ROUNDTABLE

SPONSORS

ANCALA PARTNERS • ANTIN INFRASTRUCTURE PARTNERS • ARDIAN
INFRACAPITAL • VAUBAN INFRASTRUCTURE PARTNERS

Rolling with the punches

Five infrastructure professionals reflect on how the asset class has weathered the challenges of the pandemic and talk to Liam Wyatt and Kalliope Gourntis about the trends shaping asset management

As the shadows cast by covid-19 begin to fade, for now at least, it is as good a time as any to consider what positives infrastructure investors and asset managers have taken from that period, how asset management is evolving and where new risks lie.

Roundtable participants kicked off the discussion by highlighting how many segments of the asset class seemingly thrived on the basis of necessity, as consumers and businesses alike leaned more heavily on global infrastructure, and how the pandemic shone a light on new opportunities in sectors previously underserved by private capital.

"In a way, covid has proven the defensive and monopolistic nature of many of the assets," says Wael Elkhouly, asset management managing director at Infracapital.

"In the UK, for example, we own GB Railfreight, which is the third-largest rail freight company. Around the time of the first lockdown, revenues went down quite a bit, but the business has since rebounded strongly because ultimately a lot of those goods needed to be moved.

"Events have proven the theory of the thesis – that the service is critical; the service is needed."

Ashley Hough, a director within Ancala Partners' asset management team, notes that "generally, the pandemic has proven that infrastructure provides vital downside protection for LPs, combined with both structural and macro growth opportunities".

From a subsector perspective, healthcare has become an area of interest over the past two years, as firms pivoted to develop new solutions for the treatment and management of covid-19. Nevertheless, the speed at which the infection spread placed enormous pressure on such innovation, and indeed the management of such assets.

Alex Kesseler, principal, performance improvement at Antin Infrastructure Partners, says: "We invest in this area because healthcare provides an essential service for communities and society at large. The pandemic has only further highlighted the strategic importance of these assets to society.

"Obviously, the initial adaptation of those [healthcare] businesses to the pandemic was complex. Going from a few hundred PCR tests to more than 100,000 per month was a significant step change for our medical diagnostic firm, Amedes. The company was well positioned to cope with this increase due to the significant investments previously made to the platform. And again, it shows the strategic importance of that sector."

Decarbing assets

The trend currently having a profound impact on institutions' allocation decisions and asset management approaches is the drive to reverse the climate crisis. In recent months, global policy on climate change has shifted, with new directives established at the COP26 summit, complementing existing edicts such as the Paris Climate Agreement. Amid a backdrop of evolving geopolitics and a global pandemic, the industry

Alex Kesseler

Principal, performance improvement, Antin Infrastructure Partners

Kesseler leads Antin's performance improvement team, which identifies operational value creation opportunities and supports management teams in realising them, from due diligence to divestment. He brings more than 12 years of experience in private equity and 15 years in other operational and strategy roles. Prior to joining Antin in 2015, he co-headed PAI Partners' portfolio performance group.

Ashley Hough

Director, asset management, Ancala Partners

Hough has over 15 years of operational and financial experience. Having joined Ancala in 2019, he has worked on several key initiatives in portfolio companies and on developing strategies to mitigate portfolio-level risks. Hough has also previously held roles at both Serco and Deloitte.

Mounir Corm

Deputy chief executive officer, Vauban Infrastructure Partners

Corm is a founding partner of Vauban Infrastructure Partners and previously deputy head of Mirova General Infrastructure's activities. He has worked on more than €2 billion of equity investments across European core assets and is a director on several boards.

Wael Elkhouly

Asset management managing director, Infracapital

Elkhouly joined Infracapital in 2019 and has more than 25 years' experience in developing, acquiring and owning infrastructure assets globally. Prior to Infracapital, he was a partner and head of asset management at Bastion Infrastructure Group. Prior to Bastion, Elkhouly 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.

Simo Santavirta

Senior managing director and head of asset management, Ardian

Santavirta joined Ardian in 2016, having previously spent 13 years at the global power generation group InterGen, across multiple jurisdictions. An engineer by background, he began his career at Finnish company Fortum Oyj. He has represented Ardian on the boards of LBC, Nevel, Andberg Vind, Kallista, Enovos, Skyline Renewables and Hill Top.

has pivoted even further to step up to the ESG challenge. Carbon reduction across portfolios is mission critical.

"We fully support the transition towards net zero, which is at the heart of society these days," says Kesseler. "All our companies are working towards increased sustainability, for example, by transitioning to renewable energies, or by switching to hybrid or electrical car fleets. For some of our companies, it's actually part of their core business."

Kesseler offers an example: "IDEX provides energy services, district heating and energy from waste recovery. In 2020, they saved more than 400 kilotons of CO2 – that's the equivalent of the emissions of a small city."

Simo Santavirta, senior managing director and head of asset management at Ardian, adds: "This [decarbonisation] is an area where we have focused for several years and where we see opportunities. We're investing into assets where we can make a real difference.

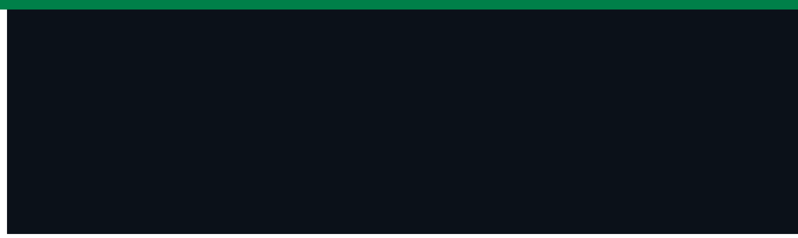
"It's not just about investing into assets that are already clean, such as renewable energy assets, wind and solar, but investing into assets which are not necessarily perfect yet from a carbon perspective and helping management teams design and implement decarbonisation programmes.

"An example of this is our investment into Nevel last year in the Nordics. Here, in addition to accelerating decarbonisation of Nevel's existing district heating assets, Nevel will offer further decarbonisation solutions to its existing and new industrial clients. Therefore, the overall carbon impact goes well beyond Nevel's current footprint."

"What we're trying to do is use our

"All our companies are working towards increased sustainability, for example, by transitioning to renewable energies, or by switching to hybrid or electrical car fleets"

ALEX KESSELER
Antin Infrastructure Partners



"What we're trying to do is use our assets to decarbonise other parts of the economy"

ASHLEY HOUGH
Ancala Partners

assets to decarbonise other parts of the economy," says Hough. "So, we're developing a proposition at [the Ancala-owned] Portsmouth Water to use the Havant Thicket Reservoir to provide heat through a heat pump into the reservoir to decarbonise a local property development, which is a very clever way of using that asset for alternative use.

"But renewables aren't the only ESG activity that can add value. For example, at Biogen, simply through water recirculation and use optimisation, we've been able to reduce water consumption by 40 percent over the past year."

Mounir Corm, deputy chief executive officer at Vauban Infrastructure Partners, agrees: "We acquired a Norwegian ferry business last year, where a key part of our investment basis was the electrification of the ferry lines, with the renewal of the underlying availability-based PPP lines that will be led through electrical retrofitting of the ferries, which will also enable us to win new markets. So, adding to the top line but also contributing to reducing carbon emissions for an essential transportation asset."

Though the shift towards carbon neutrality is not without challenges, particularly in terms of cost and efficiency, some analysts suggest decarbonising existing assets may become a significant contributor to value generation over the long term.

"Value is not just about the immediate financials. As infrastructure investors, we manage and measure value over time," says Elkhouly. "So, being mindful of ESG considerations fits very well with the nature of the infrastructure asset class, because a big part of what we do is managing risks and incrementally adding value over time. So, for me, absolutely, there would be value generated from such initiatives."

And while energy transition has gained significant momentum in the past 12 to 18 months, there is concern, following Russia's invasion of Ukraine and its impact on energy supply and prices, that energy security might trump energy transition as a priority.

"There could be a short-term impact on having a prioritised security of supply," says Santavirta. "But I don't see the long-term vision for decarbonisation changing. In fact, this crisis could actually accelerate the renewables penetration and create real opportunities for renewable platforms with development pipelines, such as Alterric, where we have invested in Germany through EWE."

"[It's also about] investing into assets which are not necessarily perfect yet from a carbon perspective and helping management teams design and implement decarbonisation programmes"

SIMO SANTAVIRTA
Ardian

The take-private transition

The deep coffers of private capital will be required to meet the global infrastructure needs of tomorrow, not least in renewables and to deliver the energy transition. So, the discussion turns to the growing trend of private firms acquiring publicly listed companies. From an asset management perspective, this comes with its own challenges, culturally and in terms of business integration.

"We recently bought Augean, a hazardous waste disposal company, which was previously FTSE listed. The main difference we're seeing is the transition from short-term reporting, which is quite predominant in listed companies, to long-term value growth," says Hough. "And there's also a transition through the level of detail and scrutiny we require at board level in decision-making, and in assessing business plans. Augean has a fantastic management team and they've been very successful, so there's a very fine line between maintaining that winning culture, but also bringing in the rigorous scrutiny we require going forwards. Chris Loughlin, one of our Industry Partners and former CEO of Pennon, the FTSE 100 utility company, has been instrumental in managing this transition."

Elkhouly concurs, noting the different approach to governance as a key challenge to overcome. "I believe our approach to governance is different from that of a publicly listed entity, where the management team and the board have more separation from shareholders – there's more distance from shareholders in terms of the day-to-day management, whereas in our businesses, a big part of our investment thesis is to be actively working with the management teams to drive investment outcomes."

With Antin having listed on the Euronext last year, raising €550 million in the process, Kesseler was able to offer a different perspective on the integration process.

"Fundamentally, the listing didn't change the relationship we have with our LPs. We continue to provide the same service and reporting to them. We have recruited a dedicated team to manage the relationship with public shareholders, which have some specific reporting needs."

From a more general perspective, mergers and acquisitions in the infrastructure space require a sense of corporate symbiosis to maximise potential returns. Naturally, the path of least resistance for an acquiring company is majority control, but where that is not achievable or the priority, how is such a collaborative relationship cultivated?

Vauban's Corm says: "We do a lot of asset management, we are hands on. We love majority control. We do have a lot of 100 percent ownership.

"But in core infrastructure assets, you often have multiple stakeholders, and so you must be able to work with those stakeholders. And that means you must be able to be co-owners. That has been a strong way for us to access high-quality assets. It's part of our job. Stakeholder management means co-owners, but it also means employees, users, subcontractors. And being mindful of all those stakeholders is also part of value creation."

Hough adds: "We've got a mix of joint ventures and majority control, and we do find that where we have the right partner, there are actually significant benefits from 50/50 joint ventures, particularly when we're investing in new territories. When you've got the right partner, one that's an equal partner and that can understand local dynamics, jurisdictions and regulations, it can help add value to the asset and de-risk it for us."

"It really depends on the investor's strategy," cautions Elkhouly. "It's not always the right answer for every investor to have 100 percent ownership or significant majority. In some cases, there's nothing wrong with having a minority interest. That depends on the investment proposition and the nature of the assets acquired."

However, when describing Infracapital's brownfield and greenfield strategies, Elkhouly concedes majority control has become more desirable for many of the assets Infracapital acquires. "You always have a constant need to interact because there are ongoing investment and operational decisions.

"So, an active involvement with the management team is required. We are increasingly finding it is really important for us to be, if not a 100 percent owner, a significant majority owner to have meaningful influence in delivering those plans."

Another shift in the sector has seen more limited partners investing

> *"In some cases, there's nothing wrong with having a minority interest. That depends on the investment proposition and the nature of the assets acquired"*
>
> **WAEL ELKHOULY**
> **Infracapital**

directly, leaving their relationship with their general partners in question.

"What I would say is that our ability to source and execute deals on a bilateral basis, benefitting from our industrial networks, is something LPs don't necessarily have," says Santavirta. "Being able to develop and drive active asset management strategies, with in-house experience as well as with our operating partners, is required to execute the value creation strategies we like to pursue, whether it's about executing capex programmes or build-ups or operational improvements."

> *"In core infrastructure assets, you often have multiple stakeholders, and so you must be able to work with those stakeholders. And that means you must be able to be co-owners"*
>
> **MOUNIR CORM**
> **Vauban Infrastructure Partners**

Digital brings risk

A much discussed outcome of the pandemic is its acceleration of the world's reliance on digital. But while this brings investment opportunities, it also comes laden with new risks for asset managers. Last year, Colonial Pipeline, a US oil pipeline system originating in Texas, fell victim to a cyberattack. Hackers used ransomware to infiltrate the pipeline's digital equipment, leading to a shutdown in pipeline operations to stem the attack. Events like this are prompting a renewed focus on cybersecurity strategy.

"It's been a concern for some time now, and we've been developing an asset-by-asset level approach to ensure our portfolio companies are properly equipped in cybersecurity," says Corm.

"We're regularly running tests with service providers, carrying out different rounds of tests on our portfolio companies to identify any tactical issues. Then at the second level, intrusive testing, and we do that first at the portfolio level of the fund, and then we go into our portfolio companies to help them."

Hough says: "At Ancala, we run biannual workshops for the heads of IT and senior management of our portfolio companies with a rotating chair. This creates a forum for sharing lessons learned and best practice. We also bring in independent experts to review cybersecurity and have regular reviews at board level."

"A key part here is active communication with management teams and how you ensure you minimise any risks," adds Santavirta. "Because a big part of this is not just implementing the right sort of digital solutions, but about awareness and making sure management teams understand what kind of behaviours can lead to breaches."

"For us, it started six years ago," says Kesseler. "Today, we have a specialised cybersecurity expert company conducting mandatory annual assessments across our portfolio."

Looking to the future

The worst of the covid-induced disruption of the past 24 months appears over. And the consensus is the asset class has largely survived the storm. Nevertheless, new geopolitical and economic headwinds are on the horizon.

"We're entering into a new world of inflation, high energy prices and, most likely, higher interest rates and more expensive money," says Corm. "Infrastructure as an asset class is very well placed in that environment, because of the component of Consumer Price Index correlation, downside protection and because [infrastructure is providing] essential services. As asset managers, we need to be proactively anticipating this.

"That means securing long-term financing, for example. It means proactively discussing with management teams their expansion plans, what are they looking for next and how they're protecting their companies and their assets."

While there's much cause for optimism going forward, it's no time for complacency. ■