

Infrastructure Partnership – The Concept

In order to build (and rebuild) the system of buildings, roads, hospitals, schools, power supplies, etc. needed to sustain the country, America needs large, stable, long-term capital sources that can make long term investments that generate sustainable risk adjusted returns. Public pension funds, with over \$3 trillion in assets under management, are uniquely situated both in terms of capital available for investment and institutional interest in risk adjusted income producing opportunities, to sponsor and create an appropriate investment vehicle. At the same time, the Federal government is committed to a substantial infusion of capital designed to create jobs and rebuild America's infrastructure for the 21st Century. The benefits of collaboration between the Obama Administration and the pension funds could be enormous.

Wall Street and its financial engineering has wreaked havoc on public pension fund portfolios, the American public, and state, local and municipal governments. Entering into deals with these same players with the current offering of private equity style infrastructure funds (and fees) may not be attractive or prudent.

State Treasurers have a vested interest in shaping the national infrastructure debate, both in their role as Chief Financial Officers and, in many states, as fiduciaries of public pension funds. As such, one model would construct a vehicle with pension fund capital in such a way to allow the funds to get reasonable bond like returns over a more normal market cycle. Such a model could also mitigate actuarial losses (which will ultimately result in higher contributions by state and local governments to pension funds), and protect and create jobs. The Federal government would benefit from having a partner in the redevelopment of our infrastructure and sources of capital that would not increase the strain on our national deficit.

Models:

- Pools of capital managed by private investment firms hired as a result of a joint competitive process set up by participating fund.
- Pools of capital invested alongside the federal government with a government guarantee/insurance.
- Infrastructure development funds set up by public/private entity in which funds would be limited partnerships that invest equity or debt.

Next Steps:

Establish a working group of pension fund officials and treasurers to:

1. Meet with the Obama Administration, Senator Dodd, Representatives DeLauro and Frank, to explore joint strategy on an infrastructure bank (See National Infrastructure Bank Act of 2007).
2. Join request for information from infrastructure consultant PCA to obtain information from managers.
3. Assign staff and consultants to work collaboratively in developing models.