ROUNDTABLE

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Creating value in disruptive times

Asset managers from three infrastructure investment firms discuss how the pandemic impacted their value-creation strategies, and consider how to deliver value going forward, write Stephanie Baxter and Kalliope Gourntis

For the past two years, the covid-19 pandemic has shuttered businesses, forced us to stay home, paused travel, and occasionally made it difficult to get hold of essential items. Yet, the world of infrastructure has continued to thrive. In 2021, infrastructure fundraising reached $136.5 billion – a record high. At the same time, the number of funds closed fell – just 91 compared with 111 in 2020.

Covid and value creation

The infrastructure sector's stoic 'keep calm and carry on' mantra could explain the lack of covid-related disruption it has suffered. When we asked three infrastructure managers whether they were more conservative with financing during the pandemic compared to more typical market conditions, their response was essentially the same – it's business as usual.

"Our view is that good managers should be able to add value to their companies no matter where they are in the cycle," says Ashley Hough, director of asset management at Ancala Partners. "Ancala, since its inception, has always had downside protection through its asset selection, so that meant we didn't have to switch to a certain defensive mindset when covid hit."

Hough says that Ancala continued to focus on value creation during the covid-19 crisis. "We've delivered some really substantial projects throughout the pandemic. At Portsmouth Water, for example, we've signed the Havant Thicket Reservoir bulk supply agreement with Southern Water to build the first reservoir of its kind in the UK for over 50 years. We're not pivoting towards value creation because we never moved away from it."

Like Hough, Augustin Schneider-Maunoury, asset management director at InfraVia Capital Partners, says for the most part his firm never left a proactive value-creation strategy throughout the pandemic. However, he acknowledges that some infrastructure sectors required a more defensive approach as they were hit by covid-related disruption.

"For us, the impact of the pandemic was dependent on the sector," he says. "For energy or telecom assets, we never left a proactive value-creation strategy. We have a fibre-optic platform in France for which we designed an €800 million capex plan in April 2020, just a few weeks into the lockdown. [But] for transportation, and to a lesser extent, healthcare assets, we were in defensive mode for the first couple of months and then gradually came back to active development mode. Overall, we realised defensive action would only be needed for a couple of assets."

Assets that required a more defensive strategy were typically the likes of airports, which were hit hard by the

Ashley Hough

Director, asset management, Ancala Partners

Hough joined Ancala in 2019. He is a board member of five portfolio companies and works closely with the management teams to develop and deliver their business plans and to mitigate portfolio-level risks. Prior to Ancala, Hough worked at Serco, a global government contractor specialising in private finance initiatives and other government services.

Augustin Schneider-Maunoury

Director, InfraVia Capital Partners

Schneider-Maunoury joined the Paris-based firm as a director in its asset management team in 2020. He sits on the board and supports the teams of several portfolio companies taking a hands-on approach, as well as co-ordinating InfraVia's HR and talent initiatives across the firm and its portfolio. Prior to joining InfraVia, he worked at Bain & Company.

Christoph Bruguier

Senior investment director, Vauban Infrastructure Partners

Bruguier has extensive experience in infrastructure management having worked on various landmark brownfield and greenfield transactions across the transportation, energy, digital and social infrastructure sectors. He joined Vauban from InfraVia Capital Partners in 2019 and previously spent more than 22 years at HSBC investment bank.

impact of the pandemic as planes were grounded and international travel restricted.

Schneider-Maunoury adds: "Today, most of our assets in the healthcare and transportation sectors are back on track with 2021 results back to pre-crisis levels and business plans incorporating strong development. The only exception being our airport asset, where visibility on traffic recovery is still limited."

Regarding value creation during the pandemic, Schneider-Maunoury says his firm did not take advantage of the covid-19 crisis to develop new strategies, but rather "sticked to implementing the strategy and value-creation plans it had before the crisis, including the launch of our Growth fund".

"The crisis was a battle-test for our portfolio, and the resilience we are seeing now confirms the validity of our investment strategies and asset management plans," he adds.

"The [health] crisis did not change our plans but rather led us to continue and accelerate on our strategy, with discipline. On M&A, for instance, we did not see many attractive opportunities to buy cheap, distressed assets, and that's an indicator of the resilience of the asset class."

Hough says his firm did seek to take advantage of the opportunities presented by the pandemic.

"The pandemic has presented opportunities to drive efficiencies where it may otherwise have been much more difficult to do so," he says. "At LEEP, with the assistance of the industry partner on the board, we accelerated the roll-out of meters that take automatic remote readings."

Ancala owns a majority stake in LEEP, Hough says, adding: "The meters will help us reduce costs and our reliance on third parties, together with reducing risk from any future lockdowns as readings are now automated."

ESG's valuable role

Environmental, social and governance considerations have become increasingly important in the investment world. With COP26 still a recent memory, the investment industry has been encouraged to lead the pack and work towards a climate target, such as the UK's ambition to achieve net zero by 2050.

All three roundtable participants believe ESG has a major role to play in their portfolios and can be harnessed to create long-term value for their assets.

"ESG is the big mega-trend of our time," says Hough, "and that was driven initially through regulation and now increasingly through consumer behaviour, and we're certainly putting a lot of effort into it."

Ancala Partners now has an in-house ESG manager and is currently in the process of finalising ESG roadmaps for all the firm's assets.

"We see that this will create value as we look to exit the asset," Hough continues, adding: "We've done quite a lot of onsite renewable generation – we're developing a 13MW wind and 10MW solar development at Dragon LNG. We've got a 3MW solar development at Portsmouth Water and another 3MW of solar at Liverpool Airport.

"The other benefit is that the companies will be self-generating power. So, we are reducing the power costs while reducing carbon emissions. And that's really the key to what we're seeing."

Christoph Bruguier, senior investment director and partner at Vauban Infrastructure Partners, explains how his firm uses active management to drive its ESG strategy.

"We have really focused our attention on climate change. We did recently a global study and review with academics on climate change in infrastructure, and as a result of that we put in place measures to enhance and monitor our climate impact," he says.

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> **ASHLEY HOUGH**
> **Ancala Partners**

"Essentially, we have three levels of action at Vauban: invest, influence, involve. Invest is the way we invest in assets. Influence is the way we actively manage the assets to influence the best behaviours and set the appropriate targets. Involve [because] we also involve the corporation, public authorities and all stakeholders involved to meet climate targets. So, we aim that each company has an ESG strategy."

Ways in which Vauban has made a positive impact when it comes to climate action include acquiring a fleet of ferries in Norway, and soon afterwards looking to incorporate hydrogen fuel into their power sources – a greener option than traditional energy.

"We have also moved into data centre investment, where we know energy consumption is one of the key topics," Bruguier says. "In Iceland, we've invested in Borealis, a data centre platform that uses 100 percent renewable energy and that has a power efficiency ratio that is extremely low."

Schneider-Maunoury, meanwhile,

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> **CHRISTOPH BRUGUIER**
> **Vauban Infrastructure Partners**

points to InfraVia's investment in Molgas as an example of what his firm is doing to combat climate change.

"Molgas is the platform we have in small-scale energy infrastructure," he says. "It's a great platform because it is flexible across a range of energy solutions from natural gas to biomethane and hydrogen.

"Today Molgas provides liquefied natural gas solutions based on storage and regasification infrastructure located on clients' premises. Those solutions help clients, typically industrial companies in rural areas, switch away from oil and cut CO2 emissions by 20 percent. It's not zero carbon yet, but it's less carbon intensive than oil and it's the only viable alternative clients have today."

In addition, a little more investment will position the platform on zero carbon solutions, which in turn can also be rolled out to clients, notes Schneider-Maunoury.

He adds: "What we like about this asset is that with the same infrastructure, we're now able to provide our clients with biomethane solutions, cutting CO2 emissions by 85 percent. And tomorrow, with a couple of additional investments, we will provide green hydrogen to the same clients with essentially the same infrastructure components. We are working hard to provide solutions allowing clients to gradually decarbonate their activities, leveraging this flexible infrastructure."

The role of resilience

Resilience is a topic widely discussed by infrastructure investors. However, when *Infrastructure Investor* took a closer look at the market, we found many had not been investing in this space. An obvious case of poor resilience investment happened during the Texas snowstorm in 2021, when turbines on wind farms that had not been 'weatherised' froze. With that said, all three experts in the room see resilience at the core of a value-creation strategy.

"It's part of the normal, long-term preservation, bettering of assets," says

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> **Vauban Infrastructure Partners**

Bruguier. "It's a natural way to preserve the value of an asset. As a long-term investor, a key aspect of our strategy is making sure the asset does not become a stranded asset, and therefore we have to consider preserving the value of the asset, and even increasing its value over time."

Schneider-Maunoury agrees that resilience is "at the heart of the value-creation strategy". He points out that the definition of resilience has changed in recent years to cover new areas.

"We're working hard on cybersecurity, for example," he says. "Paradoxically, the more digital we go, the more exposed we become to cybersecurity risks, simply because we handle more data. We want to make sure our portfolio is resilient to that. It's clearly at the top of the agenda today.

"We're seeing new areas of resilience. Climate is another example. There's no resilience in a business model that ignores climate change. Resilience is an investment criterion, it's also something we build through asset management."

"Once we invest in an asset, there's a lot of work that goes into it," adds Hough. "Cybersecurity is also a very hot topic for us. But we also view resilience as taking other forms, such as through growth and diversification. For example, we've grown Biogen from seven to 14 plants and developed a composting business, so each individual plant is a much smaller part of the whole pie. Likewise, we diversified Hector Rail's customer portfolio to encompass a range of different end industries, reducing its overall risk profile.

"Alongside diversification, our industry partners play a key role in the resilience of our assets. They have deep sector expertise, supporting management through the challenges they face and finding solutions to a range of problems."

Inflation impact

Inflation is now at a decades-long high. In the US, the current 7 percent inflation rate is a number not seen since the early 1980s. In the UK, the picture is similar – inflation has not been at 5.4 percent for nearly 30 years. To add value to their assets, infrastructure investors must often make use of raw materials to improve their offering – materials vulnerable to price increases in times of inflation. The question to investors then, is how does being conservative with leverage and financing play a role in the current inflationary environment?

Vauban's Bruguier appears relatively relaxed about the situation.

However, he acknowledges inflation is likely to lead to greater expenditure: "The beauty of infrastructure assets is they provide revenue linked to inflation.

"All in all, inflation and capex increase could happen in some sectors. We're all seeing an increase in steel

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> **InfraVia Capital Partners**

prices, an increase in some raw materials, [and] that translates into an increase in capex, compared to previous assumptions some people have made. Most of the time, we've taken that into account in our investment approach, and what we're seeing is that our net return is benefiting from this indexation on inflation."

Hough agrees: "We're in a very similar position, [and] people have invested [in infrastructure] to have inflation protection.

"One thing we're seeing is that our industry partners were all working during the last high inflationary cycle. They've seen it all before. So, they're able to work very closely with management teams to ensure the inflation pass-through mechanisms in contracts are working correctly and teach them how to manage risks that some of them have not encountered before."

Ancala has held back on some non-critical investment decisions because of inflation, says Hough.

"We were going to build a new warehouse at Augean, but we've decided to wait until the construction costs come down because the quotes we were getting just weren't financially appealing. That would be a short-term impact [of inflation]."

However, Hough is not worried about debt financing or leverage in the event interest rates rise.

"Generally, our leverage is very low across the portfolio and we've hedged interest rates. So, we're fairly comfortable with that risk at the moment," he adds.

Looking to subsectors

Regardless of the pandemic, or the unusual economic situation that has followed, investors could look to subsectors to find new areas to add value.

Schneider-Maunoury says infrastructure funds are no stranger to investing in new sectors, such as data centres and fibre optics, to find value. He says the subsectors generating interest are social infrastructure and healthcare assets.

"Hospitals, nurseries and educational facilities – in [these], demographical and societal trends are creating a historical need for capacity expansion," he says. "There is a major challenge to address the current undersupply, build capacity and drive digitisation in that space."

Vauban's Bruguier says some sectors are becoming increasingly core infrastructure because they can provide long-term stable cashflows, and they support trends like energy transition, or a change in regulation or consumer behaviour.

"Take the example of waste management," he says. "Waste management is a good example as part of the wider circular economy of recycling, and of the need to change behaviours or to transition on that front. That's part of the sectors [where] we see development as being most consistent. Decarbonisation of transport is another one."

Ancala's Hough, however, says his firm is more likely to focus on its core strategy, rather than any single sector within infrastructure.

"For the last 11 years, we've just really focused on our core strengths, which is mid-market assets with downside protection, and then actively managing those to create value," he says. "We don't chase a subsector because we think it's going to create value in the future. Rather, what we're looking for are assets that fit within our core strategy, and that could be across any sector within infrastructure."

In terms of creating value specifically, Hough says it's less about the sector or any given trend, and instead about where the asset sits in a market and the firm's proactive asset management.

"There are always going to be things you can do to add value to these companies – it's much easier to double the size of a £50 million company than a £1 billion company." ■