

# R O U N D T A B L E

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## 'Good risk management should be designed to deal with any crisis'

*With the coronavirus highlighting the challenges posed by unpredictable risks, four industry specialists tell [Zak Bentley](#) about tackling climate change, digital disruption and how to best structure your team to deal with an ever more complex world*

**A**sset management, as our four roundtable participants would attest, is a fine art. The whole process, with its many layers of teamwork and coordination, requires significant experience and expertise, with plenty of risk mitigation along the way.

And then there are curveballs. The spread of the coronavirus is a stark example of the type of unforeseen risk that infrastructure asset management teams must be ready to tackle. Transport assets such as ports and airports are particularly vulnerable to international lockdown. Any project in construction or requiring spare parts from Asian supply chains must also be quick to adapt.

Although a potential global virus epidemic may not be specifically mentioned in asset managers' business plans, preparing for such risks is still second nature to our roundtable quartet.

"Even before the escalation in Italy, we made sure that all our companies had contingency plans in place, across all geographies and sectors," says InfraVia Capital Partners' director of

asset management, Olivier Laroche. The French manager, alongside the UK's Infracapital, owns GIP, a container terminal business in Genoa, north-west Italy. "We have carefully analysed direct and indirect impacts. An immediate response is required for this type of crisis."

### Always have a plan

Our participants also agree that recovery plans need to be in place long before disaster strikes.

"I don't think many of us would specifically have factored a virus of this nature into their risk registries, but good risk management should be designed to deal with any crisis, from natural disasters to widespread strikes," says Wessel Schevernels, senior investment director at Whitehelm Capital. "There have been numerous examples of tragic catastrophes, from the flooding of Osaka airport to the Genoa bridge collapse.

"You need to be able to work with management teams to react quickly, but you can only do that if you have the right preparations in place. I think, as an industry, we cannot and do not expect a risk-free environment and as

such are very well equipped to deal with these issues."

Not all issues faced by asset management teams are quite as unpredictable as a potential pandemic. But some foreseeable ones are equally, if not more, challenging. Take climate change, a 'known risk' affecting a wide range of infrastructure assets – it requires originators and asset managers to work hand-in-hand to mitigate its challenges.

"A lot of the risk exists in the asset itself, due to the nature of activity or the location," says Schevernels, who points to Whitehelm's district heating company in Toronto, where temperature trends are critical to future demand.

"For instance, we looked at rising sea levels in terms of where the physical connections of equipment are in order to consider scenarios where we may have to move equipment to higher areas. All this analysis starts in the earliest stages of due diligence, irrespective of the type of asset."

Climate change has been the driving force pushing environmental, social and governance standards into the mainstream of investment. This has,

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### **Olivier Laroche**

Asset management director,  
InfraVia Capital Partners

Laroche is in charge of several portfolio companies at InfraVia and, as such, is responsible for acquisition plans and operating improvements, seizing value creation opportunities and managing operating risks. He has 15 years' strategic consulting experience, mostly in infrastructure and transportation, including corporate strategy, business planning, due diligence, operational performance improvement and organisation transformation. Before joining InfraVia in 2016, he was at US consultancy AT Kearney and Bouygues Construction in Europe and the Middle East.

### **Wael Elkhoully**

Asset management  
managing director,  
Infracapital

Elkhoully joined Infracapital in 2019 and has more than 25 years' experience in developing, acquiring and owning infrastructure assets globally. He started his career at Bechtel where he spent more than 12 years. He then spent five years at Citi investment banking. Most recently, he was a partner and head of asset management at Bastion Infrastructure Group. Prior to Bastion, he was at EISER Infrastructure Fund, where he was responsible for the asset management team overseeing a portfolio of European utilities, transport and social infrastructure assets.

### **Wessel Schevernels**

Senior investment director,  
Whitehelm Capital

Schevernels heads the ongoing asset management of investee companies and is Whitehelm's global head of responsible investing. He has extensive corporate experience in global energy and logistics markets, midstream and shipping industries, having worked internationally for more than 17 years across Europe, the Middle East and Asia. He currently serves as a director of PPP, SCIF Fullerton, Kvitebjorn Varme, Storrund, VTEH and SAE.

### **Alex Kessler**

Performance improvement  
principal, Antin Infrastructure  
Partners

Kessler joined Antin in 2015. He focuses on improving operational performance at portfolio companies, in co-operation with the investment team and portfolio company management. He joined from French buyout firm PAI Partners, where he was a principal in the portfolio performance group. Prior to PAI, he was at Roland Berger in Paris, where he led the private equity group of the operations strategy department for six years. He was previously senior manager at AT Kearney in Munich, Paris and New York.



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**WESSEL SCHEVERNELS**  
Whitehelm Capital

### Team tactics

#### **Although certainly not new, the debate surrounding the relative advantages of separate origination and asset management teams and a more integrated approach rumbles on**

At Whitehelm, the teams are combined, according to Wessel Schevernels. “That is, firstly, because of the nature of the investments that we are making,” he says. “Given our long-term hold period, it is very important that asset management teams are aware of what the asset is all about upfront, when the original acquisition is being made.

“We have a diverse mix of people, with different educational and professional backgrounds, and our team will typically work on both deals and asset management. That is not to say there are no challenges with the integrated approach – time management, in particular, can be tricky when there is a burst in transaction activity – but we find that the benefits in terms of knowledge flow outweigh the risks.”

Wael Elkhoully argues that the nature of the organisation, the type of asset targeted and the size of platform, all impact the optimum team structure. At Infracapital, there is also a single team, but individuals either major in asset management or origination, spending two-thirds of their time on their key area of responsibility.

“The workflows of the transactions and asset management are different,” Elkhoully says. “Transacting is more irregular, very intense at one point but quieter at another. Asset management requires a more relentless and consistent input. For that reason, we separate responsibilities while also trying to integrate them as much as possible to have continuity, accountability and benefit from knowledge transfer between team members.

“The acquisition process will be led by a deal specialist but with the future asset manager highly integrated. Then, once the asset moves into operation, it works the other way around. The asset manager takes the lead, but the investment director remains involved. We find this maximises efficiency.”

Antin also has a single deal team. The expertise weighting shifts depending where the asset is in the origination funnel, says Alex Kessler. InfraVia has independent origination and asset management teams, albeit closely interlinked. “As a value-add fund, we believe these time- and resource-intensive asset management activities require a dedicated focus,” says Olivier Laroche.

obviously, prompted changes to asset management itself.

For Laroche, the UN Sustainable Development Goals have proved crucial to the incorporation of ESG into the management of InfraVia's assets. "We put KPIs in place that are specific to the portfolio company," he explains.

"When you invest in a container port, of course you bear a significant share of the emissions of the whole value chain. But what you can do is ensure the terminal has achievable KPIs in place relevant to the asset in the context of its industry. InfraVia has integrated the UN SDGs in its portfolio management, which provide a fantastic framework for monitoring progress. In the long term, this will create value and reduce risk."

Wael Elkhoully, asset management managing director at Infracapital, agrees there is no conflict between embracing ESG as an asset manager and ultimate investment outcomes. "A strong ESG focus is very consistent with creating and measuring value over the long term, which is what infrastructure investors do," he says. "Even closed-end infrastructure funds are

likely to be selling to someone with a long-term view."

Meanwhile, Alex Kessler, principal, responsible for performance improvement at Antin Infrastructure Partners, explains that, while responsibility for ESG historically fell to Antin's deal teams, a few years ago, the firm hired a dedicated ESG lead who now sits within the asset management operation: "The reason for that is that we view ESG value creation in the same way that we view operational value creation. It is integral to due diligence and an ESG action plan is drawn up as part of the value creation strategy. It goes further than monitoring KPIs once a quarter. It is about a hands-on approach to transforming assets."

### Digital disruption

A hands-on approach is a must to deal with another challenge asset managers are placing high on the agenda – technology risk. "We live in a world where new risks and issues are emerging all the time, such as cybersecurity threats and technological obsolescence," says Elkhoully. He adds that the onus must fall on originators to pick assets with

the appropriate downside protections.

At InfraVia, the asset management team has created digital forums, bringing together chief executives and chief investment officers across the portfolio, as well as external experts, to discuss risks and ensure all assets have the appropriate tools. "Our last forum was focused on cybersecurity and we carried out role plays to see how our management teams would react," says Laroche.

InfraVia has gone further than most, though, by creating its first dedicated infratech strategy. "We have launched the InfraVia Growth Fund, which will invest in infratech companies operating mostly in transport, logistics, telecoms, utilities, health and energy," says Larouche. "On top of bringing a new offer to our clients, the dedicated team, experienced in investing in the growth ecosystem, will provide additional angles for our infrastructure companies in their digital transformation."

Kessler agrees that asset managers should also view digital disruption as an opportunity. He points to the firm's motorway services company, Road Chef, which has implemented an artificial intelligence tool to optimise staffing. He



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**WAELELKHOULY**  
Infracapital

### Maximising outside help

**In addition to significant growth within asset management teams themselves, infrastructure investors are increasingly turning to external advisors or operating partners to enhance the support they can offer to management teams**

“We use senior advisors to enhance our internal expertise in terms of both sector and function, which is really important for our transformational approach, where we may be looking to double a company’s size and profitability in a short period of time,” says Antin’s Alex Kessler. “It is important that we bring everything to the table – that includes internal capabilities, senior advisors and external consultants.”

Wessel Schevernels adds that Whitehelm also uses senior advisors during the acquisitions process as an extension of the deal team.

“We are very active in the mid-market and frequently we are looking at carve-outs from utilities or corporations,” he says. “There, you will often see someone who was a line manager in the target company becoming chief executive or CFO in the standalone organisation. Those management teams require a lot of

guidance on an operational and corporate level. There external advisors can prove invaluable.”

Infracapital’s Wael Elkhoully agrees external advisors can help with who to hire in an asset management team. “Do you hire engineers with a technical background or do you hire people from a banking background? I believe the asset manager should be the go-to person for that asset, which means they not only need to understand the operational issues, but also understand the broader context – value drivers, financing issues and everything required to drive the investment outcome.

“For me, having the technical skill-set is important, but should not come at the expense of that holistic perspective. Having full-time employees and then complementing that skill set with specific expertise, through the use of industrial partners or consultants, can provide you with the full suite of expertise that you need.”

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**OLIVIER LAROCHE**  
InfraVia Capital Partners





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**ALEX KESSELER**  
Antin Infrastructure Partners

also highlights the manager’s fibre optics businesses, which are using big data to identify future growth areas. “These are examples of using digitalisation for gradual improvement,” he says.

### Preparing for a downturn

In addition to technology and the planet, infrastructure asset managers are acutely aware the bull run must end. Most infrastructure assets, by definition, are defensive. “[This] means we are looking at assets that should be able to withstand the cycle,” says Schevernels.

When infrastructure investments have come unstuck in the past, he adds, it has often been due to a lack of control: “If things go wrong, you need to make sure you are not left out in the cold as a minority shareholder. Even in cases where we don’t have a large majority, we make sure we have at least the same rights as other parties. We have certainly made adjustments in documentation and shareholder arrangements so that when there is a downturn, or any other

challenge, at least we will be in a position to take action to mitigate the impact.”

Laroche agrees that active asset managers need to be at the steering wheel. But Kessler argues that control isn’t everything: “You need to have strong relationships with management. It is not just about voting rights. Trust is imperative if you are to work with your management teams through difficult times, hand-in-hand.”

Once again, the assembled managers note the importance of asset selection, pointing to style drift as a potential risk.

“Infrastructure is present in almost every sector, but that doesn’t necessarily make the entire industry infrastructure,” says Schevernels. “We recently acquired a portfolio of pre-schools, where the fundamentals and financial drivers are clearly those of an infrastructure asset. But that doesn’t make the entire property sector infrastructure. The same goes for ports, or midstream oil and gas. If you stray too far from demonstrable

infrastructure characteristics, you will lose the protections that are intrinsic to the asset class.”

Elkhouly adds: “Our sector is different from private equity, where writing off a portfolio company or two is may-be mitigated to some extent by high returns achieved on other fund assets.

“In an infrastructure fund targeting low- to mid-teen returns, if you write off two assets, suddenly your fund returns sink below what is deemed acceptable for the asset class.

“When infrastructure assets went out of business during the last crisis, it was mostly because investors who acquired such assets didn’t differentiate between an infrastructure business with private equity characteristics and an infrastructure business that is genuinely part of the infrastructure asset class, with the protection and low volatility that should come with that. As an industry, we must continue to be disciplined to deliver what investors expect from the asset class.” ■