PRESS CUTTINGS

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GCP Infrastructure: Labour won't stop us buying PFI

GCP Infrastructure's (GCP) enthusiasm for private finance initiatives (PFI) hasn't been dented by the threat from the Labour party to bring the contracts 'back in-house' should it win power.
The infrastructure debt fund holds just under a fifth of its assets in PFI debt linked to facilities like schools and healthcare centres.

Chief executive Rollo Wright acknowledged the potential threat from a Labour government, after shadow chancellor John McDonnell used his party conference speech to pledge: 'We'll bring existing PFI contracts back in-house'.

But he said it wouldn't stop the fund from making new investments in PFI debt. 'They are still great assets,' he said.

'I don't think that there is a material risk we won;t get our money back.'

Wright's comments were echoed by Ian Reeves, chairman of the trust, in full-year results released today, who said it was difficult to quantify the threat from Labour's stance.

'Given the lack of details as to what this would precisely entail legally, commercially and on what scale, we believe it is difficult to draw useful conclusions as to a theoretical impact of such a policy on the company,' he said.

'In any event, the board takes comfort from the fact that the company invests in debt rather than potentially more vulnerable equity, and has a diversified portfolio that is only 23% exposed to PFI assets.'

GCP typically invests in the subordinated debt of PFI projects. This places it second in line, behind senior debt holders but ahead of equity holders, for a return should the government begin expropriating PFI assets.

This has helped the trust escape the type of share price falls suffered by some of the infrastructure trusts exposed to PFI equity. PFI exposure meanwhile makes up a much bigger portion of the portfolios of some rivals, such as **John Laing Infrastructure** (JLIF) and **HICL Infrastructure** (HICL), which hold around two-thirds of their portfolios in the assets.
GCP Infrastructure notched up its fifth consecutive year of paying a 7.6p annual dividend, while the net asset value (NAV) remained largely flat over the year to the end of September, up from 109.7p to 110.6p. The shares yield 6.1%, and trade at a 14.4% premium to NAV.

Wright said this had followed a number of years in which its assets had been revalued upwards, given the 'huge influx of capital into the sector' as investors searched for yield against the backdrop of low interest rates.

'It's more a reflection that the revaluation in previous years remains appropriate,' he said.

The trust has also flagged that new investment opportunities in its specialist of public sector-backed infrastructure debt were likely to become more scarce.

'In the context of the significant infrastructure and renewable energy developments of the last decade, recent government policy has been less supportive of new projects,' said Reeves.

'PFI and PF2 are now seemingly largely out of favour across the political spectrum and the support mechanisms for core renewables sectors have either been withdrawn or materially reduced.

'As such it is expected that opportunities for primary investment in the company's traditionally core sectors will continue to become more scarce.'

That means the trust is likely to turn to the secondary market for future investments, either through buying up existing debt from a lender, such as through its financing in the sale of the Green Investment Bank or taking part in refinancing efforts.

But the lack of new projects could slow the pace of fundraisings, after £160 million of new shares were issued over the year to the end of September.