

# AUSTRALIANSUPER'S US\$1BILLION COMMITMENT REFLECTS BURGEONING INTEREST IN INDIAN INFRASTRUCTURE

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Legal Briefings - By **Nicola Yeomans and Indraneil Ghosh**

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AustralianSuper's commitment a harbinger for future emerging market investment by Aussie funds.

Herbert Smith Freehills' Asia team advised Australia's largest superannuation fund, Melbourne-based AustralianSuper, on a US\$1b commitment to the National Investment and Infrastructure Fund of India (**NIIF**). The investment includes co-investment rights up to US\$750m and a dual investment into the NIIF Master Fund and its fund manager.

The recent US\$1b commitment to the NIIF by Australia's largest superannuation fund, Melbourne-based AustralianSuper (and other key investors, including Ontario Teachers) marks a welcome development: these investors are among the most respected infrastructure investors in the world and their substantial commitments represent a real vote of confidence in Indian infrastructure for the future.

We believe this investment will be a harbinger of a future increased allocation by Australia's super funds to emerging markets, initially by way of comingled funds and co-investments as a stepping stone to direct investments.

## **INDIA: AN INCREASINGLY ATTRACTIVE INVESTMENT DESTINATION FOR FOREIGN INSTITUTIONAL INVESTORS**

Recent increased interest in India on the part of foreign investors is driven by the country's strong growth potential, positive demographics and continued economic development.

However, the fundamentals of the economy are supported by positive steps by the Government of India to facilitate investment.

The Government launched the NIIF following the Union Finance Budget 2015-16 to attract and catalyse foreign investment in Indian infrastructure. NIIF was and still is part of Prime Minister Modi's plan to power the country's economic development by building motorways, high-speed railways and efficient ports.

The country's recent 2019-2020 budget included a number of highlights for foreign institutional investors:

- specific focus on investments into India from pension, insurance and sovereign wealth funds;
- simplification of norms for foreign portfolio investors;
- further liberalisation of foreign investment regulations;
- key focus on various infrastructure sectors, including transport, agriculture and housing,
- streamlining of labour laws;
- significant reduction in NPAs given the new bankruptcy laws and other initiatives; and
- various tax initiatives including on simplification of tax procedures and incentives for start ups, resolution of distressed companies and the real estate sector

Notably, whilst most western jurisdictions around the world are tightening restrictions on foreign investment, India has relaxed its foreign investment restrictions.

The recent steps by the Indian government to encourage investment has resulted in material capital flows from institutional investors into the country:

Date	Target	Sector	Investor	Deal value (~US\$ millions)
July 2019	Think & Learn Pvt Limited (Byju's)	Online education	Qatar Investment Authority	150
July 2019	GMR Airports Limited	Airport	GIC (with Tata Group, SSG Capital Management)	1022
April 2019	NRSS XXIX Transmission Limited	Energy	India Grid Trust (backed by GIC and KKR)	550
March 2019	Delhi-Agra (DA) Toll Road Private Limited	Roads	Cube Highways and Infrastructure (backed by ADIA)	520
November 2018	Prayagraj Power Generation Company Limited	Energy	Resurgent Power Ventures Pte Limited (backed by KIA & SGRF)	834
September 2018	JM Financial Credit Solutions Limited	Financial Services	GIC and other investors	120
August 2018	Provenance Land Private Limited	Real Estate	GIC	185
June 2018	Greenko Energy Holdings	Energy	ADIA, GIC	447
June 2018	Godrej Properties Limited	Real Estate	GIC	150
December 2017	KKR India Financial Services Private Limited	Financial Services	ADIA	-

## THE NIIF

NIIF is focused on investing in equity capital in core infrastructure sectors in India, particularly transportation, energy and urban infrastructure.

NIIF has three primary funds: the Master Fund; the Fund of Funds; and, the Strategic Fund. The Master Fund, which is the fund that received AustralianSuper's investment, is focused on creating scalable sectoral platforms in core infrastructure and in collaboration with strong and reputed operating and financial partners.

NIIF (which has a 15-year tenure and is denominated in INR) was established on similar terms to a sovereign wealth fund, but with 49% equity held by the Government of India and the remaining corpus to be raised from domestic and global investors. This dual structure suggests a trend in the funds management landscape in Asia with more Limited Partners taking interests in General Partners than ever before.

**"In our view, we will see increased adoption of this model of investment by Australian super funds, particularly in alternative asset classes."**

NIIF benefits from governmental anchoring yet is independent in its investment decisions through being majority owned by institutional investors and managed professionally by a team with experience in investments and infrastructure.

The investment by AustralianSuper marked the third close of the NIIF Master Fund. AustralianSuper invested alongside the Ontario Teachers' Pension Plan (Canada's largest single-profession pension plan). Following this third close, the Master Fund is now pegged as the largest infrastructure fund in India.

NIIF has also achieved investments from:

### **Hindustan Infralog**

In January 2018, NIIF partnered with Dubai-based DP World to set up Hindustan Infralog Private Limited – a US\$3b ports and logistics platform that invests in ports, terminals, transportation and logistics.

### **ROADIS**

In April 2019, NIIF partnered with ROADIS, a wholly-owned subsidiary of Canada's PSP Investments, to invest up to US\$2b in 'Toll Operate Transfer' models and acquisitions of existing road concessions.

Further investments in NIIF have been made by high profile global funds like Singapore's investment fund, Temasek, and the Abu Dhabi Investment Authority (ADIA). AustralianSuper and Ontario Teachers' commitments add to these investments, together with the largest stake in NIIF held by the Government of India.

As well as investing in the closed-ended Master Fund, AustralianSuper became a shareholder in the fund manager, NIIF's investment management company National Investment and Infrastructure Fund Limited.

**"Faced with a crowded domestic market, we expect to see Australian funds increasingly begin deploying capital in emerging markets, including India, and offshore more generally."**

We expect that Australian super funds will look to build knowledge by leveraging the investing and operational expertise of external offshore managers, via (1) direct equity positions in foreign external managers, (2) meaningful LPAC positions and decision making rights generally and (3) co-investment rights.

Increasingly, we will see Australian funds seeking an active role in both capital deployment and asset management, rather than simply serving as the providers of capital and, potentially, being the recipient of information provided by a manager.

Moreover, we expect that partnerships between Australian super funds and Canadian and other pension funds, and sovereign funds, will emerge as an increasingly important mechanism by which Australian funds learn from their foreign LP peers.

## KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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