



INFRASTRUCTURE INVESTING IS MORE THAN HOLDING DRY ASSETS

BIO EXPRESS Aurélien Roelens (HEC MFI 10), Investment Manager, joined Cube Infrastructure Managers in 2010 after several experiences in M&A, actuaries and R&D. At the time, he was primarily involved in the acquisitions and investment management of energy efficiency, renewable energies and telecom companies. He is today in charge of developing the Communication Infrastructure sector and acts as ESG Coordinator. In his spare time, he is a visiting professor at HEC Paris on Infrastructure Private Equity and manages a Togolese micro-finance NGO. CAIA, MSc in Engineering from Ecole des Mines (E06) with additional training in Management (EM Lyon 09).

Despite being riskier than originally anticipated, the infrastructure asset class has grown dramatically. Managing the risks and delivering robust returns calls for long-term active strategies combining growth, strong focus on operations and commitments to ESG. **Aurélien Roelens (HEC MFI 10)**, Investment Manager within **Cube Infrastructure Managers**, tells us more.

Though still a relatively new asset class, has the perception of the infrastructure asset class evolved in recent years?

In the early 2000s, investors thought that infrastructure was bond-like. 15 years down the road, the development of the infrastructure asset class was spectacular and still rising amidst a flat yield curve environment. However, investors realized that infrastructure is genuinely a private equity market with its own risks ranging from volume to regulatory risks (best exemplified by Spanish "retroactive measures" in the renewables). Some also started to recognize that the value of an infrastructure company does not lie in the cubic meters of concrete but rather in the services, it renders to the communities and in the people who deliver them. In line with that understanding and in order to closely monitor, manage and mitigate the different infrastructure risks, Cube seeks to

take a co-control or control position in the companies that own and operate the assets. We notably capitalize on the experience of our four Managing Partners, who have all occupied executive roles in infrastructure / public services companies (Vinci, Veolia Transport, Vivendi International, Suez, etc.).

With the growing interest of institutional investors for direct infrastructure investments, prices for some core assets may increase significantly. What would be your differentiating strategy in that competitive environment?

It is true that several assets have traded at high multiples, sometimes more than twice the Regulated Asset Base. It is the law of offer and demand: many institutional investors have a strong appetite for the long-term regular cash

flows and inflation protection infrastructure provides. As a management company, our primary duty to our investors is to have a consistent strategy to deliver the returns and yields they expect. Firstly, we strive to identify geographies and sectors where we have a relevant experience and a vision. These sectors need to present a growth potential and a good regulatory environment. Expanding sectors often offer a sound protection against regulatory/political risks. Secondly, we tend to avoid crowded auctions and trophy assets to focus on developing our own proprietary pipeline of opportunities and identifying companies with runners up positions, where we can gain controlling positions. Thirdly, as active shareholders, we implement a "buy and grow" strategy through new tenders, new projects and synergetic bolt-on acquisitions. This is also the right strategy to attract and retain seasoned top management in the portfolio's companies, who will enhance value on a day-to-day basis. Our strategy requires time, which is the reason why we really adopt a long-term view instead of flipping the assets after 3-4 years. For example, we were one of the very first infrastructure managers to consider "open-access" fibre networks as core infrastructure. Open-access simply means that it delivers the infrastructure (dark and lit fiber) to all telecom operators without competing for the end-users, a de facto monopoly.

France, with its "Public Initiative Networks" provided both a stable framework and a significant potential. We therefore took a co-control position in a French neutral operator, Covage, and executed our buy-and-grow strategy. Since 2011, through several concession wins and a recent acquisition, Covage has positioned itself as a leading independent open-access networks operator, already multiplying its revenues by three. Growth, rather than financial engineering, is a powerful value driver. Over the period 2012-2016, the aggregated EBITDA of Cube I's portfolio has increased by over 9%/year. Obviously, growth has to make more sense than just juxtaposing assets. It needs to be coherent and sustainable, which means it must provide true societal, social and environmental benefits.

Environment, Social and Governance factors seem to be increasingly important for institutional investors. How do you integrate the ESG dimensions in your activities?

Indeed, ESG considerations are becoming prevalent across all the Private Equity industry, notably thanks to some very active Limited Partners, like SWEN Capital for instance in France. As long-term investors and signatories of the UNPRI, we have integrated that dimension early on, even though we have started to communicate on it only recently. This commit-

ment is already present through our growth-focused strategy (e.g. our portfolio's companies had 9,177 employees in 2016 from 8,216 in 2012) and in the sectors we select. Our main sectors (energy efficiency, public transport, communication infrastructure & renewable energies) contribute to enhance societal living conditions (more affordable heating, digital divide reduction, better public transportation, etc.), but they also demonstrate a positive impact on the environment: Cube I's portfolio makes it possible to avoid around 633kt of CO2eq emissions per year (PwC study, 2015). We also have a responsibility as active shareholders. We therefore follow and manage closely the different ESG subjects at Board level: monitoring work accidents and implementing corrective actions if need be, pushing for cleaner solutions (fuel reduction through new investments, switch to electrical vehicles, eco-driving, etc.). This will ultimately enhance our performance through risk and cost reductions or through competitive advantages in future tenders, especially as our companies must be sound partners to the local authorities. It is obviously a continuous improvement process for the portfolio's companies and for ourselves. In 2016, for instance we have designed a more comprehensive responsible investment policy with the support of the European Investment Bank, a Limited Partner in our second fund.

What are the next evolutions for your Luxembourg-based team?

Today Cube I (€1,08 billion) is largely invested. Whilst we keep on developing Cube I portfolio's companies, we have also launched a second fund, Cube II, which will pursue a similar strategy and has reached a first close in September 2016 at €360 million, with a target of €1,2 billion expected to be reached by the end of 2017. We are already working towards the closing of several interesting transactions in our key sectors for Cube II. In parallel, we have been selected as approved applicant to manage the Connecting Europe Broadband Fund, which will be a €500+ million fund investing into greenfield communication infrastructure projects across Europe. Against this backdrop, we are strengthening our team with new hires for different roles (investment, compliance, risk, finance, etc.), at different seniority levels and from various nationalities – all having the potential and ambition to grow and evolve within our team over the long run. Of course, all will be based in Luxembourg, as the "one team" concept is really embedded in our corporate culture. ●

CUBE INFRASTRUCTURE MANAGERS

- An independent management company dedicated to the infrastructure mid-market
- A Luxembourg-based international team of 32 professionals
- 15 investments realized to date across Europe

