

Roundtable

European fund management

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Record amounts of capital, record amounts of scrutiny

As the continent's continued political pressures meet an ever-demanding investor base, four top fund managers tell **Zak Bentley** how they maintain a reputation for reliable investment

Europe is buoyant. It may be a testament to the success of the infrastructure asset class that such a sentence would otherwise seem odd in current times, but there's no shortage of confidence at 2018's European fund management roundtable.

That confidence is well-founded, too, with two managers at the table – Infracapital and InfraVia – closing funds in

2018 worth cumulatively about €4 billion. Another – AMP Capital – is believed to have reached a \$1.6 billion first close for its latest flagship vehicle, while our fourth representative – Antin Infrastructure Partners – is at the beginning of what could be a €6 billion fundraising next year.

Indeed, *Infrastructure Investor* data show what appears a significant recovery for the continent. While Europe-focused

fundraising bucked wider global trends by falling more than 40 percent from 2016 to 2017 to \$11.89 billion, data for 2018 to the end of Q3 show a rise to \$16.72 billion, and that's before the year is out.

Suffice to say, these managers are well aware of LP demand for the asset class, regardless of the curve balls thrown their way by the macro environment. As our host Martin Lennon, head of Infracapital, concedes, there are “some questions that

come up” around currency and Brexit, but these are of lesser significance in the face of robust demand.

“There’s a lot of appetite for infrastructure in general, but I think the European market has evolved quite a bit,” adds Angelika Schöchlin, senior partner at Antin. “You have lots of different strategies which are more clearly pronounced and which give LPs a better basis to invest. They can go from core to value-add to greenfield and I think it’s a sign of a more mature marketplace.”

Adam Petrie, investment director at AMP Capital, agrees, but believes this isn’t only limited to European products.

“We’re seeing demand right across the globe for infrastructure, be that for regional or global products,” he says. “LPs are, rightly, scrutinising managers and delving more into their track record, a sign of the asset class maturing. I think we’re seeing a greater focus on clearly articulated and differentiated strategies – that’s more and more important in this market.”

While before LPs might have been content with scrutinising prior fundraisings and deal-making track records, current due diligence has become far more detailed.

“It’s very private equity-type of questions,” explains Bruno Candès, partner at InfraVia. “It’s not only about the relevance of the investment strategy because all of that has been screened and your track record has been quantitatively analysed by the [LP’s] team. The questions are, ‘How has the team come together? What’s your entrepreneur story? Where do you want to be in 10 to 20 years? What is going to happen to the GP in the context of Brexit?’ That’s the type of commitment they’re thinking towards, so you need to be prepared to have that discussion.”

Lennon also testifies to the more rigorous selection process, despite the buoyant fundraising climate: “We all experience quite professional, structured, detailed, resource-intensive due diligence processes now. That can usually be a combination of fairly comprehensive questions, but also on-site visits, wanting to speak directly to junior as well as to senior members of the team, checking that your track record’s good, that your investment thesis hangs together and the organisation is all part of that. It’s not just a couple of great marketers persuading people – the whole thing has to stack up.”

While Lennon believes this is largely part of a more recent development, Schöchlin contends this level of scrutiny is not necessarily new, just more common.

“Arguably, the most sophisticated LPs have always had long questionnaires and questions around the management of the firm going all the way down to the juniors,” she offers. “It’s [now] more people asking the more relevant questions. The average level has increased but the most sophisticated investors have always done it that way.”

As the trend of larger sums of money being raised and invested continues to play out – albeit through fewer funds – it’s not just the LP due diligence that assumes greater impor-

AROUND THE TABLE



Adam Petrie, investment director, AMP Capital

Petrie joined AMP Capital in 2009 and is responsible for the origination and execution of investment opportunities, with a primary focus on the transport sector. Petrie is also

responsible for the asset management of existing businesses, including being a board director and the dedicated asset manager of Angel Trains since 2012. Petrie initially joined AMP Capital in its Sydney office, before relocating to London in May 2012. Prior to joining AMP Capital, he worked for a property investment company in London.



Angelika Schöchlin, senior partner, Antin Infrastructure Partners

Schöchlin joined Antin in 2010 following nearly eight years as a director at Terra Firma. She is a member of Antin’s investment committee.

Schöchlin holds board seats for the firm’s Fund II companies Amedes and Inicea and held a board seat in Fund I’s investment in Westerleigh. Before joining Terra Firma, Schöchlin worked in the investment banking division of Goldman Sachs. She has experience in both principal investment and mergers and acquisitions.



Martin Lennon, co-founder and head, Infracapital

Lennon has been the head of Infracapital since inception in the early 2000s. He has more than 20 years of infrastructure, project finance and investment experience gained in the corporate

and financial sectors. Before focusing on Infracapital, Lennon led the project and infrastructure finance business at parent company M&G, having joined the company in 1998. Prior to that, Lennon worked in the infrastructure and project finance divisions of industrial groups AMEC and Brown & Root. He developed a substantial and diversified business investing in infrastructure through public bonds, private placements, loans, mezzanine and equity.



Bruno Candès, partner, InfraVia Capital Partners

Candès joined InfraVia in 2012 and focuses on origination and investment activities. He originally joined as an investment director before being promoted to partner in 2013.

Candès has a solid network within the global infrastructure markets and his experience as an infrastructure principal investor across both Europe and North America. Before InfraVia, Candès worked for Axium Infrastructure as a founding member and equity partner from 2009 to 2011. He also helped raise Babcock & Brown’s infrastructure fund following spells at French infrastructure groups VINCI, Altice and Egis.



“It’s not just a couple of great marketers persuading people – the whole thing has to stack up” **Lennon**

tance. The ability to maintain those relationships, both in fundraising periods and the off-season, is critical.

“The sophistication and awareness of investors means they’re very keen to know when certain managers are coming out,” Lennon reasons. “We’re having that dialogue quite a bit. There’s a lot to be gained by having constant engagement through the cycle, even if you might be a couple of years away from your next raise because of that dynamic. Investors who have supported a manager successfully through a couple of funds expect to continue to do that, so pencilling in that level of due diligence of that process is certainly, in our experience, something that many investors think about these days.”

It’s a view shared by Schöchlin, who believes this to be key in securing high re-up rates in the face of strong competition.

“There’s an element of trust within the

LP and GP relationship,” she says. “It’s important for the LPs who have defined their key relationships to have a clear roadmap as to who’s going to market when.”

PUSHING THE BOUNDARIES

That level of trust is more important than ever at a time when record fundraising means there’s also record amounts of dry powder competing for deals in the market. The latter has led to compressed returns for core infrastructure but also, as our LP vox pops document on p. 10-13, an expansion of the asset class’s boundaries.

What is clear is that the definitions of infrastructure and the lengths different investors are willing to go to on this are significantly varied. This is also evident among our roundtable participants – with favoured sectors and infrastructure characteristics differing across the table.

“We don’t want to be in situations where

we're competing solely on cost of capital," stresses Petrie. "We want to go into transactions where we have a clear competitive advantage, in sectors that offer relative value. Healthcare infrastructure is an example of that. We've been investing in that sector for over 10 years in Australia, so we have brought that expertise over to Europe where we see attractive opportunities." He adds that AMP is also currently focused on telecoms investments, with these two sectors coming up against a shortfall in energy and transport deals, the latter of which draws agreement from Schöchlin.

"In transport, I think the European market – with the exception of airports – hasn't been that active, whereas a few years ago it was actually quite active. It goes in waves," she says.

Lennon counters that it's not necessarily a scarcity of assets, rather just more of a challenge for mid-cap managers such as those around the table, although he refuses to give up on the chase.

"A lot of key transport deals can be

very big and have, I think, favoured the sovereign wealth fund-type direct players, because they can take very long-term views on growth and write big cheques. We love diversification, so in the current market it seems we have to work twice as hard to land attractive transport assets to contribute to a blended portfolio."

However, Candès says InfraVia prefers to take a less linear approach, particularly with the evolution of the asset class making it increasingly more difficult to define investments by sector.

"We look at the underlying demand and what we are really trying to invest in is infrastructure assets that are servicing long-term, predictable and growing demand," he says. "We were the first infrastructure investor to invest in data centres. We believe that data centres are going to become mainstream infrastructure in the next five years and the same for social infrastructure, given ageing populations and a lack of financial commitment from governments."

He adds: "Electric vehicle charging sta-

tions – is that energy transition or is that transportation? At one point, with the right level of application, it can even be communications infrastructure. The same would apply to smart meters, for example."

Disruptive assets such as these are forcing managers to shift the way they look at the asset class, with the old definitions becoming less relevant.

"I think you'd be missing quite a few very significant disruptive developments to the infrastructure sector, if you think about it [in the old] way," Schöchlin believes. "I also think that the lines are blurring more today than they used to."

"We're still looking for the same underlying infrastructure characteristics that we were many years ago, but what falls into those characteristics has evolved," explains Petrie.

RISKY BUSINESS

Lennon characterises the changes as both "very exciting" and "darn worrying", with the preconceptions about the importance



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of infrastructure creating new challenges and opportunities. Asked if this is keeping Europe’s top fund managers awake at night, conversation quickly turns to politics.

“You’ve got a macro-economic environment where there is quite a lot of political tension globally at this point in time,” says Schöchlin. “If you know where the government is for the next four years then you will have a clearer position on certain political statements. But you don’t even know if the government is going to be changing any day in a number of jurisdictions that used to be extremely certain.”

Lennon argues that “political risk has always been there” and remains sanguine about some of the potential threats facing the sector.

“The only way is to diversify by country and diversify by sector,” he adds. “The worst thing to do is have the same risk appearing to a very large extent across your portfolio.”

The discussion comes during a year

in which the German government made an unprecedented move to use state development bank KfW to prevent China State Grid taking control of transmission grid operator 50Hertz, a worrying move for some of our participants.

“We have today, telecom assets, for example, such as data centres and fibre towers, where we should look out for those FDI restrictions, which could constrain who we can exit our assets to,” says Candès.

Both Petrie and Schöchlin respond to the 50Hertz case as an example of why they don’t invest in regulated assets.

“I think there’s no doubt that the scrutiny from the political level has increased and has increased in markets that we all thought were quite safe a few years ago,” according to Petrie. “Returns have also compressed at the same time so in sectors such as regulated utilities, for us, we just see better relative value in other sectors.”

Political disputes are a reminder that





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for more than two years, our fund managers have also had to contend with the cloud of Brexit. As that process creaks to some form of conclusion, many of the same questions remain, a frustration for an asset class that craves stability.

“Our structural set-up is adaptable to many jurisdictions,” says Schöchlin. “When it comes to investing into the UK, you need to look asset by asset. It will depend quite heavily on what the outcome of these negotiations are.”

While Lennon again stresses that Infacapital has taken the same approach it always has to political risk, the sole manager around the table headquartered in the UK admits it took a different approach for its third fund.

“Our last fund was offered in both sterling and euros,” he explains. “If people had an aversion to sterling because of perceptions around Brexit

risk, they could choose to invest in euros and we also domiciled in Luxembourg. From a regulatory point of view, it was safeguarded.”

The Brexit uncertainty hasn’t stopped AMP from investing in the UK. The group has made two investments in acquiring London Luton Airport and Leeds Bradford Airport, a sector which could be one of the most threatened by the UK’s European departure.

“We’ve analysed those risks and priced them in,” says Petrie. “We all rightly focus on the risk but in times of uncertainty, there are also opportunities.”

In addition to political fallouts, the past 12 months have also seen what can happen if managers are seen to be flouting ESG factors. Several Danish pensions recently announced intentions to shun near-term investments by Macquarie

over a European tax investigation, allegations denied by the group. This is despite the pensions being involved with Macquarie in one of the biggest deals of the year when acquiring Danish telecoms firm TDC.

“In Europe we do ‘E’ kind of by regulation,” Candès reasons. “G is where accidents arrive, that’s business behaviour. There’s been a tendency to see ESG as very much being green but there’s much more behind that.”

“LPs have moved on and there is an increasing level of questioning,” adds Petrie. “You have to be ready to go to fundraising meetings where it’s always raised.”

It would appear, as our discussion concludes, that, while Europe’s raft of fund managers are dealing with many of the issues faced in the past, the challenge has only got tougher. ■