Memorandum of Understanding between HM Treasury and the UK pension funds group to facilitate investment in UK infrastructure

1. This Memorandum of Understanding (MoU) establishes a transparent framework and working process between HM Treasury (the 'Treasury') and Meridiam Infrastructure, Greater Manchester Pension Fund, the London Pensions Fund Authority and Hermes GPE ('the Parties') to facilitate increased institutional long term investment in infrastructure projects in the UK.

2. The Parties support Government's announced call for evidence to bring forward proposals for reform of the Private Finance Initiative, and agree to work with the Treasury to develop changes to delivery models for public sector assets and services that will attract institutional investment, including where relevant financial support from the outset of projects.

Background

3. The UK requires over c£170bn of new infrastructure investment over the next five years, the vast majority of which will need to be provided by the private sector.

4. UK pension funds of all sizes are keen to invest in infrastructure assets - pension schemes are attracted to investments which offer stable, inflation proofed longer term yields, and infrastructure potentially meets this need. However, project structures and delivery mechanisms need to address the majority of pension funds' reliance on third party investment advice, to offer diversity of investment opportunity to UK pension funds and to meet their requirement for diversification of risk.

5. At the same time, Government is committed to reforming the Private Finance Initiative model, with the aim that private sector innovation and skills can continue to play a strong role in improving the delivery of public sector assets and services, but at a lower overall cost to the taxpayer, offering better value for investment in public services, and accessing wider financing sources than currently, including increasing institutional investment.

6. The Parties have held preliminary discussions with the Treasury about their interest in proposing changes to the PPP PFI model to support increased pension fund investment including from the outset of infrastructure projects.

7. The Parties and other pension plans that they intend to bring together in these discussions have at least £50bn funds under management. Current allocations of UK pension funds to infrastructure typically stand at less than 5%. In principle, there is ambition to see this allocation increase to in excess of 5% of overall asset allocation and, subject to appropriate assets and revenue flows being available, for certain funds considerably in excess of that level.

8. The Treasury and the Parties now agree to work together to develop proposals that will facilitate and increase UK pension fund and institutional long term greenfield investment in infrastructure in the UK, through appropriate mechanisms including but not limited to intermediated pooled investment vehicles or individual direct investments and other shared direct investment platforms.

9. The Parties include pension plans with significant experience of investing directly and indirectly in primary infrastructure and agree to assist the

Treasury in proposing changes to current delivery models for long term infrastructure that will meet public sector procurement objectives and also attract institutional greenfield investment.

10. The principles and terms enshrined in the MoU need not be limited to the parties named in paragraph 1 above and engagement in this process should be open to all other parties with a clear and legitimate interest in engaging in this process.

11. This MoU sets out the roles of the Treasury and the Parties and how they will work together based on three guiding principles:

- **Accountability and transparency**: the roles and responsibilities of each body must be clear and transparent and respect the fiduciary duty (where applicable), independence and requirements of each participant;

- **Effective co-ordination**: processes must be structured to take into account the need for effective coordination;

- **Regular information exchange**: information and knowledge must be shared regularly to enable each party to work together efficiently and effectively.

- **Competition law compliance**: all parties will ensure that the discussions comply with competition law, and will put in place and comply with a competition law compliance protocol.

12. This MoU does not constitute a legally binding agreement and any commitments made by the Treasury or the Parties are not legally enforceable.

Roles and responsibilities

13. The Treasury will provide support to the Parties in developing proposals to review and change current delivery models. The Parties agree to provide sufficient resource and staffing as appropriate, whether externally or internally, to support development of proposals, including to participate in Treasury's call for evidence on PFI reform, and that appropriate representatives will be available to meet on a regular basis.

14. Should any commercial, financial or legal arrangements be forthcoming as a result of the joint working set out in this MOU, the Treasury expects the Parties would procure their own independent advice .

15. The Parties will agree to appoint a lead contact / working group to coordinate input and liaise with the Treasury and other stakeholders.

Disclosure and communication

16. The Treasury and the Parties agree in principle to make a public statement of progress at the Budget 2012.

17. The Parties agree to keep the Treasury informed of progress with this initiative in order that the Treasury and Treasury Ministers are able to fulfil their function and duty to Parliament.

18. The Treasury and the Parties will also work closely together to ensure that wider communication is managed and carried out effectively.

19. The Treasury will treat shared information in accordance with the requirements of the Freedom of Information Act 2000. Subject to this,

and unless otherwise specified, signatories will not without prior consultation disclose shared information that is restricted, commercially sensitive or may otherwise harm the formulation and development of Government policies. Signatories reserve the right to place further conditions on the handling, disposal and retention of shared information.

20. Any party may propose an amendment to this MOU by means of written notice to all other parties, and the amendment will be effected by mutual consent in writing.

Signed on 24 November 2011

Geoffrey Spence

CEO Infrastructure UK, HM Treasury

Meridiam Infrastructure

Greater Manchester Pension Fund

P. Morris

Signed on 25 November 2011

P. MORRIS

EXECUTIVE DIRECTOR OF PENSIONS

LONDON PENSIONS FUND AUTHORITY

25 November 2011

Hermes GPE

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HEAD OF INFRASTRUCTURE
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24/11/11