

Infrastructure Debt Investment Characteristics

The Issuer's investment in private economic infrastructure loans is expected to benefit from a unique set of risk and return characteristics attractive to investors in such assets. These benefits may include, but are not limited to, the following:

Substantial current income with interest rate and inflation protection

Private infrastructure loans can generate recurring current income for investors. The Portfolio Advisor anticipates that under current market conditions income generated from such assets may be on average 3.50% to 4.00% above LIBOR, exceeding available risk-adjusted returns from public bonds with a comparable credit profile. The Portfolio Advisor expects that the Issuer's investment in such assets will result in anticipated excess returns due to scarcity premium, illiquidity premium, and certain funds premium. Furthermore, the Portfolio Advisor also expects to benefit from enhanced lender protections associated with private infrastructure debt financing. In addition, floating rate interest payments (which are typically based on LIBOR or Euribor) are expected to provide debt investors such as the Issuer with protection against rising interest rates and inflation.

Low correlation and return volatility

The returns generated from private infrastructure loans are expected to primarily take the form of current income cash flow. The level of current income on a particular loan asset is generally determined by a base rate and a contractually agreed interest margin. The Portfolio Advisor believes that the return profile of the Portfolio will reflect less volatility in comparison to, and limited correlation with, more cyclical asset classes such as equities.

Principal preservation

Private infrastructure loans are generally supported by businesses with strong asset coverage and a substantial "equity cushion", providing a favorable degree of principal protection for lenders of such assets, even in the event of substantial operational underperformance of the underlying infrastructure. These factors have historically resulted in infrastructure debt investments having low default rates and high recovery rates²⁴.

Furthermore, infrastructure assets generally have low intra-asset correlation, mitigating portfolio concentrations²⁵. For example, a water utility in Connecticut has low correlation with an electric utility in the Pacific Northwest due to infrastructure assets having differing specific local factors driving performance.

Obligor Risk Profiles

Debt instruments issued by infrastructure businesses have historically exhibited low default rates and low credit loss rates compared to other industry sectors²⁶. Where defaults have occurred, private infrastructure debt recovery rates have been generally high in both absolute terms and relative to other industry sectors because of the strong physical asset base and monopolistic business model that mitigates risk of substitution. Consequently, emphasis on preservation of capital is a distinguishing feature of infrastructure debt.

²⁴ Source: 'Infrastructure Default and Recovery Rates 1983-2016', Moody's, July 2017.

²⁵ Source: 'Moody's Approach to Rating Collateralized Debt Obligations Backed by Project Finance and Infrastructure Assets', Moody's, August 2015.

²⁶ Source: 'Infrastructure Default and Recovery Rates 1983-2016', Moody's, July 2017.