

Interim Management Statement

RNS Number : 2606X
GCP Infrastructure Investments Ltd
13 February 2012

GCP Infrastructure Investments Limited

Interim Management Statement

GCP Infrastructure Investments Limited (the "Company"), the listed infrastructure investment company, is issuing this Interim Management Statement in accordance with FSA Disclosure and Transparency Rule 4.3. This statement relates to the period from 1 October 2011 to 13 February 2012.

The Company seeks to generate returns from subordinated PFI debt and related and/or similar assets (the "Target Assets"). The Company achieves this by investing substantially all of its capital in GCP Infrastructure Fund Limited (the "Master Fund"), an open-ended investment company that holds the Target Assets. The Company is the majority shareholder of the Master Fund.

Highlights

- In December 2011 the Company successfully raised £67.4 million, with £63.7 million raised through a placing and offer for subscription of C shares and £3.6 million raised through arrangements for switching.
- 63.7 million C shares and 3.7 million ordinary shares were admitted to the Official List and to trading on the London Stock Exchange ("Admission"), taking the Company's issued share capital to 63.7 million C shares and 47.7 million ordinary shares.
- The Company invested £62.3 million in Master Fund C shares.
- During the period, the Master Fund made loan commitments totalling £40.4 million, of which £33.8 million has been drawn down. The loans are secured against UK PFI and similar projects.
- The Master Fund drew down £7 million under a revolving credit facility.
- The Company declared and paid a dividend for the six month period to 30 September 2011 of 3.00 pence per share.
- The NAV per ordinary share and C share as at 31 January 2012 was 99.33 pence and 97.90 pence respectively.
- The Master Fund's investments have all performed in line with expectations.
- The Company's annual financial report for the period from 21 May 2010 to 30 September 2011 was released on 8 November 2011.

Ian Reeves, Chairman of GCP Infrastructure Investments Limited, said:

"The investor support for December's £67.4 million capital raise demonstrated widespread confidence in the Company's investment proposition from both existing and new shareholders. As the banking sector becomes increasingly reluctant or unable to make long-dated loans, the Master Fund's position as one of the very few specialist lenders to the UK infrastructure sector will allow it to continue to take advantage of the significant pipeline of investment opportunities."

Capital raise

On 19 December 2011, the Company announced that it had successfully raised gross proceeds of £67.4 million, with £63.7 million raised through the placing and offer for subscription of C shares and £3.6 million raised through the arrangements for switching.

On 22 December 2011, 63,744,500 C shares and 3,661,012 ordinary shares issued in connection with the Company's placing and offer for subscription and arrangements for switching were admitted to the Official List and to trading on the London Stock Exchange.

As at 31 January 2012, the Company's issued share capital consisted of 47,657,012 ordinary shares of £0.01 each and 63,744,500 C shares of £0.01 each. The total issued number of shares with voting rights is 111,401,512.

Credit facility

On 11 November 2011, the Master Fund entered into a credit facility (the "RBSI Facility") with Royal Bank of Scotland International Limited ("RBSI"). The RBSI Facility is a revolving credit facility which is limited to a maximum of £7 million (the "Facility Amount") and can be used to finance investments by the Master Fund. It is expected that the RBSI Facility will be repaid from future subscriptions into the Master Fund or from the C share issue proceeds following conversion. It has a one year revolving period and a two year term. The RBSI Facility is currently fully drawn down.

Acquisition(s)

On 4 October 2011 the Master Fund committed to advance a series of loans of up to £15 million (the "ASG1 Loans"). The ASG1 Loans are expected to have a term of c.23.5 years and to generate a return within the target range of the Master Fund whilst benefitting from an element of inflation protection. £11.5 million has been drawn down to date. The ASG1 Loans are secured on a senior basis against the cash flows arising under the UK Government's Feed-In Tariff ("FIT") scheme from a portfolio of up to c. 1,500 domestic solar panel installations in England against a schedule of completed installations. The installations have been effected by A Shade Greener Limited.

On 30 November 2011, the Master Fund advanced a loan of £10.3 million (the "Education Loan") secured on a subordinated basis against an education PFI project comprising 3 schools (the "Project"). The Project is located in England and has been operational since 2007. The Education Loan has a term of c. 23 years and generates a return of c. 9.20% p.a. annual equivalent.

On 6 January 2012 the Master Fund committed to advance a further series of loans in an aggregate size of up to £15.1 million (the "ASG2 Loans"). The ASG2 Loans are expected to have a term of c.25 years and to generate a return within the target range of the Master Fund whilst benefitting from an element of inflation protection. £10.0 million has been drawn down to date, with the remainder expected to be drawn down over the next three months. The ASG2 Loans are secured on a senior basis against the cash flows arising under the FIT scheme from a portfolio of up to c. 2,000 domestic solar panel installations in England against a schedule of completed installations. The installations are being effected by A Shade Greener Limited.

Portfolio overview and performance

Through its investment in the Master Fund, the Company is exposed to a portfolio of 20 infrastructure loans (the "Loans"). The Loans have all been made against the performance of a number of availability based UK PFI projects and against cash flow receivable under the FIT scheme (the "Projects").

36% of the Loans are exposed to the healthcare sector, 26% to the education sector, 15% to FIT cash flows, 12% to the leisure sector, 8% to accommodation assets and the remainder to street lighting and housing projects. The weighted average expected remaining term of the Loans is twenty two years. The valuation of the Company's exposure to the Loans is £54.91 million (based on a valuation carried out by Mazars LLP, the Valuation Agent, as at 31 January 2012) and reflects a weighted average discount rate across the portfolio of Loans of c. 9.6%.

None of the Projects has reported any material operational performance issues during the period and, to date, all interest payments due under the Loans have been received in full.

George Osborne MP's Autumn Statement

In his Autumn Statement George Osborne MP, the Chancellor of the Exchequer (the "Chancellor"), said he had identified over five hundred new infrastructure projects that he would like to see built over the next decade at a cost of about £250 billion. The government also announced that it intends to raise two-thirds of the total infrastructure spend in the UK in the period 2012-2015 from the private sector. Given the continuing and increasing reluctance of the banking market to finance long dated infrastructure projects, the Chancellor has turned to pension funds in the hope that they will play an active and direct role in funding such expenditure. The Chancellor's plan appears to be to replace the private finance initiative with the pensions finance initiative.

Although the long-dated, secure, inflation-linked returns available on UK infrastructure investments suit the return requirements of pension funds, the devil will be in the detail of such a proposal. It remains unclear at what stage in the development of an infrastructure asset the pension funds will invest, whether the pension funds will be asked to provide debt or equity, what risks the government will be willing to guarantee and finally how the European Commission's plans to bring pension regulations in line with solvency regulation (Solvency II) will affect the ability of pension funds to fund infrastructure projects.

These questions alone suggest that a finalised and agreed structure for broad pension fund investment is some way off. As such, the Master Fund remains very well placed to continue to take advantage of its position as one of the very few specialist providers of long term debt financing to UK infrastructure projects.

Reduction in the Feed-in Tariff

On 31 October 2011, the Department of Energy and Climate Change issued a consultation that outlined proposed changes to the FIT for solar installations. For residential installations completed on and after 12 December 2011 it was proposed that the FIT would be cut from 43.3 pence per kw/hr to 21 pence per kw/hr, applicable from 1 April 2012.

The consultation process was successfully challenged in the High Court. The government subsequently appealed the decision and that appeal was turned down on 25 January 2012. The government is now seeking leave to appeal to the Supreme Court. As a result the position remains unclear, but the two most likely outcomes are either that the FIT remains unchanged for installations completed between 12 December 2011 and 1 April 2012, or that the consultation changes are upheld and the FIT remains at the reduced level. The Master Fund has assumed the latter basis when making loan commitments secured against installations installed on and after 12 December 2011.

Pipeline

The Investment Adviser continues to progress due diligence on a pipeline of debt investment opportunities with a value considerably in excess of the cash held by the Master Fund. Over a third of the proceeds from the C share capital raise have now been committed to investments, and it remains the expectation that the C shares will convert into ordinary shares within six months of Admission.

The secondary market for UK PFI assets remains active, with a number of formal sales processes either ongoing or imminently expected. The Investment Adviser continues to unearth smaller, less well-publicised transactions across a variety of PFI sectors such as council offices, emergency services, healthcare and education.

The Investment Adviser is actively seeking to fund a series of social housing projects backed by leases to registered social landlords and local authorities. This is an area with enormous potential for growth given the increasing need for social / affordable housing.

By working closely with the larger and more cost efficient solar installers who have the ability to continue operating under the revised FIT (as proposed under the consultation and discussed above), the Master Fund is still able to advance loans secured against FIT cash flows. The Master Fund is also looking at the refinancing of existing solar projects.

The balance sheets of senior lenders to the UK PFI sector remain under pressure from a regulatory and liquidity perspective. The Investment Adviser is in advanced discussions with a variety of lenders with regards to regulatory capital relief transactions and outright loan portfolio acquisitions.

Dividends

Following the receipt of a dividend from the Master Fund, the Company declared a final dividend on 16 November 2011 of 3.00 pence per share for the six month period to 30 September 2011. The dividend was paid on 23 December 2011 to shareholders on the register on 23 November 2011. The ex-dividend date was 23 November 2011.

Company's NAV performance

As announced on 6 February 2012 the NAV per ordinary share and C share as at 31 January 2012 was 99.33 pence and 97.90 pence respectively.

Company financial statements

The audited consolidated financial statements of the Company for the period from 21 May 2010 to 30 September 2011 were released on 8 November 2011. The financial statements reported consolidated net assets of £44.1 million and total comprehensive income of £1.85 million.

Enquiries

Gravis Capital Partners LLP +44 (0) 20 7518 1490

Stephen Ellis

Rollo Wright

Oriel Securities +44 (0)20 7710 7600

Emma Griffin

Joe Winkley

Gareth Price

Neil Winward

GCP Infrastructure Investments Limited

The Company is a closed-ended investment company that seeks to generate returns from subordinated PFI debt and related and/or similar assets (the "Target Assets"). The Company achieves this by investing substantially all of its capital in GCP Infrastructure Fund Limited (the "Master Fund"), an open-ended investment company that holds the Target Assets. The Company is the majority shareholder of the Master Fund.

The latest factsheet is available at:

<http://www.gcpuk.com/investor-relations/gcp-infrastructure-investments-limited/detail/fact-sheets/>

Gravis Capital Partners LLP

Gravis Capital Partners LLP (GCP) is the investment adviser to the Company and the Master Fund. GCP is an infrastructure investment advisory specialist. In the last five years, the partners of GCP have provided capital structuring advice in relation to infrastructure projects with an aggregate capital value in excess of £1 billion, of which a majority involved the provision of subordinated (or mezzanine) debt.

Gravis Capital Partners LLP is authorised and regulated by the Financial Services Authority.

END

IMSVBLFFLLFBBBD