



## Session 023: Anatomy of a Deal: Infrastructure Investing and the Importance of ESG

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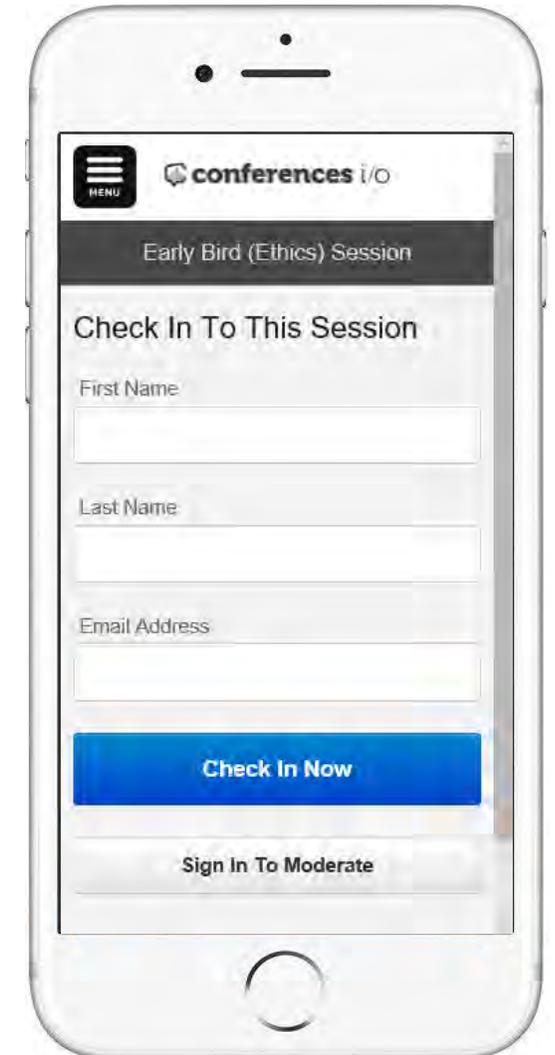
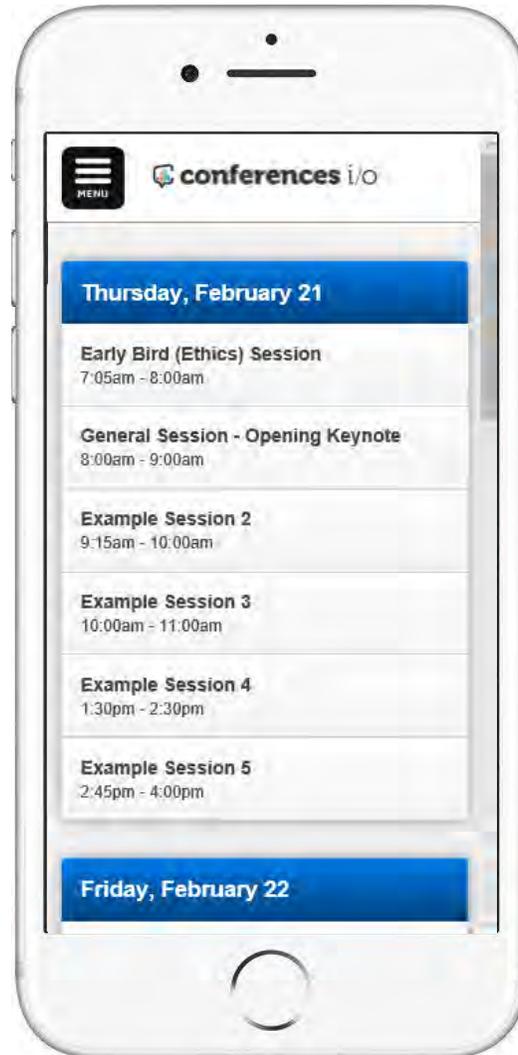
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# Infrastructure: Anatomy of a Deal

2019 **ANNUAL  
MEETING**  
& EXHIBIT

October 28, 2019

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Vice President and Director  
TD Asset Management

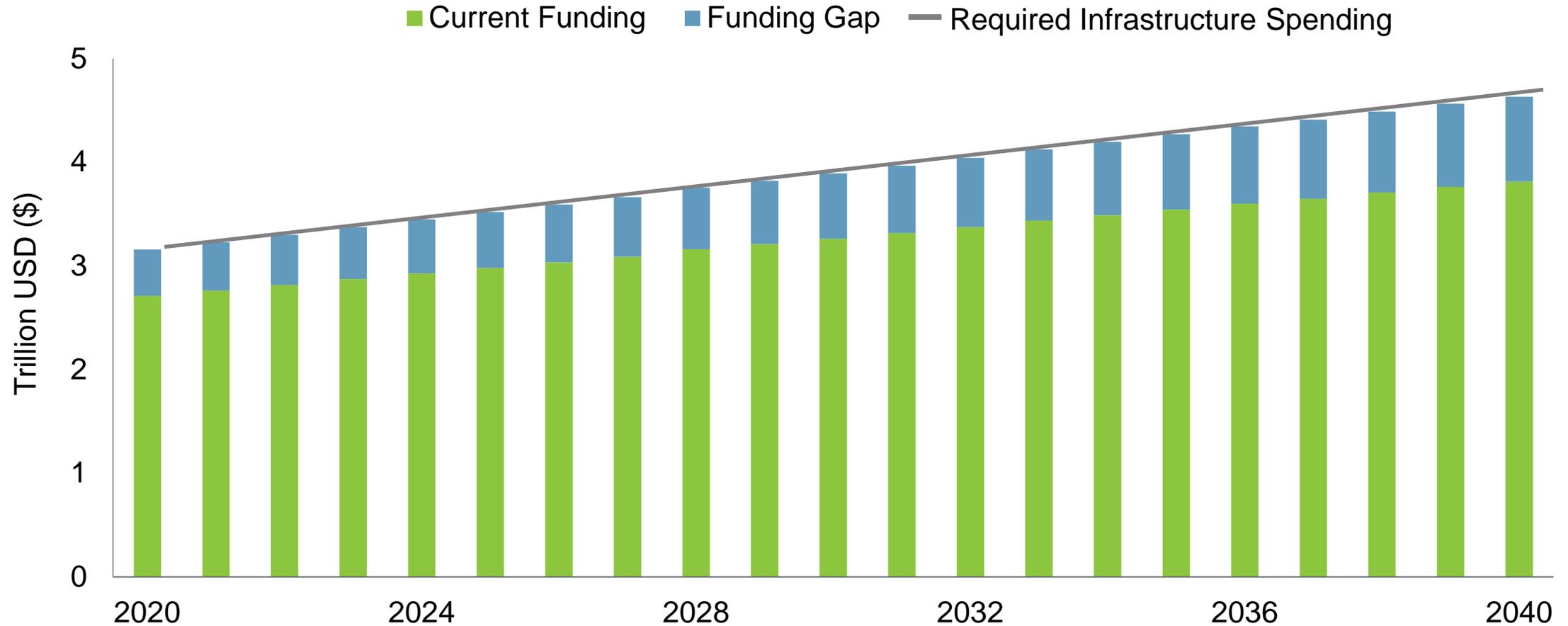
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Vice President & Director  
TD Asset Management

Francisca Quinn, MSC  
Founder and President  
Quinn & Partners Inc.

Matt Press, MBA  
Vice President  
Infrastructure Investments  
TD Greystone Asset Management



# Infrastructure Market Opportunity



Source: Oxford Economics and Global Infrastructure Hub, a G20 initiative. As of June 2018

# Essential Physical Assets





# Example ESG

## Example ESG Considerations In Infrastructure

### Environmental

- Regulatory compliance
- Climate change and resilience
- Greenhouse gas emissions
- Biodiversity

### Social

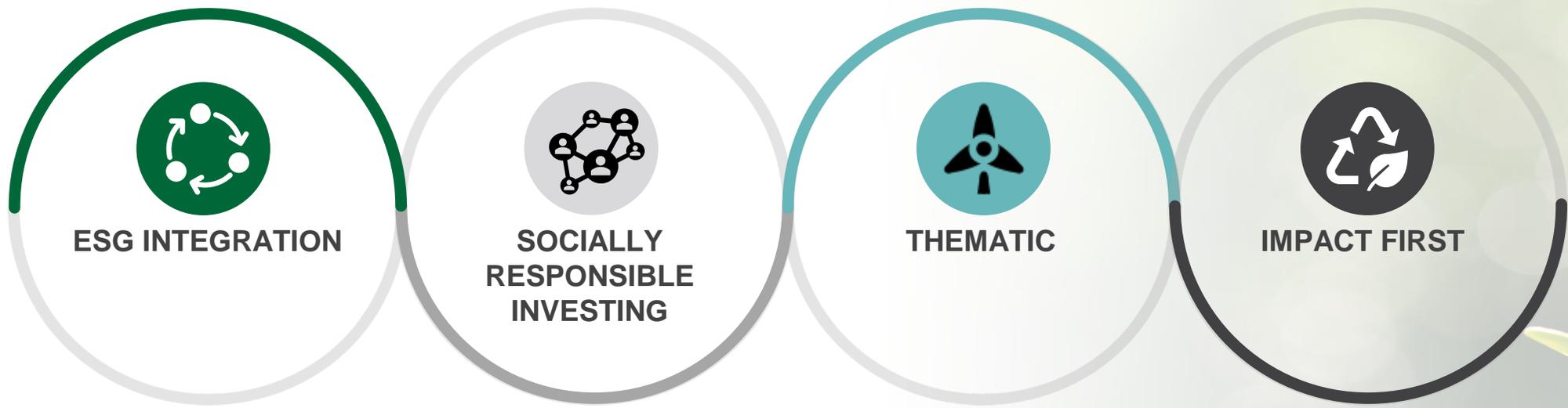
- Health and safety
- Supply chain management
- Indigenous and community relations

### Governance

- Board independence and composition
- Ethical business conduct
- Whistleblower protection



# ESG Investing Strategies



- ESG risks and opportunities systematically integrated into investment process
- Complement to financial analysis

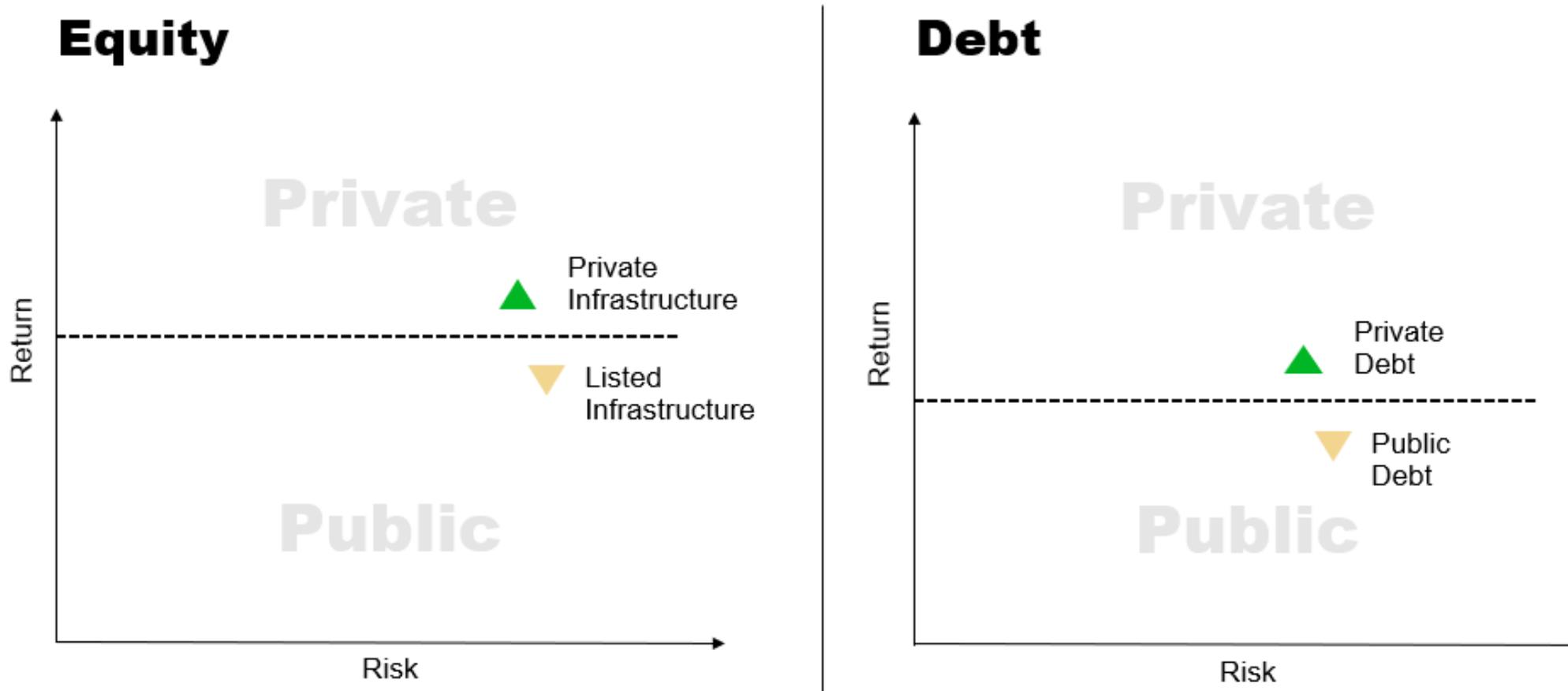
- Negative and positive screening of ESG factors to align investment with specific values
- Sector or country restrictions

- Focus on ESG factors where social and environmental needs create commercial growth opportunity

- Focus on ESG factors where social and environmental needs may require financial return trade off

Source: Quinn & Partners adapted from Responsible Investment Association of Canada and Bridges Ventures Research.

# Why Invest In Infrastructure?



Seeks to **Enhance Returns**

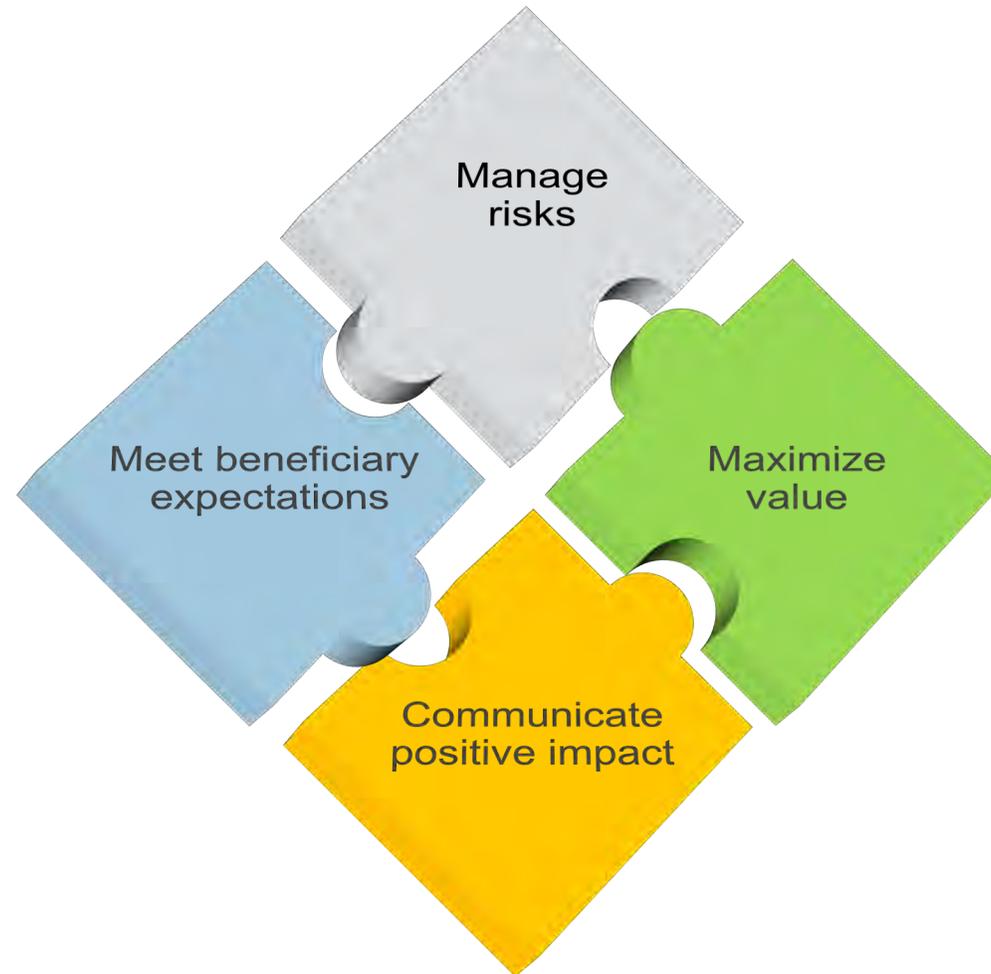
Lower Risk

Add Diversification

The TD Greystone Infrastructure Strategy includes the Greystone Infrastructure Fund (Global Master) LP, the Greystone Infrastructure Fund (Canada) LP, and the Greystone Infrastructure Fund (Canada) LP II and is currently only offered through TD Greystone Asset Management. The Greystone Infrastructure Fund (Canada) LP is only offered to Canadian Institutional Investors. For more information on the strategies and products shown please visit [Greystone.TD.com](https://www.greystone.td.com). For illustration purposes only. Source: TD Asset Management and TD Greystone Asset Management



# Risk Management and Value Maximization Drivers For Infrastructure ESG Integration



Source: Quinn & Partners research



# Compatible With Performance

## Empirical Evidence



Companies with high ESG ratings outperform the market benchmark (MSCI, Dow Jones, S&P)



Companies with good ESG performance have higher valuation multiples and profit margins



Companies that report transparently on most material ESG issues produce 5-6% higher annualized alpha



Companies with ESG track record are associated with fewer bankruptcies, less price volatility, downgrades and higher overall ROE

Sources: MSCI, Dow Jones, S&P, Boston Consulting Group, Harvard Business School, Bank of America Merrill Lynch

# Anatomy of a Deal Wind Farms

## Risk factors to consider

- Wind resource
- Turbine performance and reliability
- Power purchase agreement
- Counterparty creditworthiness
- Operations and maintenance
- Capital structure
- Shareholder governance
- Responsible contracting & supply chain
- Community relations & social license



# Return Profile



The TD Greystone Infrastructure Strategy includes the Greystone Infrastructure Fund (Global Master) LP, the Greystone Infrastructure Fund (Canada) LP, and the Greystone Infrastructure Fund (Canada) LP II and is currently only offered through TD Greystone Asset Management. The Greystone Infrastructure Fund (Canada) LP is only offered to Canadian Institutional Investors. For more information on the strategies and products shown please visit [Greystone.TD.com](http://Greystone.TD.com). For illustrative purposes only.

# Ballycadden Wind Farm



Ireland



## Portfolio Construction

- Renewable Energy
- Europe
- Core

## Investment Fundamentals

- 24 MW operating wind farm
- 5+ years of stable operating performance
- 15-year power purchase agreement

## Value Drivers

- Sourced on exclusivity basis
- Majority ownership with strong governance
- Strategic partnership with seller
- Growth platform targeting subsequent acquisitions in Ireland

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Source: TD Greystone Asset Management.

# Transaction Process Equity



# Underwriting Process Equity

## Initial Deal Screening

Investment Committee Memorandum



### Investment Overview

- Size and Return
- Portfolio Construction
- Key Value Drivers



### Merits & Risks Assessment

- Risk Return Analysis
- Capital Structure



### Asset Overview

- Business Model
- Technical Condition
- Historical Performance



### Valuation

- DCF model & Comps
- Expected cash yield
- Downside sensitivities



### ESG

- Due Diligence Toolkit
- Health & safety assessment
- Emissions calculator

### External Advisors

Legal & Tax Structuring

Independent Engineer

Financial Due Diligence

Valuation

Market Consultants

Valuation Model

Purchase & Sale Agreement

Source: TD Greystone Asset Management.

# Select Issues In Detail

## Equity Perspective



### Wind Resource

- Volume risk if there is less wind

### Power Purchase Agreement

- Contractual and counterparty risk

### Turbine Performance

- Technical condition and operating life estimates

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Source: TD Greystone Asset Management.



# Applicable Across Investment Process

## ESG Investment Integration

ESG governance and strategy

ESG research and  
due diligence

ESG monitoring and  
engagement

ESG reporting

Source: Quinn & Partners research

# Hornsea 1



**Institutional Deal of the Year: Hornsea 1**



Source: TD Private Debt PFT. Photo Source: DNVGL

## Transaction Profile

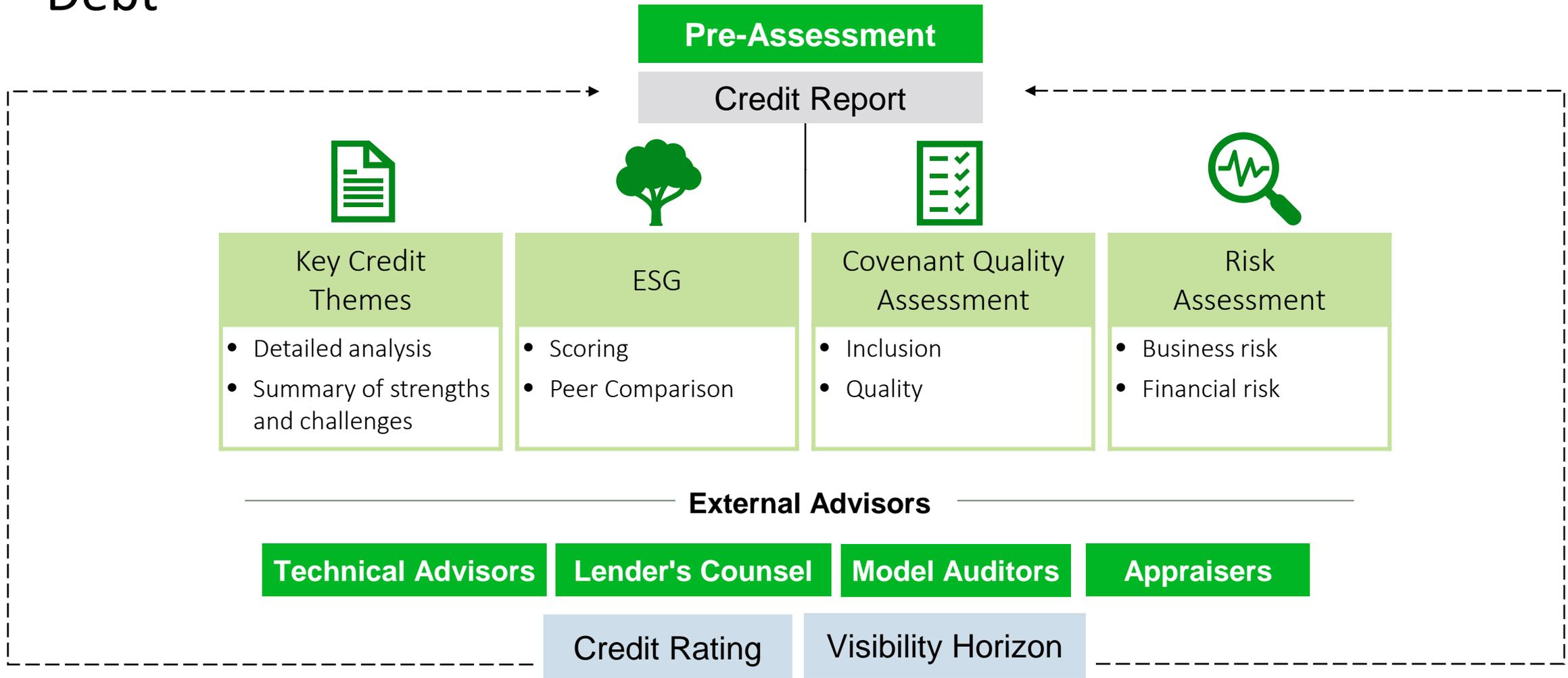
|                    |  |
|--------------------|--|
| Location           | North Sea, UK                                      |
| Sponsor            | 50% Global Infrastructure Partners (GIP)           |
| Deal size          | Fixed rate £1.1 billion<br>Total deal £2.7 billion |
| TDAM hold          | Fixed rate debt £21.5 million                      |
| Term               | 18 years   |
| Transaction source | Traditional dealer                                 |
| Closing date       | November 2018                                      |

# Transaction Process

## Debt



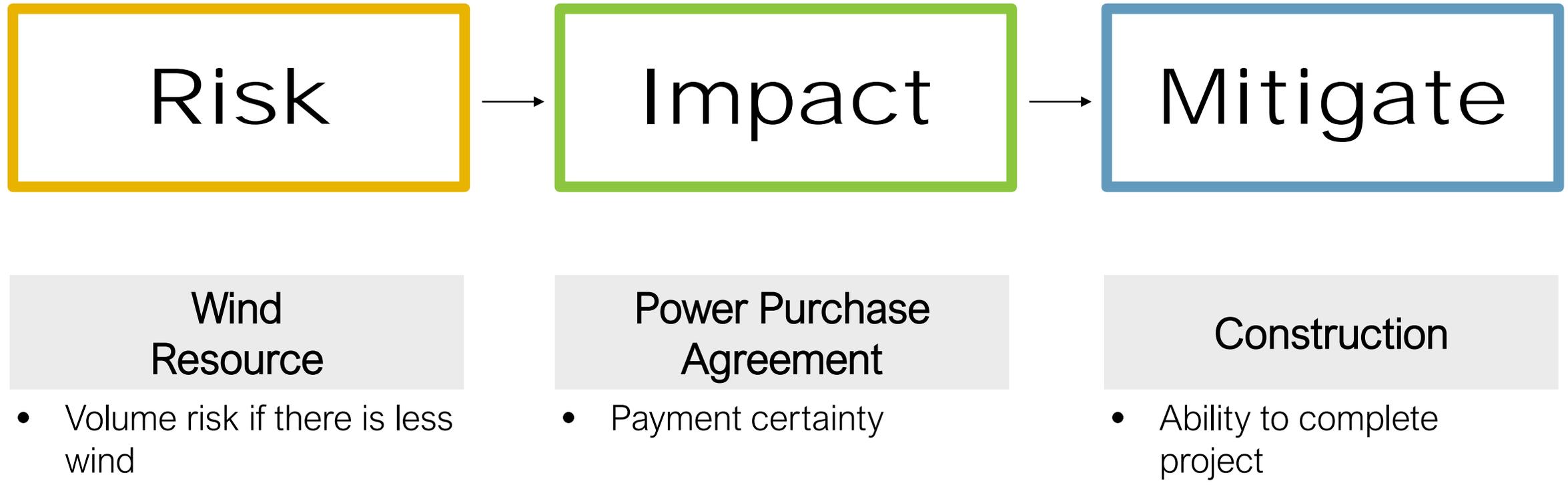
# Underwriting Process Debt



Source: TD Asset Management.

# Select Issues In Detail

## Debt Perspective



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 Source: TD Greystone Asset Management.



# ESG Standards

## Principles For Responsible Investment (PRI)



- **Global investor network**
  - 2,515 signatories (Sep 2019)
    - 73 new in US 2019 (YTD)
    - 14 new in Canada 2019 (YTD)
  - USD \$89.7 trillion AUM
- **Signatories commit to ESG integration**
- **Report on ESG integration practices**
- **Infrastructure investors report on:**
  - Policy
  - ESG in investment and due diligence
  - ESG monitoring
  - Underlying asset ESG metrics

Source: Principles for Responsible Investment, 2019



# ESG Standards

## Real Assets Sustainability Benchmark (GRESB)



- **Global standard for assessing ESG**
- **2019 participation**
  - 107 infra funds
  - 393 infra assets
  - USD \$935 bn AUM
- **Two assessments**
  - Fund Assessment – Evaluates manager ESG practices
  - Assets Assessment – Benchmarks infra assets ESG compared to like assets
- **Used primarily by fund investors**
  - Investors to evaluate managers and funds
  - Fund managers to monitor asset ESG performance

Source: GRESB Infrastructure, 2019

# Key Takeaways

- Significant market opportunity as the world **adds over \$80 trillion of infrastructure investment** in the next 20 years
- ESG integration is about using **information** to **actively manage risks** and opportunities
- While complicated, **a disciplined, active approach** to private asset classes can yield better results



# Biographies

## **Nilesh Patel, CFA, Vice President**

**23 years experience**

Nilesh Patel joined TD Asset Management (TDAM) in April 2012. He is a member of the external distribution team and leads TDAM's institutional business development and marketing efforts in the U.S. Nilesh maintains ongoing dialogue with current and prospective clients to ensure that TDAM fully understands their current and evolving needs, and takes a proactive approach to providing investment solutions and operational excellence. Prior to joining TDAM, Nilesh spent 16 years with an HR consulting firm as a retirement consultant and relationship manager. His responsibilities included developing cost and risk mitigation strategies for some of the largest pension plans in the country. Nilesh has a Bachelor of Mathematics degree from the University of Waterloo and is also a Fellow of the Canadian Institute of Actuaries and Society of Actuaries. He also serves on committees within the North American actuarial profession.

## **Craig Buckley, ACA, Vice President & Director**

**19 years experience**

Craig Buckley joined TD Asset Management Inc. (TDAM) in September 2015, and brings over 19 years of relevant experience in Canada, Europe and USA. He is responsible for TDAM's global investments in private debt, with a focus on originating and structuring infrastructure debt transactions. Prior to TDAM, Craig was co-head of Infrastructure for the North American team of a global bank with a specialist focus on the infrastructure and power sector. During this time, Craig was responsible for raising over \$2 billion in committed finance for public private partnership ("PPP" or "P3") projects in Canada. Craig also worked for a firm providing assurance, advisory and tax services in London, UK. Here, Craig was on the Project Finance/Infrastructure team where he structured and advised on a number of the early high profile P3 projects in the UK and European markets, across a wide variety of sectors. Craig is a Chartered Accountant and holds an MA (Hons) from the University of Cambridge.

## **Matt Press, MBA, Vice President**

**12 years experience**

Matt Press is Vice President, Infrastructure Investments at TD Greystone Asset Management. He joined the firm in early 2015, and is responsible for origination, evaluation and monitoring of TD Greystone's infrastructure assets. Matt is also involved in business development activities and investor relations, and serves on the boards of several investments in TD Greystone's infrastructure portfolio including Silicon Ranch Corporation, WCSB Power Holdings LP, and Ballycadden Wind Farm. Matt recently led TD Greystone's acquisition of the \$1.7 billion Alberta PowerLine LP, the owner and operator of the Fort McMurray West Transmission Project, a 500km transmission line providing electric transmission service between the Edmonton and Fort McMurray regions. Matt holds an Honours Bachelor of Business Administration degree in Finance and a MBA from York University's Schulich School of Business. He currently sits on the Buildings and Property Sub-Committee of Mount Sinai Hospital and previously served as Board Chair of the Learning Disabilities Association of Toronto District

## **Francisca Quinn**

**20+ years experience**

Francisca is the Founder and President of Quinn & Partners Inc. and is an experienced management and sustainability consultant. She leads an advisory team that supports leading North American investors and companies to integrate, manage, monitor and disclose ESG strategies. For many clients, Quinn & Partners supports portfolio managers to drive ESG progress and report transparently to LPs. Francisca has in-depth expertise about the ESG issues that matter in real asset sectors. Through her work among alternative asset managers, she is familiar with various approaches to integrate ESG and how ESG expectations are changing. Francisca has a MSc in economics and business administration from Stockholm School of Economics and has held several consulting roles at Oliver Wyman, the Carbon Trust (UK) and WSP. In 2014 and 2018 Francisca was recognized as a Clean50 honouree for her contributions to clean capitalism in Canada. In her spare time, Francisca contributes to the work of non-profits No9 and Swim Drink Fish.

As of September 25, 2019

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