

Cube Infrastructure Managers

Growing high-quality infra companies through the energy transition

Recently, **Chase McWhorter**, Institutional Real Estate, Inc.'s managing director, *Institutional Investing in Infrastructure*, spoke with **Saket Trivedi**, managing director, and **Simone Pini**, investment director, of Cube Infrastructure Managers. Following is an excerpt of that conversation.

Please provide a brief overview of your organization and your investment focus.

Saket Trivedi: Cube Infrastructure Managers is an independent fund management company founded in 2007, primarily focused on European brownfield infrastructure. Our four founders came from utility or construction industry backgrounds, with a vision to create a company that brings private capital to public authorities to invest in essential and local infrastructure. We are now almost 15 years into this journey, with three funds under management — two brownfield funds (Cube Infrastructure Fund and Cube Infrastructure Fund II) and one specialized greenfield fund focusing on fiber projects (Connecting Europe Broadband Fund). We have raised €2.6 billion (approximately \$3.1 billion) of capital across these three funds. Our approach is somewhat different from the traditional private-equity buyout funds, as we bring a great deal of operational experience and long-term relationships with public authorities to deliver high-quality infrastructure services to the communities. With our brownfield funds, we invest in platforms with strong management teams and focus on three subsectors: public transport, energy transition and communication infrastructure.

What is Cube Infrastructure's strategy in relation to energy transition?

Trivedi: Our core strategy is focused on the two areas that contribute significantly to today's energy transition, namely (1) renewable energy, and (2) district heating/energy efficiency. From the supply side, renewable energy contributes approximately 34 percent of the energy production in Europe. This is the largest source of energy production today, and it will become even larger in the coming years. From the demand side, approximately 80 percent of the energy consumption for a typical European household is in heating, including space heating and hot water. District heating is either operated under long-term concessions or privately built and owned, based on prior authorizations of the local authority. We have a strong track record in these types of heating infrastructure.

How do you go about implementing your strategy in the energy-transition sector, in terms of choosing investments?

Simone Pini: In both the district-heating/energy-efficiency and the renewable-energy segments, we implement a buy-and-grow strategy, with an active asset-management approach. We invest in companies with a view of growing them over the long term, winning new contracts and investing additional capital over time. We seek to partner with local developers and management teams who have strong relationships with clients and local communities, as well as a solid knowledge of the local markets and the competition. These teams can also source

add-on acquisition opportunities, maximizing the chances to grow the acquired companies successfully. We are then able to sell our platforms to investors that have a more passive approach and are interested in larger investments. Selling these companies generates a premium for us, and an interesting risk-return profile. We call it "entering below the radar" and "exiting on or above the radar." For instance, in our first brownfield fund, we made several acquisitions to establish what is today called IDEX. We delivered strong growth over the holding period, thanks to IDEX's positioning and the positive market dynamics. We subsequently sold the company in 2018 at an attractive multiple.

Do you expect investments in the renewable subsector to remain strong despite the competition and challenges of shorter-term PPAs and the increased merchant risk?

Trivedi: In the renewables industry, one needs to consider that assets typically have a lifecycle between 25 and 30 years. If you consider the potential for repowering some of these investments or the extension of their concessions, their life can be even longer. For example, assets' operating lives can be much longer in the hydroelectric sector. We currently have hydro assets in our portfolio that have operated close to 80 years. Therefore, investors need to look beyond the short-term market for utilities and form a judgment on the longer term to be successful. We do believe we need to become smarter and more active in how we deal with volatility. We consider implementing hedging structures whereby we have long-term, fixed-volume hedges, which cover the interests and debt service on our assets. In addition, we look at short-term rolling hedges that can help in guaranteeing a minimum amount of equity return. Thirdly, we look at leaving some of the exposure to the merchant prices and capture some upside. Finally, geographical diversity can create some very interesting inverse correlations that can create natural de-risking or hedging. We have wind farms in the Scandinavian region in the north of Europe and solar assets in Spain and Portugal. Historically, there has been a negative correlation between the Iberian solar and wind assets versus the Nordic wind-load factor.

What are your views on the recently announced Europe Green Deal? What do you think the implications will be for Europe's energy-transition market?

Pini: We are happy to see that Europe is setting ambitious targets to reduce emissions and address climate change. Regarding the 2020 targets — increase of the share of renewable energy to 20 percent, and a 20 percent saving in energy consumption — the industry and many European countries have responded strongly, although not all members were able to meet the targets. 2030 targets are even more stringent — 32 percent renewables and 33 percent energy saving. We look positively at the setting of a more ambitious 2050 target, which basically consists of net-zero emission. Achieving these ambitious targets will require a profound transformation of our economies. Renewable energy must continue to be developed, with a sustainable increase of its

share in the total energy production. This requires switching from fossil-fueled vehicles to hydrogen and electric vehicles. It will also require further investment in battery storage. Thus, very significant investments will be required, and Cube is prepared to play its role in these areas. We believe these investments will contribute positively to the energy transition and create significant value for our investors.

COVID-19 has presented many challenges to businesses. How has your energy-transition portfolio responded to these challenges? Are you concerned about business activity in 2021?

Pini: District-heating/energy-efficiency assets have proven to be resilient. As heating is an essential need, we witnessed limited reduction in demand from corporate clients and a broadly unchanged demand from residential clients, which comprise the majority of the client portfolio. Although we saw an impact on power prices across Europe due to the demand reduction, we have observed a general recovery, with pricing levels back to pre-pandemic levels in most countries in the last months. In terms of impact on our investment activity, we have seen no slowdown. We have continued to work on new transactions and also on add-on investments made by our portfolio companies. In 2021, we still see a strong pipeline of projects, and we are now adapting to these new ways of doing business.

From a broader perspective, it seems likely that the negative impact of COVID-19 on the global economy will continue in 2021. What does that mean for the wider infrastructure asset class?

Trivedi: Economist Nassim Nicholas Taleb said in his book, *Antifragile: Things That Gain from Disorder*, if you deprive any system of volatility, it becomes more fragile. In that sense, COVID-19 volatility has been a good thing for the infrastructure sector because it has revealed the fragile areas. It has also shown us the areas within infrastructure that are antifragile, areas that actually gain from disorder. Resilient companies can resist and survive shocks, but antifragile companies actually get better and emerge stronger after such a shock. That is what we try to focus our attention on, finding antifragile assets and companies. A test for infrastructure is: Is it an essential asset or service, and does that essential asset or service become nonessential in a time of shock? The pandemic has shown us that long-distance transportation is actually nonessential because people stopped traveling in March 2020. Local public transportation, though, carried on because people still need to take a bus or a metro to go from

one place to another. Local public transportation emerged as a highly resilient, antifragile sector. Fiber also emerged as an area that is an essential service — a fourth utility, as important as electricity, gas and water. As we think ahead, we reflect on additional questions: What are the next areas? Is cloud-based infrastructure essential or nonessential? What about battery infrastructure, data centers, electrical-vehicle charging, hydrogen buses or smart mobility? Some clear winners and losers have emerged, and the pandemic has posed some very interesting questions about what could be essential in the years to come.

Now that Brexit has finally happened, will this deter you from investing in the United Kingdom?

Trivedi: The United Kingdom is an important investment destination for both Cube I and Cube II. Brexit created some uncertainty in the market, but it is significantly less now. The United Kingdom is the world's fifth largest economy, so there is no doubt that it will continue to be a very attractive destination for us.

What is your outlook for the energy-transition market and the European infrastructure market in the near to medium term?

Trivedi: The megatrends prevalent in the near to medium term are energy transition, urbanization and digitization. Cube is at the forefront of these trends. In Cube I, we invested in Covage, a pioneer in deploying fiber to the home, and it was sold for \$1.2 billion in December last year. In Cube II, we continue to invest in this market, including in a U.K. company G. Network, which is deploying fiber in Central London, an area that has been highly underserved. On the energy-transition side, we continue to focus on renewable energy. We invested in approximately 400 megawatts of renewable assets from Cube I, and are so far invested or committed to approximately 200 megawatts in Cube II. In district heating, we invested in IDEX and continue to invest significantly in CogenInfra. We are one of the early investors in electrical-vehicle charging infrastructure.

Timing is key. We need to enter the investment at the right stage. If we invest in companies that are very mature and stable, we have to pay too much; at the same time, if we invest in companies that are too small or too young, we take an unnecessary amount of risk. We have to identify the right management teams, invest in the right stage of the asset, and then use our operational and industrial experience, asset-management skills, and the strength of our management teams to grow those companies into high-quality infrastructure.

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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 €2.6 billion (\$3.1 billion) in assets under management through three funds, all active in the European infrastructure space. Cube IM is a UNPRI signatory scored A+.

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