

KEYNOTE INTERVIEW

Unlocking infra's best qualities in new industries



Ian Harding and Jordan Cott of Arcus Infrastructure Partners say the European mid-market presents value creation opportunities for those who know how to manage growth and risk across the investment cycle

Investing in mid-market, value-add infrastructure is a strategy that requires nuanced convictions and deep sector experience. Arcus Infrastructure Partners is an independent fund manager focused on the European market that targets businesses in this space, and which grows the enterprise value of its investments using time-tested value-creation strategies. A prime example of that strategy is the firm's January investment in Constellation Cold Logistics, a platform that provides essential cold chain infrastructure to industrial-scale farm-to-fork supply chains across Europe. Arcus co-managing partner Ian Harding and partner Jordan Cott provide a look behind the scenes on the establishment of Constellation and its tie-in to the firm's broader investment strategy.

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Q It seems like the Constellation platform touches on several areas of the Arcus approach. How does this investment highlight your broader strategy?

Ian Harding: This platform is a great example of how we are looking to create value through the entire investment lifecycle. From an origination perspective, we have a focused investment strategy that includes a proactive approach to asset selection. We are clear about what we're looking for and then target that segment of the market. This enables us to engineer bilateral situations where we can sculpt the transactions to best

fit our strategy and then execute on our particular thesis around that investment.

Jordan Cott: This was a key point for Constellation. We have been looking at this sector and this particular platform strategy for several years – including through our previous transport infrastructure investments, such as Forth Ports – to provide our investors with the best possible entry point. Working with the family owners and CEOs of these businesses to unlock the transactions and create a platform like Constellation requires a detailed sector thesis and clear strategic roadmap for the platform from well before the first interaction.

IH: Again, looking at our broader strategy, this is also where our dedicated asset

management approach comes to the forefront. We look for asset-backed businesses and like businesses that we can then grow. We've been very successful in several of our portfolio investments where we have transformed modest-sized businesses into mature and professionalised ones, before realising them on to institutional investors. Our view is clearly that this platform will benefit from Arcus applying our experience, having invested in or created many market-leading infrastructure businesses in Europe.

JC: We also insist on buying businesses where we have controlling influence to ensure that we can follow through on our thesis and investment strategy. At the same time, in certain instances that you can see across our portfolio, we will look for the vendor to remain invested alongside us, particularly in owner-operator businesses like those that we often see in the cold storage and logistics space.

We have examples of this in our Constellation platform where each of the vendors have remained in the shareholding structure alongside us to enhance the alignment of interests. Good governance is essential to delivering value to our investors and we ensure that from day one we have full alignment between the management and the shareholders.

Q This is not a sector where we have seen infra funds active in Europe to date. Where does the infrastructure angle come from in Constellation?

JC: As a first point, these businesses own and operate essential links in food supply



Case study: Constellation Cold Storage Platform

In line with its view that changing demographics are a key driver of value in the European market, Arcus established its European cold chain infrastructure platform in January with the creation of Constellation Cold Logistics.

Constellation's platform companies are infrastructure partners to a large and diversified group of food producers, wholesalers and retailers. The companies provide critical cold storage and value-add logistics to their customers, which include a wide range of international and local food supply chains.

Constellation aims to become a leading European network in the cold storage and logistics market. The group currently includes Stockhobo in Belgium, Koel-en Vrieshuis Lintelo in the Netherlands, and Glacio Cold Chain Logistics Partners in Norway. Constellation's platform companies currently own and operate eight industrial-scale facilities across Belgium, the Netherlands and Norway, with 260,000 pallet positions of temperature-controlled storage capacity and an offering of value-add services including transport, blast freezing, thawing, order picking, customs management and other integrated supply chain solutions.

"We are seeing a huge amount of growth from a demand, asset-renewal and innovation perspective"

IAN HARDING

chains across Europe. The cold chain is invariably seen by the food industry as a mission-critical aspect of its operations, and these cold storage and logistics hubs serve as the infrastructure nodes, or food ports, within that chain.

Diversified food flows in Europe are growing and typically exhibit high resilience to economic cycles, which support stable and predictable long-term demand fundamentals. This strong market growth backdrop is compounded by sector-specific trends like outsourcing, consolidation and increasing trade. This provides us with strong macro tenets in our thesis, which we would look for on other transport infrastructure businesses that provide essential assets to facilitate the

requirements of modern-day societies.

Finally, the barriers to entry for these businesses, especially for market leaders like those within Constellation, are extremely high. Locations, capital-intensiveness, automation, staggered customer contracts, long-term operating relationships, regulatory requirements, technical expertise and customer integration through value-add services all provide Constellation with a highly defensible market position.

These are not your typical logistics sites – they are highly specialised facilities and ancillary infrastructure, with stellar environmental, health and safety records, that take significant capital and expertise to set up. This is all evidenced by the three current

Constellation companies' long histories and strong reputations – one of the businesses goes back almost 70 years to the first-generation founders.

IH: This sector has a clear fit within the real asset allocation and our mid-market infrastructure strategy. We undertake an extraordinary amount of work when we first look at new sectors and businesses to fully understand the fundamental value drivers. We have done this in the past, looking at telecom towers, rolling stock and ports when these were not widely considered to be an infrastructure asset class by the industry.

Q Are there any unique features of Constellation versus other roll-up strategies that you've done in the past?

JC: One of the areas that Constellation will be unique in is the balance between platform integration at several levels and operational leadership of the local teams at others. These are assets that benefit from local market knowledge, long-term customer relationships, and entrepreneurial operators that can maximise efficiency and effectiveness. We are being careful to respect and harness the past drivers of strong performance in these companies, while unlocking the benefits of a larger, stronger and more diversified platform.

IH: Given the nature of the sectors and businesses in the mid-market that we're focused on, we are seeing a huge amount of growth from a demand, asset-renewal and innovation perspective, all of which are present for Constellation. In this case, the

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JORDAN COTT

Q How would you describe the focus of your overall ESG strategy?

IH: In-terms of sustainability, which is an important pillar of our approach, we score very highly on the GRESB sustainability benchmark. We retained first place for the last three years in the European funds category and claimed first place for the global diversified infrastructure funds in 2019. We are proud of this achievement and spend a lot of time looking at how we can continue to improve on environment, social and governance elements in all of our portfolio companies.

While some of our peers would opt to invest in oil and gas facilities or related storage facilities, which have hydrocarbon elements to them, we will not go anywhere near those, and have been very clear with our investors that we're only buying assets that are sustainable and have the potential for high-quality ESG performance.

ability of Constellation to capture country-specific opportunities, such as expansions or energy-efficient innovation, will be amplified as part of a platform.

Q How is Arcus organised to execute on such an active strategy?

IH: As a firm, we are extremely focused on asset management. This is one of our key differentiators compared with many other GPs. Every portfolio company has a dedicated asset management team that includes members of the original acquisition deal team. We also have a proven asset management framework that we apply in every case, with internal processes to involve the right resources and expertise at the right time. Our head of asset management, Neil Krawitz, works closely with each asset team to design and execute against all of the asset management priorities. This will be no different for Constellation. We are using an approach that has delivered significant value to our investors in the past and tailoring it for the specific needs of this platform.

From the outset, we are tightly focused on shareholder leadership and strong governance, and by that we mean setting strategic priorities and monitoring processes that enable us to drive forward those objectives from the board level. This has been a particular focus for us on this platform, given the need to harmonise aspects of each platform company and create a blueprint that can be replicated and optimised for further Constellation acquisitions.

JC: Before we invest in a business, we first assess the management team in the context of the market and strategy for the company.

In the case of cold storage and logistics, this is crucial to unlocking upside value. Highly capable management teams in this sector will be able to capture an outsized share of market growth through strategic expansions, asset innovation and operational best practice roll-out. Each of the Constellation companies is led by proven management teams with decades of experience as market leaders in this sector. Part of our job is clearly to leverage that experience and resource bench at the platform level.

We have been working with senior industry advisors with deep experience in cold storage, transport infrastructure generally, and functions that are at the centre of platform integration. Drawing on resources from the platform companies is also key, and careful use of incentive plans can support further alignment beyond the equity co-investment.

Q Where should we expect to see Constellation in five years?

JC: We are already on the map as a leading network in Europe and expect to broaden the platform's presence into new geographies while deepening the operations of our platform companies in each country. Right now, Constellation is a new name but a relatively big player on the pitch, and our expectation is that the platform will soon be one of the clear market leaders in this sector in Europe.

IH: As we said at the start, we are convinced that cold chain infrastructure is a strong fit for our broader investment strategy and will provide our investors with attractive returns. We will continue to put our full support behind the platform to achieve the ambitions we set when we designed the strategy. ■