



## 'This is a people business'

**Cube Infrastructure chief executive Renaud De Matharel and managing partner Henri Piganeau argue that discussions on infrastructure investing have focused too much on financial characteristics. They tell Bruno Alves why fruitful relationships are really the key to long-term success in the asset class**

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If you have just finished reading the above you could be forgiven if you were left with a feeling of déjà vu.

After all, it was only last month that Mathias Burghardt, head of infrastructure at AXA Private Equity, was telling Infrastructure Investor in the same section of the magazine how his firm's core strategy relies on long-term partnerships with industrial investors.

Now here we are with Renaud De Matharel and Henri Piganeau - respectively chief executive and managing partner of Paris-based infrastructure fund manager Cube Infrastructure - telling us how important relationships with industrial partners were in convincing 22 limited partners (LPs) to entrust Cube with the €1.08 billion it reached at final close on its debut infrastructure fund in July this year.

Cynics may dismiss such statements as just clever marketing on fund managers' part after the demise of cheap debt and the spectacular collapse of funds that over-relied on financial engineering.

But while sharp presentational skills may have helped hone the message, there is substance to the claim too in that the likes of Cube and AXA PE are beneficiaries of the zeitgeist. The spotlight is now shining on funds that would have been considered boring a few years ago, when their conservative approach to infrastructure investment was overshadowed by the dazzling initial successes of Macquarie and Babcock & Brown.

### Australian glamour

Certainly, it was the spectacular fundraising successes of the Australian funds that set De Matharel's imagination on fire while he was still working at French infrastructure group VINCI:

"When I was at VINCI it became evident that there was a structural change in the market with the arrival of funds like Macquarie, which became competitors in many respects and had access to alternative long-term capital that we [at VINCI] did not have access to. So we came up with the idea of setting up an open-ended fund, following the Australian model, to gain access to that sort of capital," he explains.

Despite the Australian influence, Cube's emphasis on solid partnerships was there from the beginning: "I came from a strong public procurement background and at the time we felt there was a gap in the market for a local fund that could establish strong partnerships with local players; a fund that followed the Australian model but was not Australian," Piganeau sums up.

"That's also when we, as fund managers, decided to focus on value creation," De Matharel chimes in. "To have the ability to put our hands on the drivers that will allow you to deal with the fundamental dichotomy of infrastructure investing: high entry prices and low internal rates of return (IRR)."

While value creation is a big theme with De Matharel and Piganeau, it's subordinated to - and a direct result of - the over-arching theme of strong relationships. De Matharel explains:

"At the time we started out, the trend in the financial markets was that infrastructure was all about leverage. So, if you could give enough confidence to the bank market and the bond market that the money was there, then you could re-leverage [your asset] and take out your equity as soon as you could," he says.

"What we have been saying all along is that leverage is a tool, but it's not the primary way to create value in this business. The main way to add value is to establish a fruitful relationship with the client, the client in this case being the government or the grantor. So you are sort of moving away from the idea of infrastructure as an asset-based business to the idea of infrastructure as a people business, where the focus is on the management team in charge of the day-to-day operation of the assets," De Matharel concludes.

### From open to closed

Cube reached its first close in December 2007 at €390 million with seven shareholders. It did so as an open-ended fund with the intention of being floated in five years' time. Of that amount, €250 million was a seed investment from sponsor Natixis.

That money allowed Cube to start assembling its team and launch its investment programme while continuing to sell the fund on the market. But while Cube completed several investments through 2008, the unfolding financial crisis was compromising its ability to raise money. As De Matharel puts it, the fund's structure also wasn't right:

"I must say I held strong to my initial idea of setting up the fund along the Australian model but the people in my team kept telling me 'Renaud, you are wrong; this is not going to work'. And they forced me to restructure the fund in a way that I felt was the right way: we went to investors and asked them what they wanted from the fund," De Matharel says.

That process of consultation took four to five months and was anything but straightforward, De Matharel recalls:

"As soon as we started the [consulting] process we found out that there was no common view in the market. You had LPs that wanted an open-ended model, because they were convinced that value recognition in infrastructure required that much time. And then you had the private equity players that were saying: 'I'm investing in you guys so I want a timeline that is not too far away so that you can start paying the bills.'"

At the end of it, Cube emerged as a 12-year fund with "a lot of business contacts," says De Matharel. With the new structure finalised in October 2009, fundraising started to pick up. Cube raised €190 million in fresh commitments in the two months to December 2009 as investors focused on the strength of Cube's investment strategy, De Matharel and Piganeau argue.

"We have a very prudent strategy as we provide investors with a double filter," explains Piganeau. "We bring our own industry experience but we also bring the experience of the industrial partners we team up with," he adds.

De Matharel elaborates: "When investors look at a fund manager, they want to see what expertise they have. What we're trying to say at Cube is that, first, we have that industry expertise but we are also aware that, on our own, we will not be able to attract the best teams to handle the different sectors we plan to invest in. As such, we are much better off with an industrial partner that is going to give us that secure approach for the long term. That was a key part of our speech to LPs," he says.

### People business

This leads De Matharel to again stress the importance of quality relationships as a key part of infrastructure investing.

"The general public's view of the infrastructure business is too focused on finance, or profit from the private sector at the expense of the public sector," he complains. "The reality is far more complex than that. For example, operating a motorway is not straightforward and it's the operator's daily job to ensure that it runs smoothly," he explains.

"Many of the services the operator provides are actually not in the original concession contract. They are services it proposes to the grantor which in turn help create a fruitful relationship with the grantor," De Matharel says.

He goes on: "It's not true that infrastructure is mainly driven by price, because the public sector is prepared to pay a high price if they are convinced you are going to deliver a high-quality service over

a long period of time.”

Both De Matharel and Piganeau are adamant that good asset management is the best way to extract value from infrastructure investments:

“You have to avoid getting involved in a pure price negotiation strategy where the winner is the one that just offers the highest price,” reflects Piganeau. “That’s why we make a point of focusing on the team, focusing on adding value and growing the asset through proprietary transactions with the right industrial partner. We do not compete on price,” he adds.

“Let’s be clear,” De Matharel cuts in. “It’s only growth [of the asset] that will bring you the multiples on the equity which you seek. If you don’t have anything to bring to a deal as an investor, then stay away. Otherwise, you are going to end up paying a high price, you are not going to be able to drive the value and it will become very difficult to achieve the multiples that you proposed to deliver to your shareholders.”

This becomes especially important, both argue, because asset prices in infrastructure are high due to there being a lot of liquidity available in the market.

“Therefore, the only way to do business is to go back to the fundamentals and look at the quality of the asset, the quality of the business and the potential of the management team to bring value from the asset,” De Matharel concludes.

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