



Due Diligence for Infrastructure Investments

“Identifying key risks & opportunities for investors”

As a result of the recent economic downturn, investors are understandably wary of the risks associated with different investment choices and the potential returns that may be available from these investments. Investment in asset intensive businesses has the potential to provide reliable and low-risk returns over the medium to long-term. However, to realise this potential and maximise returns, it is necessary to understand the long-term costs and risks associated with the management of the businesses physical assets and to identify the opportunities for more efficient long-term stewardship of the assets.

The relatively new discipline of Infrastructure Asset Management is concerned with defining best practice physical asset stewardship arrangements to help organisations deliver ever more demanding levels of service whilst minimising lifecycle costs and risks in a sustainable manner. The overall goal of Infrastructure Asset Management is to integrate engineering, financial, IT and organisational capabilities to deliver a more efficient and effective organisation. The discipline of Infrastructure Asset Management promotes the importance of ensuring technical due diligence takes sufficient account of the interdependencies between the technical and financial aspects of a business.

The Institute of Asset Management (IAM) is the world leading authority on the management of physical assets.

“ There is an increasing body of evidence from the IAM that the financial benefits from applying effective Infrastructure Asset Management over a period of three to five years can be as much as 15% to 25% reduction in costs, for no detrimental impact on performance or risk to the business. ”

These benefits vary from company to company and the extent to which the benefits apply to any individual business is dependent on the maturity

of the Asset Management capabilities of that business. Therefore, it is imperative that an organisation seeking to invest in an infrastructure assets portfolio has visibility of the underlying Asset Management capabilities of the organisation charged with stewardship of those assets.

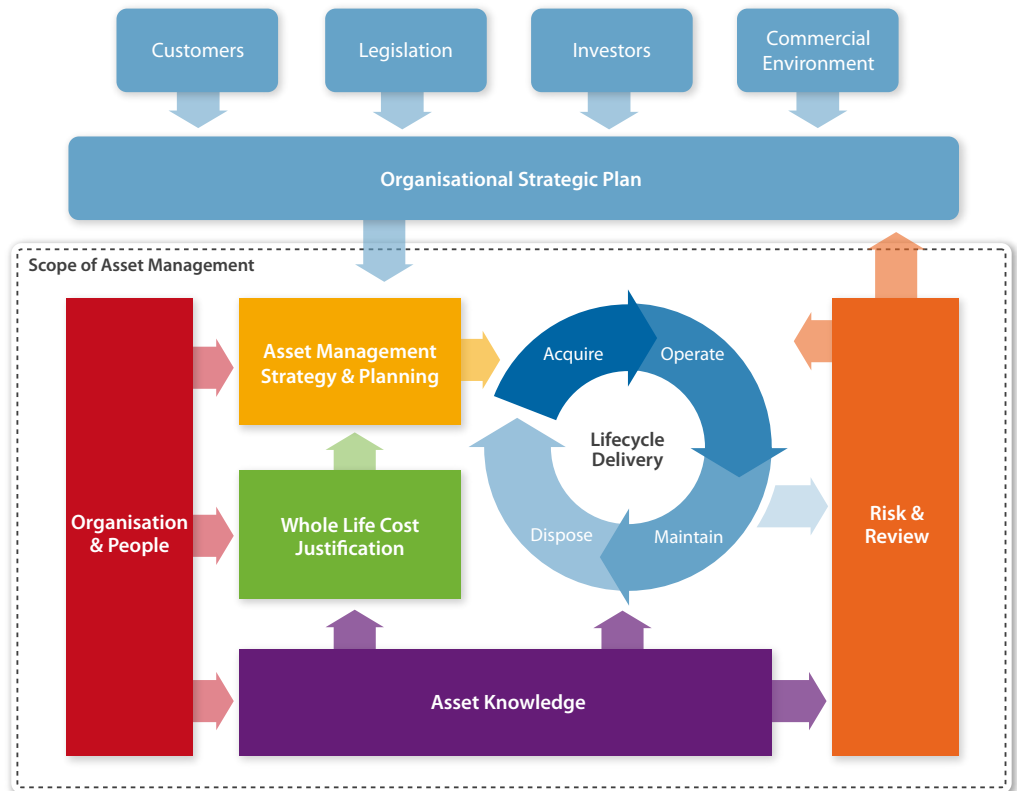
Traditional due diligence has tended to focus on the costs, risks and liabilities associated with a business and its physical assets at the time of asset transfer. This has the potential to miss some of the more significant risks to any investment as a result of poor Infrastructure Asset Management decisions. One such example is the inadequate maintenance of long-life assets such as Civils assets where it may take many years for the consequence to manifest itself in costly premature renewal or significant overhaul. Traditional due diligence studies also



have the potential to miss the most important opportunities to deliver a better return on investment through the identification of more efficient ways of maintaining and renewing the physical assets.

AMCL is recognised as the leading international service provider in the field of Infrastructure Asset Management due diligence and assessment. Unlike many traditional engineering consultancies, AMCL specialises in both the technical and Infrastructure Asset Management aspects of due diligence and comprises an internationally recognised team of Asset Management professionals. AMCL's best practice knowledge is also supported by the company's direct involvement in developing the international standard on Asset Management, BSI PAS 55, which is being increasingly used by regulators and investors around the world to assess organisations' asset stewardship capabilities.

AMCL's due diligence studies consider the following all encompassing aspects of Infrastructure Asset Management, based on an internationally recognised Asset Management conceptual model:



Along with clarifying and describing the Assets and their boundaries, the due diligence assessments examine how well the underlying processes for managing the asset portfolio are aligned with the organisational strategic plan. This ensures that every pound spent on the assets, including any supporting activities, contributes to the overall goals of the business. The due diligence assessments are undertaken based on a criticality analysis to ensure the study focuses

on the highest priority assets and identifies the highest priority efficiency opportunities.

The due diligence also examines how the processes that are used to define, procure, deliver and handover the different types of assets align with recognised best practice. Furthermore, the assessment examines the different types of asset and takes into account the different regulatory regimes that may apply to the key groups of assets.

The results of the assessments are benchmarked against current industry best practice and BSI PAS 55. This can then be used to determine the extent of the efficiency benefits available through more effective Asset Management based on evidence of benefits delivered in other asset intensive businesses. The results from the assessment will also highlight any significant risks associated with investment in the asset portfolio.

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