Ontario Government to Cancel Renewable Contracts

The Importance of a Global Infrastructure Approach

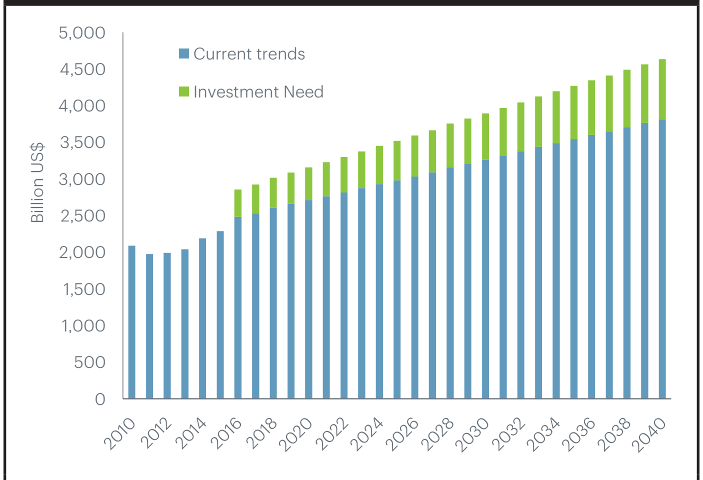
This summer the Ontario government announced plans to cancel 758 renewable energy contracts in an effort to reduce electricity bills. The announcement follows a provincial election that saw the PC party sweep into power on a number of headline-grabbing promises. (Global News: July 13, 2018)[1]

This announcement highlights the regulatory risk associated with infrastructure projects, and in our opinion the importance of global diversification.

From Brexit to Making America Great Again, populist governments are being brought to power on a wave of nationalist sentiment. Infrastructure spending programs make for easy political targets due to large price tags and societal benefits that are spread over decades. As a result, it can be tempting for parties to gain political points by labeling these programs as "wasteful spending" committed by outgoing governments.

Ironically, when these same parties come into power they often view infrastructure spending as a path to prosperity and growth. Given how vital infrastructure is to an economy's growth, it is unlikely to see any slowdown in infrastructure investment despite the rising populist sentiment. In fact, it's estimated by 2040 that over US$94 trillion of new investment will be required globally.[2]

Figure 1: Global Infrastructure Spending

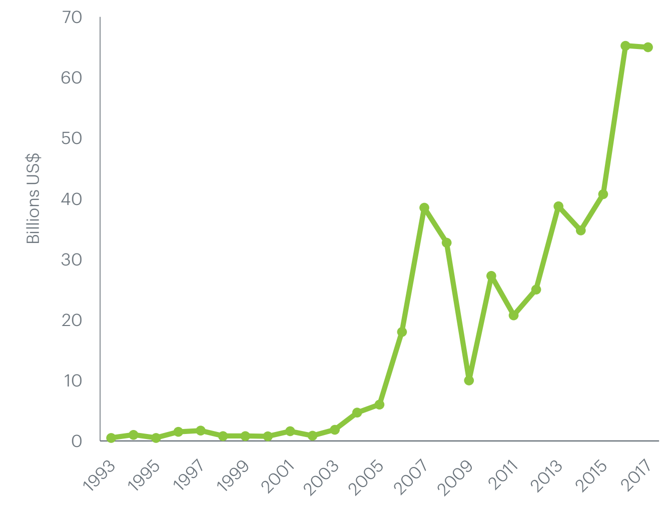


Source: Global Infrastructure Outlook; Oxford Economics and Global Infrastructure Hub, a G20 initiative.

Infrastructure has only been recognized as a credible institutional asset class within the past three decades. In this period, private infrastructure funds have gone from raising less than US$1 billion per year to over US$60 billion in 2017.[3] This funding comes as governments have sought new ways to reduce debt, pay for growth and incentivize new technologies. From privatization of public assets, to new funding mechanisms such as P3s, to tax incentives and feed-in-tariffs for renewable energy, infrastructure spending programs have been grabbing headlines and creating debate that has led to increased scrutiny.

[1] https://globalnews.ca/news/4330595/ontario-renewable-energy-contracts-cancelled/
[2] Global Infrastructure Outlook; Oxford Economics and Global Infrastructure Hub, a G20 initiative.
[3] PWC, Preqin, Inframation Deals.

Figure 2: Capital Raised in Unlisted Infrastructure Funds



Source: PWC, Preqin, Inframation Deals.

Infrastructure investors must acknowledge that their investments are highly visible and closely tied to government decisions. Even in the most stable regimes, political risk cannot entirely be mitigated. Most infrastructure investments will likely outlive a number of governments and, therefore, top-down analysis can be as important as a bottom-up review of individual investments. Aspects of a jurisdiction, such as the rule of law, public sentiment, and macro-economic tailwinds like trade, are all important in understanding the risks of an infrastructure investment. Possibly more important in this climate is the diversification of these risks through a global portfolio of assets. Diversification and portfolio construction is just as important in a portfolio of private infrastructure assets as it is for stocks and bonds.

As for Ontario, in our view, infrastructure will continue to be an important aspect of public and private investment, and for select sectors, Ontario remains an attractive jurisdiction to invest in with low unemployment and continued expected growth.

Andrew Croll, CFA, CAIA
Vice-President and Director,
Alternative Investments
416.309.2587 | andrew.croll@greystone.ca

Sean Collins, CFA
Vice President and Director,
Institutional Relationships
416.309.2183 | sean.collins@greystone.ca

Greystone.ca