Cube Infrastructure Managers

Investing in midsize infra and helping it grow

in the fast-moving current of megatrends: climate change, urbanization and digital disruptions

Recently, **Chase McWhorter,** Institutional Real Estate, Inc.'s managing director, *Institutional Investing in Infrastructure*, spoke with **Stéphane Calas,** managing director of Cube Infrastructure Managers' Telecom & Digital Infrastructure team. Following is an excerpt of that conversation.

Cube IM is now a well-established player in the European infrastructure mid-cap space. Could you please provide a brief overview of your organization and your investment focus?

Cube Infrastructure Managers is a fund management company primarily focused on European brownfield infrastructure. The company is managing three funds: our two brownfield flagship funds, Cube Infrastructure Fund and Cube Infrastructure Fund II, and the specialized greenfield fiber fund, Connecting Europe Broadband Fund (CEBF). The first two focus on local and essential infrastructure assets in the mid-cap space with a buy-and-grow strategy. We invest in platforms with strong management teams and that focus on three subsectors: public transport, energy transition and communication infrastructure. CEBF invests in greenfield fiber projects in underserved areas across Europe.

Why those subsectors?

First of all, these subsectors correspond to essential infrastructure for local communities. They also correspond to market segments that have significant growth potential, generally driven by long-term trends. Our approach is to identify targets that have the potential to leverage on these trends, to scale up thanks to a solid management team, a good strategic positioning and that present Cube with the opportunity to deploy additional capital over time. Infrastructure is a long-term business, which provides more visibility and resilience than any other asset class. However, as it is still part of an economy that is facing several changes and disruptions, we need to regularly reassess our positioning across the identified sectors to include these evolutions and build a balanced portfolio.

Over the last decade, sectors we invest in have been shaped by and have strongly benefited from the so-called megatrends: the energy and demographic transitions, as well as the digital transformation. Focusing on energy transition, public transportation and communication infrastructure, we cover all these trends and put our LPs' money to work in essential infrastructure.

Communication infrastructure — in particular, fiber networks — is one of the key areas in which you are investing. When and why did you start investing in this sector?

Cube started to invest in communication infrastructure in 2008, first in submarine cables, then in open-access fiber networks. It is worth noting that we were among the pioneers in Europe to invest in such a sector, fiber being considered as too "tech" and less "core" than energy or transport assets. Today, and certainly even more so in the context of the COVID-19 crisis, the essential nature of these networks has become obvious.

Ten years ago, we thought fiber would become an essential infrastructure due to the exponential increase in data traffic. We invested in a small fiber operator, Covage, which was addressing this market, targeting low-density areas, smaller towns and villages, where it was critical to provide broadband in order to maintain economic activity. Over the years, we accompanied the growth of Covage and turned it into a leading open-access fiber operator in France. At the end of last year, Cube and the other shareholders of Covage announced they had entered into an agreement to sell Covage for valuation of €1 billion ($1.2 billion). The buyers' consortium includes some large pension funds and direct investors, which illustrates the change in investor perception: from a misperception as a "tech play" to the recognition that broadband has become the "fourth utility," alongside water, electricity and gas.

We are pursuing a similar strategy in other European geographies with our second brownfield fund. First with dstelecom, an open-access fiber operator focused primarily on mid- and low-density areas in Portugal, and more recently, with G.Network, which is successfully deploying and operating an FttP network in Central London. Thanks to Cube's support, both companies have grown significantly and strengthened their positioning in their respective markets.

And do you pursue this strategy in your third fund, as well?

CEBF focuses on greenfield fiber projects. If the investment approach is different, it focuses on the same industry and with the same goal to accompany and contribute to the digital transformation of European economies.

Has the COVID-19 crisis affected your perception of different infrastructure segments or influenced your investment strategy?

The sanitary crisis has not really changed our investment convictions and long-term vision. I believe it has rather vindicated Cube's approach of targeting small and mid-caps with a focus on local and essential infrastructure.

COVID-19 has led to a rerating of some sectors — airports, for instance. It is unlikely that investors had in their model the possibility of such an extreme stress case, where all traffic would stop almost completely for three months. This may result in some adjustment in the perception and valuation of such assets in the future. In the markets we have been focusing on, including communication infrastructure, the pandemic crisis has shown the relevance and resilience of our investment strategy. Both the fundamental growth trend and critical nature of fiber networks for businesses and households have been confirmed while people were working remotely.

Additionally, as part of our investment strategy, our conservative financial approach with focus on liquidity, as well as an active management approach based on taking controlling positions in our portfolio companies, allowed us to anticipate and mitigate potential adverse effects, and make sure that the portfolio can be protected through the crisis. Thanks to this, we have been able to concentrate on the continuation of the operations and limiting the negative effects.

Where do you see new types of investment opportunities emerging?

Beyond our traditional investment areas, we have identified a few additional emerging infrastructure subsectors that are well positioned to benefit from long-term trends, including electric-vehicle charging infrastructure or smart infrastructure. In 2019, we made our first foray into the EV-charging sector with a small investment in a U.K.-based company, Osprey Charging. Our EV-charging platform has successfully expanded in France with the award of the Greater Paris's Metropolis long-term contract. EV charging is at the intersection of Cube's core competencies in energy and mobility, and is consistent with our ESG commitments.

In September 2020, we also announced our first investment in IoT infrastructure, with an investment in Heliot Europe and the acquisition of Sigfox Germany. We see the development of IoT as a critical enabler and driver of economic, social and environmental progress.

So far, these new infrastructure segments have represented a minor part of our portfolio.

The EV-charging space appears to be attracting an increased number of infrastructure funds. What types of assets specifically are you focusing on, and what are the challenges and opportunities in this relatively new infrastructure segment?

Road transport accounts for, say, 80 percent of the total energy consumption of transport, which itself represents 20 percent to 30 percent of total energy consumption. The shift toward a low-carbon economy requires a significant change in mobility solution, in particular the transition from internal combustion engine cars to electric vehicles. This is a very broad sector, with various types of infrastructure assets and companies. Our team has been assessing a number of EV-charging companies over the last five years, prior to investing in the United Kingdom and then France. We are primarily interested in assets positioned to serve local communities — urban and suburban — with an existing brownfield base and full ownership or long-term concession contracts.

A key challenge when investing in these new types of infrastructure primarily relates to traffic risk and the time it will take for the infrastructure to be used at a level generating a positive cashflow. That is the rationale for focusing on long-term concession or full ownership and for taking a controlling position alongside agile management teams.

In the long term, the opportunity is to see these assets expand and become increasingly critical, allowing Cube to create value for its investors.

In a nutshell, our strategy is to replicate our past success in district heating with Idex or in telecom infrastructure with Covage, acquiring assets that are below the radar of the larger funds and at an inflection point in their development cycle, accompany their growth for 7 to 10 years and, once they have become sizeable assets and been largely de-risked, sell them to investors with a more passive investment style and a lower cost of capital.

How do you assess the risk-return profile of such opportunities? In particular, how do you deal with the technological risk?

Because they are more recent, digital- and smart-infrastructure assets have less historical data from which to perform extensive quantitative analyses, as we would usually do. Assessing their risk-return profile is, from this perspective, as much an art as it is a science, and you need to use the experience gained in other similar or adjacent market segments and to leverage on the team's own judgment. The investment process is generally slower, as a lot of time is spent in debating, comparing and identifying options to make such assets more technology agnostic or versatile, prior to forging our investment conviction.

Also, it wouldn't be correct to assume that fund managers discarding these new infrastructure assets and focusing solely on other more traditional transport and energy assets are immune to technological risk. The digital transformation is a fact for all industries, including infrastructure. You can decide to embrace it as Cube does, or may prefer to ignore it at your own peril, with the risk of ending up, longer term, with poorly performing or stranded assets. Our team at Cube has taken a proactive approach and allocated resources to assess the opportunities it generates in communication, digital and smart infrastructure, to position our funds early on them.

CONTRIBUTOR

Stéphane Calas
Managing Director, Telecom & Digital Infrastructure Team

Stéphane Calas has more than 24 years of experience in investment banking, infrastructure investment and asset management. Since joining Cube Infrastructure Managers in 2010, he has primarily focused on the telecom, energy and public transport sectors. Stéphane is/has been a member of the boards of portfolio companies such as Covage, G.Network, ViaNovus/Osprey Charging, Heliot Europe and Idex. He also sits on the Asset Management Committee and Investment Committee of Cube Infrastructure Managers.

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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