

KEYNOTE INTERVIEW

Building a resilient portfolio



A thematic approach to investment opportunities combined with the construction of diversified portfolios can generate attractive risk-adjusted returns in any macroeconomic environment, say Partners Group's Irene Mavroyannis and Ed Diffendal

Identifying investment themes with strong secular tailwinds is critical to high conviction asset selection. Decarbonisation, digitisation and the infrastructure that supports new ways of living hold strong appeal.

In addition to investment themes, it is equally important to ensure portfolio diversification across geographies and business models.

In an environment where return dispersion is likely to widen, investors are prioritising those managers with a track record of delivering on these fundamentals through economic cycles.

Ed Diffendal, managing director and co-head of private infrastructure

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Americas, and Irene Mavroyannis, managing director and global co-head of business development for infrastructure, at global private markets firm Partners Group discuss how to create value in a challenging environment.

Q Why do you believe that thematic investing makes sense, and what are the pillars of your thematic approach?

Ed Diffendal: In building conviction behind certain themes, our investment

approach shifts from being reactive to proactive. It enables us to organise our sourcing and execution resources around those themes and to develop domain expertise in certain sub sectors. It means we can develop relationships with management teams ahead of sales processes and undertake a more rigorous due diligence. It has also enabled us to build a senior adviser network in these industries that both informs our asset selection and the development of our value creation strategies, thereby enhancing the returns we can offer investors.

Our infrastructure platform has developed conviction around three

broad investment themes that reflect long-term structural trends. The first involves decarbonisation and sustainability, which is an area that offers tremendous investment opportunities. It broadly encompasses renewable power, energy efficiency, low-carbon fuels, water sustainability, the circular economy and carbon management.

The second broad theme is what we call new living. This encompasses critical supply-chain infrastructure and infrastructure related to e-commerce and the movement of goods and services. It includes electric vehicles and electric charging infrastructure, as well as social, healthcare and education related investments.

The third broad theme that we have strong conviction around is digitisation and automation. This includes all the infrastructure surrounding the digital revolution and the explosion of data requirements that has accompanied it, including 5G, fibre, artificial intelligence and machine learning. We have been particularly active in data centres recently as part of this theme.

Q Why is diversification so important for building a successful portfolio?

Irene Mavroyannis: In addition to thematic conviction, diversification is critically important for both building resilience and generating performance. Across our portfolio, we evaluate and implement diversification across three parameters: themes, geographies and business models. This enables us to embed downside risk protection and generate the most attractive risk-adjusted returns on a relative value basis, creating a portfolio that is capable of weathering economic cycles while still generating alpha.

Targeted strategies may be helpful for providing LPs with highly focused exposure to particular subsectors, but it can be harder to deploy capital in these strategies as investment universes are naturally more limited.

Additionally, targeted strategies may

Q What are investors looking for in an infrastructure manager today? What are their top priorities?

IM: First and foremost, investors are looking for managers that have investment experience through economic cycles. In a challenging economic environment such as this, investors are prioritising long-term stable returns and the ability to weather a downturn. They are therefore inevitably turning to managers that have a proven ability to do just that.

We have been investing in infrastructure for 20 years and focus on control equity investments in the non-mega space, which has few experienced managers. Partners Group's differentiated strategy enables us to consistently generate alpha while mitigating downside risk. There is no substitute for experience when it comes to building a diversified portfolio and creating value. Our performance – strong, stable returns and zero realised losses – is testimony to this point.

We also believe that investors are looking for a differentiated approach to asset selection. The rigour that comes with our thematic investing framework enables us to stay ahead of the curve when it comes to identifying higher growth, niche investment opportunities. This represents a significant competitive advantage and is associated with stronger return potential.



concentrate risk as chosen subsectors can fall out of favour, which could impact a manager's ability to exit investments.

Q What role can ESG play in ensuring success?

ED: At Partners Group, we are committed to responsible ESG investment throughout our portfolio. We develop an ESG journey as part of the strategic value-creation plan for every asset, laying out how the principles of good ESG can be built into governance and used to enhance value.

In addition, some of our investment themes naturally lend themselves towards ESG goals. In particular,

decarbonisation and sustainability investments, such as those involving renewable power and energy efficiency assets, are fundamentally driven by ESG trends.

However, many investments in our new living and digitisation themes also have clear ESG considerations. Supplying the massive power needs of data centres with renewable energy is becoming a very important part of the investment thesis in that sector, for example.

We see ESG as critical to underwriting and valuing companies. The typical infrastructure investor has a five-to-seven-year hold period, but also needs to consider the ESG goals

of future owners. We therefore take a 15-year plus view on ESG. This is an area where it pays to think long-term.

Q Are there any specific examples in your portfolio where ESG has driven the investment case?

ED: There are several investments we have made in the Americas around the decarbonisation thematic where ESG has played a clear role. One example is our investment in a community solar business called Dimension Renewable Energy.

Dimension develops, owns and operates distributed solar generation assets that provide residential and small business customers within a local community with access to solar energy and utility bill savings, with an emphasis on low- to-moderate income customers. These projects are supported by state programmes that are stimulating the growth of renewable power in the US and expanding access to clean energy.

Another example is our energy efficiency business Budderfly, which is focused on the reduction of energy consumption by multi-location commercial customers. Budderfly evaluates the energy consumption of its customers, for example in terms of lighting, refrigeration and HVAC, and invests in equipment to reduce that consumption. This provides customers with a share of the operating cost savings and reduced carbon emissions with no out-of-pocket costs.

Q In addition to enhancing ESG, how else do you seek to create value?

ED: In addition to ESG, there are two other primary components to our value-creation strategy. The first is platform building. Within our investment themes we identify companies and management teams that we believe are best in category. We then invest behind those businesses and develop them into platforms.

“Investors are prioritising long-term stable returns and the ability to weather a downturn”

IRENE MAVROYANNIS

“Developing conviction around themes and executing thoughtful value-creation plans will become increasingly critical over time”

ED DIFFENDAL

The platforms may start with the acquisition of a core of operating assets, but we will make a longer-term equity commitment to build the platform alongside the management team. The advantage of a platform approach is that it enables us to capture the value that exists between what it costs to develop and build those assets and what

the ultimate value of the scaled operating assets will be.

The other crucial component is operational value creation, similar to what can be seen in private equity. The operational value creation levers we employ include developing new products and markets, enhancing relationships with key customers, entering into long-term contracts, executing strategic M&A, and controlling cost to enhance efficiency.

We believe that private markets ownership is fundamentally more effective than public markets when it comes to achieving these operational improvements. For each investment, we develop a set of value-creation strategies in our underwriting and then ensure that those strategies are successfully implemented through our entrepreneurial governance model. This involves installing a board of directors with an entrepreneurial mindset, industry experience and clearly defined roles for delivering on strategic growth objectives.

Q To what extent do you believe these characteristics are going to prove more of a differentiator in this challenging economic environment?

ED: ESG, platform building and operational value creation are part of the proven Partners Group playbook. Partners Group has a dedicated infrastructure asset management team, which consists of professionals with extensive industry experience, that works with our investments from entry to exit, as well as access to a network of operating directors that guide strategic initiatives at our companies alongside management.

We believe that developing conviction around themes and executing thoughtful value creation plans will become increasingly critical over time to build businesses that can overcome macro challenges and adapt to new conditions. ■