

**Memorandum of Understanding between HM Treasury and the National Association of Pension Funds (NAPF) and its member pension funds and the Pension Protection Fund (PPF)**

1. This Memorandum of Understanding (MoU) establishes a transparent framework and working process between HM Treasury (the 'Treasury'), the National Association of Pension Funds (NAPF) and the Pension Protection Fund (PPF) (the 'Parties'). Engagement in this process should be open to other parties with a clear and legitimate interest in furthering the goals set out herein.
2. The Treasury, NAPF and PPF agree that there is the potential for mutual benefit for the Government and pension funds to facilitate investment in infrastructure. UK pension funds are keen to invest in UK infrastructure assets and could be an important source of private investment – all pension schemes are attracted to investments which offer stable, inflation-linked, longer term yields and lower leverage. Infrastructure potentially meets this need if structured correctly. However, the current investment model and structure of UK pension funds does not allow the vast majority of UK pension funds to efficiently invest in infrastructure with these characteristics.
3. The Parties have held informal discussions with the Treasury on the potential for pension funds to increase their investment allocation in UK infrastructure assets. The Parties have agreed to work together to help establish an efficient and appropriate investment platform(s) and/or conduit(s) to allow them (ie pension funds and the PPF) to make investments in UK infrastructure assets.

## Background

4. The UK requires in excess of 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.
5. NAPF pension fund members have approximately £800bn of assets under management. Pension funds have indicated that they would expect to be able to increase their investment allocation in infrastructure assets from an historic average of around 2% – 2.5%, subject to establishing an efficient investment platform and/or conduit.
6. The Treasury and the Parties are keen to work together to facilitate and increase UK pension fund investment in UK infrastructure. Specifically, the core objective of the Parties is to help establish an efficient and appropriate investment platform(s) and/or conduit(s) for UK pension funds to invest directly in UK infrastructure assets with the aforementioned characteristics.
7. This MoU sets out the role of each body and how they will work together based on four guiding principles:
  - **Accountability and transparency:** the roles and responsibilities of each body must be clear and transparent and respect the fiduciary and statutory duties, independence and requirements and constraints of each participant.
  - **Effective co-ordination:** shared processes must be carefully designed and structured in response to the interdependencies of each party.

- **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.
8. 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**

9. The Treasury will, where necessary, provide advice, resource and support to the Parties in developing potential investment options. The nature of Treasury advice and support should be seen as distinct and separate from formal, independent third-party advice and support.
10. The Parties will agree to provide sufficient resource and staffing, as appropriate, to support development of proposals and that appropriate representatives will be available to meet on a regular basis.
11. The Parties will lead development of options for a potential investment platform/ conduit, with Treasury advice and support as detailed above.
12. The Parties, in consultation with the Treasury, would be expected at an appropriate point to procure their own independent external advisers before formalising any commercial, financial or legal arrangements that may be developed as a result of the joint working set out in this MoU.

13. The Parties will agree to appoint a lead contact and working group (facilitated by the NAPF) to coordinate input and liaise with the Treasury and other interested parties.
14. The Treasury will have full and timely access to appropriate information and data from the Parties, and, where necessary, such assistance to understand it, as the Treasury regards reasonable and necessary to provide effective consultation, advice and support to the Parties.
15. The Parties will work together to avoid duplication of effort where possible and to ensure efficiency as far as is appropriate taking into consideration their separate responsibilities. Where more than one body requires access to the same information, they may reach agreement as to who should collect it, and how it should be shared. In making such decisions, consideration should be given to the timing of any information requirements.

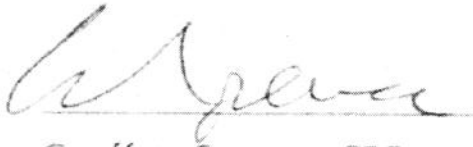
#### **Disclosure and communication**

16. The Treasury and the Parties agree in principle to make a public statement of progress by the Budget 2012.
17. Consistent with the principles described above, the Parties will keep the Treasury informed to the degree needed for the Treasury and Treasury Ministers to be able to fulfil their functions and duty to Parliament.

18. The Treasury and the Parties will also work closely together to ensure that the wider communication is managed and carried out effectively.
19. The Treasury and PPF will treat shared information in accordance with the requirements of the Freedom of Information Act 2000. Subject to this, and unless otherwise specified, Parties will not without prior consultation with each other disclose shared information that is restricted, commercially sensitive or may otherwise harm the formulation and development of Government policies. The Parties reserve the right to place further conditions on the handling, disposal and retention of shared information.

#### **Timetable and milestones**

20. The Treasury and the Parties will agree the timetable and key milestones and suitable project, resourcing and reporting structures. As a minimum, representatives of the Treasury and the Parties, and other interested Parties will agree to meet at least twice every calendar month.
21. The Treasury and the Parties will agree a transparent framework and working process for developing potential proposals for a suitable investment platform(s)/ conduit(s) aligned with key objectives and milestones.
22. Any party may propose an amendment by means of written notice to all others, and the amendment will be effected by mutual consent in writing.
23. Signed on November 22nd 2011.



Geoffrey Spence, CEO

Infrastructure UK

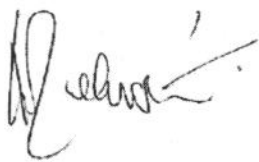
HM Treasury



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Joanne Segars, CEO

National Association of Pension Funds



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Alan Rubenstein, CEO

Pension Protection Fund