Exhibit__(SGH-4)
Page 1 of 8

Would you buy a bridge from this man?

Macquarie Bank has made infrastructure funds a smoking-hot investment class. But the way it finances its deals has short-sellers circling, writes Fortune's Bethany McLean.

http://money.cnn.com/2007/09/17/news/international/macquarie_infrastructure_funds.fortune/index.htm

FORTUNE

By Bethany McLean, Fortune editor-at-large
October 2 2007: 12:09 PM EDT

http://money.cnn.com/2007/09/17/news/International/macquarie_infrastructure_funds.fortune/index.htm

(Fortune Magazine) -- "This is the greatest single financial coup in the history of Chicago." That's how alderman Edward Burke, chairman of the city council's finance committee, described the 99-year lease of the Chicago Skyway, a 7.8-mile toll road, to a private operator for the stunning sum of $1.8 billion - almost $1 billion more than the next-highest bid. The deal, struck in late 2004, was the first privatization of a toll road in the U.S.

The Skyway runs from the skyscrapers downtown to the old steel mills of northwestern Indiana, where it meets the Indiana Toll Road, a 157-mile highway. Before long, Indiana Governor Mitch Daniels announced that he'd leased that road to the same private operator for $3.8 billion.

Unusual as the deals may sound, the real surprise is that it took so long for them to happen. All around the world governments have been selling off infrastructure like toll roads, not necessarily because they want to but because they don't have a choice: They need the money.

The same is true here - the U.S. needs $1.6 trillion in infrastructure investment over the next five years, according to a report by the Urban Land Institute and Ernst & Young - but perhaps because we've been reluctant to face up to that fact, the bankers and consultants who do deals like the lease of the Skyway refer to the U.S. as an "emerging market."

If anyone thought that the investment wasn't a matter of urgency, the collapse of Minnesota's Interstate 35W bridge this summer, which took 13 lives, showed otherwise.

Another surprise about these deals is that they weren't done by the usual suspects, like big Wall Street banks. Both the Skyway and the Indiana Toll Road were leased by two foreign companies working in partnership - a Spanish company called Cintra and a rapidly growing, highly controversial Australian firm called Macquarie Bank.

Macquarie, via funds that it controls, now owns chunks of 108 infrastructure assets around the globe, from parking lots in Manhattan to airports in Sydney, Brussels, and Tanzania to the Thames Water Co. in London to the Changshu Xinghua port in China.

Each day some 1.7 million cars drive on Macquarie's toll roads, some 115 million people pass through its airports, and some 60,000 people report to work at its assets. That, of course, makes Macquarie into something very different from just another financial services firm.

"These are major assets that affect people's lives," says Adam Nicolopoulos, a former UBS banker turned consultant.

Macquarie has its roots in Australia, where a serendipitous convergence took place in the mid-1990s. That's when a law was passed requiring Australians to put a percentage of their salaries into investments for retirement. At the same time, the cash-strapped government had begun turning over things like toll roads to private companies.

It was Macquarie that had the brilliant idea to put the two together by buying the right to run a toll road from the government and then selling that road to the public in an IPO. The theory was that a toll road - unlike, say, a technology stock - is a handy way to save for retirement because it produces a steady stream of cash that is relatively unaffected by economic downturns (are you going to stop using the roads?) or by competition (what other road are you going to use?).

Today "infrastructure funds" specializing in everything from toll roads to broadcast towers are as common in Australia as mutual funds are in the U.S.

The "Macquarie model," as both believers and skeptics call it, is now spreading around the world. Macquarie has funds listed everywhere from the New York Stock Exchange to the Singapore exchange. In total, the firm now manages A$225

Exhibit__(SGH-4)
Page 2 of 8

billion, roughly half of which is devoted specifically to infrastructure; in the past 17 months, a fresh A$34 billion poured into its coffers, almost 80% of which came from outside Australia.

"It's just a huge market," says Macquarie CEO Allan Moss. "I think we've just scratched the surface of what we can do." Analyst Brian Johnson at J.P. Morgan is even less reserved. "How big is the opportunity?" he asks. He pauses, and then screams, "Massive!"

If the general public doesn't know the name "Macquarie" yet, Wall Street certainly does. Some 20% of its stock is owned by North American investors, including mutual fund giant Fidelity. U.S. pension funds such as the Illinois State Board of Investments are handing Macquarie money to manage.

And powerful firms from AIG (Charts, Fortune 500) to Goldman Sachs (Charts, Fortune 500) are following in its footsteps by raising multibillion-dollar infrastructure funds of their own. "MacWho?" was the question during the Skyway deal, says Dana Levenson, the former CFO of the city of Chicago, who is now leading an infrastructure group at the Royal Bank of Scotland. "Now these guys are everywhere, and everyone is taking notice."

Macquarie says it offers a straightforward service ("It's bloody simple," says Murray Bleach, head of the firm's North American investment-banking business).

In leasing the Skyway, Chicago got $1.8 billion in cash right away instead of by collecting tolls for 99 years. That enabled the city to pay down debt and put another $500 million into a rainy-day fund on which it collects interest - more interest than it was getting in annual tolls, says Levenson. It is now Macquarie and Cintra's responsibility to run the road, which encompasses everything from removing dead animals within eight hours to funding capital expenditures. (Within three months of taking over, it had installed electronic tolling.)

If, in 50 years, we all have individual flying machines and no one is using the road, it's a problem for Macquarie and Cintra, not for Chicago. And if the new operators fail to meet the city's roughly 300 pages of operating standards, the city can take the road back.

Of course, there's a price for all this. The toll went to $2.50 from $2 on the day that Macquarie and Cintra took over, and it will continue to increase.

Then again, it really isn't all that simple. There is widespread resentment and cynicism about the notion of private companies making money off what has long been perceived as public property.

Look no further than Indiana, where Governor Daniels's popularity ratings plunged in the wake of the sale of the toll road amid a hue and cry about foreign firms' owning our roads. And as the self-styled populist Lou Dobbs asked, "What right do they have to sell something that belongs to the taxpayer?"

But that's not the only reason Macquarie is controversial. No less a critic than Jim Chanos, the president of Kynikos Associates, who earned worldwide fame for being an early critic of Enron, is selling Macquarie's stock short. He argues that instead of inventing a new way to finance infrastructure, the firm is engaging in an old-fashioned Ponzi scheme.

So what does it mean if the financial structures underpinning Macquarie's assets are actually as unstable as the steel that supported the Interstate 35W bridge?

On May 23, Chanos strode onto the stage of an elegant auditorium in Manhattan to address a highflying crowd. The event was the annual Ira Sohn conference, at which normally secretive hedge fund managers show off their top investment ideas. The ticket price of $3,000 goes to benefit children with cancer.

Chanos captured the audience's attention by opening with a quote from the *Sydney Morning Herald*: "The Macquarie model is justly famous around the world. It is quite possibly the most efficient method of legally relieving investors of their money ever conceived."

That Macquarie Bank is currently a highly profitable company is not a matter of dispute. Only a week before Chanos's talk, Macquarie had posted its results for its fiscal year ended in March 2007. The firm's profits were almost A$1.5 billion, up 60% from the year before and up from just A$250 million in 2002. (One Australian dollar is currently worth about 84 cents.)

The base management fees from its funds amounted to A$785 million. Through mid-July, Macquarie's stock, which was listed on the Australian Stock Exchange in 1996, had returned over 2,000%. At home Macquarie had become known as the "millionaires factory." In the past two years the top five Macquarie bankers earned A$216 million, with Moss and Nicholas Moore, the investment-banking head, making more than A$30 million each last year.

But Chanos is a contrarian, and on that sunny spring day he explained to the audience what he saw under Macquarie's glittering surface. The firm, he said, had a "perverse incentive to serially overpay for assets."

That's because the assets are owned not by the bank itself but by the shareholders in its funds. The shareholders pay Macquarie management fees that are based on the size of the fund, meaning that Macquarie has an incentive to add to its collection. (The funds also pay fees based on their performance, but as Macquarie gets bigger, those are dwarfed by the base fees.)

The shareholders pay Macquarie investment-banking fees too - any deal that a fund does, from the acquisition of an asset to a refinancing to its ultimate disposition - results in fees to Macquarie. In the past two years Macquarie Infrastructure Group (MIG) - the oldest and largest fund - has paid Macquarie a total of almost A$150 million in banking fees and another A$273 million in management fees.

That the funds are fee factories for Macquarie wouldn't be so much an issue - sure, it's more rapacious than your average private equity firm, but only a little - if it weren't for another part of the picture. That's debt.

Macquarie uses debt of as much as 85% to purchase an asset and pay for the necessary capital expenditures. This debt is hard to see, because it doesn't reside on Macquarie's books. You won't even see it by looking at the financial statements for the funds.

Instead, it is held at the asset level. For instance, if you glanced at the financial statements for MIG, you would see debt of A$2.6 billion. But the assets themselves carry another A$8.7 billion of net debt. In part because there is less disclosure on some of Macquarie's other funds, it is impossible to independently calculate how much debt there is across the entire empire.

Over time the debt held by assets has often increased, not decreased, because Macquarie adds to it partly to pay shareholders their promised dividends. That's because the assets themselves don't deliver enough cash. Indeed, if you look at individual assets, from the Skyway to the M6, they may lose money after their interest expense.

So Macquarie borrows more money and uses it to pay the dividend now, much the way a homeowner might take out a home-equity line to pay a credit card bill. "Borrowing future growth to pay investors today bears the hallmarks of a Ponzi scheme," said Chanos.

There isn't anything illegal about what Macquarie is doing. But if the credit market shuts down, as the mortgage market did, and Macquarie can't pay the promised dividend, then the price per share of the fund would likely plunge - leaving the proverbial widows and orphans holding the bag.

If "Ponzi scheme" wasn't enough to grab the attention of the jaded hedge fund managers in attendance, something else certainly was: allegations of self-dealing. According to Chanos, 84% of the deals on which Macquarie was an advisor involved another Macquarie entity - which would imply that much of the parent company's ostensibly third-party advisory business was actually driven by the funds.

That isn't all. The same asset is often owned by multiple funds - for instance, Thames Water is owned by a consortium including no fewer than six Macquarie funds - and funds may own stakes in one another and sell one another assets.

For example, in 2006 a fund called Macquarie Infrastructure Partners (MIP) bought 50% of MIG's interest in four toll roads, including the Skyway and the ITR, for $825 million, resulting in roughly a $175 million profit to MIG (and A$5.8 million in fees to Macquarie Bank).

Chanos, of course, is a professional bear, and even last spring, before the convulsions in the credit markets, he was predicting an end to the salad days of ever cheaper debt. What would happen when times changed?

Already Macquarie was shifting its business model, which Chanos saw as a sign it was trying to avoid disclosure. Instead of creating publicly traded funds, Macquarie had begun raising funds that were more typical of a private equity firm. In the

Exhibit__(SGH-4)
Page 4 of 8

last fiscal year, 87% of the A$21.6 billion in fresh money that Macquarie raised went into unlisted funds, compared with 10% in 2003.

While Chanos may have been the first to say it and is one of the few who is willing to say it publicly, he's not alone in his skepticism about Macquarie Bank.

"This is a no-holds-barred bet on the credit markets," says another person who is short the stock. The skeptics don't merely argue that the firm's earnings will fall - which will happen to every financial services firm in a downturn - but that something more dire could happen.

It's not that they can lay out how events will unfold. Macquarie is too complex. Figuring out the firm is "like wrestling in the dark with a ghost," says another skeptic. It's just that from the outside, there's enough that seems flammable, from the funds to the parent company's 88% debt-to-capital ratio, to make people willing to bet that in a tough market, something, anything, will catch fire and set off a chain reaction.

You can see that in Macquarie's stock price, which plummeted 34% over the summer as credit markets tightened up, to a low of A$64 on Aug. 16.

The furor was such that Macquarie, which does not usually open the gates to the press, decided to do just that. And so, about a month later, I arrived at Australia's Sydney Airport - which is owned by a Macquarie fund - during the early-morning rush hour, groggy after a long flight.

If you did the same thing, you might trudge through customs, not noticing much, perhaps, beyond the A$4 - gasp - it costs to hire a luggage trolley. But if you took the time to explore, you would realize that the airport is not a run-of-the-mill ripoff but an eerily efficient moneymaking enterprise.

You don't have to go far out of your way to buy souvenirs or coffee, because the airport's owners have studied how far you'll be willing to deviate from your path (five meters). You might buy a duty-free item not because you want one, but because doing so will shoot you into a special, speedy customs line. And should you drive to the airport, you would discover that parking your car in the shade ("the premium shaded parking product") costs an extra A$4.

Not that all this efficiency lessens the irritation that some users experience. As I shut the door of my cab, the driver begins an unsolicited rant about the fees he has to pay to wait at the airport. "Macquarie Bank owns it," he says. "They own too much."

To get to Macquarie's headquarters, you head up an escalator and into the old Sydney post office, which has been converted into a marble-floored atrium with a sky-high glass ceiling. A private elevator takes you to Macquarie's reception area, which features a stunning collection of Australian art.

If that's what you would expect, CEO Allan Moss is not. He is narrow and slightly stooped, with a fringe of whitish hair and spectacles. He is renowned for his clumsiness, and is a reserved conversationalist who will answer a question by flipping to a glossy presentation and augmenting it with an indecipherable scrawl.

He still delivers a ten-year anniversary speech for each and every employee, and is worshipped by many of them - and by some investors. "He's the smartest man I have ever met, and yet he's always willing to listen," says analyst Brian Johnson (who owns Macquarie stock). And you do get the uncomfortable sense that there is something quite calculating clicking away beneath his reserved surface.

About Chanos he says: "We think a lot differently about people who are genuine stakeholders vs. people who have a passing casual interest." He adds, "It's the same criticism that was being made in Australia five years ago. It is noise, but no more than noise."

Moss is referring to 2002, when Macquarie bought the Sydney Airport and smacked into a wall of public negativity about its entire business model. This was six years after Macquarie had taken its first toll road public, and its infrastructure funds, which touched the lives of ordinary Australians, from their roads to their retirements, had boomed.

Now the bank was buying the airport, extracting its fees, and putting the asset into a fund that would be owned by the public - and those ordinary Australians would pay the price if the bank had gotten it wrong. The A$5.6 billion that

Exhibit__(SGH-4)
Page 5 of 8

Macquarie had paid - some A$600 million more than the next bid - was criticized as dangerously high by radio host Alan Jones, who is to Sydney what Howard Stern is to New York. Macquarie's stock price plunged more than 50%.

Five years later it appears that Macquarie has proved its critics wrong. Profits at the airport have more than doubled, to A$527 million, and the investment is regarded as a huge success. "Macquarie has been told it's wrong but been proven to be right so often that it may begin to believe that it can make money out of any deal at any price," says a former employee.

Today Australians regard Macquarie Bank with a mixture of fascination, pride, intimidation, and resentment. In its home country the firm has the mystique of a Goldman Sachs combined with the omnipresence of a Google (Charts, Fortune 500). Macquarie is as entrepreneurial as any technology startup, the sort of place where, says investment-banking head Nicholas Moore, a young Aussie working in New York may decide to move to a Mumbai hotel room with his 2-month-old baby to jump-start Macquarie's business there. (That just happened.)

"We don't say, 'Here's a big guaranteed bonus,'" says Moore. "We say, 'Bye-bye. We'll support you, but it's yours.'" These days every smart young Australian who wants to work in finance wants to work at Macquarie Bank - and those who work there often think there's no place else worth working.

Moss, an Australian, joined the firm in 1977, straight out of Harvard Business School, where he graduated as a Baker Scholar. Back then the firm was the small Australian subsidiary of a large British firm called Hill Samuel, operating out of a two-room office. Moss had intended to work on Wall Street - in fact, he and his wife, Irene, left their belongings in New York City when they headed back to Australia for a vacation.

Instead, Moss had a friend sell their stuff. "There was a real sense that we were building a business - that we had lots of ideas here," recalls Moss.

In 1985 the firm split off from Hill Samuel and renamed itself after Lachlan Macquarie, the governor of New South Wales from 1810 to 1821. The historical Macquarie is famous for an early feat of financial engineering in which he solved a currency shortage by punching out the middle of Spanish silver dollars, thereby creating two pieces: the holey dollar, and the dump.

The move doubled the number of coins and also increased their value by 25%. The holey dollar became the logo of the new Macquarie. But the pursuit of the dollar is supposed to be balanced by prudence - Moss created a risk-management division about the time the firm took its new name.

Every deal has to be approved by a group whose job it is to worry about how much money could be lost. Moss uses the phrase "freedom within boundaries" to describe this balance. (He used to call it "loose tight," but that phrase became associated with Enron's Jeffrey Skilling.)

Moss, who became CEO in 1993, insists that he never aspired to run Macquarie. The culture was "one of dealmaking," he says, and "what happened in management seemed secondary." Nevertheless, he has presided over the firm's expansion from a successful but small Australian boutique to a global force.

In bad markets Macquarie has snapped up business from struggling firms: It bought Banker's Trust's Australian business in 1999 and ING (Charts)'s Asian brokerage business in 2004. Macquarie has built its own retail brokerage business and has expanded from offering mortgages to financing developers to managing real estate funds globally.

Stephen Girdis, a 20-year Macquarie veteran who runs the real estate business, says that per employee, it is the most profitable area in the firm. Every part of the firm seems to grow at a double-digit clip. Says Andrew Downe, who runs treasuries and commodities, which encompasses everything from trading energy to financing gold mines: "We're up, like, a lot, and the percentage contribution has gone down. That really takes the gloss off of it."

Even so, if it weren't for the infrastructure funds, Macquarie probably wouldn't be known outside Australia. The infrastructure funds are part of Moore's investment-banking group, which contributes 58% of the firms' profits.

When people use the word "aggressive" to describe Macquarie - which everyone does - they're talking about Moore's IBG. Moore was trained as an accountant and joined Macquarie in 1986 to advise corporate clients on taxes. Clearly he's analytical, but he is also able to control hundreds of ambitious, hungry dealmakers by sheer force of personality.

Exhibit__(SGH-4)
Page 6 of 8

"He's the guy you want in your corner in a boardroom or in a dark alley," says one observer. He is charming and chatty, with steel-gray hair and an easy smile, but that doesn't mask his relentlessness. "We put the grunt into the space," he says. "Are we the smartest guys? Who knows?" He adds, "But we will go in with a lot of guys."

Moore is a financial services street fighter, and he's one who says he believes in that world's umpire. "The market is always right there," he says.

The funds, though, are also the reason that Australians ask some of the same questions Chanos did. Indeed, while the suspicion at the time of the Sydney Airport deal was submerged by Macquarie's success, it didn't go away.

Last year a rival bidder for a ports company in Australia ran ads accusing Macquarie of paying a "heads they win, tails you lose" game with investors in its funds because of the fees that it extracts. Philip Wensley, an analyst who covers MIG for Morgan Stanley, wrote in a note to clients that the actual cash flow covers roughly one-third of the promised dividend to shareholders.

Last January, Merrill Lynch analyst Matthew Davison pointed out that none of five large publicly traded Macquarie funds can fully fund their distributions. That's part of why Davison labeled Macquarie "the house that debt built." He also cited the "aggressive structuring" of the debt at the asset level. (See correction.)

For instance, on both the Indiana Toll Road and the Chicago Skyway, interest payments are very low in the early years, which increases cash flow at first but leads to much higher interest in out years - akin to a mortgage with a low teaser rate. In 2007 the Skyway will pay interest of just $129,000 on $961 million of debt. But the interest payment for 2018 is to be $480 million - that's not a typo.

There are other signs that what's best for Macquarie executives isn't necessarily best for its constituents. While Australians have long resented the pay at Macquarie, last June a stunning 21.4% of shareholders voted against the firm's pay packages after proxy-advisory firm Institutional Shareholder Services recommended that they do so.

ISS's main complaint is that while a small part of executive pay is in stock, most of it - 74% last year - is cash. "Executives could potentially receive the vast majority of their bonus for delivering unsustainable and potentially risky gains in profits in a single year," ISS wrote. (Macquarie issued a 15-page rebuttal in which it said, among other things, that its executives had their money locked up in the firm for long periods.)

Macquarie's broader defense of its business is simple. Infrastructure is "a new asset class," says Stephen Allen, CEO of the Macquarie Infrastructure Group. "I've gone through the process with people where we've explained the business, and many of them had the same questions you've had."

Specifically, Allen says that interest on the debt an asset may carry is sculpted to match the cash flows it will produce. Take a toll road, which may require heavy upfront capital expenditures - some $700 million in the case of the ITR.

Initially the road may produce little free cash. But as spending shrinks and the tolls rise, the cash falls straight to the bottom line. In the final years of the lease, the cash-rich asset pays off debt. Therefore, Allen argues, it makes sense to have the interest payments increase in later years. This is also the reason that he says it makes sense to fund distributions to shareholders out of debt in the early years.

Allen says that the ability to raise more money by refinancing debt is driven not by the capital markets but rather by the credit quality of the asset, which improves with time as risk diminishes.

Macquarie also defends the performance of the funds, pointing out that while they have lagged recently, over their life they have returned an enviable average of 19.8% annually. In addition, the funds have sold nine assets - most recently a stake in the Rome airport - to third parties for more than $8 billion, or 2.3 times the original equity invested in them.

Moore says that the firm is creating unlisted funds simply because the demand is now from institutional investors like pension funds, which are used to private-equity-type deals. And Macquarie, which stresses the diversity of its businesses, denies that its banking fees are dependent on the funds.

In the fiscal year ended in 2007, Macquarie says that advisory, M&A, and underwriting fees paid by its infrastructure and real estate funds amounted to only A$250 million, or roughly 20% of such fees. This figure, though, is narrowly defined. For instance, when Macquarie leads a consortium of investors, as it did in the acquisition of Thames Water, the fees paid

to Macquarie by the outside investors, as well as the fees paid by Macquarie funds that are not part of the infrastructure or real estate groups, are excluded from the A$250 million.

As for the bank itself, Macquarie risk-management head Nick Minogue says that the firm constantly runs models showing what would happen in a severe three-year downturn. "I won't tell you the numbers," Minogue says. "People would be horrified if you print them. They aren't pretty. But we would come out a well-capitalized bank."

The conventional wisdom is that even if the funds do run into trouble, Macquarie Bank will be able to finesse any problems that ensue. Steve Johnson, a former Macquarie banker who now works for Australia's Intelligent Investor, is skeptical about the funds. But he is a believer in Macquarie itself, which he likens to a cigarette company: "They make an unsavory product, but as long as people buy it, they make money."

When you ask Allan Moss what his biggest worry is, he says this: "The big difference between the 1980s and the period we're in now is that it is far more important to us that we be conscious of our community responsibility." Given the importance of our roads, airports, and water utilities, it would take only one disaster to end the privatization party.

That's especially so right now in the U.S., where resistance to privatization has become something of a cause célèbre. Take the fiscally wobbly state of New Jersey, which under the leadership of former Goldman Sachs CEO Jon Corzine was planning to privatize its turnpike.

On June 28, after months of controversy, Corzine released a statement that began, "New Jersey's roadways will not be sold, and they will not be leased to a for-profit or foreign operator." (That is somewhat ironic, given that New Jersey's pension plan owns some $71 million worth of MIG.)

Texas granted Cintra a concession to develop a new toll road, but after protests, it was yanked and handed to a state agency. Truck drivers have banded with the American Automobile Association and others to create a coalition that opposes the privatization of toll roads.

"American consumers will pay twice: once when they drive on the roads, and again in the increased cost of the goods they consume," says Clayton Boyce, the vice president of public affairs at the American Trucking Association. He also points out that the federal Interstate Highway System was designed to be a system. What happens if it is broken up into chunks owned by different parties?

Even some believers in privatization say it isn't a panacea. "These decisions need to be scrutinized, interrogated, challenged, to ensure that the model is sustainable over the long term," says consultant Nicolopoulos, who has been advising on infrastructure deals for 20 years.

Unlike other countries, the U.S. has a robust municipal bond market, meaning that there are other ways to raise money. And yet the simple truth is we need so much money that saying a flat no to any source of funds borders on the insane.

Despite the controversy, the landscape is already being reshaped. By early 2008, Rob Collins, head of infrastructure M&A at Morgan Stanley, says there could be deals for Chicago's Midway Airport - despite protests from the airlines that use it - the Indiana lottery (Marx would have a field day), the Pennsylvania Turnpike, and the Port of Portland.

"To ignore the willingness of the global capital markets to fund infrastructure would be a tragic mistake," says Tom Osborne, the co-head of infrastructure in the Americas for UBS.

Collins estimates that there is now some $700 billion (including leverage) available for infrastructure investment. But because of the pushback, that gigantic pool of impatient capital is searching for deals that aren't materializing as quickly as they were supposed to.

"Guys are paying big multiples just to get a flagship asset in their funds," says one banker. "There is a shortage of assets." Partly as a result, argues Mike Wilkins, a credit analyst at Standard & Poor's, buyers are relaxing their definition of what infrastructure is and paying high multiples.

In a report he warned, "It is clear that as a result of rampant demand, the infrastructure sector is in danger of suffering from the dual curse of overvaluation and excessive leverage - the classic symptoms of a bubble."

Exhibit__(SGH-4)
Page 8 of 8

Lately Macquarie has missed out on several high-profile deals, including the lease of four Mexican toll roads, which it lost to Goldman Sachs. Both Moss and Moore say, though, that nothing has changed, because their business has always been competitive. "It's not like we're putting all our bets on No. 26. We've got a lot of bets out there all the time," says Moore.

It's nice to imagine that a toll paid electronically on a Chicago highway could help fund the retirement of someone halfway around the world. But even if the Macquarie model doesn't work, the firm will have made a difference: Our infrastructure is now in play.

Reporter associates Doris Burke and Patricia Neering contributed to this article.

Correction: *Matthew Davison is with Morgan Stanley, not (as we reported) Merrill Lynch.* ■