Legal & General Investment Management

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Legal & General
INVESTMENT MANAGEMENT

Overview of Legal & General Investment Management (LGIM)

- Funds under management: £353bn (as of Dec 31, 2010), of which £267bn from over 3,100 external clients (£246bn from UK Pension Funds)
- Operating profits of £206m in 2010
- UK market leader in index funds (£230bn)
- Actively managed fixed income assets of £67bn (end-2010)
- Offices in London and Chicago
- Strong recent growth of Euro and US Dollar inflows
- Fully owned by Legal & General, one of the UK's largest life insurance and pension providers (market cap: £7bn)

LGIM in infrastructure finance – Investment approach and exposure

- Natural appetite for long dated stable fixed or index linked cash flows to match pension and life insurance liabilities of parent company and external pension fund clients
- Traditional focus on public bond transactions rather than infrastructure loans, hence exposure focused on investments above-average size
- Infrastructure portfolio almost entirely investment grade, average rating high triple-B
- Traditional focus on UK Sterling bonds backed by UK infrastructure assets
- Social, transport and economic infrastructure assets dominate in current portfolio; Euro exposure mostly in transport/road sector
- Amortizing structures are favoured to avoid refinancing risks
- Investments in new project bonds mostly pre-2007 and wrapped
- Recent bond investments mostly rolling stock and airport (re)financings
- Dedicated credit research resources
- Total infrastructure debt portfolio of around £1.5bn

LGIM in infrastructure finance – New themes and opportunities

- Regulation: Solvency II draft implies favourable treatment of secured debt investments (i.e. mortgages); however, higher capital charges for long dated debt assets and increased capital charge differential between triple-B and single-A debt investments
- Growing focus on renewable energy investments; declining importance of UK PPP/PFI projects
- Brisk bank lending still limiting flow of infrastructure bond issues, but Basel II and high wholesale funding costs for banks likely to constrain availability of long term bank finance
- Secondary bank loan portfolios: Challenging to re-engineer to suit institutional investors' needs
- >>> Continued credit quality focus – threshold at mid to high triple-B level
- >>> Diversification into (renewable) energy space
- >>> Preference for secured debt investments ('S2 friendly')
- >>> Development of lending/private placement capability to lower size threshold
- >>> Readiness to pre-commit in bidding stage to reduce execution risk
- >>> Increasing usage of internal credit ratings

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