

Roundtable

Asset Management

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Investing for tomorrow

While the world as we know it shifts through technological and political changes, five asset managers tell **Zak Bentley** how they combat the risks in front of them

It may not be the definition the asset class has always subscribed to, but as five of Europe's top infrastructure asset managers gather for our latest roundtable, Arcus's Neil Krawitz remarks that all present typically look for something different when investing, rather than the "core, mature and scrubbed-up assets".

While the definition is loose, the assessment is right. The asset class has now been

evolving for several years, away from standalone deals and towards building platforms through which value can truly be created. The principal rules of investment remain, but our roundtable now takes place against a backdrop of a dwindling pool of assets and a shift in social, technological and political norms.

A more sophisticated investment community also has greater demands. And,

while good returns are generated by initially picking the right deals, the day-to-day job of the asset managers takes on far more significance, to which Krawitz's fellow participants – David Rees of AMP Capital, InfraVia's Sophie Rey-Lecocq, Simo Santavirta from Ardiان and Antin's Simon Soder – attest.

From Krawitz's point of view, this significance can only be realised by enacting



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change. “Arcus is a value-add manager and if we don’t have that opportunity to change something, then, honestly, the business is better owned by a more passive investor,” he declares.

This is, as he describes, one of the pillars of the Arcus asset management strategy, with another being holding a controlling interest in an asset. Without this, it’s very difficult to drive true asset management, he believes, “no matter how good your plans are”.

It’s not a view necessarily shared at Ardian, where Santavirta says the focus is more on like-minded fellow investors. “The key for us is to really sit down with the other shareholders and try to find out whether you’re aligned with your findings and what you think needs to be done with the business,” he says. “It is as simple as that.”

AROUND THE TABLE



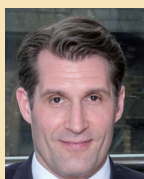
Neil Krawitz, partner, Arcus Infrastructure Partners

Krawitz joined Arcus’s predecessor Babcock & Brown in 2007 before the European team span out to become Arcus in 2009, where he took the role of senior investment director. He was subsequently promoted to partner in 2015 and was the asset manager responsible for Arcus’s management of Alpha Trains before its sale in 2015.



David Rees, partner and global co-head of asset management, AMP Capital

Rees has been at AMP Capital since 2012 and is responsible for the long-term performance of the group’s European infrastructure assets. He has represented AMP on the board of several of its portfolio companies. Prior to joining AMP, Rees spent nine years at National Grid.



Simon Soder, partner, Antin Infrastructure Partners

Soder arrived at Antin in 2014 and is a member of the firm’s investment committee, holding board seats on portfolio companies Roadchef and Eurofiber. He previously spent eight years at Macquarie, working on the group’s infrastructure advisory business, in addition to the industrials and financial services sectors.



Simo Santavirta, managing director, Ardian

Santavirta joined Ardian in 2016, responsible for asset management across the Ardian infrastructure portfolio. His arrival followed a 14-year spell at power generation group InterGen, where he worked across the company’s offices in the UK, Netherlands, Philippines, Australia and the US in roles ranging from development director to vice president.



Sophie Rey-Lecoq, asset management director, InfraVia Capital Partners

Rey-Lecoq has been at InfraVia since October 2016 and is responsible for the management of several of the firm’s portfolio companies. She joined following 16 years at French telecoms group Alcatel, acquired by Nokia towards the end of her spell. She began her career as a lawyer at Freshfields.



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Antin has a different acid test, according to Soder. “We have a framework which we call the ‘infrastructure test’ that is our way of assessing: does it fit our investment criteria? For us, infrastructure as an asset class is a lot about the risk profile as much as it is about what it says on the label. So, we spend a lot of time on that and generally we see that complexity is our friend. We’re happy to spend a lot of time analysing and making sure we can understand it, assess it and manage it.”

While Antin uses a sizeable internal team to complete the ‘infrastructure test’, Ardian relies on more external advice.

“We bring in our network of industrial experts when we’re doing due diligence, and, to us, this is key to being successful,” explains Santavirta. “These are the people who really can drill into specific issues and also help us assess the management.

This is very important with this kind of approach where you’re looking at changing the company.”

InfraVia also sometimes uses the third-party approach to assess management capabilities, although Rey-Lecocq says the group’s “main area of focus post-closing is really engaging with the management of the company to share and align our vision and make sure we’re building the right level of intimacy and trust”.

IF IT’S BROKEN, FIX IT

Yet what about when the management needs changing? Or when our asset managers believe a change of course is necessary? This is something difficult to assess during the investment process but a view, one way or the other, should be formed within the first six months, according to Rees.

“The only regrets we’ve had in the past have been where we haven’t changed management quickly enough,” he adds. “It’s a very hard thing to do, but it’s the right thing and it usually comes out in the discussion around the business plan.”

However, it need not be the case that personnel need changing or adding to, according to Krawitz. In deals such as Arcus’s investment in Forth Ports, the process of converting a company from public to private presents its own challenges.

“It can be about just changing the management team’s goals and objectives and making them think about things in a different way,” he says. “If they were a listed business, they’ve been worried about meeting short-term goals to meet public market expectations and their share price. If you change their objectives for infrastructure investor targets in five or 10 years’ time, you’re totally reorienting how they think about the business, in that case targeting different metrics. They’re still the right people, they just need a change in their path.”

Ardian takes a slightly different view, with Santavirta maintaining that, in the past, if the management team is not the right one, it would be unlikely to invest.

“However, we have made some changes in the past and we will if needs be,” he explains. “It’s about going through the sector and really understanding what’s going on and whether that’s the way you want to run the operation.”

Santavirta adds that Ardian often spends time with the management team before the deal is wrapped up, ensuring a smoother transition from day one. It’s why the firm also focuses on bilateral discussions and brings a nod of agreement from Rees.

“Sometimes when things don’t quite go well it’s actually the shareholders’ fault because they’re not agreeing,” Rees says. “It’s great if you can buy a majority or 100 percent because then you don’t have anyone else to argue with. But if shareholders aren’t aligned, then what hope has the management team got? You’re setting them an impossible job.”

The asset managers truly get their hands dirty when said “impossible job” turns into the reality of an underperforming asset and they need to work it back to full health. Good asset management requires preparation and our participants agree that planning is pivotal in this regard.

“We need to understand the root causes of the problems because we will tailor the answers to the problems depending on the causes,” maintains Rey-Lecocq. “When assessing an investment, we always assess how we can get comfortable with an investment strategy protecting the downside. We also put in place appropriate capital structures and aim at moderately leveraging our assets.”

There’s an acceptance around the table that, even with the best management structures in place, sometimes such scenarios are impossible to avoid. What matters is the aftermath.

“It happens,” Krawitz states. “We all own assets for between seven to 15 years. That always will span different economic cycles and different operating conditions. You need a team that’s experienced handling tough times but there are things you can

do around setting up governance and reporting in the right way, so you have an early warning system allowing you to anticipate these things and we do a lot of scenario planning. Being in a controlling position means you are close to the business and allows you to make fast and active decisions.

“It links back to buying businesses which are really infrastructure because they should always be able to be brought back from a decline. If they don’t have the right infrastructure characteristics and you have a difficult time, that’s where I think people will get found out.”

Rees agrees with Krawitz that sometimes there is an air of inevitability, but believes this is where the best asset management manifests itself.

“You know things are going to go wrong. You have to have people who have seen it

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before, who don't panic. Sometimes the management team may be doing exactly the right thing but it's going to take a bit of time. This is the moment when all of that hard work that you've done, building up the relationship with the management team and the shareholders in the good times serves you well, because it's ultimately about trust."

He continues: "Of course, if that isn't working, then you fire them, but you shouldn't have to get to that point. I think a lot of people sometimes panic very quickly because maybe they just have not seen it before."

Soder concurs and adds that the temptation to reduce costs and be more efficient shouldn't necessarily be the default reaction.

"You have to act very decisively and still not in a rush," he says. "It is critical to first understand what is the root cause and why. Sometimes you may need to invest more into the business to get it back on track or to adjust strategy and get it back to a position where it can thrive. Sometimes it may mean reinforcing management if they need more skills to help them deal with whatever has changed."

While our asset managers are keen to emphasise value creation, Krawitz believes asset management is defensive as much as creative and "investors are thinking more and more about that and whether managers have the skills and experience to be a defensive asset manager".

STAYING IN THE GOOD BOOKS

As well as mitigating risks of underperformance, infrastructure asset managers also have to contend with the prospect of hostile governments or regulators, a risk that has grown in the UK with the increased popularity of the Labour opposition, keen to nationalise infrastructure assets.

However, Rees remains unconcerned and is confident in asset management prevailing.

"I think this whole thing has slightly got

out of hand and that there's a lot of hot air talked about renationalisation so I'm not overly worried about it," he argues. "But if you're asking if political and regulatory risk has increased, then I think the answer is undoubtedly yes. We have to make the case for private ownership and that's largely about investment and it's incumbent upon investors and management teams to do that."

This is a similar sentiment subscribed to by Soder. "I think it is an easier case to make when you, as we do, follow a strategy where investment into the assets is part of the business plan. Demonstrating value is also about delivering good-quality services and projects on time and critically about ESG, which is a core focus for us."

For Rey-Lecocq, the situation requires more than just investment: it's also about providing demonstrable evidence of our

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“It’s about thinking about the infrastructure of the future and making sure there’s no revolutionary change that’s going to take over your asset” **Krawitz**

participants’ reputations for creating value.

“If we want to defend private ownership, we need to be in a position to evidence that private ownership is actually delivering value to the users,” she outlines. “Our equity is not a commodity and is here to accelerate the growth of the business we invest in. We invested in an iconic performing art centre in Paris. It was delivered on time and on budget, while, shortly before, there was another concert venue which was fully procured and developed by the public authorities and which experienced significant slippages, both in terms of timing and costs. It’s about discipline and value creation.”

One criticism made by the likes of the UK Labour Party is the sentiment that investors like those around the table are out of kilter with public opinion,

something Krawitz is keen to address.

“We use non-exec directors on boards to broaden the perspective of the company around these issues,” he explains. “They’re either from industry, politics or other stakeholders, and having that external view, which is different from how infrastructure investors feel about the world, is one of the ways that we try to help shape businesses’ stakeholder engagement.”

INFRA OF THE FUTURE

While defending assets from hungry governments is an obvious step, 2017 showed that many in today’s world are still not resolute against threats such as cyber-attacks.

“It’s definitely something that is in focus,” Soder contends. “We had an ex-hacker come and do risk assessment for the businesses. They all performed quite well and when there were gaps identified, these have been addressed.”

This sort of help is needed, according to Rees, who believes those on the boards are sometimes ill-equipped to deal with such threats.

“At a lot of big listed companies, the kind of people who sit on boards are not 25-year-old hackers. There is a kind of generational gap. That’s why we’re doing what others are doing, which is getting technical advice.”

This kind of protection is also required when investing in assets and thinking which sectors might fall out of favour with modern ways. Ray-Lecocq says InfraVia tries to stay away from “sectors where we have no clear view, for instance car parks and city toll roads”, although Santavirta argues that “you can utilise these changes in a positive way”, pointing to developments made by Ardian with parking firm Indigo.

“If it’s car parks, they’re going to change their use, but you are still going to need a place to charge electric vehicles and store autonomous cars,” says Krawitz. “It’s about thinking about the infrastructure of the future, but making sure there’s no revolutionary change that’s going to take over your asset.” ■