

Cube Infrastructure Managers

What is the true value of an infrastructure investment?

Recently, **Chase McWhorter**, Institutional Real Estate, Inc.'s managing director, *Institutional Investing in Infrastructure*, spoke with **Renaud de Matharel**, CEO and managing partner of Cube Infrastructure Managers. Following is an excerpt of that conversation.

Cube IM has been investing in the same key sectors across your funds for the last decade. What is behind this choice?

Since launching Cube in 2007, we have consistently been investing in the brownfield mid-market infrastructure space, with a particular focus on the energy transition, communication infrastructure and public transport sectors. All these sectors are essential to local authorities and communities. This is a fundamental prerequisite of our investment strategy. Leveraging our professional background in the utility and construction industry, Cube's four founding partners — including myself — made a strategic choice driven by a strong vision: to create a company that brings private capital to public authorities to invest in essential and local infrastructure assets in the midcap space.

Whether in the United States or in Europe, local authorities can typically borrow over the long term and at low cost. If they agree to pay private players a double-digit return, it is because there must be something else than just the financial and investment capacity of the private counterpart. This “something else” is the operating know-how, and as the infrastructure assets are becoming increasingly complex, the operating expertise is becoming more and more important. Additionally, the more essential the infrastructure is to the community, the more valuable is the operating know-how to make that asset and the related service work efficiently.

The megatrends prevalent in the near to medium term are energy transition, urbanization and digitization. We are at the forefront of these trends, investing in sectors where massive investments are required to enhance, modernize and extend our existing local infrastructure assets. Leveraging on this situation, through our investments, we bring both the financial and operational expertise, as well as long-term relationships with public authorities to deliver high-quality infrastructure to the communities.

What about the European model do you find attractive?

In Europe there is a long tradition of delegating to private players the operation and management of local infrastructure and the related services. As a result, European local authorities are leveraging private capital and public-private partnerships to operate their infrastructure. They have developed mature contractual models, together with a sophisticated legal framework and case law, which make the investment environment very secure. As an example, to ensure fiber

deployment in rural areas of France, French local authorities have for more than 10 years partnered with private players under 20-year to 25-year concession contracts. Under these concessions, private operators were given the right to operate and deploy fiber networks with local authorities financing part of the capex. This set-up made us comfortable making one of our first fiber investments in Covage in 2011.

The main difference between the European and U.S. models is the U.S. municipal-bond market, which has provided local authorities with access to capital to finance their essential infrastructure at an extremely affordable rate. However, the financial crisis has caused the Ginnie Maes [Government National Mortgage Association], the Freddie Macs [Federal Home Loan Mortgage Corp.] and the municipal-bond markets to disappear, leaving U.S. local authorities to finance infrastructure on their own.

You mentioned the value of your operating know-how in infrastructure. Can you elaborate?

In addition to the financial capabilities, private operators also provide the operational expertise and know-how. As an example, heating is an essential need, and district heating is one of the most efficient ways of providing it. A local authority does not necessarily need a private operator to maintain and operate an existing district heating network. But it may need it to enhance and modernize the network and to shift the source of energy to more environmentally friendly means, such as biomass or geothermal. Another example is when a local authority seeks to build a new district heating facility and connect it to the end users, its citizens and local businesses. These are concrete examples of how we were able to significantly grow our French asset Idex, and how we target to further grow our Italian district heating business CogenInfra.

We also note that the European markets are maturing. Back in the “old days,” the request for proposals made by the public sector for essential infrastructure services were often driven only by price. The winner would be the one with the lowest level of subsidy and often would be asked to take on significant usage risk of the asset. Today, the market is shifting to a model where the price is often only 50 percent of the mark, and the other 50 percent is the quality of the proposal, based on criteria such as ESG, job creation, the quality of the asset itself, reduction of carbon emissions, etc.

How would you describe the opportunities and challenges in each of the three sectors you invest in?

What justifies our investment is the need for technological and operational improvement. In an industry that has already reached maturity, with limited capex, the proposal will not be

attractive. On the contrary, when a sector is evolving rapidly, with important capex needs, there is an interesting opportunity for us to invest. If you consider the public commuter transport sector, we are actively investing, as we see an acceleration in the shift toward electrical buses, biogas buses and even hydrogen buses as part of the energy transition. For both the vehicles and the fueling infrastructure, significant capex investments are required. Thanks to an appropriate contractual model with private players, local authorities are able to offer modern and green transportation mobility solutions. We have been investing in public commuter transport over the past 10 years, and we have seen this trend coming. We are very pleased to see larger funds now making significant investments in this space, not only in Europe but also in the United States. We did the same in the telecom area, being the first fund to invest in fiber networks in Europe back in 2011. At that time, such an investment looked very unusual and risky and was not perceived as infrastructure.

What are you doing in telecom today?

While fiber networks are still an area we want to continue investing in, we are also trying to look beyond to identify the infrastructure assets that are going to become increasingly critical and essential “to the people” in the coming years. Basically, our objective is to replicate past successes, such as our investment in fiber with notably Covage in France and dst telecom in Portugal, which is acquiring assets that are below the radar of the larger funds at an inflection point in their development cycle and then accompanying their growth in the following years in order for them to become more sizeable and mature. Our exit is then quite easy because our assets become attractive for the larger infra funds that compete, sometimes fiercely, to acquire them. We invested in 2020 in Heliot Europe, which is the owner of a wireless telecommunication network in Germany, Switzerland and Austria. This telecom infrastructure is supporting the internet of things (IoT) industry that is connecting objects and providing data in order to notably improve efficiency. We see the development of IoT as a critical

enabler and driver of economic, social and environmental progress, and an area that will become increasingly important for business — but also local authorities and communities — as part of the development of smart cities.

And energy transition?

Energy transition will be the bulk of the global infrastructure markets, notably in real estate to reduce the consumption of energy in our dwellings and offices, and energy-generation storage to overcome the intermittent nature of green energy versus conventional energy. The investment proposal and the challenges are so great that the amount of money available will unfortunately be far too low compared with the actual 2030 and 2050 objectives we need to meet to decarbonize the planet. By 2050, Europe aims to become the world’s first climate-neutral continent and to be a climate-resilient society through the new “EU Strategy on Climate Adaption.” Achieving these ambitious targets will require a profound transformation of our economies and significant investments and operational expertise into the infrastructure that will allow for a true decarbonization.

So what is the answer to the question, what is the true value of an infrastructure investment?

For me the answer is clearly the quality of the service that is delivered by the infrastructure to the community — I mean to the people! Infrastructure is often perceived as an alternative to the bond market. When you look at it from this perspective, it is true that the infrastructure market is predictable in nature, is a monopoly-like market on behalf of the public sector, delivers true value to the people and can make a double-digit return, which replaces the interest rates of the 1980s. Infrastructure checks all the boxes. There is nothing more “ESG” than what we do, and I really do believe in the value this market can create for all the stakeholders as long as we continue to have a disciplined focus on the essentiality of the infrastructure we invest in and that we ensure the highest operational expertise to deliver a high-quality service to the user thereafter.

CONTRIBUTOR



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Renaud de Matharel is founder, chief executive officer and managing partner of Cube Infrastructure Managers (Cube IM). With more than 30 years of infrastructure project-management and investment experience, he was with Vinci Concession as deputy CEO of SGE Concessions and then served as general manager of Vinci Airport Management prior to founding Cube IM.

CORPORATE OVERVIEW

Cube Infrastructure Managers is an independent management company focusing on investments in the European infrastructure space. The manager is constituted by a close-knit manager team with broad industrial and managerial experience, and with a highly international profile. Cube IM has €2.7 billion (\$3.2 billion) in assets under management through four funds, all active in the European infrastructure space. Cube IM is a UNPRI signatory scored A+.

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