Infrastructure Investor

Global Summit
Berlin 2020

Infrastructure Investor Global Summit Compendium

PEI

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Nine takeaways from our Global Summit

From 18-21 March, around 3,000 industry professionals descended on the Hilton Berlin for our annual infrastructure conference. Here's what we learned:

1. Creative de-risking required

Although there are real risks to investing in infrastructure in emerging markets, investors need to make better use of the de-risking tools at their disposal. They also need to stop thinking about emerging markets as a "single risk pool".

These were the key messages from Jim Yong Kim, former president of the World Bank and current vice-chairman of Global Infrastructure Partners, at the opening of the summit. Failure to heed these calls could lead to investors missing out on a promising growth story. This is because increasing automation all but ensures that future development in emerging economies will not come from industrialisation.

"It's not going to be about cheap labour anymore," said Kim. "It's going to be about access to capital and access to human expertise." That includes capital and expertise for transport, energy and broadband – the kind private investors specialise in, if they can overcome their obsession with the OECD…

2. ESG needs measuring

If there was one rallying cry from our debut ESG forum, held on 18 March, it was the need to better measure – and standardise – the implementation and impact of environmental, social and governance criteria.

At the moment, beyond measuring the 'E', which usually comes in the form of CO2 savings reports, there is simply no consensus on how to holistically determine whether ESG goals are being successfully implemented.

The good news? No one is in any doubt about ESG's importance. As Vantage Infrastructure senior partner Valeria Rosati put it, the most positive impact for companies of pursuing ESG goals is that they are less likely to find themselves "breaching the social contract".

3. Heading for impact

Sticking with this subject for a little longer, the other key takeaway to emerge from Day One was how thinking around ESG is changing. "ESG is evolving from a risk-management tool to an avenue for value creation," argued Esther Peiner, managing director of Partners Group's investment team. That puts it solidly on the road to creating an impact.

The key to getting there, though, is through senior buy-in. "Is it something the founder is highly convinced of and speaks about very frequently?" asked Peiner. "Or is it just two people within a very big investment engine?"

4. Time to talk to Joe Public

To say the threat of populism is on everyone's minds would be something of an understatement. Its impact on the industry – from nationalisation to restrictions on foreign investment – has not escaped anyone's notice either.

"As an industry, we are not winning the debate," said Tom Maher, head of business development at Whitehelm Capital, referring to the asset class's poor perception among the public.

The solution? Reach out to the public directly.

"When you start the argument saying that you need to lobby the government, you've already lost the debate," said InstarAGF Asset Management head Gregory Smith. "You have to go back and get the community on your side."

5. We've yet to reach our peak

OK, you can relax: despite all the headlines about record amounts of capital being raised, we have not yet reached peak infrastructure. That was according to 66 percent of the audience for a panel discussion on the subject (though they may have been biased).

But as Tom Masthay, director of real assets at the Texas Municipal Retirement System, pointed out, it's a "foregone conclusion more capital is going to get allocated into infrastructure". He should know, considering how little US pensions still commit to the asset class.

Valuations, though, remain high in a number of markets. "There's certainly a sustained number of increasing transaction values across Europe, Australia and other markets," said Robert Hardy, managing director at JPMorgan Asset Management. "There's a lot of money chasing very few assets."

6. 'Not all data centres are created equal'

It was inevitable when we hosted our first ever digital infrastructure forum that data centers' legitimacy as infrastructure assets would crop up. The conclusion? We probably need more data.

For starters, the market is skewed towards North America. The European opportunity "is very limited at the moment," said Verena Kempe, co-head of private equity at FERI Trust. Morgan McCormick, a director with pension fund manager OPTrust's private markets group, pointed to the issue around shorter-term contracts and how they affect these assets' underlying risk profiles. As BlackRock Real Assets vice-president Pauline Roteta aptly summarised it: "Not all data centres are created equal."

What no one doubts, though, is how essential they are these days. As Wired's Hammersley told attendees, a road can be closed and things will still be OK – a data centre, not so much.

7. Energy transition is getting complicated

Investors in renewables made it clear at our Energy Transition Forum that this subsector of infrastructure is undergoing a dramatic transformation. As feed-in-tariff regimes and long-term contracts fade away in OECD markets – and digitisation of the grid kicks in – investors are having to grapple with a more fragmented market. "We see a lot of new features coming into the investment thesis," said Frédéric Palanque, managing director at Conquest Asset Management.

Investors are also being pushed to look at the emerging energy storage field to solve the problem of intermittency in renewables. However, but they made it clear they were trying to take as little risk as possible. "We don't invest in technology, we invest in solutions," said Marco Van Daele, chief investment officer at Susi Partners. "Solutions that can be monetised through long-term contracts."

As these changes sink in, complexity is the sector's new buzzword.

8. LPs have some complaints…

This wouldn't be an infrastructure conference without LPs having a bit of a moan about GPs, would it? In addition to the usual complaints about fees and lack of transparency, there were two other expressions of discontent worth highlighting.

The first came from Masthay of the Texas Municipal Retirement System, when he was asked about GPs' claims that they add operational value. Let's just say Masthay isn't seeing much beyond managers' ability to bring capital to the table.

The second came from bfinance managing director Peter Hobbs, who said LPs had kept bringing up the issue of GP 'style drift' in recent discussions.

9. Forget about the long term

For a conference full of long-term investors, it must have been tough to hear Wired editor-at-large and self-styled 'futurist' Ben Hammersley declare that any predictions beyond the next five years that are not related to climate change are … a word we can't really print here.

However, his wider – and very important – point was that the rate of change has accelerated exponentially in our world, and that this has of course been driven by technology.

That means investors have to become much better at spotting the early signs of what will grow to become transformative changes or wake up to find their long-term investments being dangerously stuck in the past.

Regulated, contracted and merchant – how infra should really be defined

A panel member also spoke of how European fund managers are much closer to perceptions of infrastructure than US-based ones.

By Zak Bentley - 20 March 2019

The infrastructure industry needs to stop defining itself by "fuzzy core and core-plus definitions". That was the message from EDHEC Infrastructure director Frto attendees at Infrastructure Investor's Global Summit in Berlin.

Blanc-Brude said a more helpful definition would be defining assets according to whether they were contracted, regulated or merchant businesses. He also said he was seeing too many deals "which are really not infrastructure".

Tom Masthay, director of real assets at Texas Municipal Retirement System, said this could be more of a geographical phenomenon. "European managers feel much more core than US-based fund managers," he said. "There is a higher risk-return profile in the US."

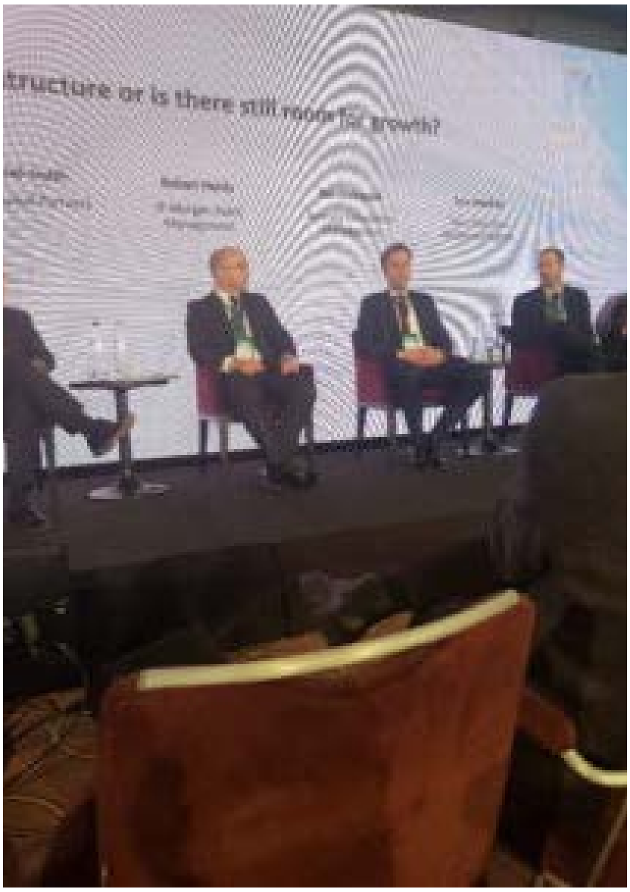
The pair were on a panel discussing whether infrastructure had peaked or whether there was still room for growth.

"I agree with the sentiment that it feels like we've been at peak for a number of years," said Robert Hardy, managing director at JPMorgan Asset Management. "There's certainly a sustained number of increasing transaction values across Europe, Australia and other markets. There's a lot of money chasing very few assets."

Masthay added that the "wall of capital" in the infrastructure market compared favourably with the real estate market, which he said was more prone to fluctuations. He was confident that this state of affairs could continue.

"Are we getting out of it what we want"? he asked. "It's too early to tell. The only quantifiable way of [measuring] success is the amount of capital raised. We're working on getting better at telling."

The sector was given a boost via an audience poll, in which 66 percent of respondents said the market had not "reached peak infra".



Lessons from outer space

As an astronaut at NASA, Garrett Reisman was part of a government agency taking big risks. Now a professor and senior advisor at Space X, he's helping the private sector manage those risks.

By Jordan Stutts - 2 April 2019

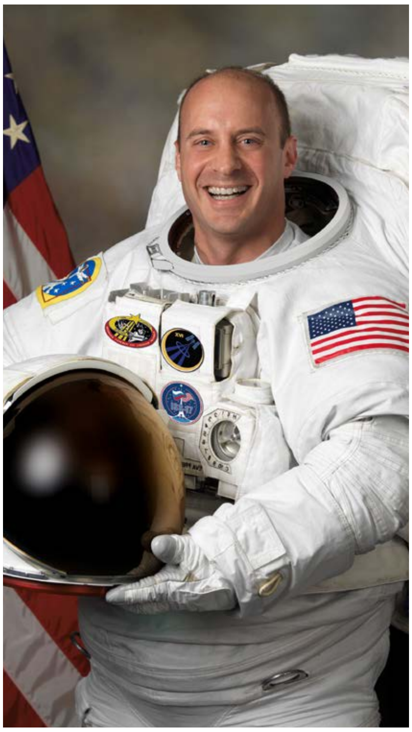
Q Before we get started, describe what your first spacewalk was like.

Garett Reisman: That's an interesting story. I was an astronaut for 13 years at NASA and flew two missions up to the International Space Station. My first mission was in 2008, and my second was in 2010. The first one was a long-duration mission. I was up there for 95 days.

When I did my first spacewalk, it was crazy. You launch into space for the first time as a rookie, which is a mind-blowing experience. A day later, you get to the space station, dock and look around. After about an hour or two, they say, 'OK, welcome to the space station. Time to get in the airlock and prepare for your spacewalk.' Stuff is happening so fast. Even though you prepared for years, each one of these incredible life experiences is hitting you left and right, but nothing compares to the spacewalk.

Q What does the spacewalk actually feel like?

GR: I can remember a couple of moments of feeling a sensation of slowing down time and being completely overwhelmed to the point where the rest of your life



experiences melt away. I remember doing a spacewalk on my second mission, and I was holding on to a rail with the whole space station behind me. Looking forward, I could see nothing but earth and space. I watched the earth's horizon as we were flying towards it. That sunrise is something I will never forget. It gives you a sense of total immersion in the moment.

On the other hand, often it's the opposite. Time doesn't slow down and become silent. Often, it's fast and furious, loud and dynamic. Instead of time stopping for much more than a moment, it can fly by and evade your grasp. There is a common occurrence for people that have done space shuttle missions that last less than two weeks. So many crazy things happen, and the abnormality of your environment never ceases. The next thing that happens is you're lying on your back on the runway after the space shuttle lands, and you're asking yourself, 'What the hell just happened to me?'

Q Why did you make the switch from working for NASA in the public sector to working for SpaceX in the private sector?

GR: On my second mission, we were getting ready to roll the vehicle to the launch pad in Florida, but it had rained and the ground was too wet for the crawler to take the shuttle out. We had a one-day delay, and we heard that SpaceX was working on a new launch pad nearby. Our crew made arrangements to check it out, and we were really impressed by what we saw, how fast things were coming together, the reduction in red tape, the innovative way they were repurposing old equipment. They were doing things a lot faster and for a lot less money than we were used to seeing things get done for. It became our mantra, as we went through training and ran into some kind of government bureaucracy, we would ask, 'Well, what would SpaceX do?'

After we flew the mission, a friend of mine at SpaceX invited me to California, and I was very impressed by everything I saw. I had a meeting with Elon Musk and told him, 'I really like what you're doing and I want to be part of it. Can I help?' And he said, 'Sure'.

> ***"The reason decisions can take so long in large-scale government operations is that it's very expensive to make a wrong decision"***

Q Why do you think a private company like SpaceX can move more efficiently?

GR: A big part of it is a vastly increased decision speed. Decisions that would normally take years of study and analysis in the public sector are done much more quickly in the private sector.

One of the reasons SpaceX can do this is because of their vertical integration. As SpaceX started trying to buy parts, components, subsystems, what they found was that prices and schedules were horrible. In the aerospace industry, which was weaned on cost-plus government contracting, the whole supply chain is very expensive and inflexible. If you change something, it can be very painful. If you make one small change, it can have a ripple effect and be extremely slow and costly.

At SpaceX, if we decide to use nine engines instead of eight, we just ask a team to build the engine that way and to build the support structure that way. It's all in-house and changes can be done without re-negotiating contracts, etc. As a result, you can make a very quick decision.

Q Why does NASA operate much more slowly?

GR: There's good reason for it. Nobody does things slowly just for the sake of doing things slowly. People are motivated by good intentions and reasons.

The bad part about having a fast decision speed is you might make the wrong decision. The reason decisions can take so long in large-scale government operations is that it's very expensive to make a wrong decision. So, they take their time to make sure it's right the first time, which is often hard to do.

In the private sector, if the fastest way to figure out if you made a bad decision is by charging ahead until you hit a brick wall, you have to have the agility to change direction quickly and painlessly. That's a key [move] that a government can't do.

Q What motivations do private companies have to weigh risks on the same level as the public sector?

GR: It's very important to remember that the private sector has an equally strong motivation to manage risk, and a very strong incentive driven by the profit motive. If you're in the business of doing space flights, and your business has a very bad accident, especially a loss of life, it could be an existential threat to the company. If we have a major accident, how would SpaceX be able to survive that?

> ***"Over time, if something happens you know is wrong but there is an absence of negative consequence, you're getting away with something"***

The perception on the government side is that change is risky. If you change something, it could have unintended consequences. If it's working, don't fix it. There's an interesting concept called the 'normalisation of deviance'. Over time, if something happens you know is wrong but there is an absence of negative consequence, you're getting away with something. It's like speeding while driving down the highway and getting away with it for a long period of time. It doesn't mean you won't get pulled over one day.

SpaceX has more of a Silicon Valley ethos, which is, if something stays the same, you're missing out on an opportunity to make it better. You can make the argument that NASA tragedies like Challenger and Columbia happened because we didn't change things or were reluctant to make changes. On the other hand, at SpaceX, we've had failures come from unintended consequences. You can screw up in both ways, right?

Investors bet on community engagement to counter rising populism threat

Panellists debated whether foreign investment in infrastructure posed credible security risks or whether governments were exaggerating the threats.

By Eduard Fernandez - 19 March 2019

During the second day of Infrastructure Investor's Global Summit in Berlin, a panel of investors agreed that engagement with local communities was key to countering the risks posed by populism in developed markets. The risks discussed by the panel range from restrictions on foreign direct investment to threats of renationalisation.

"As an industry, we are not winning the debate," said Tom Maher, head of business development at Whitehelm Capital, during a discussion about the increasing political pressure on the infrastructure market.

He argued that it was necessary to find examples of infra investment that were contributing to the public good and for investors to explain the benefits.

He also reminded the audience that political risk in infrastructure would not be going away any time soon: "Government will always be involved in infrastructure, and it is necessary to analyse and understand that risk."

Echoing Maher's comments, Gregory Smith, president and chief executive of InstarAGF Asset Management, said that while around 60 percent of Canadians support private investment in infrastructure, 49 percent oppose FDI. "It's a wake-up call, and we have to do more as owners of infrastructure assets [to engage with the community]," he said.

Rosheen McGuckian, chief executive of renewables-focused company NTR, said firms needed to adapt their public message to the particular "strand of populism" present in a community. "While left-leaning populism is more worried about climate change, right-leaning populism is focused on issues like nationalism, security of energy supply and retention of jobs", she said.

The panellists also questioned lobbying strategies employed by many infrastructure investors. "When you start the argument saying that you need to lobby the government, you've already lost the debate," said Smith. "You have to go back and get the community on your side."

There was no clear consensus on whether governments were overstating the security risks to FDI in infrastructure, or whether they were voicing legitimate concerns.

Andreas Koettering, partner at CBRE Caledon, said: "Governments should be concerned about security matters, but FDI and private ownership of assets don't pose a threat. What might be a threat is what you do with the assets, but they are regulated and supervised by the government."

Maher disagreed, saying it was "rational and logical" for governments to be concerned about infrastructure ownership. He said problems arose when security becomes "a catch-all justification" for not doing a project or not allowing foreign entities to participate.

GIP's Kim says creative de-risking 'key' to catalysing emerging market investment

In his first interview since leaving the World Bank, Jim Yong Kim said private investors needed to stop thinking of emerging markets as a 'single risk pool'.

By Kalliope Gourntis - 19 March 2019

There are real risks to investing in emerging market infrastructure, but there are also many tools available to investors looking to mitigate those risks, Jim Yong Kim, who recently stepped down as president of the World Bank to join Global Infrastructure Partners, told attendees at Monday's Global Summit.

Those tools include political risk insurance, credit enhancement and development policy loans, to name just a few, all of which can help private investors hesitant to enter emerging markets. The latter could help bring to fruition a number of pathfinder projects in these markets that Kim argued would be key to catalysing a larger wave of private capital.

He cautioned against the outdated perceptions certain investors have in relation to some of these markets. "In the private sector, so many people see Africa as one risk pool," he said. "If you ask any of the people who work in an IFI [international financial institution] if all of Africa is a single risk pool, they'd laugh at you.

"If you talk about Senegal versus the Central African Republic or Rwanda versus Burundi, the risks are so different, the politics are so different, the firms are so different, the leaders of firms [are so different].

"Part of it is that there's not enough on-the-ground information. I think one of the last speakers [at the summit] said, 'You have to get out there, you have to know the players.' That's what the [World Bank's] IFC does. And once you can start distinguishing – not just country to country, but firm to firm, manager to manager in particular countries – then you have a much better base."

Kim said that this on-the-ground presence would lead to conversations with countries' leaders to help them understand that what is being built "is critical for them to have a chance to compete in the economy of the future".

He told attendees that economic development in emerging markets would not come through industrialisation. Citing Bangladesh as an example, he pointed out that despite having "the most efficient garment industry in the world", the number of jobs being created there fell each year because of increased automation and robotisation.

"If that's happening in Bangladesh and its garment industry, then what is the likelihood of the kind of factories that we're seeing in Shenzhen – which are so robotised – what's the likelihood that they'll come to Africa? It's not going to be about cheap labour anymore. It's going to be about access to capital and access to human expertise."

Asked what his appointment at GIP, which is overwhelmingly focused on OECD markets, means for the firm's emerging-markets strategy, Kim replied: "We'll see. I've learned that the original plan at GIP was to do quite a bit of emerging market investment, but they had so much success in OECD countries that they kept going.

"I don't know exactly what my role will be over time, but I hope that it's in the spirit of the way GIP has been successful, which is you don't just buy an asset and sit on it until it becomes valuable – you actively work to improve these assets and create value for everybody."

Potential damage from breaching social contract 'outweighs costs of ESG'

Standardisation may still be a work in progress but fund managers are already seeing positive outcomes from ESG initiatives, both in terms of social benefits and financial returns.

By Kalliope Gourntis - 19 March 2019

The risk of not focusing on ESG far outweighs the cost associated with it, a panel of experts told attendees at the Global Summit on 18 March.

"It is a cost, I'm not going to lie," Valeria Rosati, senior partner at Vantage Infrastructure, said, addressing one of the concerns expressed by those who are sceptical of environmental, social and governance issues.

"The fact that everyone here has been funded to attend this conference, it's a cost to your businesses," she continued. "The fact that there's more and more expertise that needs to be employed by LPs, fund managers and asset consultants to understand how to assess ESG and how to integrate is part of that cost."

However, Rosati stressed that "the single most positive impact is the avoidance of breaching the social contract".

She drew on her firm's experience, noting that aside from preserving one's social licence to operate and protecting against reputational risk, an "active focus on environmental factors in our portfolio companies" had led to savings for both the company and the consumer.

Tobias Reichmuth, chief executive at SUSI Partners, agreed. "What we've seen at SUSI is that our first fund, a renewables fund, is generating double digits," he said, referring to the SUSI Sustainable Euro Fund, a €60 million-vehicle launched in 2011. "When you look at the investments we're making in energy storage, our first three are generating 9 percent unlevered IRR, so you can generate good returns."

Reichmuth also explained how the Swiss firm measures the ESG-related impact of its investments: "We measure the CO2 savings per investment. Every investor at the end of the year gets a certificate. So, if you invest $50 million with SUSI, you know how many tonnes of CO2 you've saved. So there's real tangible value behind it."

Although each of the three firms represented on the panel – Vantage Infrastructure, SUSI Partners and Partners Group – have developed approaches to measurement, standardisation of that measurement remains a work in progress.

Esther Peiner, managing director of Partners Group's investment team, said that until that happens and until an ESG track record has been established, LPs would be advised to do as follows: "When you see a [fund] manager that claims they are ESG-compliant, ask them: where in the board meeting is

this on the agenda? Is it under the top five or is it under 'any other business'?

"Ask them about how many new products or initiatives they've driven from an ESG perspective. Ask them where the ESG reporting goes. Do these guys report four layers up to the chief risk officer or do they report to a value-creation unit within the firm? Look at the seniority and the views that everybody on the general partner side has on ESG. Is it something the founder is highly convinced of and speaks about very frequently? Or is it just two people within a very big investment engine?

"It'll be the efforts and initiatives that we all do to ensure that we show transparency and that we collaborate when it comes to agreeing on how to measure and assess ESG [that will enable us] in five or 10 years to look back and talk not only about risk-return but also about an ESG track record."

Ontario eyes new business at home through infra consulting abroad

Canadian province's minister says new consultancy will bring more business to local companies while creating new revenue stream for government infrastructure agency.

By Jordan Stutts - 18 March 2019

The government of Ontario is seeking to export the Canadian province's public-private partnership model to new markets through legislation that would allow its infrastructure agency to launch a for-profit project consultancy business.

Monte McNaught, Ontario's minister of infrastructure, said that allowing Infrastructure Ontario to advise on projects outside the province would create a new revenue stream for the agency. He added that the proposed move would bring more business to Ontario-based companies that are familiar with the province's public-private partnership model.

"Jurisdictions around the world will soon have the opportunity to access the same services we use to build our infrastructure," McNaught said in a speech at the Infrastructure Investor Global Summit in Berlin. "This will represent a shift in Ontario's approach to building international business relationships."

The provincial government founded Infrastructure Ontario in 2016 to facilitate public and private investment in local infrastructure. The agency has a C$18.4 billion ($13.8 billion; €12.16 billion) pipeline of 25 projects under construction.

"Infrastructure Ontario has built a solid business case for providing their services to potential new clients," said McNaught. He added that consulting service would help other government development agencies to attract additional investment by encouraging competition between private-sector bidders on public contracts. McNaught said that the agency would enable the provincial government to better evaluate the risks posed by allowing private sector companies to manage public infrastructure.

McNaught said that Infrastructure Ontario was currently advising on two pilot projects: one in Canada and another in an international market. He declined to disclose where the projects were located but said a number of jurisdictions had asked Infrastructure Ontario for help in developing their own infrastructure.

Highlights from the LP Perspectives 2019 survey

PEI's Head of Investor Research, Nicole Douglas, showcased a portion of the study's findings during the Infrastructure Investor Global Summit.

In its seventh year, the LP Perspectives Survey is Infrastructure Investor's annual study of institutional investors' approach to alternative asset classes. It aims to provide a granular view of the alternatives market, both current and future, by gathering insight on investors' asset allocation, propensity to invest, and performance predictions.

View the full presentation here: