



Michael Bernstein
President, Manpower
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TRENDWATCH

Industry insiders weigh in on which sectors are booming, which are busted, and what to expect in the next few years.



David Bell
Managing director,
Comfinance
International Ltd.

What sectors are seeing lagging investment?

Frank Carnevale: In Ontario, the *Green Energy Act* has created the unintended consequence of holding off real investment and movement in renewable power projects and smart grid projects because the regulations have taken all year to take shape and give a clear financial expectation to investors. Great intentions, bad delivery. Water and wastewater facilities investment has also been really slow.

Michael Bernstein: Water is a particularly big area where more dollars are needed. Some of Canada's water supply and wastewater infrastructure is more than 100 years old.

David Bell: Canada has a strong need to increase investment in its electricity infrastructure. At a recent meeting of Energy Ministers, a number of barriers were identified to the required increase in electricity infrastructure investment. One of the key barriers cited was the need for improvements to the regulatory review process. In order to address these areas of infrastructure spending deficits, both public and private funding sources will be required to come to the table. While federal stimulus spending appears to be ramping up, clearly the private sector will also have to participate.

David Bell: CFI will continue to steadily deploy capital and finance mid-market infrastructure projects across Canada, such as run-of-river hydro projects and other areas of power generation, wastewater and biosolids treatment, government-pay long-term care facilities and other areas within infrastructure.

Frank Carnevale: General civil work has held steady across Canada, despite the slow flow of federal stimulus dollars. Whether we had a global recession or not, the public sector has no choice but to reinvest and rebuild our crumbling roads and bridges, as the capital backlog is too great to ignore.

Jennifer Davies: Across Canada, there seems to be fairly steady investment and a pipeline in sectors such as health, transportation/transit and education.



Frank Carnevale
Chairman and CEO,
Bridgpoint Group Ltd.

What new opportunities are about to explode onto the market?

Frank Carnevale: Canada is becoming an emerging investment market for power projects and cleantech. Renewable power generation will grow at a rapid pace with the current Feed-in-Tariff (FIT) program in Ontario and renewable requirements from the United States for markets like British Columbia. Smart grid design, build, operate and products opportunities will be unleashed in Ontario and B.C. and the United States. As well, with first PSAB reports around the corner, real water and wastewater projects are also around the corner.

Shamshad Madhok: We continue to see growth in both road and transit projects, and an emerging pipeline of IT infrastructure and renewable and sustainable energy projects.

Michael Bernstein: We're likely going to see more "green" infrastructure opportunities, from renewable energy projects to the infrastructure needed to enable and facilitate the smart grid.



Shamshad Madhok
Managing Director,
PricewaterhouseCoopers
LLP (PwC) and leader
of PwC's federal
government and Ottawa
Infrastructure and
Project Finance

Which sectors are holding steady?

Shamshad Madhok: There is still a strong pipeline of projects in the healthcare sector which are at different stages of procurement. In addition, other social infrastructure projects, such as schools, courthouses, prisons and government buildings are maintaining private sector interest and reaching financial close. Equity investors have analyzed and accepted the risk profiles on social infrastructure projects, and lenders have demonstrated their willingness to provide financing and accept "take and hold" positions on these deals.

Not Pictured:
Jennifer Davies
Partnerships BC

STATS

■ The Canadian Council for Public-Private Partnerships reports that the current cost to rehabilitate Canada's civil infrastructure system at the municipal level is \$57 billion.

■ The Ontario Public School Boards Association estimates that deferred maintenance costs currently sit at about \$8 billion, and that it will cost between \$30 billion and \$40 billion of investment to repair Ontario's water and wastewater systems.

■ The Association of Universities and Colleges of Canada reported in early 2009 that their deferred maintenance backlog was \$5 billion.

■ A report by one of Canada's major banks earlier in 2009 said that the economic impact of infrastructure spending worth one per cent of GDP is more than double the impact of tax cuts. While this statistic was cited in relation to the U.S. market, the same principle applies to the Canadian market. ♦

David Bell: There is clearly some acceleration in government funding for critical infrastructure (*see page 12*). It's debatable whether this funding will "explode" onto the market, but it certainly appears poised to increase. The challenge for government funding may be the lag in time that it takes to both allocate and to fully deploy such funds. Therefore, it will be critical that both public sources and private funding are used. According to the Canadian Council for Public Private Partnerships (CCPPP), the provinces and territories have identified \$97 billion of transportation priorities over the next 10 years. Private, institutional money can be invested into various critical areas of infrastructure projects.

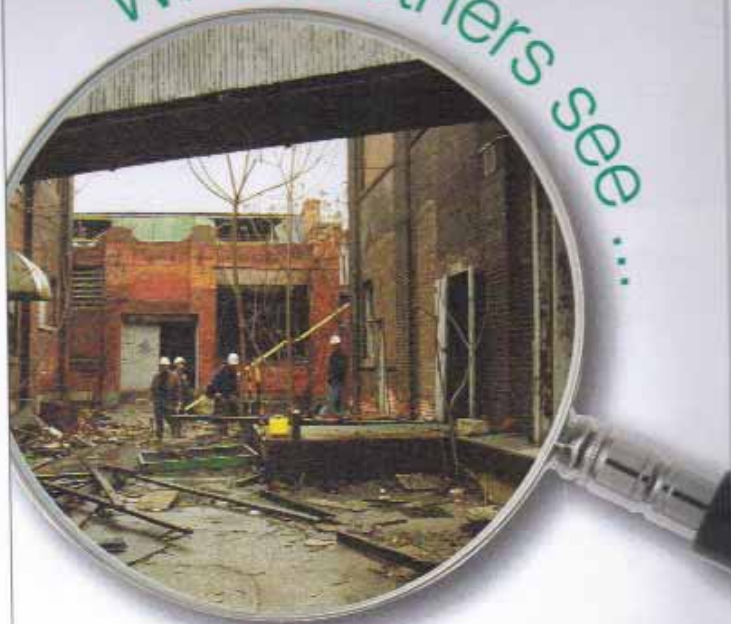
Which are the assets that will have the most "stimulating" affect on our economy?

Frank Carnevale: Transportation projects (major bridges, bus rapid transit, light-rail transit) will have an immediate impact on the economy in 2010 and 2011, mainly because of their project sizes and numbers over the next few years. Water and wastewater facility rebuilds will be the next tranche of stimulating projects beyond transportation. Renewable power assets and the smart grid components will be a tremendous boost to the economy.

Shamshad Madhok: Transit can play an important role both in stimulating trade and employment, which are key economic drivers. The United States is Canada's largest trading partner, with over \$1-billion worth of goods crossing the border every day. The impact on the economy will not be immediately noticeable from transit projects, as they take some time to procure.

Michael Bernstein: The Toronto Board of Trade estimates that congestion and gridlock in the Toronto region costs our economy

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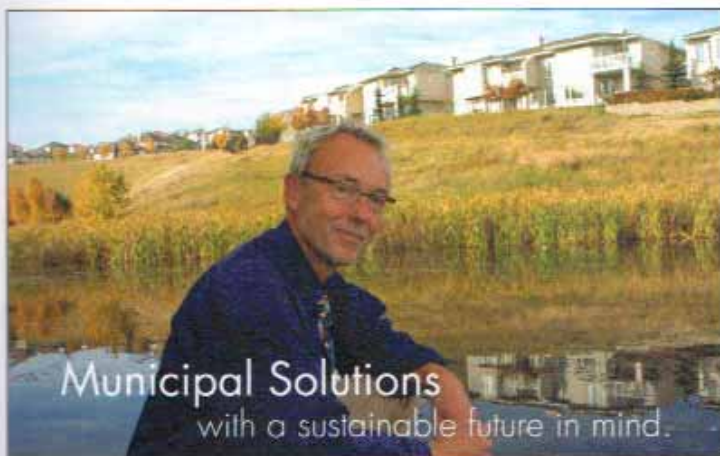
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more than \$6 billion per year. So investing in transportation infrastructure translates into dollars being put immediately to work while offering significant long-term benefits.

David Bell: The major categories appear to be public transit, water and wastewater, roads and bridges, and other municipal building. The energy sector will also be a major recipient of infrastructure investment, as major hydro and nuclear projects move forward. Transportation and health infrastructure will also see an inflow.

Where are the strongest opportunities to invest internationally?

Frank Carnevale: Renewable power generation and required transmission lines are definitely near the top of the list from Latin America to Mongolia to right here in North America.

Michael Bernstein: The World Bank estimates that global infrastructure needs for transport, energy, water and communications alone up until 2030 equal approximately US\$32 trillion. Canada has significant infrastructure needs as well, and it's actually a great market to be in right now. Canada offers the benefit of a stable financial system and experienced infrastructure specialists.

How will Canadian companies get more experience with big projects if they don't already have the experience to win bids?

Frank Carnevale: The good news is that the state of our infrastructure (arguably worse than the United States) will enable Canadian firms to gain at-home experience, and should enable them to travel abroad with experience. True to form, Canadian firms have been cautious minority partners during the growth of our P3 markets, but could easily provide the experience needed to deliver on U.S. P3 projects expected to grow over the next few years. Our balance sheets don't necessarily allow us to have the most equity in any project, but certainly our experience allows us to originate and develop deals, going forward.

Jennifer Davies: I would think sub-contracting on major projects would be a good start. For example, there are hundreds of local and smaller companies that have and are working on the large P3 projects across B.C.

Michael Bernstein: Many large global firms have teamed up with Canadian firms, including engineering and construction firms and other service providers, to win big projects. Macquarie has a long history of putting together such consortiums, including in Canada, most recently on the Autoroute 25 project [completed as a P3 in Quebec].

Have you seen any change in investor appetite for infrastructure?

Michael Bernstein: There continues to be strong investor demand for stable and yielding investment opportunities. Infrastructure as a separate asset class is relatively new to Canadian investors, but it can be a great choice to help reduce risk within a portfolio. Infrastructure assets are typically characterized by stable, long-term cash flow, inelastic demand and high barriers to entry, which usually means steady performance throughout the economic cycle. ♦