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TRANSCRIPT OF INTERVIEW WITH GREG WARD
CNBC SQUAWK BOX

18 October 2007 – Greg Ward, Chief Financial Officer Macquarie Bank Limited, was interviewed on CNBC's Squawk Box program in response to claims made by James Chanos about Macquarie. The transcript of this interview is provided below.

Joe Kernen, Co-Anchor:

All right, when Jim Chanos—the famed short seller who correctly played the collapse of Enron—is calling you out, you know you're in the hot seat. That's where executives at Australia's Macquarie Bank now find themselves. Macquarie might not be a household name here in U.S., but the company has a big stake in the infrastructure of America, and all over the world. Its funds own major toll roads, like the Chicago Skyway, the Indiana Toll Road, the Dulles Greenway. Macquarie CFO, Greg Ward, joins us now from Sydney, Australia.

Mr Ward, thank you for joining us. Good morning.

Greg Ward, CFO, Macquarie Bank Limited:

Good morning, Joe.

Kernen:

I wanna start with —I'm trying to do this as quickly as possible— let's get right to something Jim Chanos said on our air the other day and you can respond to this.

Let's run it right now.

[Begin clip of Jim Chanos interview]

Jim Chanos, President, Kynikos Associates LP:

The problem is, is that it's not Macquarie that's paying too much for these infrastructure assets; they are, in turn, buying these things and flipping them to funds that they control.

[End clip]

Kernen:

That's one thing he said Mr Ward and then, I've also got an article—I know you've seen—by Ed Chancellor. It says—he actually calls it, "The Macquarie Model" — kicks into action when the bank buys a business with its own money, the investment is passed on then to one of Macquarie's funds, and the bank generates a profit on the sale of assets to one of its funds."

You don't—you say that's very rare?

Ward:

Well, I, I think it's very important we get the facts right. And we have disclosed that in the last year to 31 March, 2007, less than one percent of Macquarie Bank's profits came from selling assets to the funds. The vast majority of the acquisitions that are made of infrastructure assets are made directly by the funds. And I'd also like to add that in most cases, when we're buying assets we're doing that with partners with, you know, consortia partners that are often also leading owners of infrastructure around the world.

Kernen:

Okay, let me get to the next point, since, we've got a lot to cover here. And that is, one of the things that Mr Chanos said, what he found most troubling, and that is: some of the large payouts that the funds are able to make are not necessarily from operations from the infrastructure products—or projects—but actually may be from borrowed money. Let's look and see what Chanos says about this.

[Begin clip of Jim Chanos interview]

Chanos:

They get to use something called, "asset revaluation accounting." Because in the U.K. and Australia, you may only pay dividends out of net income— there's not enough net income here —normally, to pay the dividends. But, they write up the value of the assets, using various appraisals, assumptions.

[End clip]

Kernen:
What about that? Do the operating results of the infrastructure products cover the dividends that you pay?

Ward:
Well, again, let's get the facts right. We've been in the infrastructure and specialized fund business for over thirteen years; had a very successful track record. Over those thirteen years, we have delivered a twenty percent compound annual income. This is capital growth and income of a thirteen-year period to our investors. Last year, in the period up to 31 March, we raised twenty-two billion dollars of new equity for our funds and the vast majority of that equity is coming from the leading international, institutional investors—very, very sophisticated investors. And they're making a judgment about our performance in owning, selecting and managing these infrastructure assets.

In terms of the funds, there are a mix of funds. There are income funds, growth funds, listed funds, and unlisted funds. In the majority of situations, operating cash flows are sufficient to pay distributions to investors. In some cases, in some of the funds, they're investing in new infrastructure; infrastructure that's being built for the future. In the early periods, while the capital investment is made, there aren't a lot of operating earnings from those assets. During that period, you get increasing confidence about the future operating performance of those assets, as you get through the development cycle and as a result, banks that are funding these assets will lend more money over time. And with that, we're able to pay some distributions to investors in the earlier periods, rather than pay it all to them at the end, when the road or infrastructure project has ramped up. So, it's about just balancing the cash flows of —what are very, very long term assets.

Kernen:
Okay, we could go into the way certain things are marked up. In one specific instance— the Indiana Toll Road—you used an Australian firm that's traffic assumptions, based on what future valuations should be, were much higher than any of the domestic U.S. appraisals. And that enabled you— the future value—to pay out more. But, you know, I just want to get to one more thing, because we don't have a lot of time, and that is the debt you typically say is, is under sixty percent. It pointed out in this piece that a lot of it is off-balance-sheet and it, it's really kind of a black box; very difficult to tell what the actual debt is. If you include all the off-balance sheet debt, what would you say the percentage is?

Ward:

Well, let me first quickly cover the Indiana Toll Road, because, again, I think it's important we get the facts right. That toll road was bought by MIG, which is one of the toll road funds—not bought by the bank, as Mr Chanos mentioned the other day.

Kernen:

Right, he admitted he made that—he admitted he made that mistake.

Ward:

It was bought in consortia.

Kernen:

He admitted he made that mistake, but what about using a…

Ward:

Indeed.

Kernen:

Go ahead.

Ward:

Indeed, and let me just finish. He also made the point there that we then made a profit in selling that from the bank to a fund, which we didn't. The asset itself, was also bought with a consortium member—Cintra—one of the largest infrastructure funds in the world. And together, we made a judgment about the value of that toll road, which was not much in excess of the price of the under bidder, which was different to the price quoted the other day by Mr Chanos. And the relevant authority, the relevant government authority did disclose the under bidder price and I think we should focus on that.

In the case of debt— the figures we've released—what we've done is we have looked across the hundred and nine assets that we're managing around the world. We have looked at the debt that is used to fund those assets in all of these vehicles. And we've added that together, and the average gearing level across that whole portfolio is fifty-eight percent. There is no off-balance-sheet debt; there is no hidden debt. That is the total debt funding those assets. And I think, given the very certain revenue streams and the essential nature of these assets, that is a relatively conservative gearing level.

Kernen:

All right, appreciate your time today, Mr Ward; thank you.

Greg Ward, Macquarie, CFO.

Ward:

Thanks very much.

Kernen:

You're welcome.

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