

Interim Management Statement

RNS Number : 0249A
GCP Infrastructure Investments Ltd
14 February 2014

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Interim Management Statement

GCP Infrastructure Investments Limited (the "Company"), the listed infrastructure investment company, is issuing this Interim Management Statement in accordance with FCA Disclosure and Transparency Rule 4.3. This statement relates to the period from 1 October 2013 to 14 February 2014.

The Company seeks to generate returns from subordinated private finance initiative ("PFI") debt and related and/or similar assets (the "Target Assets"). The Company has achieved 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. Throughout the period, the Company was the majority shareholder of the Master Fund and as of 7 February 2014 became the 100% shareholder in the Master Fund.

Highlights

- The Master Fund advanced new loans totalling c. £47.2 million secured against UK renewable energy projects.
- The Company declared a dividend of 3.80 pence per share for the six month period to 30 September 2013 and a first quarterly dividend of 1.90 pence per share for the three month period to 31 December 2013.
- The valuation of the Master Fund's investment portfolio as at 31 January 2014 was £355.1 million.
- All of the Master Fund's investments have performed in line with expectations.
- The NAV per Ordinary Share of the Company as at 31 January 2014 was 101.27 pence.
- The Company's annual report and consolidated financial statements for the year ended 30 September 2013 were released on 16 December 2013, reporting consolidated net assets of £293.6 million, and profit for the year of £19.5 million.
- The Company announced on 20 January 2014 its intention to raise additional capital through an open offer, placing and offer for subscription of C Shares and the creation of a placing programme in relation to its Ordinary Shares.
- The Investment Adviser is conducting due diligence on a pipeline of attractive investment opportunities in a variety of PFI, renewable energy and asset finance transactions.
- Following approval by the minority shareholders in the Master Fund, the Company acquired shares in the Master Fund that it did not already own, and on 7 February 2014 the Master Fund became a wholly-owned subsidiary of the Company. As part of the consideration for this acquisition, the Company issued 49,151,762 and 23,590,600 Ordinary Shares on 10 February 2014 and 11 February 2014 respectively resulting in the Company's share capital increasing to 354,778,068 Ordinary Shares.

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

"The Company was delighted to announce recently its intention to raise in excess of £75 million through a C Share capital raise and to put in place a placing programme to allow the issuance of up to a further 100 million Ordinary Shares. This is a reflection of both the continuing demand for shares in the Company and the size of the pipeline of investment opportunities in certain sections of the UK infrastructure market arising due to a lack of long-dated debt providers. The Company was also pleased that the reorganisation of the group structure concluded as expected with the Master Fund now a wholly-owned subsidiary of the Company."

Reorganisation and acquisition of Master Fund shares not already owned

On 20 December 2013 the Company announced its intention to acquire shares in the Master Fund that it did not already own such that the Master Fund was to become a wholly-owned subsidiary of the Company (the "Scheme").

The Scheme was subject to the approval of the minority shareholders in the Master Fund at a court meeting convened by an order of the Royal Court of Jersey and the Extraordinary General Meeting ("EGM") held on 22 January 2014. A majority representing 100% of the votes cast at the court meeting and EGM voted in favour of the Scheme and it was approved. On 7 February 2014 the Master Fund became a wholly-owned subsidiary of the Company upon completion of the Scheme.

As consideration for the sale of their shares in the Master Fund, minority shareholders in the Master Fund were offered the choice of receiving Ordinary Shares, shares in GCP Infrastructure OEIC Ltd (that would itself invest in Ordinary Shares) or cash. In accordance with the elections made by the minority Master Fund shareholders pursuant to the Scheme, the Company:

- issued to minority Master Fund shareholders 49.2 million Ordinary Shares, which were admitted to the Official List and to trading on the Main Market of the London Stock Exchange on 10 February 2014;
- issued to GCP Infrastructure OEIC Limited, a new open-ended investment company, 23.6 million Ordinary Shares, which were admitted to the Official List and to trading on the Main Market of the London Stock Exchange on 11 February 2014;
- paid to minority Master Fund shareholders £674,665 in cash;

The Company's share capital consists of 354,778,068 Ordinary Shares.

In connection with the Scheme, and with effect from 7 February 2014, the Company and the Master Fund effected a restructure of group governance, advisory and certain other arrangements to reflect the new group structure (the "Reorganisation"). The Company became regulated as a certified fund in Jersey pursuant to the CIF Law and the Jersey Listed Fund Guide published by the JFSC and on 7 February 2014, the Master Fund ceased to be an expert fund regulated under the CIF Law. The Master Fund was also delisted from the Channel Islands Securities Exchange. The cost of the Scheme and the Reorganisation was borne by the Company. The cost of the Scheme and the Reorganisation will be included and identified in the next published accounts.

C Share and Placing Programme

On 20 January 2014 the Company announced its intention to raise additional capital through an open offer, placing and offer for subscription of C Shares (the "Issue") and the creation of a placing programme in relation to its Ordinary Shares (the "Placing Programme"). The Company is targeting an initial fundraising of in excess of £75 million under the Issue, up to a maximum of £100 million. The Company may also raise further funds by issues of up to, in aggregate, 100 million Ordinary Shares under the Placing Programme.

Pipeline

The Investment Adviser has seen the yields available on many secondary, availability-based PFI transactions fall below levels where they are attractive to the Company. Nevertheless, the Investment Adviser is continuing to progress a number of smaller off-market transactions that are being negotiated directly with the project owners.

The various types of long term infrastructure lenders that have emerged in recent years, including institutions, debt funds and to a lesser degree the bond markets, only serve a limited section of the Company's target market. These lenders tend to be limited in how they can lend in terms of loan length, size, security, project technology and construction exposure. As such the Company is able to obtain attractive returns on debt investment opportunities relating to smaller infrastructure projects backed by long-dated, secure, public sector-backed contracts that are not currently well served by other lenders.

Developers in a wide variety of renewable energy sectors are still struggling to find long-term lenders, particularly smaller developers. This lack of credit has created a number of attractive investment opportunities for the Company in renewable energy projects that are supported by Government subsidies in one form or another.

The asset finance sector remains a significant potential source of deals. Following the cancellation of the Building Schools for the Future programme many schools have struggled to progress planned development, and are instead seeking to lease educational blocks. The Investment Adviser is looking into opportunities to finance such assets.

The Investment Adviser continues to monitor developments with regard to investment opportunities arising under PF2, but does not anticipate completing any such investments in the near term.

Dividend declaration

The Company declared on 18 November 2013 a dividend of 3.80 pence per share for the six month period to 30 September 2013. The dividend was paid on 30 December 2013 to shareholders on the register on 29 November 2013.

Subsequent to the Company's move to quarterly dividend payments, the Company declared on 15 January 2014 an interim dividend of 1.90 pence per share for the three month period to 31 December 2013 which will be paid on 25 February 2014.

The Company also offered a scrip dividend alternative in lieu of the cash dividends.

Acquisitions and pre-payments

During the period, the Master Fund advanced four additional loans totalling £47.2 million against a variety of renewable energy projects:

On 29 November 2013 the Master Fund advanced a loan of £21.2 million with a term of c.19 years and an interest rate of c.9.8% p.a. annual equivalent, plus an element of inflation protection. The loan is secured on a senior ranking basis against cash flows arising under the Government's Renewables Obligation Certificates scheme to be generated following the development of a single site, five turbine, 15MW wind farm in Northern Ireland and from the sale of electricity therefrom.

On 10 December 2013 the Master Fund advanced a loan of £6.5 million with a term of c.19 years and an interest rate of c.9.8% p.a. annual equivalent, plus an element of inflation protection. The loan is secured on a senior ranking basis against three single site, single turbine, 500kW wind farms being developed in Scotland and Wales eligible for payments under the Government's Feed-in Tariff scheme.

On 10 December 2013 the Master Fund advanced a loan of £14.5 million with a term of c.17 years and an average interest rate of 9.1% p.a. annual equivalent. The loan is being used to part-finance the construction of a 10.3MWe wood-fuelled biomass combined heat and power plant on a two acre site in Tyseley, Birmingham, England. The loan is secured on a senior basis against income expected to arise following the commissioning of the plant in the form of Renewables Obligation Certificates (issued by Ofgem) and from the sale of electricity therefrom.

On 27 January 2014 the Master Fund advanced a series of loans with an aggregate value of £5.0 million, a term of c. 20 years and an interest rate of c. 9.3% p.a. annual equivalent, plus an element of inflation protection. The notes are secured on a senior ranking basis against a portfolio of domestic solar photovoltaic installations eligible for payments under the Government's Feed-in Tariff scheme.

All acquisitions have been financed fully from available cash reserves within the Master Fund.

During the period, the Master Fund received two pre-payments totalling £31.0 million in relation to two debt facilities due to be drawn down to finance biomass boilers installations on commercial premises. The demand for such boilers was not as high as anticipated and as such a £26.0 million facility was fully pre-paid on 25 November 2013 and a separate facility received a £5.0 million part pre-payment on 27 January 2014.

Portfolio overview and performance

As at 31 January 2014, the Master Fund was exposed to a portfolio of 32 infrastructure loans (the "Loans") valued at £355.1 million. The Loans have been made against the performance of a number of availability-based UK PFI projects and renewable energy installations (the "Projects"). None of the Projects have reported any material operational performance issues during the period.

As at 31 January 2014, 40% of the Loans by value are exposed to PFI projects, 23% to rooftop solar installations, 10% to biomass projects, 9% to anaerobic digesters, 4% to commercial solar parks, 12% to onshore wind turbines and 2% to a school lease. The weighted average expected life of the Loans is fifteen years and the weighted average yield is 9.6% p.a. annual equivalent. The valuation of the Loans is £355.1 million (based on a valuation carried out by Mazars LLP, the Valuation Agent, as at 31 January 2014), reflecting a weighted average discount rate across the portfolio of Loans of c. 9.2%. It is the view of the Directors that the recent increase in pricing in the secondary PFI market and certain renewable energy sectors continues to put downward pressure on the discount rates used to value the Master Fund's Loans.

As at 31 January 2014, the Company's exposure to the Loans was valued at £285.2 million.

Non-mainstream pooled investments

On 18 December 2013, the Board of the Company noted the rules of the UK Financial Conduct Authority ("FCA") on the promotion of non-mainstream pooled investments, effective from 1 January 2014. The Board confirmed that it conducts the Company's affairs, and intends to continue to conduct its affairs, so that the Company's shares will be "excluded securities" under the FCA's new rules. This is on the basis that the Company, which is resident outside the EEA, would qualify for approval as an investment trust by the Commissioners for HM Revenue and Customs under Sections 1158 and 1159 of the Corporation Tax Act 2010 if resident and listed in the United Kingdom. Therefore, the Company's shares do not amount to non-mainstream pooled investments. Accordingly, the promotion of the Company's shares will not be subject to the FCA's restriction on the promotion of non-mainstream pooled investments.

Company's NAV performance

As announced on 5 February 2014 the NAV per Ordinary Share as at 31 January 2014 was 101.27p.

Company financial statements

The Company's annual report and consolidated financial statements for the year ended 30 September 2013 were released on 16 December 2013, reporting consolidated net assets of £293.6 million, and profit for the year of £19.5 million.

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GCP Infrastructure Investments Limited

The latest factsheet is available at:

<http://gcpuk.com/gcp-infrastructure-investments-ltd/investor-reports>

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.

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