



Port Property Management and Pricing Seminar

Private Capital for Public Ports

October 24, 2006

*Ira Smelkinson
Morgan Stanley
New York, NY*

Current Infrastructure Environment

- Well developed capital markets for port projects
- Municipalities continue to have access to tax subsidized capital in U.S.
- High degree of transaction transparency
- Private sector involvement in design, construction, maintenance, financing
- Proliferation of equity funds dedicated to infrastructure

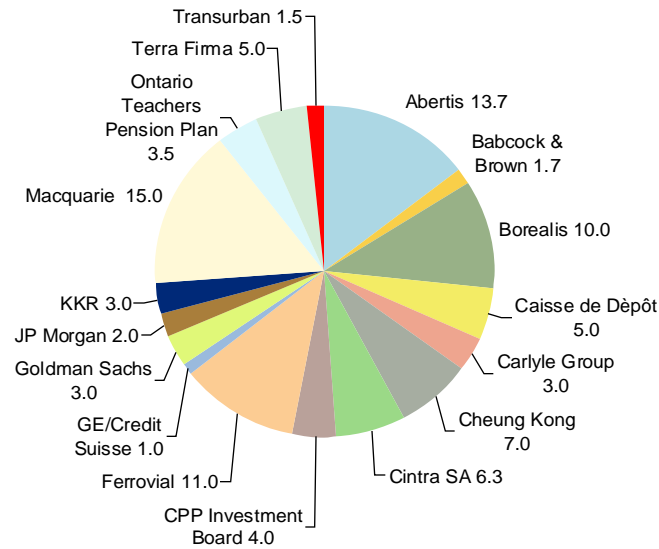
Current Infrastructure Industry Environment

Over the last two years, infrastructure purchasing power has expanded to almost \$500 billion in available capital

- Infrastructure equity is a large pool of global capital that seeks to invest pension and insurance funds in steady growth, lower-risk assets on a lowered-return basis

Available Infrastructure Equity (1)

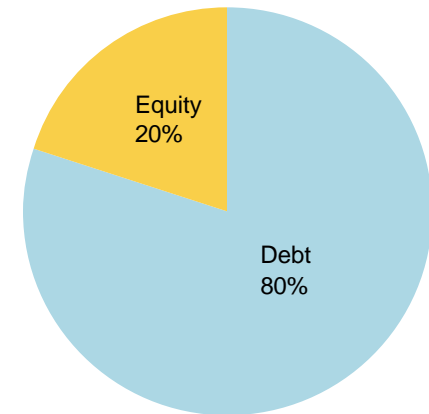
\$Bn



Total Available Funding ≈ \$96BN

Total Levered Purchasing Power

\$Bn



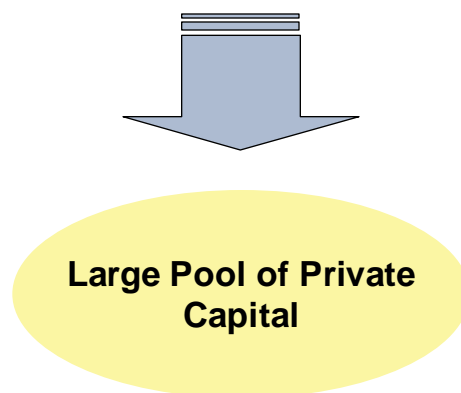
Total Available Funding ≈ \$495BN

Note
1. Estimated fund sizes

The appetite for steady growth assets has been fueled by an explosion in available pension fund and insurance fund capital

Economic Shifts Increase Private Capital

- Unfunded pension needs around the world have increased reliance on self-funding of retirement income
- Governments have begun to implement policies that have created larger pools of investable capital
 - Tax advantages for private savings to fund retirement incomes (e.g., 401 (k))
 - Compulsory private savings
 - In Australia, employers must contribute 9% of wages to retirement savings plans



Key Infrastructure Investment Characteristics

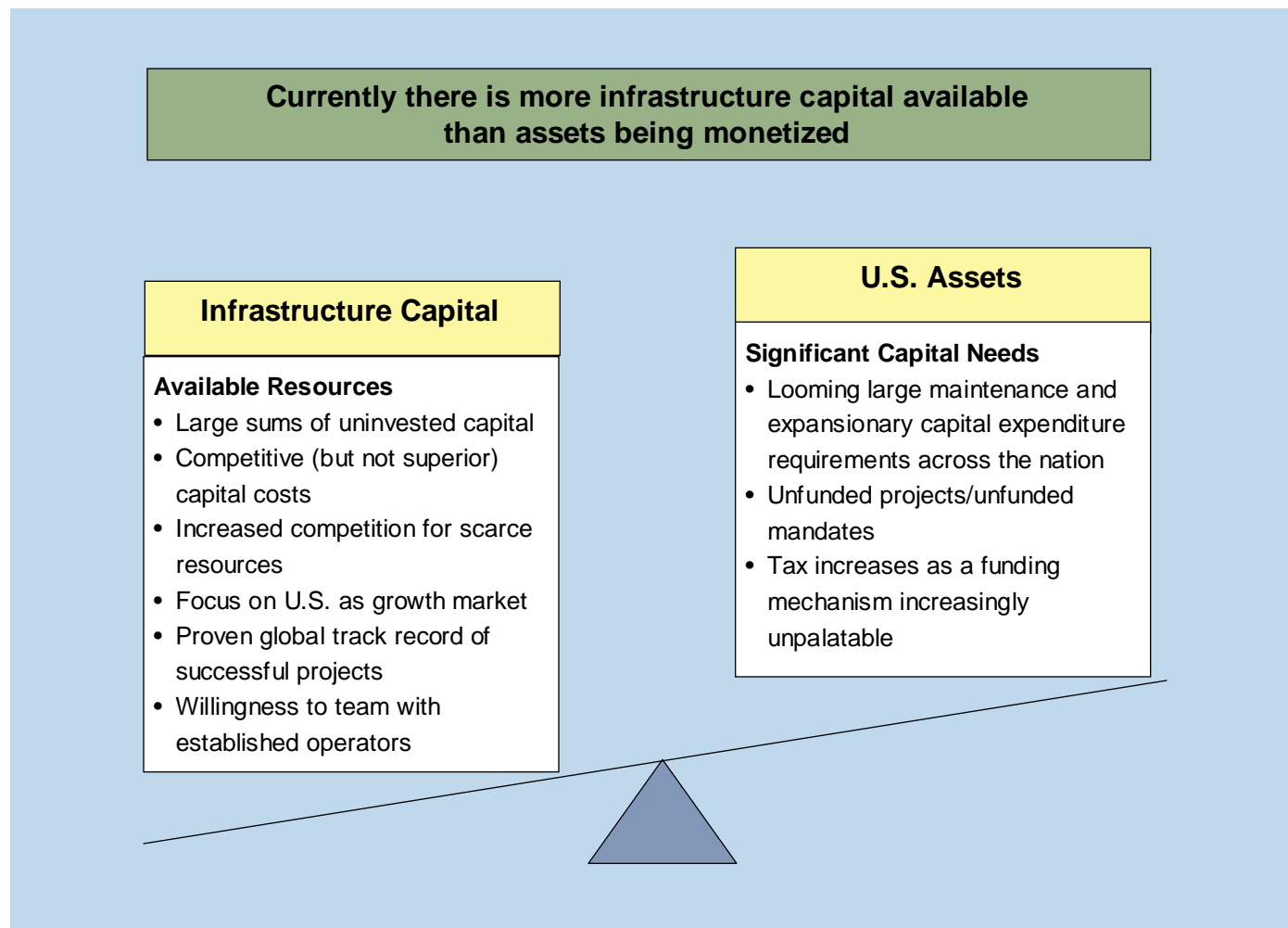
- Long Duration
- Strong Cash Yields
- Inflation Protection
- Stable, Predictable Cash Flows / High Margin
- Exposure To Measured Growth
- Monopolistic / Oligopolistic Operations
- Stable Sovereign Credit (Govt. Asset Leases)

Examples of Pension and Insurance Investors



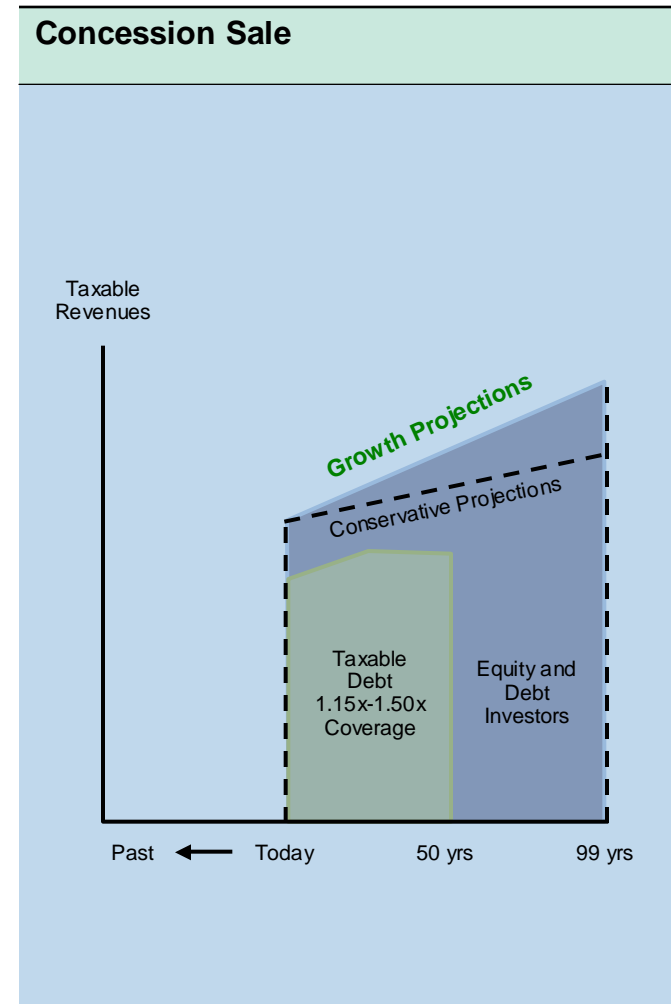
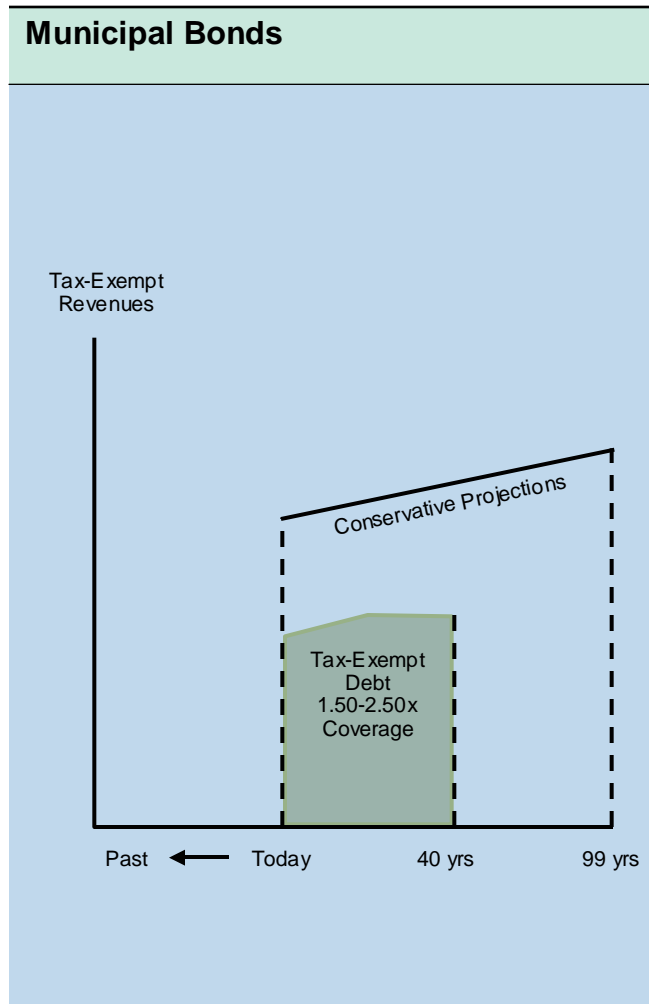
At the same time, municipal assets have been slow to come to market

- Governments have a significant opportunity to capitalize on the imbalance between infrastructure supply and demand



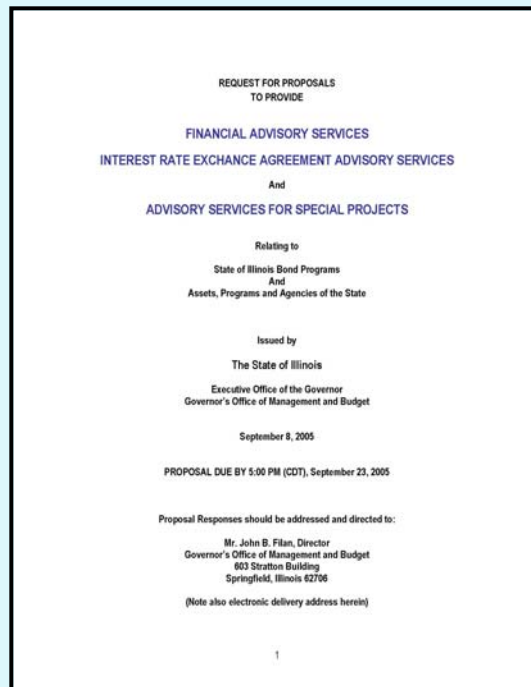
Infrastructure purchase prices are driven by equity investors willing to pay for steady growth

- Unlike the tax-exempt bond market which is limited by term and coverage, the infrastructure equity market can structure debt more aggressively and capture asset “upside”

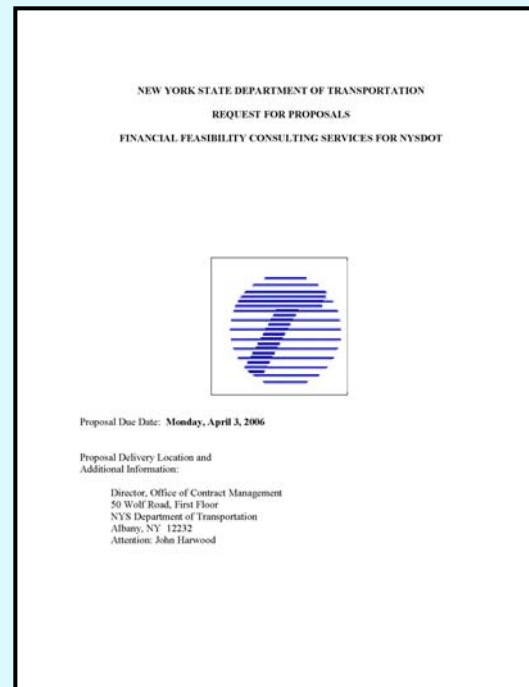


Municipalities are launching more strategic advisory RFPs...

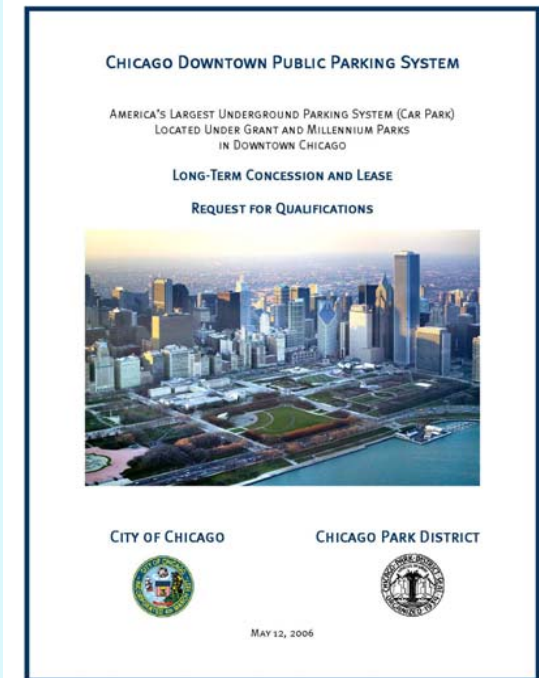
Illinois Special Advisory (9/05)



New York DOT Advisory (4/06)

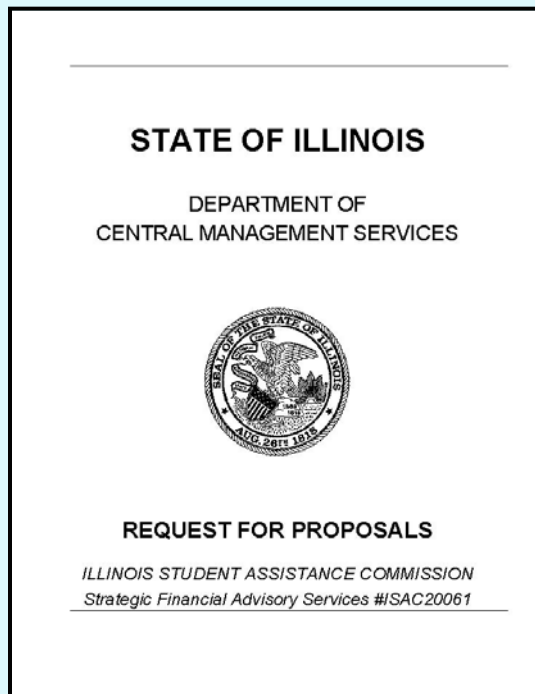


Chicago Parking System (5/06)



...and simultaneously evaluating multiple asset classes

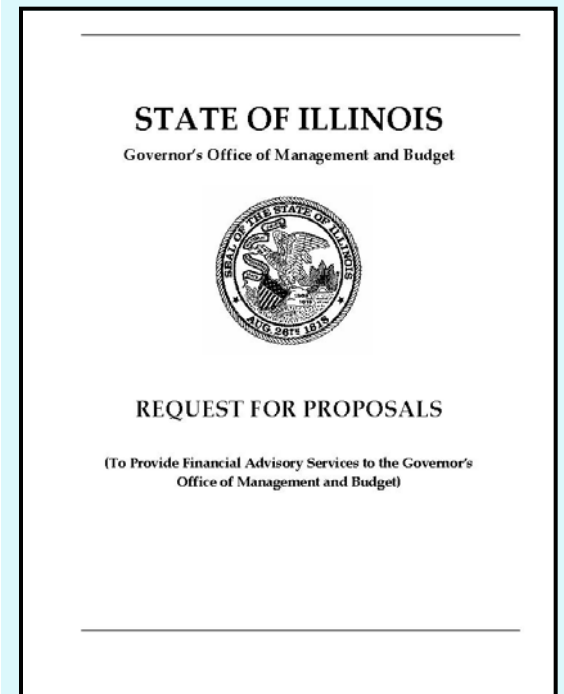
Illinois Student Loan Advisory (7/06)



New Jersey Advisory (8/06)



Illinois Lottery Advisory (9/06)



International privatizations are leading indicators for the U.S.

	Toll Roads	Airports	Ports	Utilities	Lotteries	Parking	Other Assets
Overall Level of Activity							
Infrastructure Investment Characteristics	<ul style="list-style-type: none"> • Embedded toll increases • Definable capital requirements 	<ul style="list-style-type: none"> • Steady airfield volume base • Ability to grow non-airfield revenue 	<ul style="list-style-type: none"> • Essential import/export infrastructure • Levered exposure to GDP 	<ul style="list-style-type: none"> • Significant barriers to entry • Long term “take or pay” contracts 	<ul style="list-style-type: none"> • Monopoly user base • Revenue resilient to economic downturn 	<ul style="list-style-type: none"> • Exposure to CPI based rate increases • Potential IPO roll-up 	<ul style="list-style-type: none"> • Steady cash flow • Assigned ability to raise price with inflation
Recent Market Events	<ul style="list-style-type: none"> • \$2.2Bn Toronto Highway 407 • \$15.4Bn Autoroutes Paris Rhin-Rhone (APRR) • \$3.9Bn Indiana Toll Road; \$1.8Bn Chicago Skyway 	<ul style="list-style-type: none"> • Chicago Midway RFQ for long-term concession expected this fall • London City Airport currently soliciting buyers • \$1.7 Bn Paris Airport IPO 	<ul style="list-style-type: none"> • Associated British Ports bought by Goldman Sachs for over \$5Bn • Currently 3–5 port operators in the market 	<ul style="list-style-type: none"> • \$1.6Bn privatization of Duquesne Light bought by Macquarie • \$134Mn acquisition of Thermal Chicago by Macquarie 	<ul style="list-style-type: none"> • State of Illinois selecting advisor for IPO or long-term lease of State lottery • Greek lottery privatized by government; Recently sold down controlling ownership 	<ul style="list-style-type: none"> • City of Chicago received bids this month for +9,000 parking space system • 13 bidders respond to RFQ 	<ul style="list-style-type: none"> • Student Loan Portfolios • Communications assets • Hospitals/continuing care facilities • Prisons

Public owner must evaluate the tradeoff between control and proceeds

