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INFRASTRUCTURE INVESTOR

KEYNOTE

TURNING 10

ANTIN ON MATURITY AND ITS RECORD THIRD FUND

PHOTOGRAPHY: MARCUS ROSE

Keynote

Antin Infrastructure Partners

The market makers

As Antin turns 10, Alain Rauscher and Mark Crosbie tell **Bruno Alves** about their landmark third fundraise, their perpetual IR strategy, the manager's problem-solving culture, and why they see it as their job to spot opportunities others wouldn't even regard as infrastructure

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There was something perversely symbolic about meeting chief executive and managing partner Alain Rauscher and managing partner Mark Crosbie, of Antin Infrastructure Partners, precisely on the day that a London Underground strike wreaked havoc with the British capital's transportation sector.

After all, if ever a reminder were needed of how critical, emotive and disruptive infrastructure can be to people's lives, you couldn't do much better (or worse) than trying to function normally without a piece of infrastructure which habitually carries up to 4.8 million passengers per day.

As value-add investors, Rauscher and Crosbie understand infrastructure assets are complex businesses with many moving parts – a theme we will tackle later in this interview – but discussions on strike-induced complexities quickly give way to a more compelling introductory question: how did Antin manage to raise its biggest-ever fund in such a short amount of itme?

LE BLOCKBUSTER

Rauscher calls Fund III a "milestone" and it is not hard to see why. At €3.6 billion, it is almost double the €2 billion raised for Fund II, but it is also Antin's speediest fundraise to date, wrapped up in a record five months.

That is partly because of Fund III's very high re-up rate, which, at €2 billion, equals the entire amount raised for Fund II. But Crosbie sees several factors behind Fund III's success, including "our very visible track record; ability to deploy capital in very difficult, competitive markets; increased investor interest in the asset class; and our continuous approach to investor relations".

When it comes to track record, visible is certainly the right word, with Antin late last year selling a further three investments (making six exits of the nine investments made from its €1.1 billion first fund). "We've made some good exits from Fund I which have allowed us not just to talk about how we plan to generate good returns," Crosbie says (see map on p. 30).

The fact that Fund II was 83 percent deployed as of last October didn't hurt either. "When we sized up from Fund I to II there was some scepticism from investors on whether we could really deploy the increased Fund II. In fact, we deployed the entire Fund II in two years and delivered a significant amount of co-investment opportunities [€750 million] to our LPs. What's more, five out of six of Fund II's deals were proprietary, which is what we said we would do," Crosbie adds.

It is not all about deployment though, with Rauscher singling out Antin's continuous approach to investor relations as key to Fund III's success. He explains that Antin is in constant contact with LPs that are not investors in its funds, which means that most of Fund III's new LPs are not really 'new', since Antin had already interacted with them. "But it's also about ensuring that we have comprehensive reporting standards that give a very clear picture of where we are in our investments. For example, we have problems like everyone else but we present them clearly and try to figure out solutions. You don't raise this amount of money in five months just because you have a good brand," he argues.

He adds: "We also think the market is bifurcating between core strategies, which are more and more competing with direct investors, and value-add type of strategies or core-plus. We think we have opted for a valid strategy and as a result we've had a solid fundraising."

So how is Antin's LP base looking like these days? Rauscher paints a geographically diversified picture – "We have LPs from Europe, our main market, particularly from Scandinavia, Germany, France, Switzerland and the UK, followed by Asia, the Middle East and North America" – firmly anchored by institutional investors. Currently, pensions make up about half of Antin's LP base, insurers about a quarter, with the remaining made up of sovereign wealth funds, banks and asset managers.

Curiously, Antin has yet to take in any family offices, a growing area of focus for many other managers these days.

When it comes to the provenance of new investors, Crosbie says: "Japan was particularly pleasing for us because it takes a long time to gain the trust of Japanese investors. We put in a lot of work with our previous funds and I think it finally started to come through in terms of Japanese investors".

"We also raised a significant amount from North America but you have two different markets there," elaborates Rauscher. "Canada is dominated by direct investors so there's not a lot of money to be raised from large institutions. But there is quite a lot of money to be raised from other pension funds specialised in certain industries and regions, which we managed to tap. The US market is clearly still predominantly geared towards energy, but we managed to get a significant amount of money from several pension funds."

> We've made some good exits from Fund I which have allowed us not just to talk about how we plan to generate good returns" Crosbie

ARE CREMATORIUMS INFRASTRUCTURE?

One thing that has not changed with Fund III is Antin's investment strategy. Despite its increased size, Antin's latest vehicle will look at doing eight to 10 investments across the same energy, telecoms, transport and social infrastructure sectors it has always focused on. "We didn't try and develop

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a pipeline of different sized deals – it's the same pipeline we've been developing for the last seven years. There's been no change of strategy at all," explains Crosbie.

Still, there are some important differences. When we first did a keynote interview with the Antin co-heads five years ago, Rauscher told us that "in the very early days, I used to wake up in the middle of the night in anguish and think 'Where's the pipeline, where's the pipeline?'".

He laughs when I bring that up. "We are much more relaxed about the pipeline these days. First, we've got nine partners and a team of 55, not to mention we've been doing this for eight years. So, a franchise has been built and importantly we've also seen how quickly we could deploy Fund II. We know there are deals out there and we have many deals in our pipeline today. But you're right, in the early days the level of anxiety was much higher."

However, a cynic might also say that Antin is more relaxed about its deal pipeline because it has got comfortable investing in assets that many would not call infrastructure. Fund II's portfolio, in fact, is predominantly made up of what many would easily deem unorthodox assets – from psychiatric clinics network Inicea, to medical laboratory business Amedes, to Grandi Stazioni Retail, which manages the commercial leasing and advertising spaces for 14 Italian railway stations. That trend had already started at the tail end of Fund I, with the purchase of crematorium business Westerleigh, now sold.

To their credit, Rauscher and Crosbie do not shirk from the issue.

"In each of those cases, we had proactively thought about particular themes and sectors and done a lot of work on them. We did quite a lot of work on the funeral sector before encountering Westerleigh and we did a lot of work on the medical care home sector before deciding on Inicea. So it was very deliberate," explains Crosbie, rejecting the notion that Antin is chasing higher returns through 'hybrid' deals because it cannot get them from traditional infrastructure assets.

He continues: "Going back to Westerleigh, it's about as good an infrastructure business as you could ever find: the predictability is huge, the conversion of revenue (EBITDA to cashflow) is very high; margins are extremely high; barriers to entry are significant; and it has an ability to generate strong yield. The fact that we found it and could demonstrate to people who hadn't thought about this sector before that it had very strong infrastructure characteristics was why we had such a high level of interest when we sold it."

Antin sold Westerleigh last November for an undisclosed amount to Ontario Teachers' Pension Plan and Universities Superannuation Scheme. Crucially, "the buyers were infrastructure buyers", Rauscher highlights, underlining that it was not, say, the private equity unit of OTTP that bought into the crematorium business.

"When we look at opportunities we start with what we call the Antin infrastructure test and not with the sector," Rauscher elaborates. "So, we will look at whether an asset provides an essential service to the community; if it has high barriers to entry; ability to generate cashflow; inflation linkage; and – because we are a value-add investor – ability to generate growth through acquisitions or investment. We then see if opportunities fit."

When put through the Antin infrastructure test, assets like Westerleigh and Grandi Stazioni Retail qualify as infrastructure, the Antin chief executive argues. "For me, Grandi Stazioni Retail is like an airport with trains instead of planes. People say airports are core infrastructure, but the reality is that you manage a shopping mall, a car park, and eventually some take-off and landing slots. In a train station, you predominantly manage a shopping mall."

In recognition of the latter – which, on the face of it, is why one could make the case that Grandi Stazioni Retail is just a real estate play contained in an infrastructure asset – Antin teamed up with

Luxembourg-based private equity real estate firm ICAMAP and luxury-focused investment company Borletti Group, whose co-founder is well-known Italian businessman Maurizio Borletti, as minority shareholders.

But Rauscher reiterates that "we are very comfortable with Grandi Stazioni Retail's infrastructure characteristics, because you are essentially managing a long-term contract with the incumbent railway company and basically growing the business to offer a better commercial offering".

TURNING 10

With innovation and a strong track record already established as hallmarks of the Antin brand, what else characterises the European manager? After all, this is an important year for Antin, as it marks the 10th anniversary of its establishment. Since 2007, it has managed to raise €7.4 billion across three funds, opened an office in London to complement its Paris one, and grown its team to 55 professionals spanning 21 nationalities.

"As far as I'm concerned, one of the issues I think of is ensuring this very nice success story continues way beyond ourselves. I have no plan to retire but when you've made the effort to create something that works very well you want it to continue and to grow with new people and new talents," answers Rauscher.

Crosbie agrees and explains that a big part of that has been creating a specific Antin work culture. "The culture that we've put in place and our values are absolutely key to the success of this business. This is genuinely a very happy place for people to work in. It's a partnership culture – very open – with a lot of smart people who enjoy working with their colleagues."

A crucial component of that openness has been creating a work environment where people are unafraid to disclose problems, though Rauscher admits that has been particularly challenging:

"We don't manage by fear or anxiety. Of course, we don't love problems, but we try and find solutions to problems and move forward. I think one of our success factors is to maintain that open culture. We always want to be made aware of problems quickly so we can deal with them very early on. That creates a culture of trust between people. Also, when there is a problem we fully inform the team – we don't hide them."

> "If we had done nothing on FPS, we would've still netted a good return and most people would've been very happy" **Rauscher**

In that spirit of full disclosure, Crosbie readily admits that CSP plants Andasol 1 & 2 turned out to be the proverbial fly in the ointment of Antin's otherwise immaculate investment CV. Trading at a 0.8x times money multiple as of last June, according to public documents from the Public Employees Retirement Association of New Mexico, and currently up for sale, Andasol got caught up in the infamous Spanish retroactive solar tariff debacle.

"That's made us very cautious of investing in businesses which depend on a very high degree of state support or where the market can't provide adequate returns to justify an investment," Crosbie says.

The other hallmark of the Antin brand is, of course, being a value-add investor. To hear Rauscher describe how the manager painstakingly created a towerco business – FPS Towers, now exited – from the 2,000 telecoms towers Antin bought from Bouygues Telecom in 2012 is to hear a masterclass in value creation.

"FPS had no management – it was a carve-out with 2,000 tower contracts. We recruited management and grew the work force from three to 100; renegotiated 2,000 contracts to improve their terms; deployed a rooftop offering in the cities; and we cut a deal with [road concessionaire] APRR to get access to their 400 towers along the motorways, originally used for emergency FM, to be able to use those towers to improve the mobile phone signal," he recalls.

"Could this transformation have been achieved within the original entity? The answer is 'no' because of competition issues," Rauscher explains, alluding to the fact that FPS now works with all French mobile network operators and not just Bouygues Telecom. "Also, if we had done nothing on FPS, for example, we would've still netted a good return and most people would've been very happy. But we spot where there are reservoirs of value creation and go for it," he concludes.

Which brings us to one final question – what can we expect from Antin over the next 10 years? More of the same, Rauscher and Crosbie quickly answer. But as their funds keep getting larger, one suspects not all will remain the same.

"There is the inevitability that if you keep growing you'll have to play on a bigger canvas," Crosbie admits. "Not an issue for this fund, but something you have to consider." Perhaps we won't be referring to them as a European fund manager for that much longer then... ■

ANTIN

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