Roundtable

Asset management

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'There's no such thing as asset management-lite'

As the infrastructure sector evolves and the importance of asset management grows, four industry experts tell **Zak Bentley** what they do to enact real change

The past 12 months have provided more than enough instances of the trials and tribulations faced by infrastructure asset managers. The tragic collapse of the Morandi Bridge in Italy was an exceptional example – one industry source described it to us as "everyone's worst nightmare" – while the UK military had to be called in at Gatwick Airport amid four days of disruption shortly before Christmas caused by a number of drone sightings.

Those are both cases where the challenges have occurred during the ownership phase. But the eventual award of compensation to Spanish solar investors, well after the affected asset had been sold, shows good asset management is not just about the ownership period (see p. 8). The pre-investment stage can also be fraught, as shown by the tug of war between Globalvia, APG and Corsair Capital to buy Spanish toll road group Itínere, a process now set to be concluded by the Spanish courts.

It begs questions about when does an asset manager's job truly start and what they are responsible for – a source of healthy debate around industry practices at our annual asset management roundtable.

"In our model, we do not differentiate between asset management and acquisition activities," says Serkan Bahceci, partner and head of research at Arjun Infrastructure Partners, which teams up with investors to access direct deals on a separate basis. "Our aim is to act like an extension of the investment teams of our investors. Whoever works on the deal from day one has to manage that deal going forward. We have to provide a consistency in our services to our investors."

Arcus Infrastructure Partners follows the same approach, according to partner Neil Krawitz, although this is a deviation from the strategy pursued by others in the past.

"We've witnessed first-hand some of the issues and conflicts that can arise with separate origination and asset management teams," he says. "This model can result in discontinuity and mis-alignment, particularly when it comes down to ensuring the post-investment performance is consistent with the underwritten investment case.

"We think it is critical to make sure there is strong alignment from day one. At Arcus, we operate a cradle-to-grave approach; a deal team leader who, if the transaction proceeds, is going to be responsible for managing the asset and delivering the business plan set out in their investment recommendation.

"There are people in the market who do it the other way, and it works for them, because they set it up in a different way. But for us, we feel that alignment point from business plan due diligence to asset management delivery is a really critical one."

Anthony Gordon, senior managing director at AECOM's investment arm AVAIO, emphasises this point, particularly given the greenfield nature of the group's business.

"We want to make sure that everyone has to eat their own cooking," he quips. "They have to make the investments, manage the asset and see the asset through its lifecycle from conception to operations to exit."

The positives of the other approach are offered by InfraVia Capital Partners' asset management director Olivier Laroche, who says that, while the two teams co-operate closely, various factors at play dictate their work eventually separates.

"We are working together within the whole life of the asset but the origination and structuring of deals is done by the transaction team," he explains. "I would say full-steam for the asset management team really starts at signing. I think one of the reasons we got organised this way is to maximise the utilisation of the various competencies in the team.

"We are speaking to our managers on a daily basis and we are spending a lot of time on our portfolio companies. And we want to give the origination and transaction team sufficient time to do their core business, which is to find new deals. As we are a value-add fund, strengthening the asset management part is critical."

The lack of run-of-the-mill assets in today's world may also be a factor in the way asset management and investment teams

AROUND THE TABLE

Neil Krawitz, partner, Arcus Infrastructure Partners
Krawitz was part of the team that founded Arcus in 2009. He is Head of Asset Management at Arcus where he leads the coordination and best practice sharing activities with the Arcus asset management teams. In addition, Neil is the Asset Manager for Alpha Trains.'

Serkan Bahceci, partner and head of research, Arjun Infrastructure Partners
Bahceci is an economist with an established track record in infrastructure investments research. Before joining AIP in July 2018, he was the head of infrastructure research at JPMorgan Asset Management's Infrastructure Investment Group from 2007 and led the first dedicated infrastructure investment research team in the global asset management industry. Before joining JPMorgan, Bahceci was a consultant at London Economics International where he focused on energy and electricity markets.

Anthony Gordon, senior managing director, AVAIO CAPITAL
Gordon joined AVAIO in April 2018 following 12 years as managing director for energy and infrastructure at hedge fund manager Och-Ziff Capital Management. He has concluded numerous transactions across the entire energy value chain and invested in energy technologies at varying stages of marketplace adoption. Gordon was also vice-president and managing director at Goldman Sachs' energy and power division for eight years between 1994 and 2002.

Olivier Laroche, asset management director, InfraVia Capital Partners
Laroche joined InfraVia in May 2016 and is responsible for delivering acquisition plans and operational improvements, seizing value-creation opportunities and managing operating risks. He sits on the board of three InfraVia portfolio companies. Laroche arrived at InfraVia from consulting group AT Kearney, where he worked for 15 years in the firm's Paris and Dubai offices, advising in the infrastructure and transport sectors on corporate strategy, due diligence and operational improvement.

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> **Gordon**

are split, as Bahceci attests. "It depends on the investment type; some assets require a very hands-on, labour-intensive approach to management.

"Consider a UK regulated utility – especially these days – you have to be on top of that asset and that's a very time-consuming act. Or consider a solar portfolio of 20 different farms, just the reporting of various issues and financials takes a significant amount of time."

For closed-ended investors, the asset management strategy needs to factor in the exit from the outset. This, our participants believe, presents a rather different asset management approach and challenge from those faced by the more long-term and direct investors.

"It's just a different mentality in my experience," outlines Krawitz. "For direct investors, perhaps they see asset management as more of a stewardship role. Generally, the types of investments that suit their strategies are mature businesses, with stable management teams and long-term capital structures – perhaps requiring a simpler asset management approach. At Arcus, the critical part of our value-add asset management is about investing and working with businesses that require operational change or growth or the building of something new; that is a very time- and resource-intensive activity."

Gordon flips the challenge, by bringing the process back to the beginning of the asset and its purpose.

"The question is: what problem are you trying to solve?" he asks. "Any one of us can go and design an infrastructure asset. The issue is: what kind of pay-out do you want? How much risk do you want to take? The issue is really more about the asset than it is about us and then you have to marry that asset with the appropriate form of capital."

CONTROL KEY

"It also boils down to what investors need," responds Bahceci. "This perpetual assets versus depreciating assets is a big issue in the infrastructure space and investors need to know how to separate them; at least from the yield-versus-return perspective, and that defines the exit strategy."

This brings the discussion to some asset managers' need for majority positions in investments and alongside like-minded partners. Our participants find that without these, asset management plans are likely to fall by the wayside.

"Even with the best ideas, if you don't have a lead investor it can be very hard to implement them effectively," says Krawitz. "For us, that control point is a critical component. If you're trying to be an active asset manager, our experience is you really need to be in the driving seat to do that."

Laroche outlines InfraVia's slightly more lenient position on this, although the manager is still keen to avoid minority positions.

"We either go for control or co-control with funds which are very similar to us," he explains. "The objective is, we agree on the business plan and the equity story pre-signing. We have never had bad experiences in co-control."

When the prospect of being a minority shareholder is put to the panellists, Bahceci delivers an emphatic response.

"There's no such thing as 'asset management-lite', it just doesn't exist," he warns. "No matter what the asset is, it has to be managed properly. Also, especially in the long term, that person called 'the like-minded partner' doesn't really exist either."

Bahceci's point brings a nod of agreement from Krawitz, who emphasises what he says is Arcus's key principle of being in control of its own destiny.

"Even if on day one you think you know who you're getting into a relationship with, people change and the organisation's objectives change. That's why, for us, being in that controlling position is really important."

Yet with managers often lamenting the dwindling pool of assets and the ever-increasing price tags of those that do exist, will our participants and the wider infrastructure world occasionally have to compromise on this issue?

"Can you create a set of rules of engagement in a shareholder agreement where incentives are aligned and where you can manage incentives?" asks Gordon. "Yes, you

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> **Krawitz**

can, but it requires more care and attention because of all the issues that will change over time."

"We don't let a good opportunity go," adds Laroche. "We wouldn't go for a minority deal but if there is a good opportunity for co-control and if we managed to find the right balance with the right shareholder, then it works."

KEEPING UP WITH THE CHANGES

Of course, if a firm has the control that our asset managers desire, it is free to enact the changes it wants or deems necessary. Laroche says that with the types of companies InfraVia usually invests in, often a slight culture change is needed to help them fit the mould of an infrastructure fund.

"They often come from an entrepreneurial culture and there is a DNA that we don't change, but we help them accelerate their institutionalisation," he explains. "I would say we enhance the culture rather than change it. It's a natural evolution of companies which need to grow their teams, formalise some processes and get more exposure to their institutional investors."

However, as Krawitz notes, sometimes more wholesale changes are required. "One of our investee companies – Alpha Trains – was originally a subsidiary of [UK rolling stock group] Angel Trains. It had grown up as part of that business, which was in turn owned by RBS," he says. "RBS had a UK financial institution culture. Alpha Trains was a continental European train leasing business. It needed a culture consistent with a continental European rail business, not a subsidiary of a UK bank. That was a big change of culture because it needed different people with a different mindset to deliver what we were after."

Laroche responds that as infrastructure funds with horizons of 10 years or more, it's easier to integrate than private-equity funds and their shorter investment periods. It also

positions the industry well for technological changes, which could affect their assets.

"I think it's about disrupting ourselves before being disrupted," adds Laroche. "In most of the infrastructure world there is digital disruption already, maybe it's been less violent than in retail or banking, but it's coming and, actually, you can use it to your advantage."

Krawitz agrees. "It's a threat, but it's also a huge opportunity. We have a toll road in Portugal where we are investing in digitising the interaction with the customer, expanding our relationship with them from one of just using the road to using our infrastructure on a much wider set of things."

Gordon is impressed with the effects of technological change on AVAIO's investments but cautious of the risks involved.

"We have an energy efficiency product which we're rolling out across 25,000 locations in the US and our partners have come back to us and they're learning more about their facilities through us than they know about their own facilities themselves, because they never tracked these things. We're actually getting into the data management business through this portfolio company we're involved in," he says. "It's an entirely new type of real asset."

The rapid change in the reporting of ESG and its increasing relevance to LPs and the public sector alike are also keeping our asset managers awake at night.

"The importance of ESG is becoming more and more part of our daily lives through reporting," outlines Bahceci. "In many cases we are doing the right thing, but we need to document that and improve our reporting back to our LPs."

In the age of populism, this factor is only going to become more important, according to Laroche.

"We own assets that can benefit the community at large," he begins. "Something that is very important is the forces driving the political agenda in Europe, especially, make us need to think of how our infrastructure can truly benefit the community."

Gordon agrees and believes the long-term nature of the infrastructure asset class makes it a very simple but crucial partner for ESG investment.

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> **Bahceci**

"We're building assets for the 22nd century and if we build assets without thinking too hard about the ESG aspects, we will be building assets no one wants to buy from us or operate from us in five or 10 years from now. We have to have a much longer view, that's the nature of our industry. It's offensive and defensive characteristics." ■