R O U N D T A B L E

SPONSORS

ABRDN • ANTIN INFRASTRUCTURE PARTNERS • ARDIAN • ARJUN INFRASTRUCTURE PARTNERS
NUVEEN INFRASTRUCTURE • VAUBAN INFRASTRUCTURE PARTNERS

# Asset management in the ascendancy

*In a volatile environment, asset management is more important than ever. Six industry professionals tell Amy Carroll and Anne-Louise Stranne Petersen how their respective firms are managing assets during challenging times*

Infrastructure has escaped the worst excesses of recent macroeconomic turmoil. A lack of correlation to GDP, together with inflation linkage, means the asset class has emerged from this period of extreme volatility, relatively unscathed.

"More than 90 percent of our portfolio has inflation pass through, by virtue of contracts or regulatory protections," says Christoph Bruguier, senior investment director and partner at Vauban Infrastructure Partners. "The majority of our deals are also structured with long-term fixed-rate financing. Having fixed-rate debt and inflation indexation means the current environment has been more of a help than a hindrance."

But it is overly simplistic to say that infrastructure has effortlessly ridden the wave of inflation. Navigating this new macroeconomic environment has required fastidious stewardship from asset managers.

"More than 85 percent of our portfolio is inflation-correlated through one mechanism or another. That has always been a priority for us when we build our portfolios. Having said that, the extreme inflation growth we have seen over the past 24 months has required careful management," says Simo Santavirta, senior managing director and head of infrastructure asset management at Ardian.

"It is important to have local teams that can have those difficult discussions with regulators and other counterparties. To manage these situations, you need people on the ground that speak the local language, read the local newspapers and understand the culture."

Peter Antolik, partner and chief operating officer at Arjun Infrastructure Partners, adds: "There are situations where it can be difficult to enforce pass through, particularly if a contractual counterparty is struggling or if regulators view inflation as a windfall.

"There is a real focus from regulators on how price rises will be reflected in the service customers receive. It all feeds into your legitimacy as a steward of public infrastructure."

The energy sector has most notably been hit by pushback from regulators, of course. "The energy market is highly regulated and so when war in Ukraine led to a spike in oil prices, we saw public intervention with windfall taxes and caps on acceptable profits for private enterprises," says Jordi Francesch, global head of asset management, clean energy, at Nuveen Infrastructure. "That created unforeseen disruptions in the market."

Meanwhile, David Vence, partner at Antin Infrastructure Partners, says that both corporate customers and regulators have been supportive in light of a new economic environment, when it comes to renewable energy generation, in particular. "The economics of renewable project development have been impacted by the cost of construction and the cost of financing both increasing. But at the same time, there is a huge push for more renewable generation capacity to

*"Having fixed-rate debt and inflation indexation means the current environment has been more of a help than a hindrance"*

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

*"Securing debt capital from banks and institutional investors for more carbon-intensive assets today, even when there is a clear plan to decarbonise, is getting more and more difficult"*

**GRAEME DUNBAR**
**abrdn**

be built. Utilities and corporate customers continue to have ambitious decarbonisation targets and so as off-takers, they need to adapt to this new reality. Power and utility commissions have also been constructive in approving changes that impact end customers."

## Sector specifics

Nonetheless, renewable energy is not without its asset management challenges. "Deteriorating relationships between the US and China have led to supply chain disruption and additional delays and costs to complex construction projects," says Francesch.

"That has triggered a lot of work around the diversification of supply and construction timelines. The other challenge we face is the permitting process. There is a huge global push to build out clean power generation and that means a lot of planning processes that need to be fulfilled. There is a gigantic bottleneck. On average, it takes four years to get a simple solar plant to the ready-to-build stage in Europe and wind projects are taking even longer."

But it is the fibre sector (see p. 36) that is giving asset managers headaches. "A number of altnets in the UK are facing challenges," says Graeme Dunbar, senior investment director at abrdn. "I think there was a slightly naïve 'build it and they will come' mentality with many of these investments which were made at a time when financing was readily available and cheap. A number of headwinds have subsequently hit the sector and strategies have had to pivot so the focus for a lot of the UK altnets is now very much on the commercialisation of networks."

abrdn still believes in fibre as an investment thematic but chooses to focus on rural areas when government subsidies are still available and where overbuild risk is limited. "But some challenges still remain, and consolidation is inevitable," says Dunbar. "In fact, that is already starting to play out. There will be winners and losers. What's important, of course, is to make sure you are one of the winners."

Antin has also made significant investments in fibre. "We currently have two platform investments in the US and two in Europe," says Vence. "When it comes to fibre-to-the-home, the US is lagging behind some countries in Europe and there is a land grab going on. The focus is on finding addressable markets that are not too competitive.

"When it comes to B2B fibre, meanwhile, there is a bifurcation between businesses that are operationally healthy and growing and those that are more challenged. Premium networks that cannot be replicated will continue to justify very strong valuations. We do continue to see a lot of growth drivers, for example in terms of demand for bandwidth upgrades, increased levels of security and improved customer service. It is a sector we continue to strongly believe in."

Vauban, meanwhile, began investing in fibre networks in 2008. "I would say that the situation we have observed over the past 18 months has created even more opportunities in the space than before," says Bruguier, citing Vauban's recent partnership with Téléfonica to provide fibre coverage to around five million homes in rural Spain.

## Decarbonisation

Regardless of the sector under consideration, decarbonisation is a critical asset management theme. "At a firm level, our goal is to reduce Scope 1 and 2 emissions by 42 percent from 2022 levels by 2030. At a portfolio level, our goal is that 100 percent of capital will be invested in assets with approved science-based targets by 2040," says Vence.

"In order to reach these objectives, we are focused on ensuring that our ESG and investment teams are working together as one. For example, we have the largest group of district energy systems across the US, whose electrification plan will bring wide-scale building decarbonisation. That is the kind of holistic thinking we are trying to bring to the portfolio."

The decarbonisation agenda is not without its challenges, however. "We have a diverse portfolio of assets including renewables and district heating, as well as some higher carbon assets such as gas transportation, where we have specific decarbonisation plans and targets in place," says Dunbar.

"Energy transition is just that, a transition. In order to decarbonise and get anywhere near net-zero targets, we need to reduce emissions from existing infrastructure, not just build new infrastructure. A key challenge, however, is that in most cases that requires investment and securing debt capital from banks and institutional investors for more carbon-intensive assets today, even when there is a clear plan to decarbonise, is getting more and more difficult."

Antolik, meanwhile, points out that the mid-market companies that

**Graeme Dunbar**

**Senior investment director, abrdn**
Graeme Dunbar has more than 20 years' experience in private markets and was one of the founders of abrdn's infrastructure business in 2013. Prior to joining Standard Life in 2008, he spent 10 years with KPMG, working in both the UK and Australia.

**Jordi Francesch**

**Global head of asset management, clean energy, Nuveen Infrastructure**
Jordi Francesch is head of asset management for Nuveen Infrastructure's clean energy strategy. Prior to joining Nuveen, he was responsible for Glennmont Partners' asset management and operations. He has more than 23 years' experience in the energy sector, 14 of which were spent in renewables. Prior to joining Glennmont, Francesch spent 10 years at Royal Dutch Shell.

**Simo Santavirta**

**Senior managing director and head of infrastructure asset management, Ardian**
Simo Santavirta joined Ardian in 2016. He previously spent 13 years at global power generation group InterGen, most recently as vice-president of strategy and portfolio management. An engineer by background, Santavirta began his career at Finnish energy company Fortum Oyj.

**Christoph Bruguier**

**Senior investment director and partner, Vauban Infrastructure Partners**
Christoph Bruguier joined Vauban in 2019, having previously worked at InfraVia Capital Partners. He also spent more than 22 years at HSBC in a number of positions, leading origination, structuring and execution on infrastructure; capital markets; complex restructurings and structured finance.

**Peter Antolik**

**Partner and chief operating officer, Arjun Infrastructure Partners**
Peter Antolik joined Arjun in 2017. Antolik was previously executive director at The Office of Rail and Road; executive director at JPMorgan's Infrastructure Investment Fund; strategy and regulation director at Thames Water; and chief operating officer for European infrastructure funds at Macquarie Group.

**David Vence**

**Partner, Antin Infrastructure Partners**
David Vence joined Antin in 2014, based in the firm's New York office. He sits on the boards of FirstLight Fiber and Origis Energy. Vence previously worked at JPMorgan in Paris, as part of the investment banking team.

## Labour shortages

**The challenges facing asset managers have been compounded by a global shortage of talent**

"Labour costs are rising fast in many sectors but if inflation linkage is strong enough, those costs can be passed through," says Arjun's Peter Antolik. "Nonetheless, it is critical to ensure you find the right people and that you are fully aligned. We are hands on with our portfolio companies and place a lot of emphasis on building good relationships with management teams. You have to get those hiring decisions right."

"Core infrastructure has relatively high margins and if the asset is inflation protected, that should not impact your ability to compensate talent," adds Vauban's Christoph Bruguier. "However, finding that talent in the first place can be challenging. Having the right talent in place and aligned is a key feature of good asset management."

Access to talent is a top priority in the clean energy sector. "This is an industry that is growing exponentially, and the talent pool is not keeping pace," says Nuveen Infrastructure's Jordi Francesch. "We therefore try to attract people from other sectors such as real estate and infrastructure and then train them to perform in the clean energy space. If you just keep on fishing from the same pool of talent you are only going to drive up costs. It helps to be creative. Digitalisation and automation also have a role to play."

Arjun invests in may not have the necessary skill set or resource to robustly measure greenhouse gas emissions, in house. "We therefore provide access to external expertise," he explains, adding that the firm is currently working with portfolio companies to develop science-based targets to achieve net zero by 2050, at the latest.

However, Antolik also emphasises that decarbonisation doesn't always have to be viewed as a cost. "It represents an opportunity, particularly for first movers," he says.

Santavirta agrees. "It is true that heavy decarbonisation plans often require significant capex, but we have also explored ways of using digital tools to analyse data, thereby optimising operations and reducing carbon emissions.

"For example, our tool AirCarbon has been used by our airport assets to quantify how much emissions are generated by engine use while planes are on the ground and during take-off and landing. AirCarbon helped Naples Airport to analyse and develop a target for 30 percent reduction in its Scope 3 carbon emissions thanks to new procedures for take-off, for example."

Santavirta also points to the opportunity facing the firm's energy assets, such as its Nordic district heating and industrial solutions business Nevel which provides decarbonisation solutions to hard-to-abate sectors such as food processing, mining and paper by developing biogas solutions. "There is a huge market for driving down the carbon emissions of heavy industrial customers which offers a significant opportunity for us to deploy capital through platforms like Nevel."

## Prepping for sale

Decarbonisation is a critical component of getting any asset ready for sale. "The buyer pool of carbon-intensive assets is only going to shrink going forward," says Vence.

Indeed, solid asset management, in general, is paramount, given that we are in the middle of a notoriously challenging exit environment.

"We have seen repricing of core assets. There continues to be a valuation gap between buyers and sellers for some assets," says Bruguier, "therefore we have seen only quality assets changing hands."

"What is important is to be able to demonstrate how you have de-risked an asset to buyers, whilst also demonstrating how the buyer may be able to add further value," adds Santavirta.

For example, Ardian sold a Spanish wind farm asset last year, that the firm originally backed in 2019. "We significantly improved operations post investment, renegotiating contracts and optimising production using in-house analytics tools. We also developed solar PV assets around the wind farms using the same grid connection and developed a repowering plan for older

*"What is important is to be able to demonstrate how you have de-risked an asset to buyers, whilst also demonstrating how the buyer may be able to add further value"*

**SIMO SANTAVIRTA**
**Ardian**

*"When it comes to fibre-to-the-home, the US is lagging behind some countries in Europe and there is a land grab going on. The focus is on finding addressable markets that are not too competitive"*

**DAVID VENCE**
**Antin Infrastructure Partners**

*"It is far easier to put a 5 percent reduction per year into a spreadsheet than it is to deliver it. You need expertise in dealing with real-life issues"*

**PETER ANTOLIK**
**Arjun Infrastructure Partners**

*"We are already seeing a lot of [renewable] assets up for sale. In particular, we are seeing publicly traded companies valued below NAV as a result of volatile power prices, making attractive take-private targets"*

**JORDI FRANCESCH**
**Nuveen Infrastructure**

turbines that will increase production by almost 50 percent," Santavirta explains.

"We were able to demonstrate that the business plan was de-risked and credible without deploying the capex ourselves, and ultimately, we made three times our money on the deal in four years."

Dunbar, meanwhile, believes that deal activity will start to pick up again in 2024. "Putting aside geopolitical uncertainties, the consensus is that inflation has reached its peak and rates will start to come down. I don't think we will see a flood of deals taking place, but I do think that the business of buying and selling assets will resume."

Dunbar also expects to see the continued proliferation of continuation vehicles. "These are structures that enable firms to continue to hold on to good quality assets, re-set timings and drive further value creation," he explains. "They also allow GPs to offer liquidity to existing investors and therefore the potential to bring in new investors and they are becoming more common and better understood in the market."

In the renewables space, meanwhile, it has never stopped being a seller's market, according to Francesch. "Demand is greater than supply due to massive energy transition tailwinds and the fact that clean energy is largely uncorrelated to other asset classes. I believe 2024 will be another hectic year for transactions. We are already seeing a lot of assets up for sale. In particular, we are seeing publicly traded companies valued below NAV as a result of volatile power prices, making attractive take-private targets."

## In demand

From managing inflation passthrough, to decarbonisation strategies, it is clear that asset management is integral to success in the infrastructure investment world.

"Leverage is going to play less of a role in value creation in the current environment which means there is greater emphasis on implementing value creation plans based around engineering, digitalisation, the aggregation of assets with other technologies, renegotiation of contracts and the application of economies of scale," says Francesch. "That is the bread and butter of good asset management and I believe that this will lead to a narrowing of the pay gap that has historically existed between investment professionals and asset managers."

"It is far easier to put a 5 percent reduction per year into a spreadsheet than it is to deliver it," adds Antolik. "You need expertise in dealing with real-life issues."

Dunbar agrees. "At the very heart of infrastructure investing is the notion of downside protection, and given the longer duration nature of the assets, what a manager does in the period of ownership is critical to the overall success of the investment. Using a sporting analogy, you can't win a match with only strikers on the pitch – you need a solid defence and goalkeeper to make a strong team." ■