

# Saved by the mega-trends

*Despite political upheaval and meagre growth, managers are finding plenty of opportunities in Europe's energy transition and digitisation. And, crucially, they are finding them without a government-fuelled pipeline.*

*Kalliope Gourntis and Zak Bentley report*

Another year, another Brexit deadline gone by. It's nearly the end of October at the time of writing, just a week away from when the UK was supposed to be leaving the EU. Departure delayed, Europe is now left to grapple with a further three months of Brexit uncertainty. The latter, coupled with the trade wars taking place on a couple of fronts, including between the EU and the US, have inevitably weighed on the continent's economic climate. The European Central Bank is projecting a 1.1 percent growth rate in 2019, increasing only slightly to 1.4 percent in 2021.

If reading the above leaves you with a sense of paralysis or, as a foreign investor, makes you wary about investing in the Old Continent, that would be understandable. But despite these less-than-ideal circumstances, four fund managers – three of which are based in Europe and all of which invest in the continent's infrastructure – say they are actually quite optimistic about the market.

“European macro [indicators] point to moderate overall economic growth,” says Athanasios Zoulovits, a partner at Paris-based InfraVia Capital Partners. “But within the infrastructure sector there is tremendous growth potential in certain sectors, driven by positive tailwinds in energy transition and digitisation.”

## Starting to trend

These ‘mega-trends’ are among the reasons why Europe remains an attractive destination for infrastructure investors, according to Simon Söder, a partner at another Paris-based firm, Antin Infrastructure Partners.

“These trends are stronger than the overall GDP direction of any given market,” Söder says. “We like the fact that energy transition and telecom investment are, relatively speaking, uncorrelated to GDP because they are not driven by everyday economic activity. They are driven instead by the need to upgrade infrastructure for the economy of today, but also for what will be required in 10 years’ time.”

It's fair to say that large-scale European infrastructure investment – including during the formative years of renewables – has mostly been driven by national government- or EU-level policy. But when asked whether investment in digital infrastructure and the energy transition is still being driven by government initiatives, the short answer is ‘no’ – and that is a key difference.

“It's very good that the European Commission and European Investment Bank are supporting investments in the energy transition and providing debt financing in some cases,” says Stéphane Calas, a managing director at Luxembourg-based Cube Infrastructure Managers. “But we would be looking at this anyway because it is part of our investment strategy.”

“You have predictability on the cashflow that will be generated by this asset over 20 to 25 years, sometimes into perpetuity. So, these are strong infrastructure characteristics, which we would be targeting anyway.”

For Matt Evans, a partner at Australian fund manager AMP Capital and the firm's



### Simon Söder

Partner, Antin Infrastructure Partners

Söder has more than 16 years' experience in principal investing, M&A and corporate development, working across the infrastructure, transport, energy, telecoms and industrials sectors. He joined Antin in 2014 and is a board member of the firm's Fund II portfolio company Eurofiber and of Fund III portfolio companies FirstLight Fiber, Lyntia and Sølvtans. Previously, Söder was senior vice-president in the infrastructure, utilities and renewables team at Macquarie Capital.

### Matt Evans

Partner, global co-head of origination, global head of communications infrastructure, AMP Capital

Evans joined AMP Capital in 2013. He is a senior member of the team responsible for sourcing deals for the global infrastructure equity platform and AMP Capital's institutional investors, and has responsibility for both the origination of opportunities and transaction execution. He leads AMP Capital's focus on telecoms infrastructure and is jointly responsible for global origination within its global infrastructure equity platform. He previously worked for Macquarie Capital.

### Stéphane Calas

Managing director, Cube Infrastructure Managers

Calas joined Cube in 2010 and has focused on telecoms, energy and public transport sectors. He was involved in building up Cube's public transport platform and since 2016, has been involved in the asset management of Covage and the communications infrastructure platforms of Cube I and Cube II. He previously spent more than nine years at Dresdner Kleinwort in M&A and corporate finance roles.

### Athanasios Zoulovits

Partner, InfraVia Capital Partners

Zoulovits is responsible for the origination, structuring and execution of transactions in the European infrastructure space. He is a director of several InfraVia portfolio companies, including Mater Private, SAVE, Next Generation Data and Alkion Terminals. Before joining InfraVia in 2013, he worked at Société Générale CIB and Access Capital Partners, where he accumulated significant experience in real asset principal investing in Asia and the EMEA region, as well as in investment banking across Europe.

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**MATT EVANS**  
AMP Capital



global co-head of origination and global head of communications infrastructure, the market has been the leading driver behind these trends.

“If you talk about digitisation, that’s not happening because the EIB and the European Commission are playing a role,” he says. “They’re playing a role because it’s happening.”

“You look at other markets where governments are not intervening, like the US, and you still see massive investment in fibre. So, political involvement is not so much a trigger, it’s very much a follow-on to trends that were already present in the market before governments became involved.”

But in addition to the energy transition and digitisation, there are opportunities to be found in other sub-sectors and as a result of what Calas terms the “demographic transition”.

“There is more urbanisation, a higher concentration of people in cities leading to

increasing congestion and air pollution, an ageing population – all of which require investment in the appropriate infrastructure, whether it’s public transport, mobility and smart cities, or care homes,” he explains.

Zoulovits agrees: “Within social infrastructure we’ve invested quite a bit in health-care, both in assisted living and acute care. These are two segments where we believe reliance on the private rather than the public sector will increase. Considering the demographics in Europe, the private sector will be increasingly called to complement the gaps in delivering essential services that the constrained public finances will not allow the public sector to take up fully on its own.”

### **Segmentation of the market**

As these sub-sectors rise up the agenda, our discussion inevitably turns to segmentation in Europe’s infrastructure market and the varied approaches our roundtable participants have taken in this regard.

“We do not have a segmentation approach per se for our main infrastructure funds, but we are also managing the Cube European Broadband Fund, which is sector-focused and has a more greenfield approach,” Calas explains. “It is run by a separate team within Cube, dedicated to a completely distinct strategy under a specific mandate and a different LP base.”

Cube held a first close on CEBF on €420 million in June 2018, having received commitments from the European Commission and EIB, alongside KfW Bankengruppe, Cassa di Risparmio di Padova e Rovigo and Caisse des Dépôts et Consignations, as well as private investors. The vehicle, which has a target size of €500 million, invests in broadband infrastructure across underserved areas in Europe.

At Antin, “the priority is to stick with the same strategy,” says Söder. “From day one, we defined a clear strategy, based on our view of infrastructure as a type of risk,

meaning it's a risk-based definition. Plus, we have a strong conviction that you can add value by taking an active approach to asset management."

The French firm has invested across a range of sub-sectors, including midstream energy, renewables, transportation and digital infrastructure. It is perhaps its risk-based definition of the asset class that has led it to also invest in assets that some may consider to be stretching infrastructure's boundaries. In September 2018, for example, Antin acquired Norway's Silver Holdings (Sølvtrans), the world's largest wellboat company, which transports live salmon and trout.

The other French fund manager at the table has taken a completely different approach. In October, InfraVia added a new line of business to its offering with the launch of the InfraVia Growth Fund. The vehicle, which has a target size of €300 million, will invest in tech companies operating

in sectors the firm has historically invested in, such as transport, logistics, telecoms, utilities, health and energy.

"We have identified an appealing market opportunity in capturing the digital value of infrastructure, where start-ups emerge to develop digital tools that help improve productivity, improve quality of service and boost revenues," says Zoulovits. "What we started approaching from within our portfolio companies we soon realised is considerably more scalable and requires additional skills to properly invest in. As an entrepreneurial platform, we sought to address this infratech opportunity by launching a new offer[ing] to our clients.

"Therefore, our approach goes beyond segmenting within the existing infrastructure strategy or moving vertically in a different part of the capital structure, such as launching an infrastructure debt fund. Instead, we set up a dedicated team, bringing on board new people who have experience



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**ATHANASIOS ZOULOVITS**  
InfraVia Capital Partners

## Analysis

investing in the growth/scale-up ecosystem, and combine it with our infrastructure experience and network to create value for our clients.”

Evans of AMP Capital sees the market splitting into two types of managers: “There are people, like most of us in this room, who are trying to specialise, and for the most part are following a single strategy or platform. And then there are those managers who are more focused on building up assets under management, by perhaps pursuing strategies that might not even be particularly profitable.”

But when a firm decides to proceed with segmentation of its strategy there are questions it should be asking, Evans advises: “What are you trying to achieve? Are you trying to solve a problem for your investors? Or are you just trying to collect assets which may not be adding value?”

Identifying which sub-sectors or market segments fund managers want to target is

one part of the process. The other is how to identify investment opportunities in an admittedly highly competitive environment. And perhaps more importantly, how to convince their investors they are able to do so.

### Competitive environment

“At the end of the day, I think the basic assurance you can give investors is demonstrating that you can do it,” Evans says. “We’ve been relatively successful in the last 18 months in capital deployment across our infrastructure equity strategy, so I think that’s gone a long way towards showing the LP base that, actually, there are still attractive opportunities out there for managers who are following a fairly committed strategy.

“I think in this environment, it’s only by looking at track record that people really take comfort.”

Last December, AMP Capital made its second investment in the UK specialist

care sector by acquiring Care Management Group, which provides residential and assisted-living services for adults with learning difficulties and mental health conditions. The investment was made through AMP Capital Global Infrastructure Fund II, a vehicle the firm launched the previous March with a target size of €3 billion, according to *Infrastructure Investor* data.

Everyone around the table agrees that track record is important, but Zoulovits also points to the “hard work needed” to reassure investors that fund managers can continue to deliver.

“Whether in private equity or infrastructure, managers cannot simply rely on multiple expansion to generate returns,” he says. “We believe we are part of those managers that have proven that active asset management – alongside an entrepreneurial shareholder mindset, which allows portfolio companies to grow and add value to their business – is how you can deliver superior

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**SIMON SÖDER**  
Antin Infrastructure Partners





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**STÉPHANE CALAS**  
Cube Infrastructure Partners

performance. Those are the areas we focus on at InfraVia.”

For Cube, the strategy has involved investing in infrastructure companies rather than assets.

“These companies are then able to participate in the build-out of new infrastructure, where you see less competitive pressure than in the larger, brownfield assets that are generally sold via organised auction processes,” Calas says, referring to the firm’s investments in French district heating company Idex, Norwegian public transport operator Boreal and French fibre-optic company Covage, among others.

Although Antin’s Söder agrees the European market is highly competitive, he points out that this has been the case for several years.

“For us, that means you have to be quite selective on what you spend your time – which investments, which projects – and prioritise the ones where you feel you can add value,” he says. “That means having a well-resourced team. It means using the

relationships you have with industry executives. And it really means – for us – not spending time on the ones where we can’t add anything more than just capital.”

### **Can Europe still compete?**

Having established that there are still worthwhile investments in Europe, notwithstanding the high levels of competition, it’s worth finding out from our participants whether the continent is still competitive and, if so, why this might be the case. After all, regions like Asia, which years ago would not have cropped up on investors’ radar, are increasingly competitive.

All our participants cite the opportunity for diversification Europe offers both in terms of jurisdictions as well as sectors. They also point to its stable regulatory environment and its history of private infrastructure ownership as key characteristics that have won their loyalty.

“Europe has a huge heritage of expertise in infrastructure,” says Zoulovits. “This heritage has generated an ecosystem and

a know-how that is exported from here to the rest of the world, be it from industrial champions such as construction or utility companies or by leading infrastructure fund managers.”

“I would echo that,” Evans says. “The history of private involvement in infrastructure has been enormously helpful for the development of the infrastructure sector, and a lot of that infrastructure, in many cases, has run out of capacity.”

“If you look at many airports in Europe, there is more investment needed and additional expansion. Those sorts of needs are providing the opportunity to continue to deploy private capital, so you don’t need an ongoing pipeline of government-led projects for that to continue.”

That’s good news for a continent traditionally reliant on large-scale public-private partnerships, such as the private finance initiative in the UK, and subsidy-backed renewables. It’s also a reminder that the European infrastructure sector still has much to offer. ■