



HSBC Infrastructure Company Ltd
HICL's management and governance
&
A Case Study – Queen Alexandra Hospital

Thursday 23rd September 2010

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- **Brokers**

- **Collins Stewart Europe Ltd**
- **Oriel Securities Ltd**

- **Administrator**

- **Dexion Capital (Guernsey) Ltd**

- **www.hicl.hsbc.com**

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I. Introduction to HSBC Specialist Investments

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Entities and their acronyms used in this presentation

HICL HSBC Infrastructure Company Ltd, the listed infrastructure fund

HSFML HSBC Specialist Fund Management Ltd, the Investment Adviser to HICL

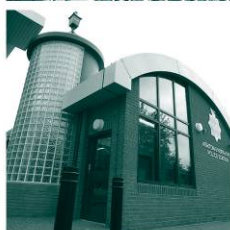
HSIL HSBC Specialist Investments Ltd, the parent of HSFML and part of the HSBC Group

Overview of HSBC Specialist Investments (“HSIL”)



- **“Manufacturer” of value added investment products in infrastructure and real estate**
- **Mix of staff**
 - covering investment, finance & risk and reporting functions
- **11 funds raised to date**
- **London based**
 - with offices in Hong Kong, New York, Paris and Frankfurt
- **Third party capital managed on a strictly arm’s length basis**
- **HSFML is a subsidiary of HSIL and acts as the Investment Adviser to HSBC Infrastructure Company Ltd**

HSIL track record



HSIL's performance record and its continuity is a key competitive differentiator

Specialist funds	Amount	Years	Return ¹	Target	Actual
Shopping Centre Fund I	\$70m	1998-2003	Net Investor IRR (realised)	14-16%	22%
Charterhouse London Residential Property Fund	\$210m	Since 1999	Net Investor IRR	Benchmark	7% ²
Shopping Centre Fund II	\$80m	1999-2003	Net Investor IRR (realised)	12-14%	38%
Infrastructure Fund I	\$250m	2001-2006	Net Investor IRR (realised)	20%	>20% ³
UK Active Property Fund	\$210m	Since 2003	Net Investor IRR (not fully realised)	15%	n/a
Shopping Centre Fund III	\$130m	2004-2006	Net Investor IRR (realised)	12-14%	35-60% ⁴
Infrastructure Fund II	\$600m	Since 2004	Net Investor IRR (not realised)	18%	n/a
HSBC Infrastructure Company Limited	\$850m	Since 2006	Total Shareholder Return (TSR)	7-8%	9.6% ⁵
HSBC NF China Real Estate Fund	\$710m	Since 2007	Gross Investor IRR (not realised)	20%	n/a
HSBC European Active Real Estate Fund	\$800m	Since 2008	Gross Investor IRR (not realised)	20%	n/a
HSBC Environmental Infrastructure Fund	\$290m	Since 2009	Gross Investor IRR (not realised)	20%	n/a
Infrastructure Fund III	Fund raising	Since 2010	Net Investor IRR (not realised)	15%	n/a

¹ Net Investor Returns are net of fund management and performance fees. Gross IRR is before fund management and performance fees.

² Core fund investing in buy-to-let properties; life of fund return; return calculation based on vacant possession valuation as at December 2009; HSIL analysis based on external property valuation. Return subject to change with further valuations movements or realisations.

³ Undisclosed, actual performance substantially above target .

⁴ Performance differs depending on timing of investor entry into the fund.

⁵ Listed fund; average TSR as at 31 March 2010, since launch in March 2006.

Source: HSIL. Past performance is not a reliable indicator of future performance.

HSIL – Change in Ownership



- **Announced 4th June 2010 – completion expected around end of year**
- **Part of wider sale of 5 private equity businesses by HSBC Group**
- **New business will be owned by management**
– HSBC Group retaining 20% stake
- **Sale driven by strategic and regulatory capital requirements for banks**
- **Team of 75**
- **AUM of \$4.0bn in 8 active funds**
- **Opportunity welcomed by management as providing greater flexibility to grow the business**
- **“Business as usual”**

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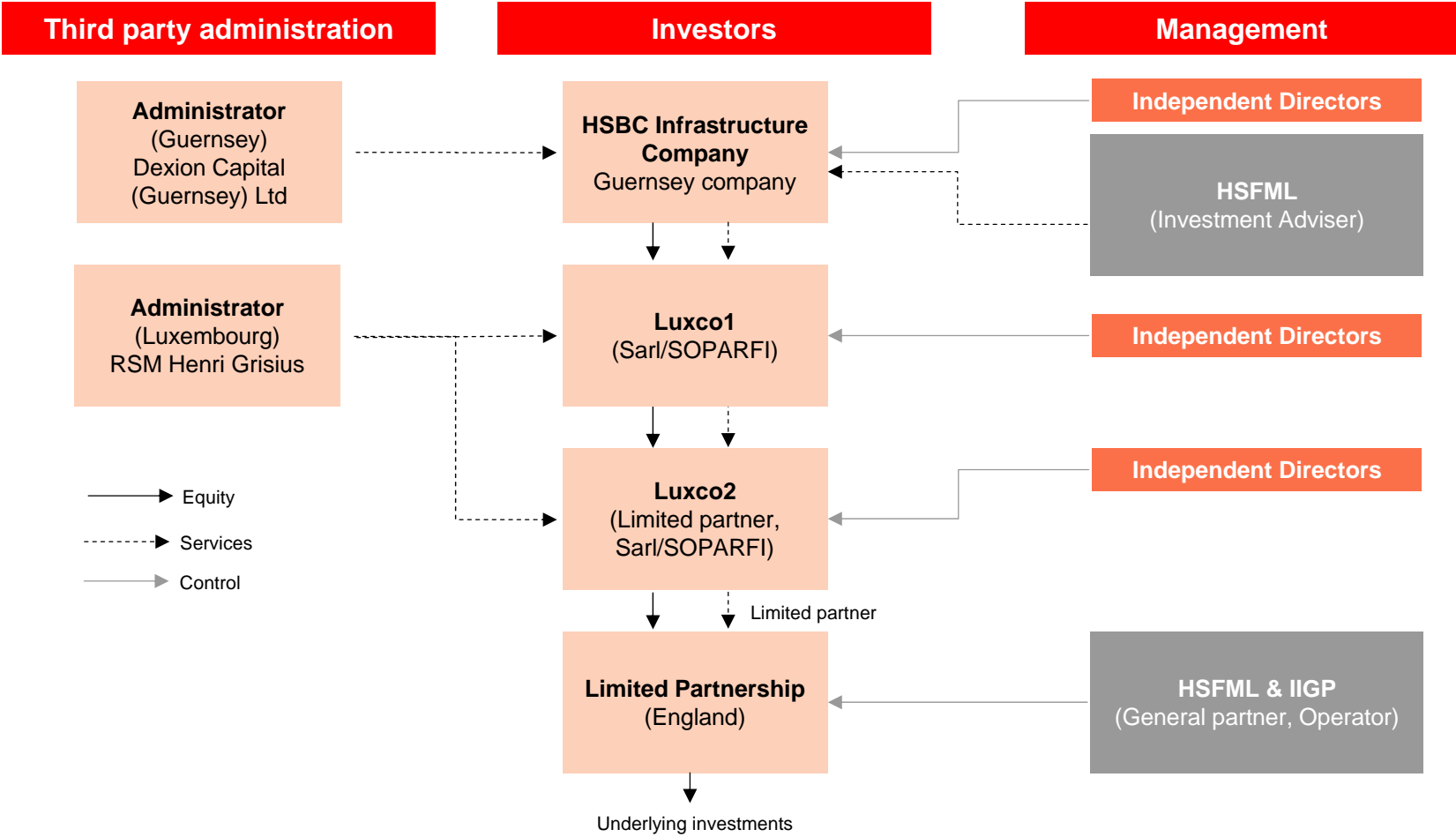
III. Case Study – the Queen Alexandra PFI Hospital, Portsmouth

Overview



- **HICL is a Guernsey domiciled, LSE premium listed Investment Company:**
 - Continuing obligations for the GFSC in Guernsey
 - Complies with the UKLA listing rules
- **HICL Group has number of subsidiaries including two Luxemburg SARLs, and an English Limited Partnership ('ELP')**
- **HSFML acts as:**
 - Investment Adviser to HICL
 - Operator and manager of the ELP
- **Administrators**
 - Dexion Capital for HICL
 - RSM Henri Grisius for the Luxemburg SARLs

Group structure diagram



Management



- **Board of independent Directors (4 non-executive Directors)**
 - Oversight
 - Governance
 - Adherence to strategy
 - Raising cash proceeds (equity or debt)
- **Investment Adviser / Operator (HSFML)**
 - Day-to day management of portfolio
 - Utilisation of cash proceeds
 - Full discretion over acquisitions and disposals (through Investment Committee)

HICL Board



Graham Picken, Chairman



Graham Picken is an experienced banker and financial practitioner and has been Chairman of the Company since its launch. Most recently a non executive director of the Derbyshire Building Society, he was appointed Chief Executive of the Derbyshire in February 2008 and led the society to a merger with Nationwide Building Society in December 2008, standing down at the end of March 2009. Until 2003, Graham's career spanned over thirty years with Midland and HSBC Banks .

Sarah Evans, Director



Sarah Evans qualified as a Chartered Accountant in 1979 and is a director of several other listed investment funds, as well as an unlisted fund of hedge funds. She is a member of the Institute of Directors. Sarah spent over six years with the Barclays Bank PLC group from 1994 to 2001. Prior to joining Barclays, Sarah ran her own consultancy business advising financial institutions on all aspects of securitisation. From 1982 to 1988 Sarah was with Kleinwort Benson, latterly as head of group finance.

Chris Russell, Director



Chris is a Guernsey resident and a non-executive director of a number of investment and financial companies. He is also a director of the UK trade body, the Association of Investment Companies. Chris was formerly a director of Gartmore Investment Management Plc, where he was Head of Gartmore's businesses in the US and Japan and before that was a holding board director of the Jardine Fleming Group in Asia. He is a Fellow of the Society of Investment Professionals and a Fellow of the Institute of Chartered Accountants.

John Hallam, Director



John lives in Guernsey, is a Fellow of the Institute of Chartered Accountants in England and Wales and qualified as an accountant in 1971. He is a former partner of PricewaterhouseCoopers, having retired in 1999 after 27 years with the firm spent both in Guernsey and in other countries. John was, until January 2006, Chairman of the Guernsey Financial Services Commission and is currently a director of a number of financial services companies, some of which are listed on the LSE

Corporate Governance



- **Company seeks to comply with:**
 - UK Corporate Governance Code
 - AIC Code of Corporate Governance
- **Annual reviews of director and service provider performance**
- **Committees**
 - Audit
 - Remuneration
 - Management Engagement
 - Nominations
- **Director's receive third party private opinion on the semi-annual valuation of the portfolio**
- **Senior Independent Director – John Hallam**
- **Seeking shareholder engagement via**
 - Regular meetings with Investment Adviser
 - Lunches, dinners and site visits
 - Feedback from brokers

Activity allocation




HICL Board of Directors	
<ul style="list-style-type: none"> • Oversight • Strategy • Dividends 	<ul style="list-style-type: none"> • Performance monitoring • Governance • Capital raising
HFSML – as Investment Adviser	
<ul style="list-style-type: none"> • Management reporting • Financial Accounting & Reporting • Valuation and NAV calculations • Strategic and financial advice 	<ul style="list-style-type: none"> • Service provider management • Investor relations • Business planning • Capital raising
Dexion Capital	RSM Henri Grisius
<ul style="list-style-type: none"> • HICL Company Secretary • HICL administrator • GFSC compliance • HICL entity accounts and tax 	<ul style="list-style-type: none"> • LuxCos Company Secretary • LuxCos administrator • LuxCos entity accounts and tax
HFSML – as Operator & Manager of the limited partnership	
<ul style="list-style-type: none"> • Running the ELP and subsidiaries • Asset managing underlying investments • Value enhancements • Sourcing and acquiring new investments 	<ul style="list-style-type: none"> • Due diligence on new investments • Relationship management • Treasury and debt management

HSFML Adviser team




Werner von Guionneau
CEO
Inv Committee¹



Chris P Gill
Deputy CEO & Head of Infrastructure
Inv Committee¹



Tony Roper
Director
Inv Committee¹



Gareth Craig
Executive Director
Inv Committee¹



Keith Pickard
Portfolio Director
Inv Committee¹



David Foot
Investment Director




Erwan Fournis
Director
Infrastructure
Inv Committee¹



James O'Halloran
Senior Portfolio Manager




Edward Hunt
Analyst



Albane Psaume
Financial Analyst



Justin Scholes
Senior Financial & Management Accountant



Sandra Lowe
Director
Investor Relations

HSBC Specialist Fund Management Ltd ('HSFML') is authorised and regulated by the Financial Services Authority

¹ member of the HSFML HICL Investment Committee

HSFML Asset management team



Phillip Cooper



Phillip is a Chartered Builder and joined HSBC as Asset Management Director in 2005.

During Phillip's 30 year career in contracting he has gained considerable experience working with both the Public and Private sectors in the UK and overseas. In the Middle East he managed the construction on a new palace and racecourse in Oman and a glass-bottle factory in Africa. Further experience was gained working for Costain and Mowlem and subsequently at Board level with Trafalgar House and Hochtief.

Phillip has been involved in PPP/PFI projects almost since their inception in the early 1990s. During the last 15 years he has been worked on Health, Defence, Education and Housing sector projects. Within the Hochtief Group Phillip started up two PFI Businesses and an FM Business.

Geoff Quaipe



Geoff joined HSBC as a member of the infrastructure asset management team in 2007. He has responsibilities in the management of existing infrastructure projects and in supporting the acquisition of new projects in both the primary and secondary markets.

A Chartered Quantity Surveyor and member of the British Institute of Facilities Management, Geoff commenced his career in private practice and has over 25 years experience in property related industries with the last 8 years being in the PFI sector.

Prior to joining the HSBC team he was Commercial Director of MITIE PFI Ltd with responsibilities for PFI schemes at both the bidding and operational phases.

Mark Wayment



Mark joined HSBC in 2008 from Infinis, the UK's largest independent Renewable Energy power generator. At Infinis, he was responsible for the Landfill Gas, Biomass and Onshore Wind sectors.

Prior to joining Infinis, Mark worked for 6 years at NIBC Bank and developed the Bank's Project Equity business within the UK PFI and European PPP markets. As a Director of the project companies in which NIBC had invested equity, he was also responsible for the corporate governance, asset management and financial performance of this portfolio of investments including schools and hospitals.

Previously Mark had spent 19 years at Costain Group Plc. Mark has an MBA from Henley Management College and is a Chartered Engineer and Member of the Institution of Civil Engineers (MICE).

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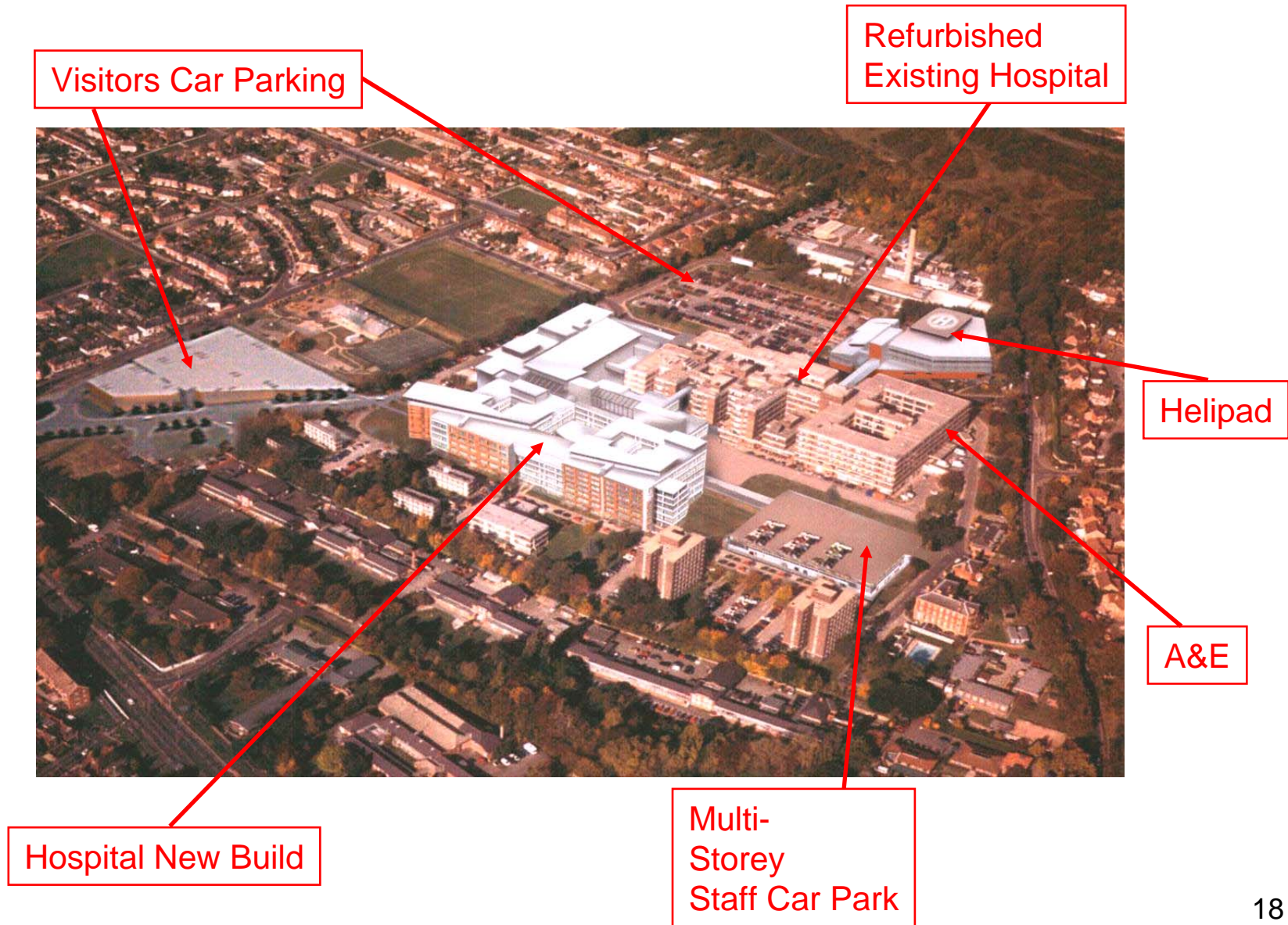
III. Case Study – the Queen Alexandra PFI Hospital, Portsmouth

PFI Project Case Study



- Queen Alexandra Hospital (“QAH”) PFI project
- Acquired by HICL in June 2010
- Acquired from Carillion Private Finance Limited and Royal Bank Project Investments Limited (RBS)

Queen Alexandra Hospital – site layout



Queen Alexandra Hospital (“QAH”)



- **History**



- **Facilities**

- **Structure and contracts**



- **Revenues and cashflows**

- **Funding**



- **Asset management**



Project Timeline



- **OJEC¹ notice** 2001
- **Preferred bidder** 2003
- **Signed** 2005
- **Construction completed** 2009-2010
- **Fully operational** 2010
- **HICL acquires interest** 2010
- **Concession ends** 2040

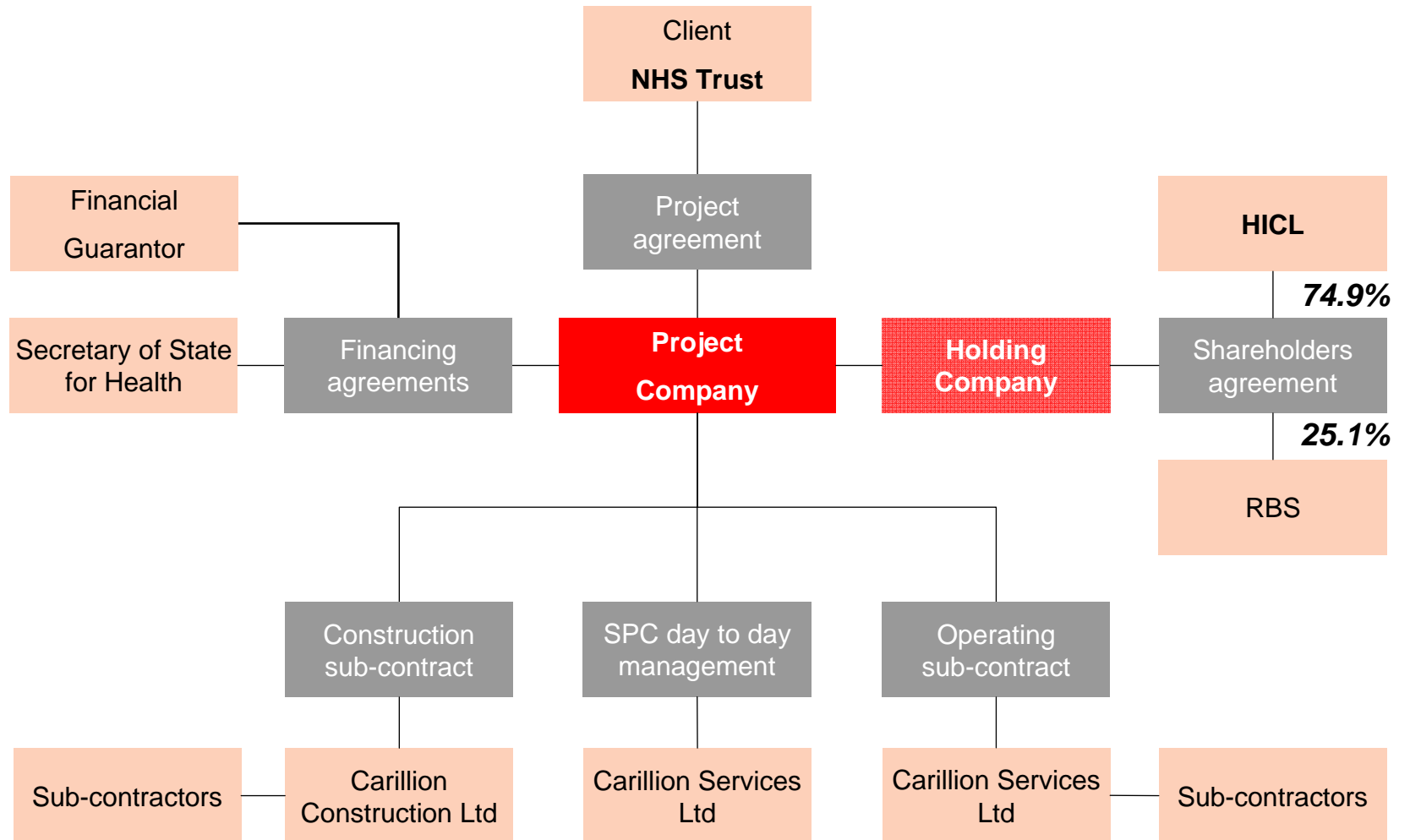
1. Official Journal of the European Union

Client



- **Portsmouth Hospitals NHS Trust**
- **One of the largest acute teaching trusts in UK**
- **The new QAH brought together 3 hospitals into one site: the pre-existing QAH, St. Mary's Hospital in Portsmouth and the Royal Hospital Haslar in Gosport**
- **Employs around 7,800 staff**
- **Around 1,400 inpatient beds**
- **Turnover of around £432m pa**
- **Major provider of education and training of under and post-graduate nurses, doctors and pharmacists**

Queen Alexandra Hospital contractual structure



Project Agreement



- **Concession of 30.5 years post construction***
- **Once built, contractual monthly payments for serviced facilities, subject to:**
 - RPI annual indexation
 - Performance deductions
 - Un-availability deductions
- **Agreement covers items such as:**
 - Specification of services to be provided and relevant quality/quantity thresholds
 - Variation mechanics
 - Dispute resolution procedures
 - Termination events and compensation payments
 - Handback criteria

*Construction was completed in June 2010

Construction



- **Fixed-price, turnkey contract of £248.7m**
 - 55 monthly payments, subject to technical adviser's sign-off
- **Built by Carillion Construction Ltd**
 - Parent company guarantee from Carillion plc
 - Cap on liability: 50% of contract sum
 - 12 months of delay liquidated damages
 - 3% retention amount
 - 12 year latent defect period
- **Programme**
 - Construction started: December 2005
 - Target completion date: over 3 phases between 15 June 2007 to 15 June 2010. Main works completed 15 June 2009.
 - Start of operations: 16 June 2009

Queen Alexandra Hospital – Construction progress



Aerial of site before



Aerial during Phase 2



Phase 2 Frame Works



Aerial of car parks and site office



Aerial Phase 1 Helipad



Services



- **Estates Services**
 - Building maintenance
 - Grounds maintenance
- **Catering**
- **Portering**
- **Linen & laundry**
- **Housekeeping**
- **Help desk**
- **Car Parking**

- **Retail**
- **Coffee bars**

Benchmarking & Market testing



- Commences in 2014 and every 5 years thereafter
- All services other than Estates Services and Help desk
- Benchmarking initially, client option to market test
- Project Co responsible for managing and co-ordinating Market Testing

Performance monitoring



- Helpdesk logs all problems
- Rectification times
- Service Response times
- Service Failure points
- Unavailability deductions – areas weighted
- Service failures passed to Facilities Management (“FM”) contractor
- Unavailability deductions passed down unless Project Co caused
- All payment deductions to date passed down to sub-contractors

Revenue basics



- **Single monthly unitary fee from client**
- **NPV of base case revenue £468m**
- **Variable monthly payments for meals and utilities – passed down to FM contractor**
- **Base revenue of £32.9m (real) pa**

Indexation



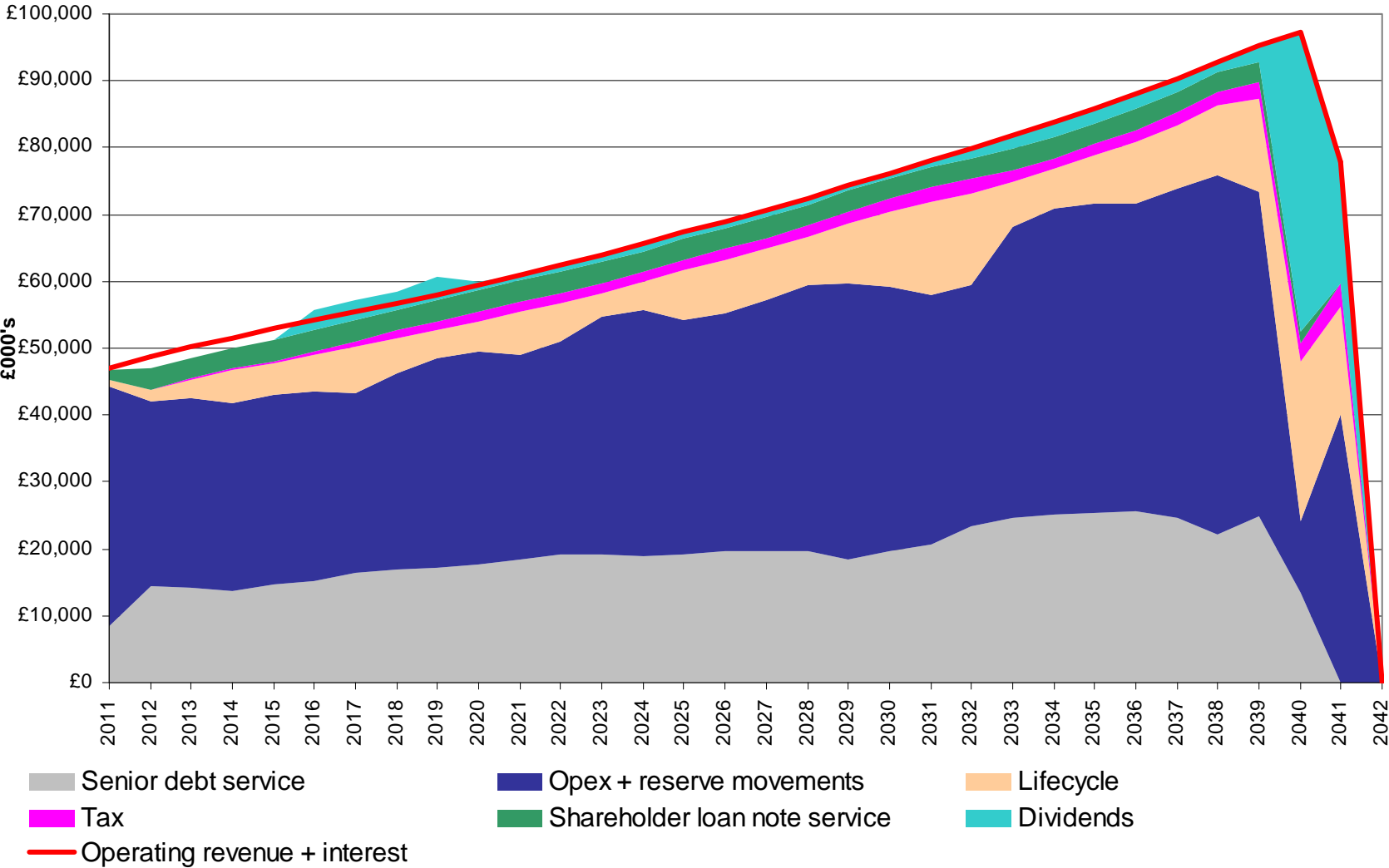
Revenue and Operating Costs

- Annual indexation
- RPI index is RPI (all items)
- Base date of April 2002
- Contract year commences in December
- Indexation uses preceding February index
- Sub-contract indexation is similar

Senior Debt

- Index-linked guaranteed loan from Secretary of State for Health
- RPI Index
- Base date April 2005
- Indexation semi-annually at Mar and Sep using previous Jan and July indices respectively

Revenue and costs – cashflows

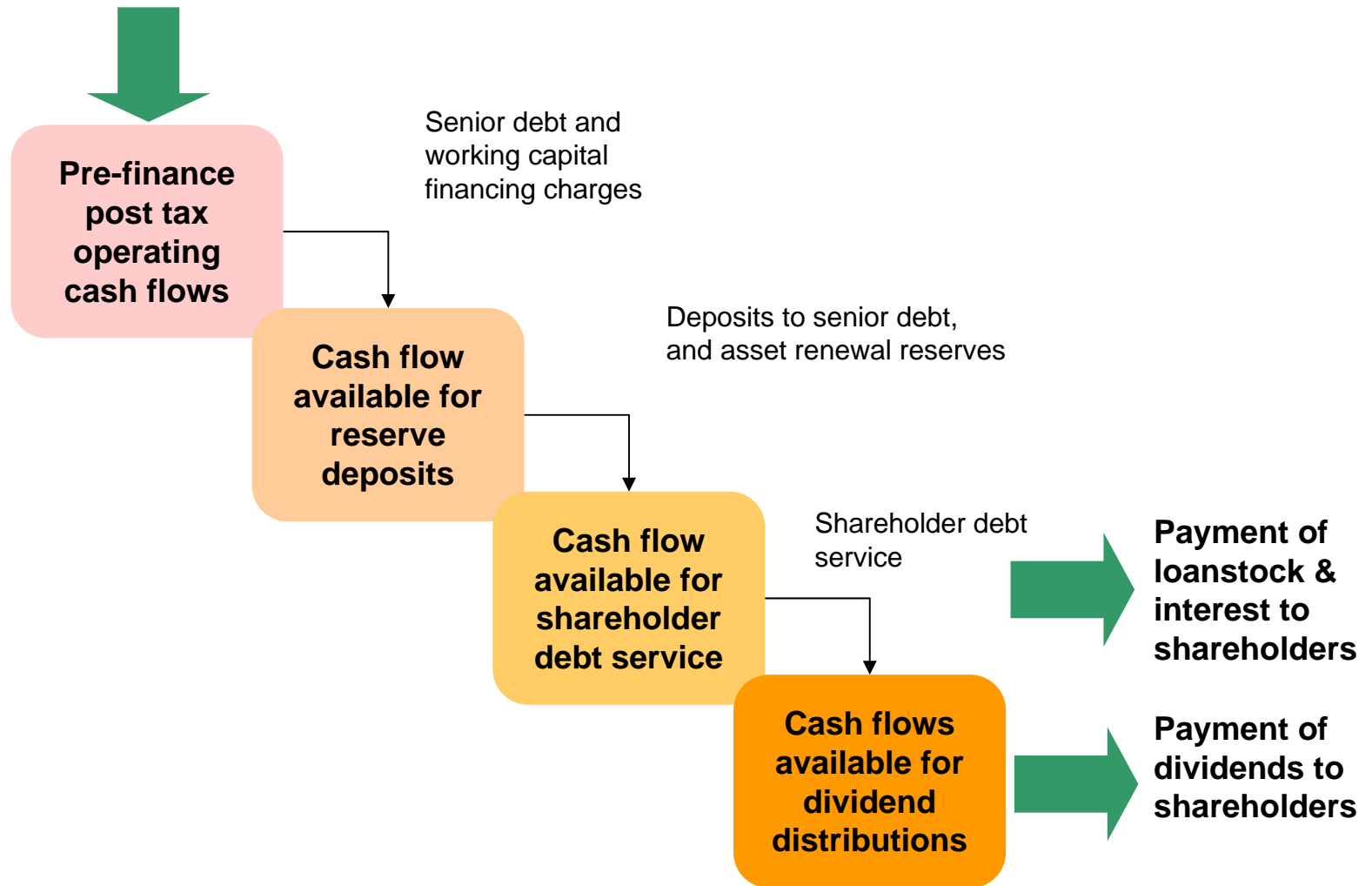


Source: HSFML: Taken from the project's financial model

Operational Cash cascade



Revenues, less operating costs, less tax

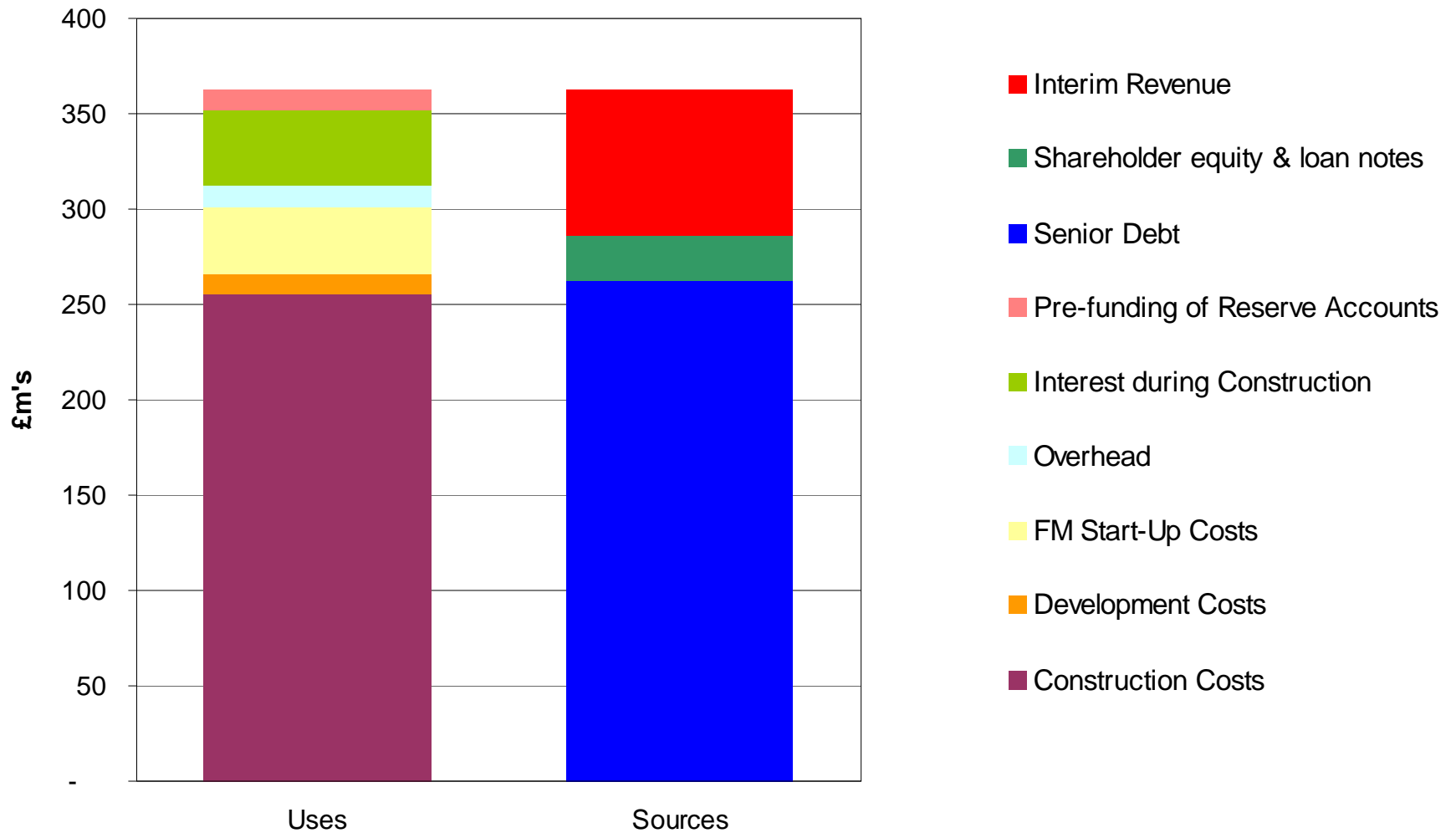


Funding of the Project



- **Index-linked guaranteed loan from Secretary of State for Health**
 - £262m guarantee loan
 - £3m stand-by facility
 - £24.3m equity bridge facility
- **Shareholders**
 - £24.3m loan stock
 - £50k equity
- **Debt : shareholder funds – 91.5% : 8.5%**

Sources & Uses, during construction



Source: HSFML: Taken from the project's financial model

Key Funding terms



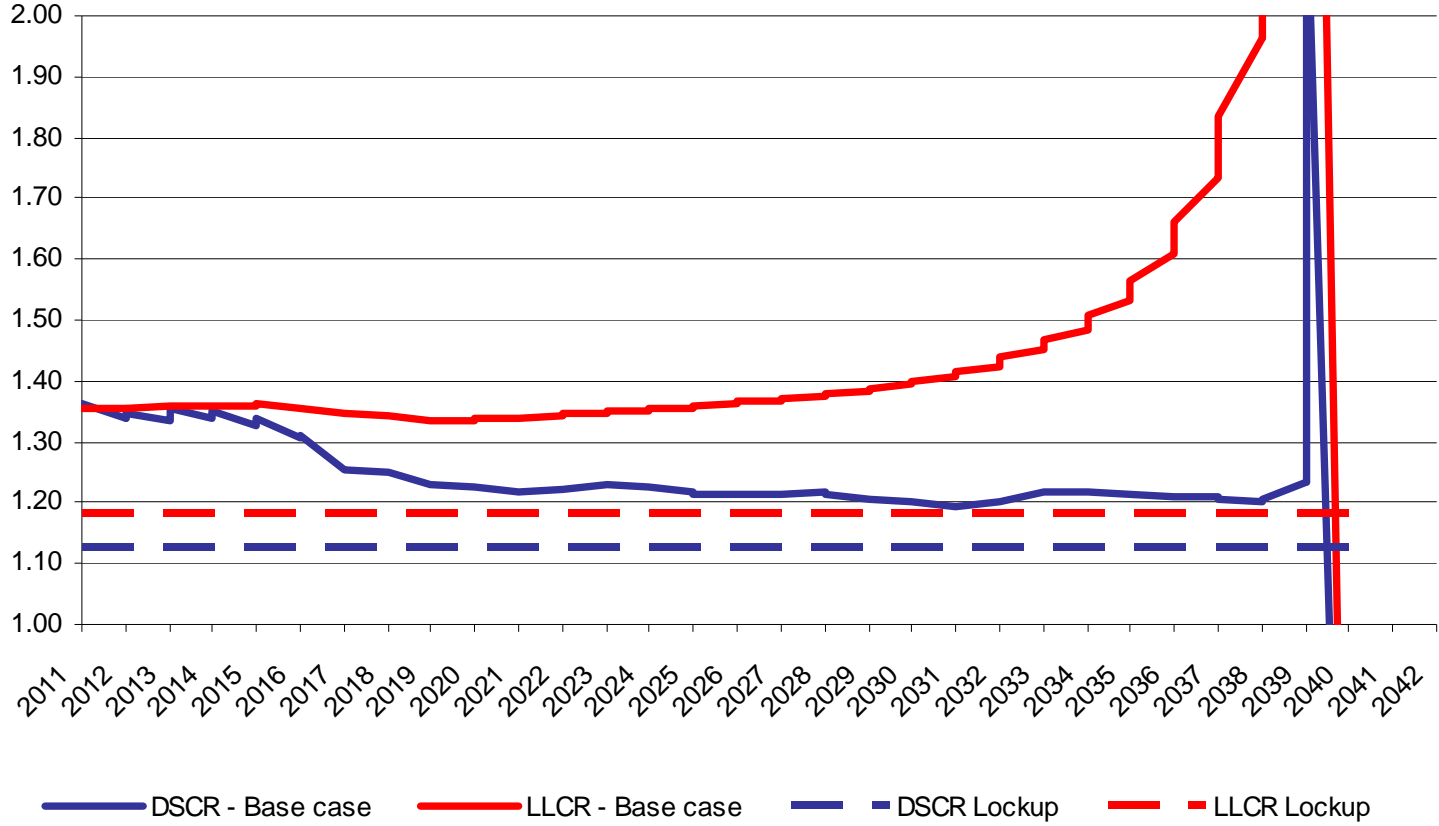
- **Guaranteed Loan (£262m facility)**
 - Provided by Secretary of State for Health
 - Monoline wrapped by Financial Security Assurance
 - Index-linked semi annually in line with RPI
 - Base coupon 1.79% pa
 - Tenor
 - 35 years
 - 15 month tail
- **Loan stock (£24.3m)**
 - 12.5% fixed coupon

Non recourse to Equity



- **Debt funding is to Project Co**
- **Secured on:**
 - **Concession with public sector**
 - **Payout on termination in certain cases**
 - **Security over:**
 - **Project Co assets and contracts**
 - **Project Co shares**
- **Hence, funding is non-recourse to shareholders**

Debt Ratios



DSCR –Debt Service Cover Ratio
 LLCR – Loan Life Cover Ratio

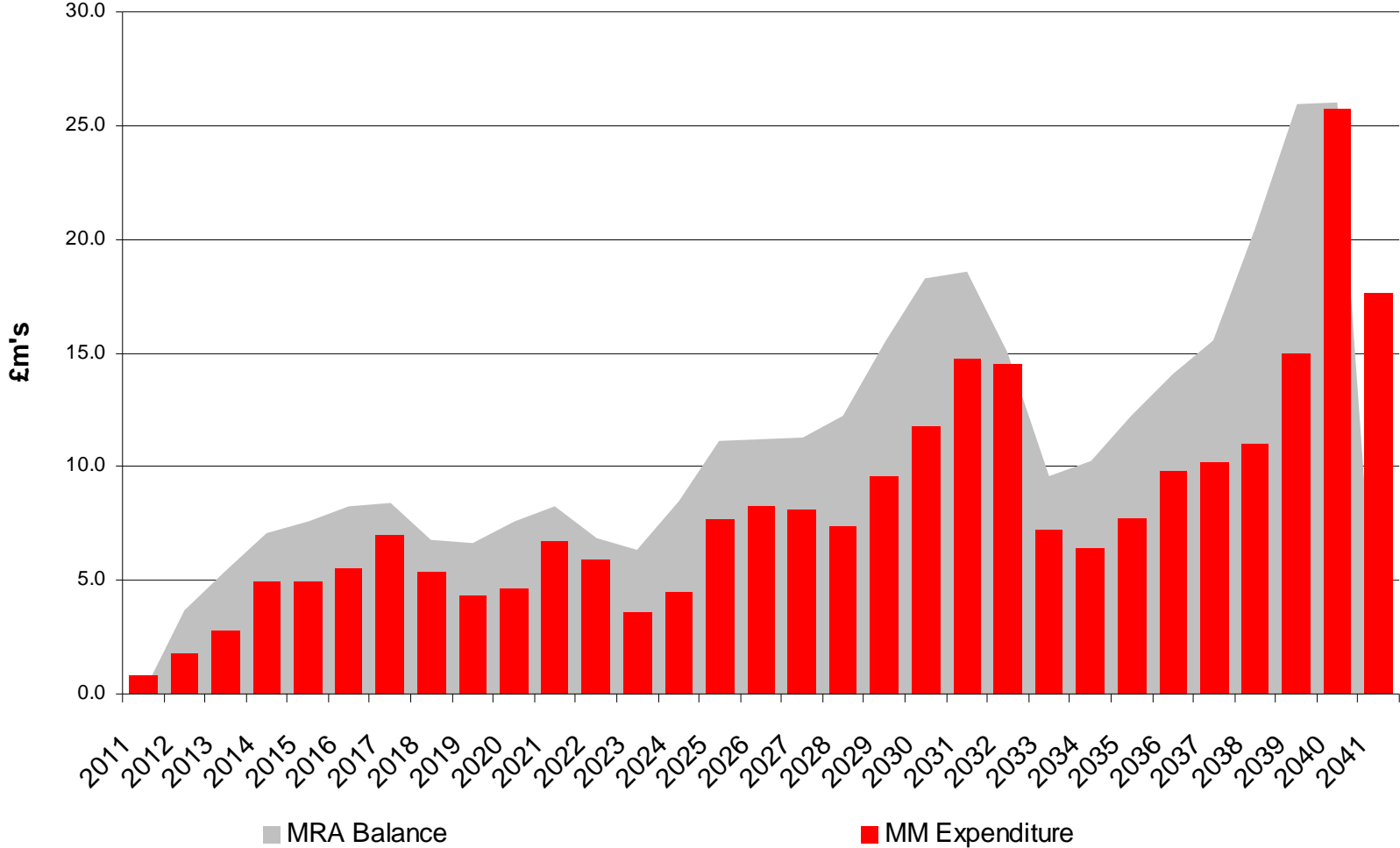
Source: HSFML: Taken from the project’s financial model

Key Equity risks



- **Performance deductions**
 - when not passed on to subcontractors
- **Major Maintenance forecasts**
 - Costs and timing – risk & opportunity
- **SPV costs, insurance & overheads**
- **Accounting standards & tax changes**
- **Inflation/deposit rates**
- **Change in Law**

Major Maintenance



MM – Major Maintenance (Asset Renewal)
 MMRA – Major Maintenance Reserve Account

Source: HSFML: Taken from the project's financial model

Insurance



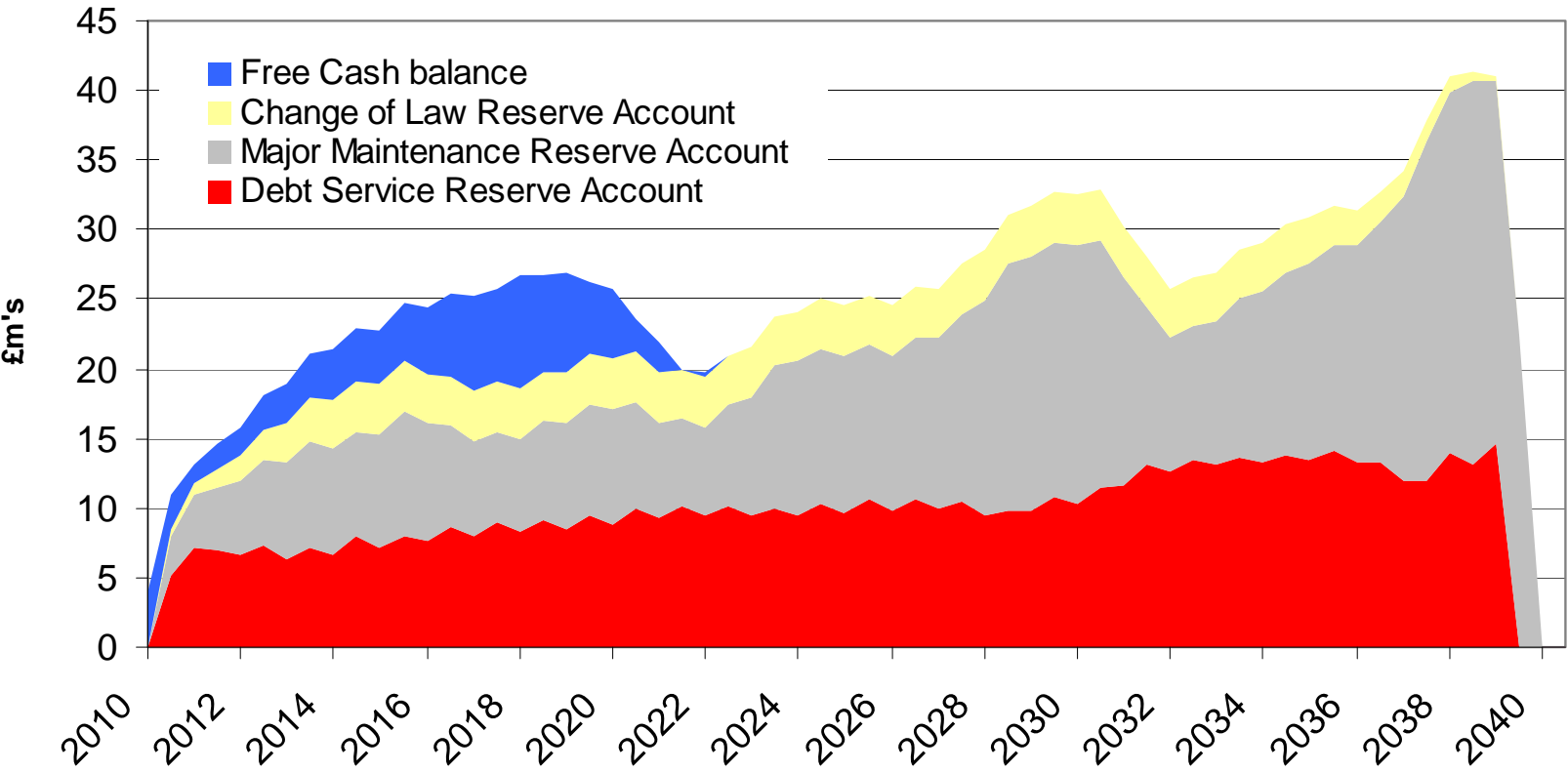
- **Various policies cover:**
 - Project company
 - Authority
 - Sub-contractors (and their sub-contractors)
 - Senior funders
 - Third parties
- **Risks insured:**
 - Contractor's all risk
 - Third-party liability
 - Delay in start-up
 - Property damage
 - Business interruption

Insurance (cont'd)



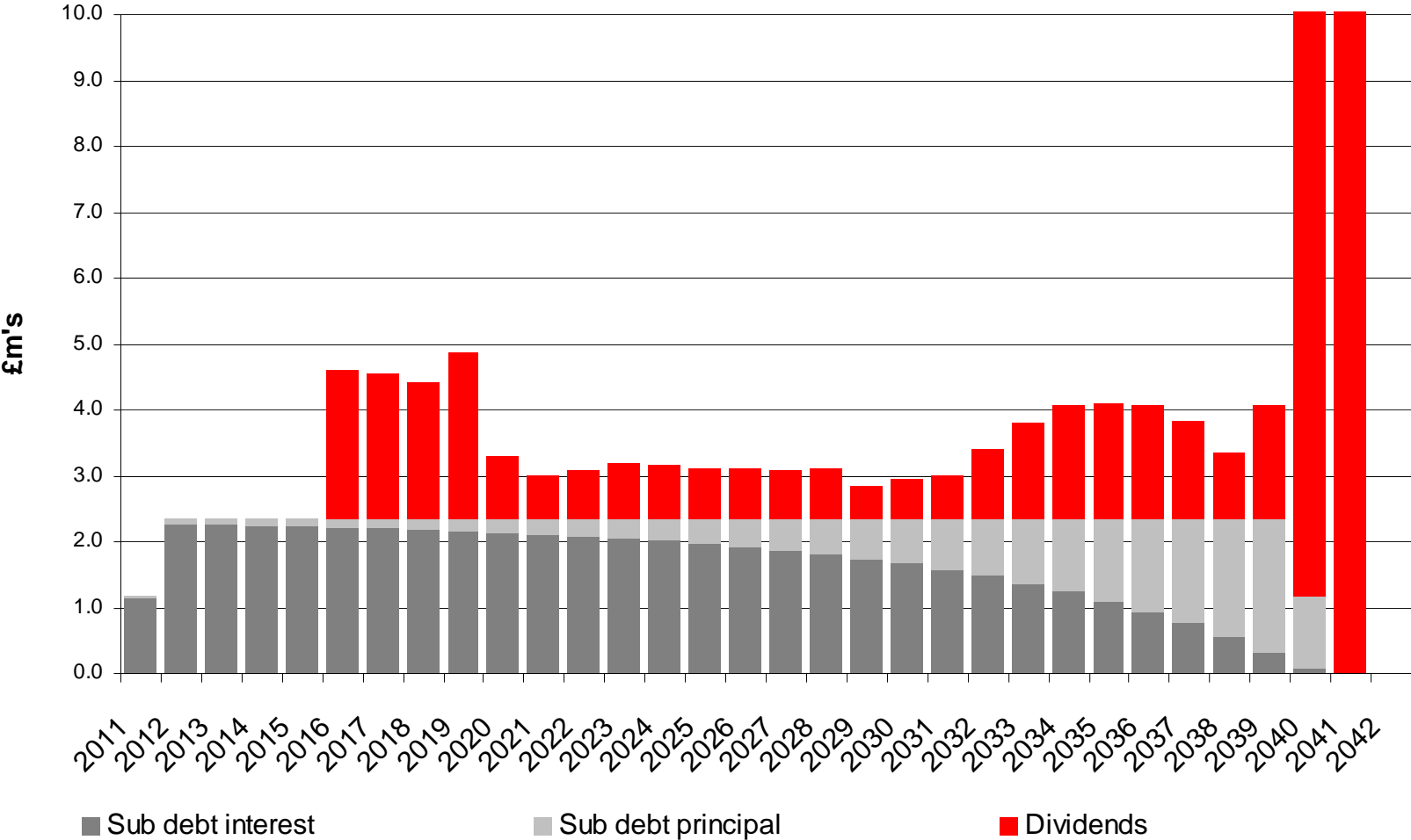
- **Concession contract includes risk gain/pain-sharing with Authority**
 - Five year reviews
- **Cost increase sharing:**
 - First 100% increase: 100% Project Company risk
 - Thereafter: sharing 90% (Authority) / 10% (project company)
- **Cost decrease sharing:**
 - First 25% decrease: 100% Project Company upside
 - 25-50% decrease: 50% sharing
 - 50%+ decrease: 90% Authority upside

Cash deposits



Source: HSFML: Taken from the project's financial model

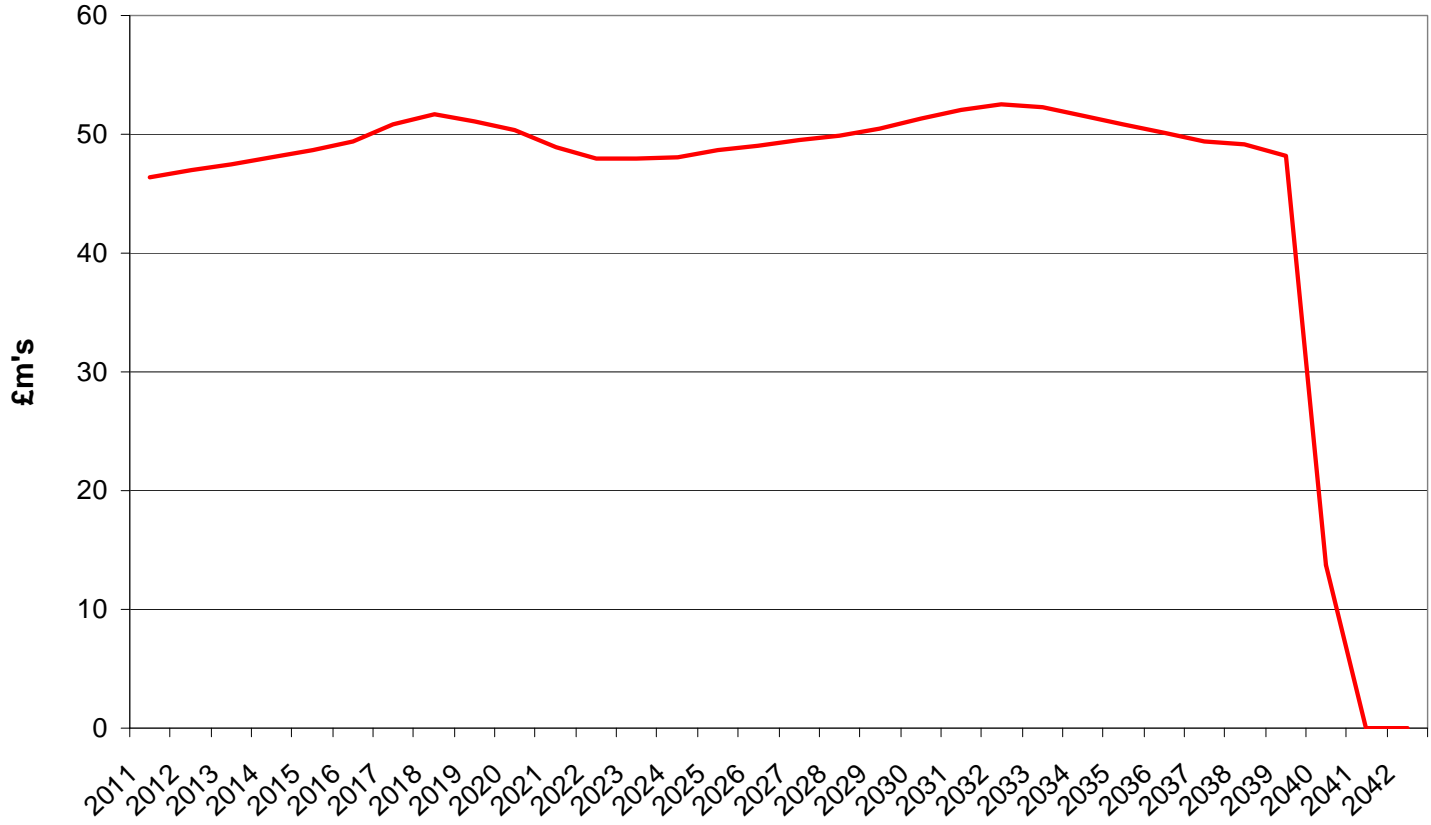
Forecast* shareholder cashflows



*Prospective investors should note that no assurance or guarantee can be given that these cashflows will be achieved

Source: HSFML: Taken from the project's financial model

Rolling Investment Valuation*



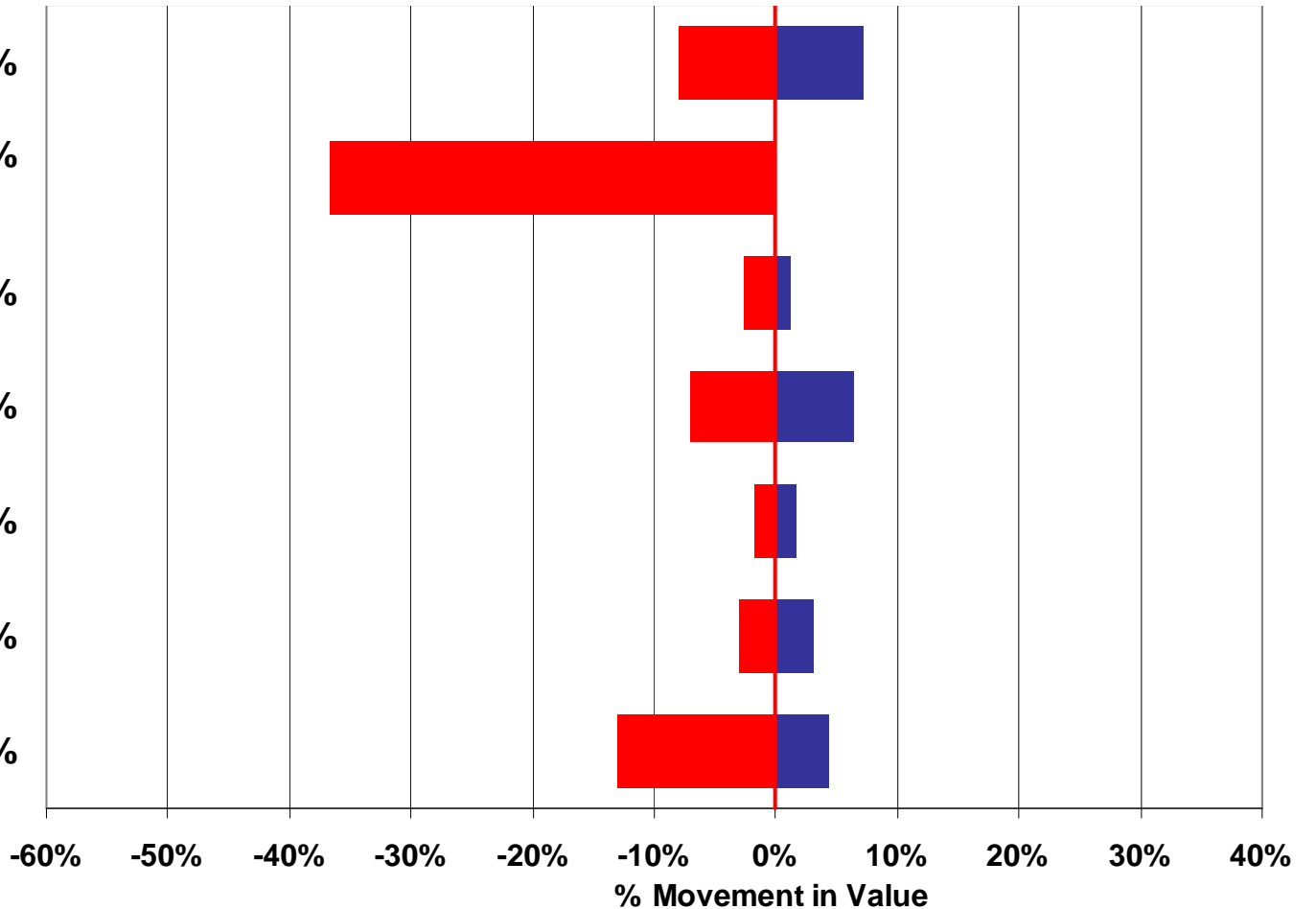
*Assuming a constant discount rate. Prospective investors should note that no assurance or guarantee can be given that this valuation will be achieved

Source: HSFML: Taken from the project's financial model

Sensitivity analysis



- FM Costs +/- 10%**
- Revenue Deduction 5% throughout**
- Insurance +/- 50%**
- Lifecycle +/-10%**
- Corp. Tax Rates +/- 2%**
- Deposit Rates +/- 2%**
- Inflation +/- 1%**



Sensitivities are applied to all remaining years of the concession (ie RPI +1% is an increase in the RPI assumption for each remaining year of an additional 1% pa)

Deductions of 5% pa assumes these deductions are not passed down to sub-contractors.

Lifecycle is major maintenance (asset renewal) forecast spend

Source: HSFML: Taken from the project's financial model

HSFML Asset management



- **Dedicated team of three asset managers and portfolio director**
 - Value preservation and enhancement
- **HSFML takes an active role:**
 - Regular board meetings
 - Liaison meetings with clients, project team and key subcontractors
 - SPC management performance
 - Annual budgets and plans developed
 - Quarterly review of performance
 - Monitor sub-contractor credit worthiness



Appendices

History



First year – period end 31 March 2007

- | | |
|---|--|
| <ul style="list-style-type: none"> • Launch March 06 – raised £250m, purchased 15 investments worth £250m • Acquired 2 new investments & 5 incremental stakes | <ul style="list-style-type: none"> • Interim 2.875p • Second interim 3.225p • TOTAL 6.10p |
|---|--|

Second year – period end 31 March 2008

- | | |
|--|---|
| <ul style="list-style-type: none"> • New £200m fund level 5 year revolving debt facilities • Site visit January • Acquired 10 new investments & 1 incremental stake | <ul style="list-style-type: none"> • Interim 3.05p • Second interim 3.2p • TOTAL 6.25p |
|--|---|

Third year – period end 31 March 2009

- | | |
|---|---|
| <ul style="list-style-type: none"> • Successful £103.6m C share raising in May 2008 • Site visit February • Acquired 1 new investment & 5 incremental stakes | <ul style="list-style-type: none"> • Interim 3.125p • Second interim 3.275 • TOTAL 6.40p |
|---|---|

Fourth year – up to 31 March 2010

- | | |
|---|---|
| <ul style="list-style-type: none"> • Successful £80m C share raising in December 2009 • Raised £48.1m through tap issues over the year • Acquired 5 new investments & 3 incremental stakes | <ul style="list-style-type: none"> • Interim 3.2p • Second interim 3.35p • TOTAL 6.55p |
|---|---|

Current Portfolio



Education

Bradford Schools

Conwy Schools

Darlington Schools

Defence 6th Form College

Ealing Schools

Haverstock School

Health & Safety Labs

Utilities

Kemble Water Junior Loan

Education

Helicopter Training

Highlands Schools

North Tyneside Schools

Pinnacle Schools Fife

Renfrewshire Schools

Wooldale Centre

Transport

Dutch High Speed Rail

Health

Barnet Hospital

Bishop Auckland Hospital

Blackburn Hospital

Central Middlesex Hospital

Oxford John Radcliffe

Queen Alexandra Hospital

Romford Hospital

Stoke Mandeville Hospital

West Middlesex Hospital

Law & Order

D & C Firearms Training

Exeter Crown Court

GMPA Police Stations

MPA Firearms Training

MPA SEL Police Stations

Sussex Custodial

Accommodation

Home Office

Colchester Garrison

Health & Safety HQ

Newcastle Libraries

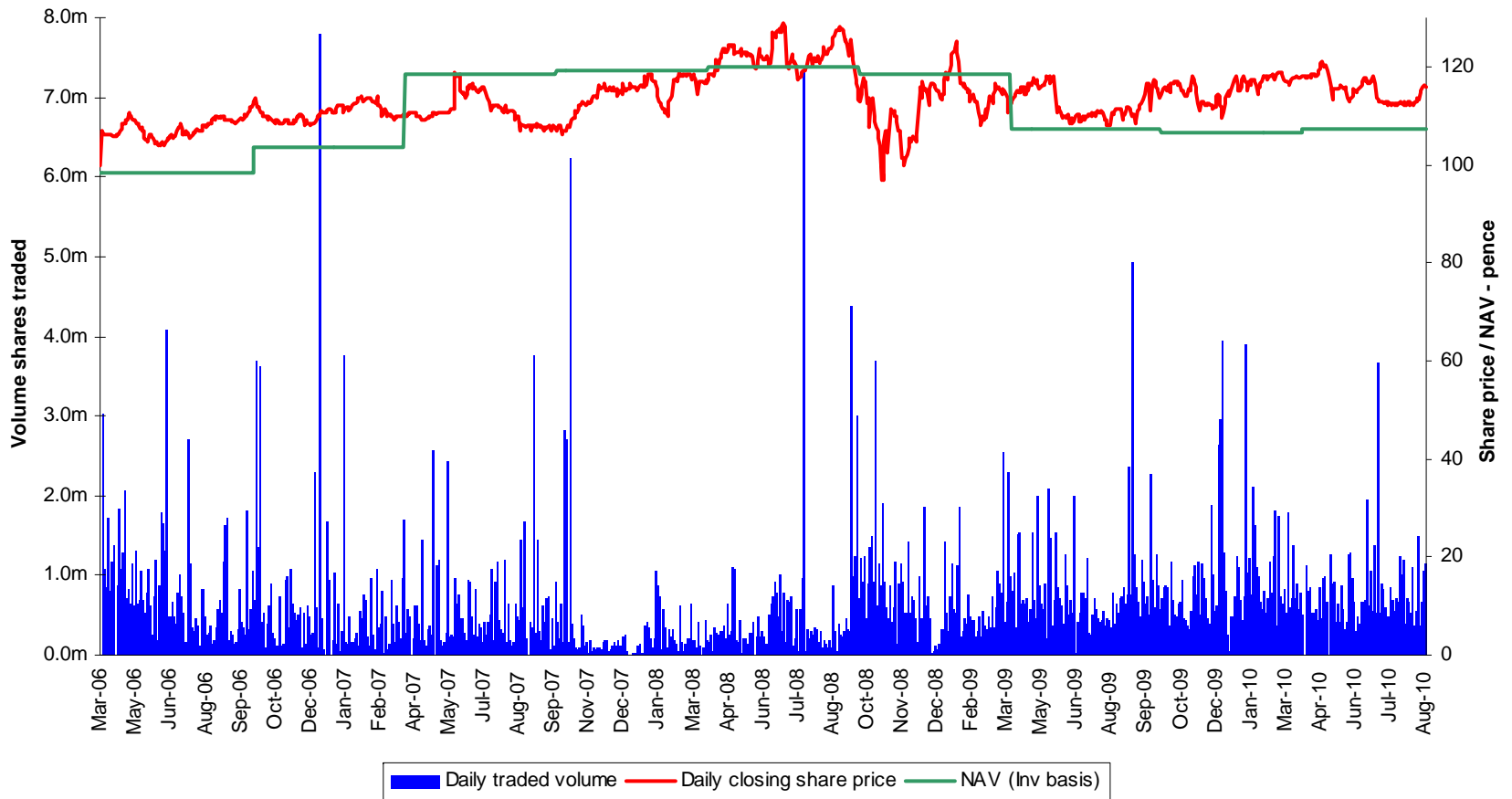
Key:

Portfolio at 31 March 2010

Acquired June 2010

As at 31 August 2010

Share price history



Source: Thomson Datastream

Past performance is not a reliable indicator of future performance
 Investments can fluctuate in value, and value and income may fall against an investor's interests.

Performance since launch



- **Annual yield, exceeded launch targets**
 - 6.1p, 6.25p, 6.4p and 6.55p per share for years to March 2010
- **Total return since launch¹ of 44.0%, or 9.6% pa**
- **Low correlation to equities**

Outperformed¹

All Share	by 27.9%
FTSE 250	by 33.1%

Total return since launch to March 2010



Source: Thomson Datastream, Return index

¹ From 28 March 2006 to 31 March 2010

Past performance is not a reliable indicator of future performance

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