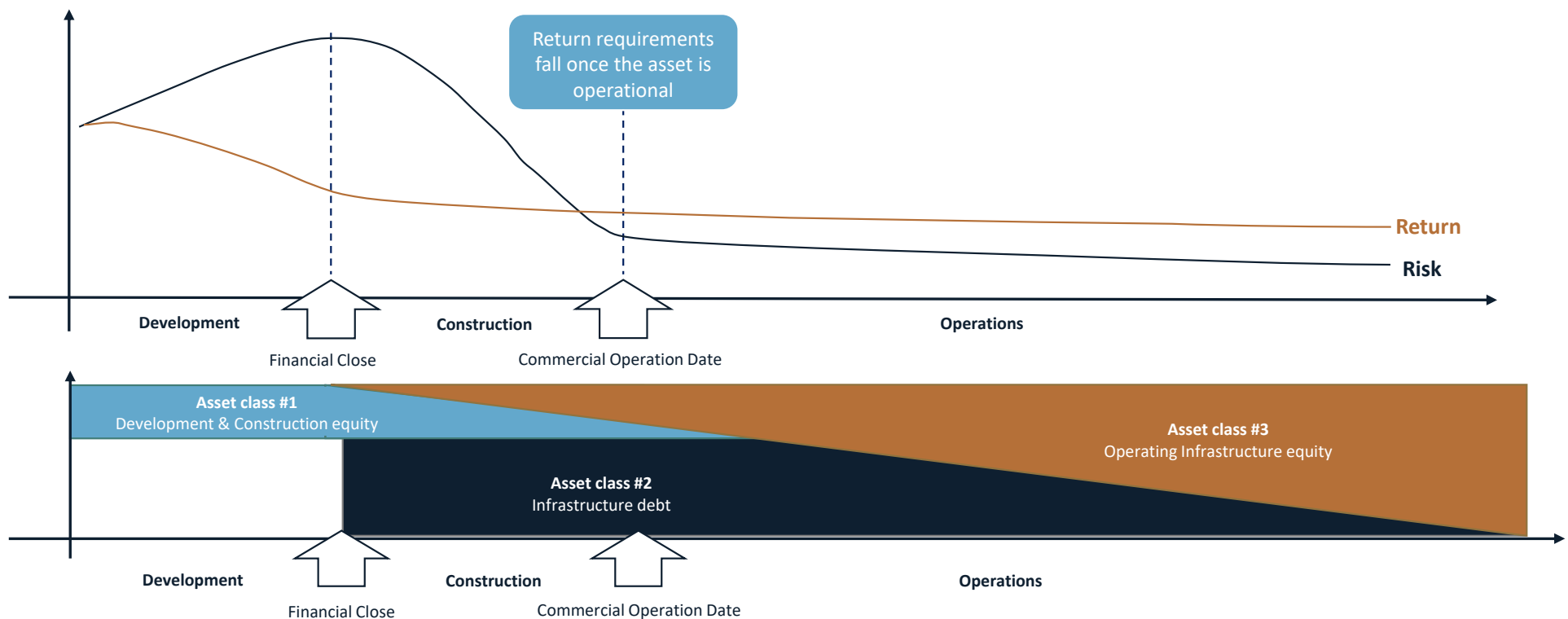


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Market Background

Infrastructure Strategy

Chapel Hill Denham views infrastructure as 3 asset classes, not 1



Infrastructure is the cornerstone to growth CHAPEL HILL DENHAM

Huge interconnectivity between key issues that need addressing in Nigeria and Infrastructure transforms the economy, creating jobs

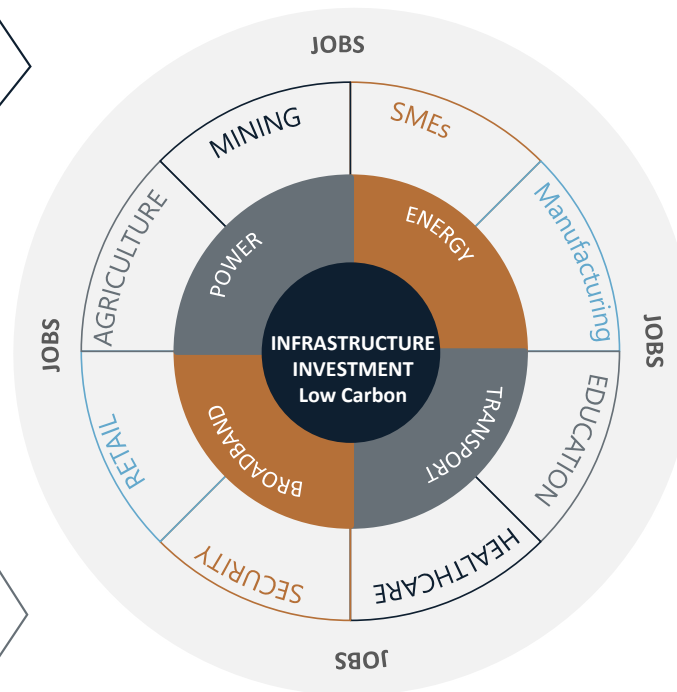
Nigeria's Infrastructure "iceberg"

We are only scraping the surface: only if investment in infrastructure grows by 15-18% a year can we reach 8% economic growth



SMEs and MSMEs

Represent the lifeblood of the economy employing over 41 million. Good infrastructure unleashes this potential



Education and Healthcare

Investment in people is critical to the long-term success of the country



Affordable Housing

Huge housing gap to be addressed across the country



Financing Low Carbon Resilient Infrastructure

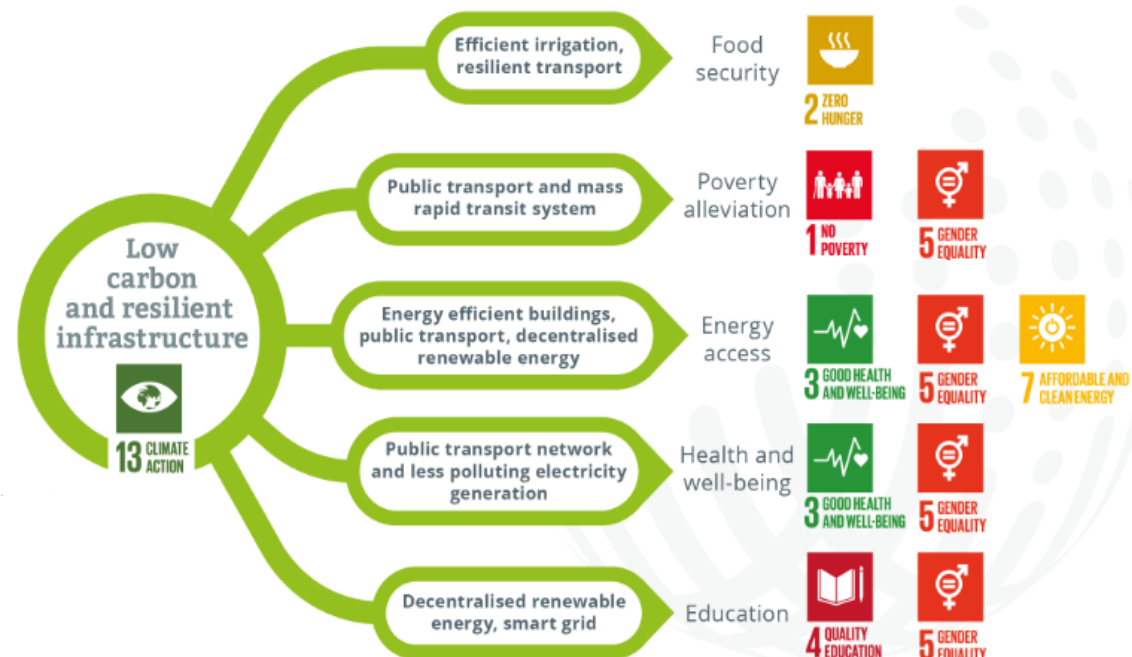


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- Around 70% of the world's infrastructure needs is in emerging markets
- Approx. 70% of greenhouse gas GHG emissions come from infrastructure
- Building high carbon infrastructure will lock the world into a high carbon path
- Bad infrastructure kills—increasing air pollution, exacerbating urban congestion and degrading the environment.

- The net costs of building LCR infrastructure are potentially net positive
- LCR infrastructure investment needs and constraints on public sector balance sheets mean that private capital will need to play a key role in financing such investments.
- In fact, private capital could provide up to half of the finance needed to build the LCR infrastructure.

The links between **low-carbon, climate-resilient infrastructure** and the SDGs



Sustainable Finance is accretive to all the 17 SDGs

FGN CAPEX: a Perspective

Only if Infrastructure spending increases by 15-18% p.a. will GDP grow by 10%



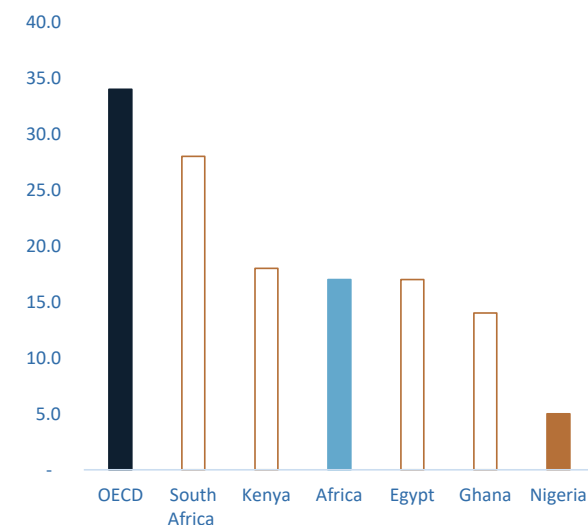
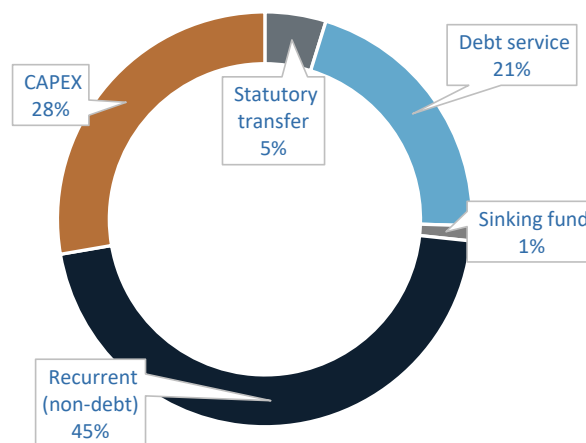
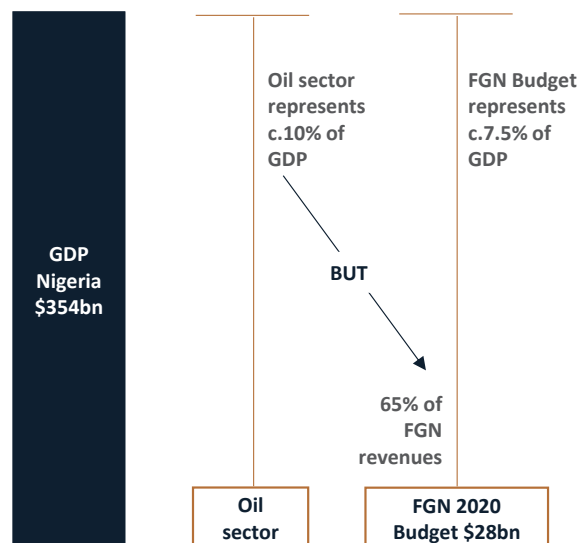
Federal Budget



FGN 2019 Budget breakdown



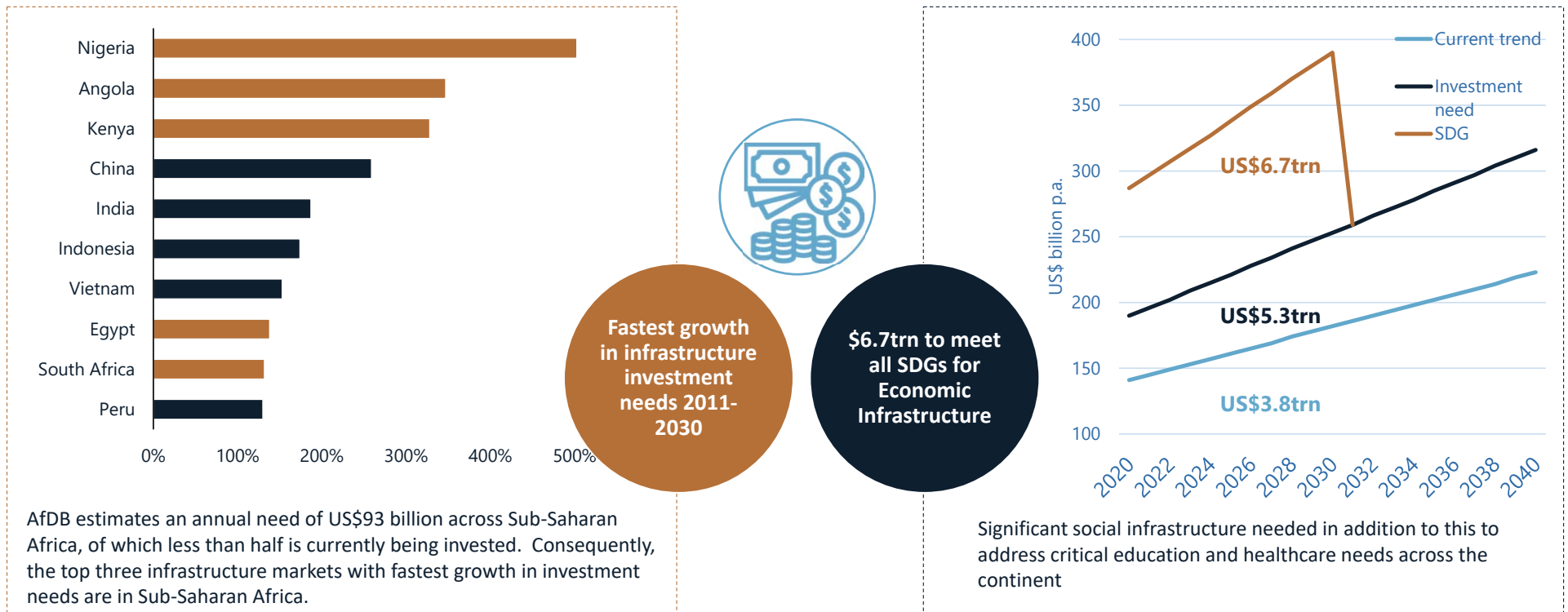
Tax-to-GDP (% GDP)



28% of budget (7.5% of GDP) spent on CAPEX = 2.1% of GDP: Wallet for infrastructure is inadequate without private capital

Africa: Long-term Market Potential

Long-term the investment opportunities will grow exponentially given the size of the geography and the scale of investment needed



Nigeria's infrastructure "iceberg"


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 **THE WORLD BANK**
IBRD • IDA
Infrastructure Finance, PPPs & Guarantees


AFRICAN DEVELOPMENT BANK GROUP
Building today, A better Africa tomorrow


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Nigeria Infrastructure Debt Fund


NATIONAL PENSION COMMISSION


AFC
AFRICA FINANCE CORPORATION

 
ARM Harith
INFRASTRUCTURE FUND MANAGERS


EMERGING AFRICA INFRASTRUCTURE FUND


InfraCredit
Securing Infrastructure Finance


GuarantCo
GUARANTEES FOR DEVELOPMENT

WB PPI database has 53 projects identified totalling US\$10bn of total investment since 1997

Total loans to Nigeria across all sectors \$1.6bn. 2019 \$150m

AUMs ~~£~~60bn 30/6/20

Total infrastructure investments ~~£~~55bn 31/5/20

US\$1.8bn assets in West Africa 31/12/19

AUMs ~~£~~2.56bn in Nigeria per SEC 31/12/19

Total disbursed, 10 loans, US\$325m 31/12/19

Core + callable capital US\$75m, website

6 guarantees in Nigeria, (inc. US\$50 for Infracredit) total: US\$140m, website

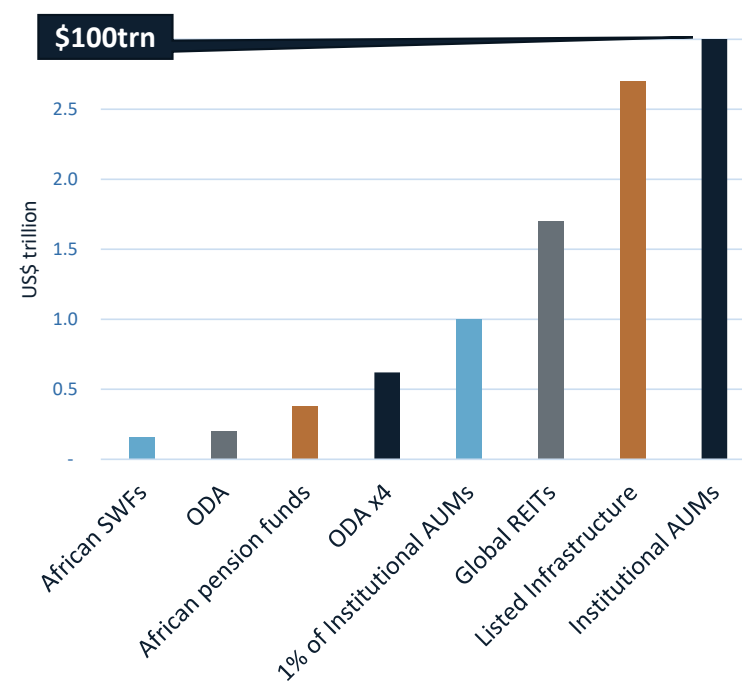
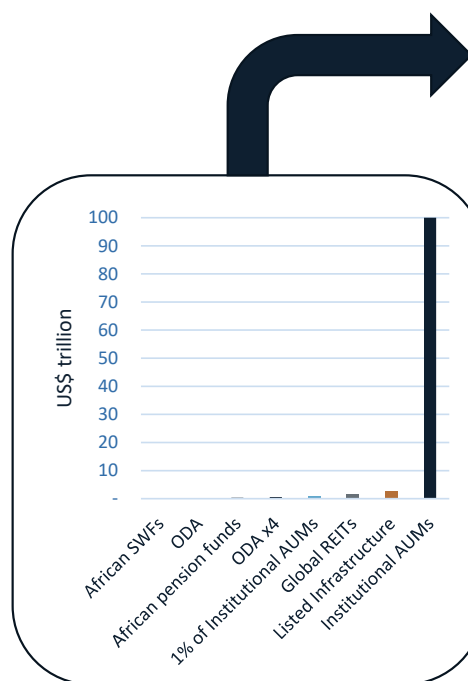
We're only scraping the surface. Only if investment in infrastructure grows by 15-18% a year can we reach 8% economic growth

Institutional Capital: a Perspective

Unlocking institutional capital domestically, regionally and globally is the only way to deliver infrastructure for Africa

Total Institutional AUMs are approx.
US\$ 100 trillion, meaning:

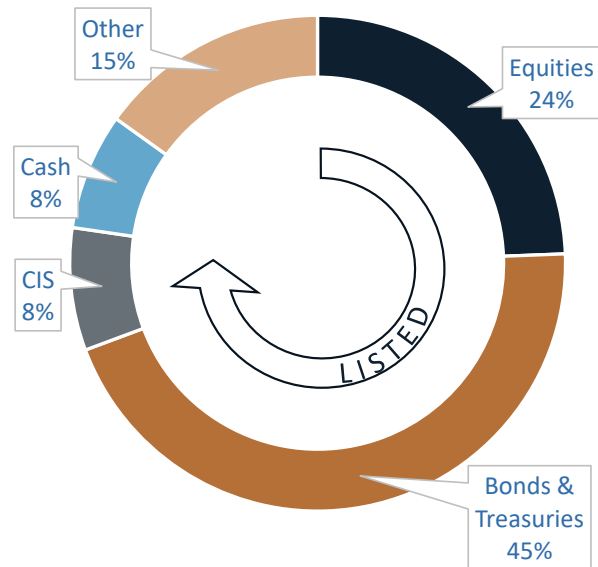
1. Aggregate ODA is a fraction of 1% of institutional AUMs
2. Even 4x ODA is < 1% of institutional AUMs
3. Global listed infrastructure totals \$2.7 trillion
4. Global REITs total \$1.7bn
5. African pension funds + African SWF capital is 2x global ODA



The Need for Market Solutions

Private capital will be pivotal in Infrastructure financing and the markets through bonds, funds represent a sustainable funding source

Average OECD pension fund allocation, 2019



Market Solutions

1.

Listed Product

Institutions look to invest in cash or listed instruments: 85% of allocation in OECD

2.

Diversification

Institutions seek portfolio risk and not individual project risk by investing through funds (CIS)

3.

Investment themes

ESG
Green Investments
Shariah investments



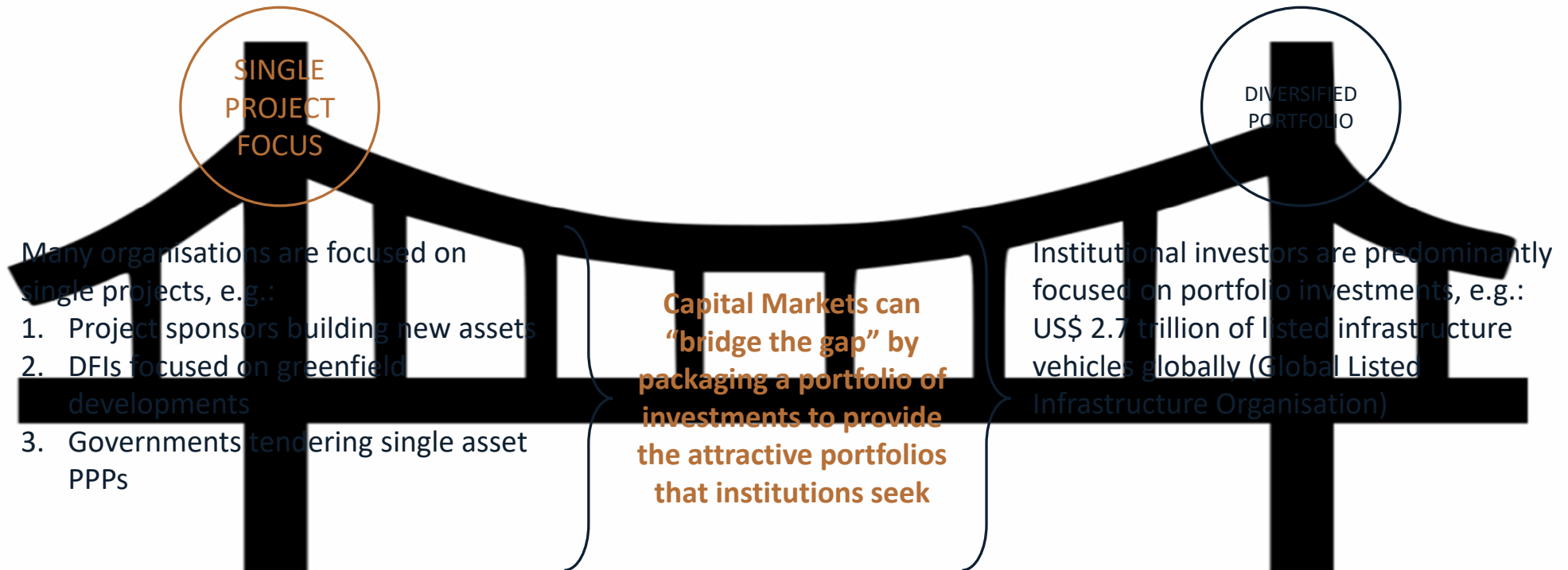
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Approach to Capital Markets

“Packaging”: Part 1



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“Packaging”: Part 2



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Corporatising

- › Portfolios of infrastructure assets can either be sold in corporate vehicles (companies or closed-end investment companies) or in funds
- › With Real Assets the majority of portfolios are structured in corporate rather than fund structures as the tenor of the assets, and predictability of income works best in a corporate structure and allows the corporate be listed (debt and/or equity)
- › The governance requirements of corporates is also well understood and investors clearly prefer the security of the corporate structure

Project finance tenor

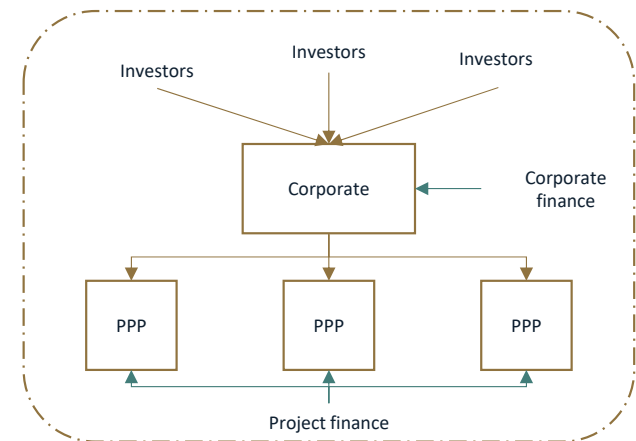
Equity

Debt

- › Efficient capital structures will blend equity and debt finance
- › Given the predictability of revenue in a regulated or concession-ed infrastructure asset identifying sources of long-dated project finance debt is critical to achieving the optimal capital structure
- › Under Basle 3 Banks are not positioned to provide long-dated project finance debt
- › But debt capital markets can

Multiple financing solutions

- › PPPs are successful structures at raising project equity or project finance, but to address a large investor base they can be packaged in a corporate portfolio rather than sold individually:



“Packaging”: Part 3



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Currency

Consumers of infrastructure typically pay:

- US\$ in B2B arrangements (e.g. port or airport facilities, some towers)
- LCY [local currency] in B2C scenarios (e.g. mobile phone bills, tollroads, train tickets, energy consumption, broadband, water, etc)

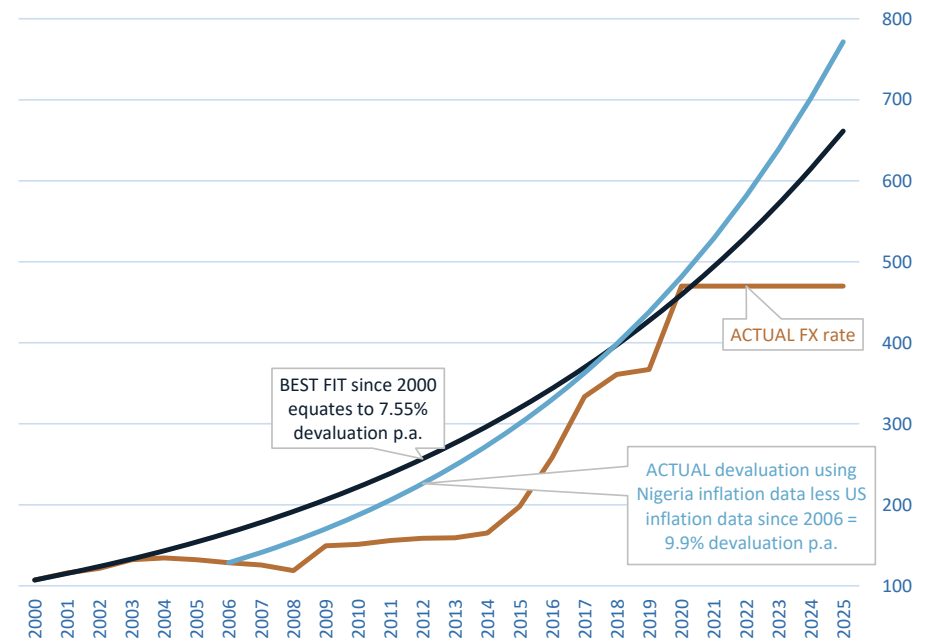
All G20 countries finance their infrastructure in their own currency. Elsewhere, financing can only be obtained in US\$ and so the offtaker (typically a sovereign) is obligated to take the US\$ risk.

In the African context:

1. **South Africa**, in common with all other G20 countries, finances almost all infrastructure in LCY
 2. **Egypt's** recent solar projects have been 30% LCY and 70% US\$
 3. **Nigeria's** private-sector infrastructure is often LCY financed
- But the rest of the continent is effectively US\$ denominated

Relying on Sovereign-backed, US\$-denominated projects is a huge constraint on development as it creates an expensive exposure to the US\$. Sourcing LCY finance is critical to scaling infrastructure investment and that's where debt capital markets can help.

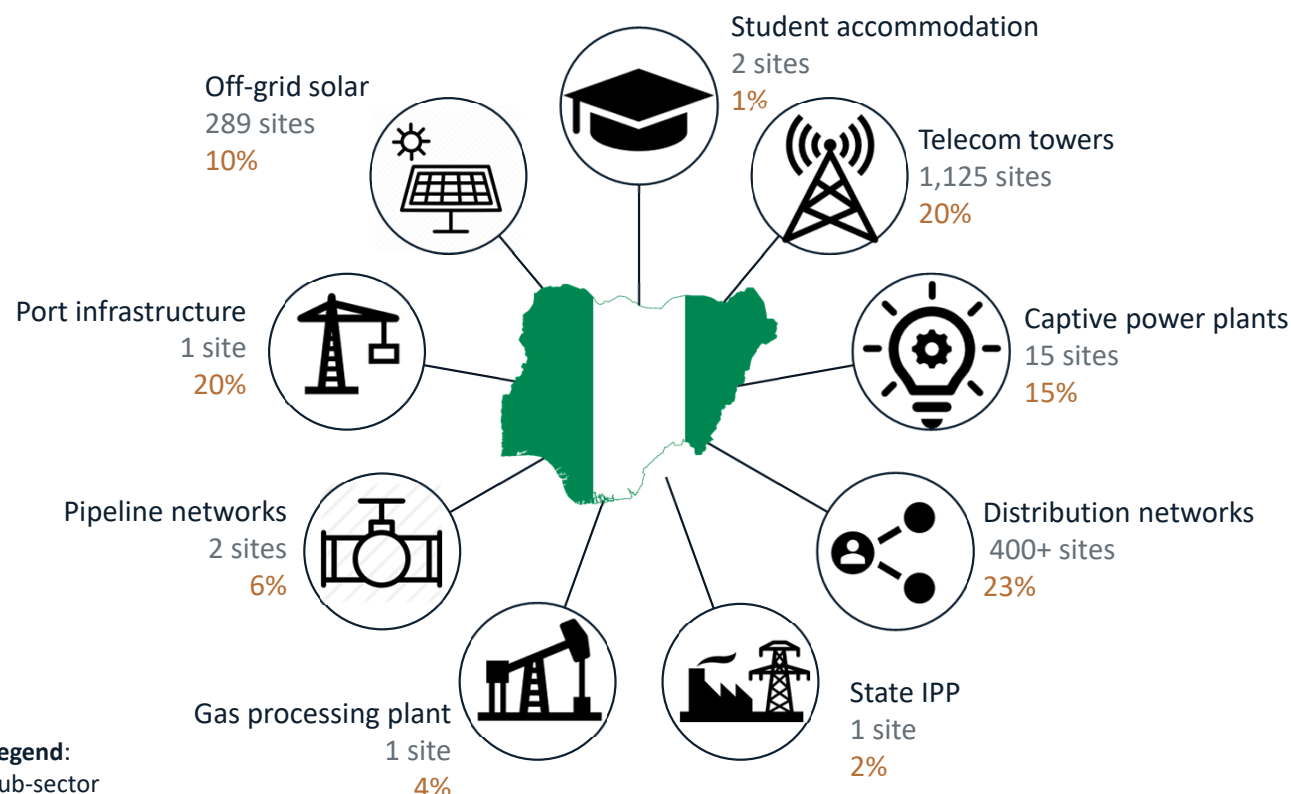
Performance of NGN:USD



NIDF: Investment portfolio



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Legend:
 Sub-sector
 Scope of financing
 % of loan portfolio

**Includes pending disbursements

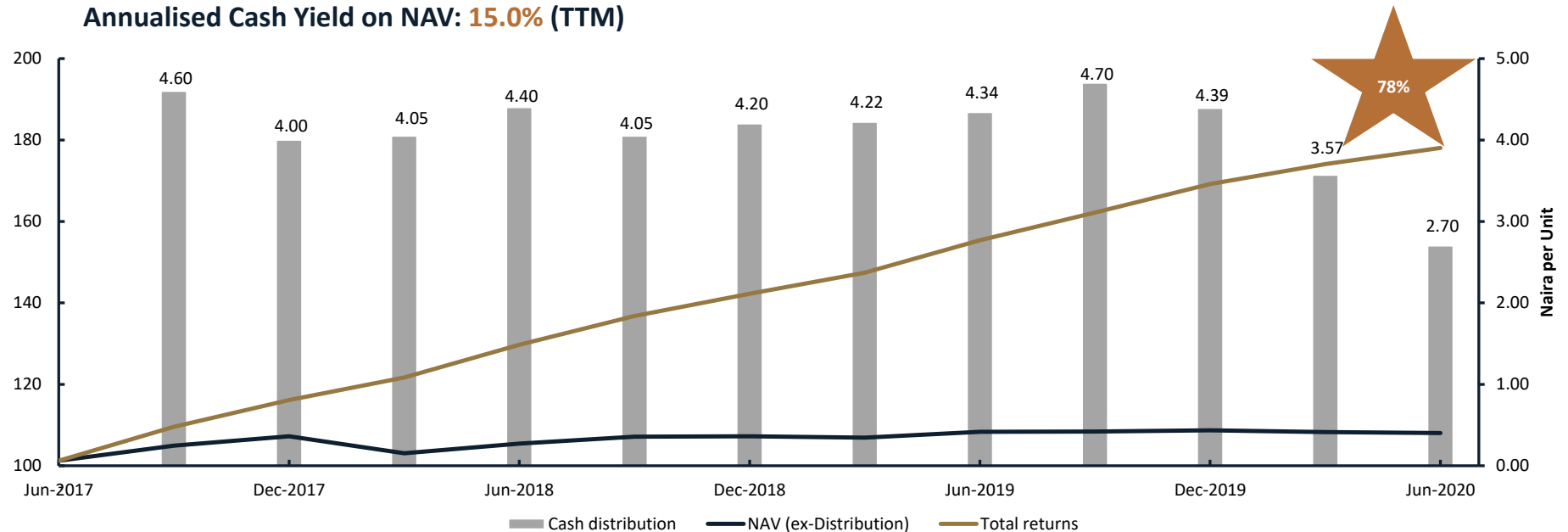
- ✓ **NGN and listed entity, to address key project finance risks of currency + tenor.**
- ✓ **Added to infrastructure stock and written loans out to 12 years.**
- ✓ **Crowded in capital from 23 PFAs, NSIA and in Series 7, the AFDB.**
- ✓ **Created direct + indirect jobs**
- ✓ **Reduced circa 1.2m tonnes of CO2 emissions.**
- ✓ **Since June 2017, NIDF has delivered a 78% total return (assuming cash distributions were reinvested)**
- ✓ **NIDF has distributed ₦10.73bn in 1 interim and 12 quarterly distributions.**

NIDF return performance

NIDF Total Returns since inception: **78%** (assuming reinvestment of distributions)

Quarterly compounded cash return: **16.3%** (TTM)

Annualised Cash Yield on NAV: **15.0%** (TTM)





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Thank You