KEYNOTE INTERVIEW

Embrace transformative trends to find value-add

Investing behind the giga-themes of digitisation, decarbonisation and new living will keep Partners Group on the right side of disruptive change, says the firm's head of private infrastructure in the Americas, Todd Bright

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Q What are the big macro themes that your value-add infrastructure business is investing behind today?

We're highly thematic in terms of how we prioritise our time. We have a relative value mandate across geographies and sub-sectors. That means a huge potential opportunity set. So, to channel our efforts, we build conviction towards certain themes.

There are three giga-themes, as we call them, that transcend all of our asset classes. These themes represent significant transformative trends, and within them there are multiple sector themes that drive our sourcing and investing efforts. The first of those giga-themes is digitisation, which obviously has connotations for infrastructure, particularly post-covid. The essentiality of digital infrastructure has been well and truly proven. It is the utility of our time.

The second giga-theme is decarbonisation, which again has high relevance for us on the infrastructure side. When we think about decarbonisation, we think about renewables, of course, but we also think about things like carbon capture and sequestration, and low carbon fuels.

The final giga-theme is what we call new living, which for infrastructure encompasses areas such as mobility solutions and social infrastructure, with companies in this space often featuring infrastructure-as-a-service characteristics.

Q Where are you seeing the most interesting opportunities when it comes to digital infrastructure?

We see opportunities in both the developing and developed world, including parts of Europe and even the US, where digital infrastructure has not kept up with the need. There can be a real divide in terms of access to high-speed broadband infrastructure within countries. Investing in this area can therefore deliver lasting, positive stakeholder impact through improving connectivity for businesses and households. We look to close the divide through densification or backbone infrastructure.

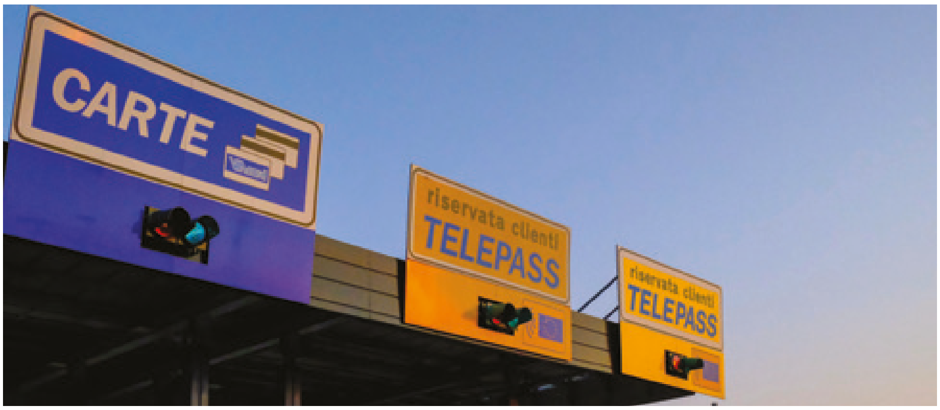
For example, we have invested in a macro cell tower platform in the Philippines called Unity. We have a big presence in the Philippines through our office in Manila and we're also partnering with a local strategic. That whole sector is being opened up because the network has not kept up with demand for high-speed broadband deliverability, so the regulators have opened the door to independents.

We also recently announced an investment in Eolo, the biggest fixed wireless access broadband provider in Italy. The company focuses on areas within Italy where high-speed fibre networks have not been built yet and where people are still being served by DSL. Instead of building the fibre to each premise, however, Eolo installs transceivers along the street. It's a fast way to roll out access to customers.

In short, our focus is on both building backbone infrastructure as well as densifying the network to close gaps in underserved parts of the market.

Q And which aspects of the decarbonisation process offer the greatest potential?

We have invested in renewables for years and continue to see potential all over the world to support the energy transition. We have built large-scale offshore wind projects in Europe, and we also have wind and solar platforms both in Europe and Asia-Pacific. Outside the US, we tend to focus on



Enhancing value: Telepass, an electronic toll collection services company operating across Europe, is on a strong growth trajectory

Q Are there common levers that you pull to create value across the different subsectors where you invest?

At the very top level, there are three value-creation strategies, and pretty much all our investments will fall under at least one of those headings. First, we build our way to a core asset. Simply by taking the construction risk off the table, we have created value. And when that asset is operational, and largely contracted, we can usually exit that asset to a lower discount rate buyer that didn't want to take that construction risk.

Second, we buy operating assets or companies that have tangible things we can do during the hold period to transform or enhance them and create value that way. That might mean expanding them, recontracting or repurposing.

It might also mean buying a business like Telepass or Parmaco, which is already a segment leader on a growth trajectory, in a sector with strong tailwinds. We develop a plan to ensure they get their share of that growth and then execute on it.

Finally, we may take a platform approach. This is particularly common in the renewables space. We not only buy into construction and operational assets, but also develop a pipeline. By using some of the cashflows from the operational assets to develop the pipeline and keeping that yield compression between the development stage and the construction stage, and between the construction stage and the operational stage, we're keeping all that premium in-house. A lot of value can be created that way.

All our value-creation strategies tend to fall into one of those three buckets, but which one will often depend on which thematic the investment reflects. In offshore wind, for example, it tends to be building core, while in solar it tends to be platforms. And in some of our mobility and infrastructure-as-a-service themes, it tends to be more about operational value creation – buying a going concern and then continuing to grow that company.

utility-scale renewable projects. In the US, however, what's really interesting right now is the opportunity to build solar capacity at a more distributed scale for communities and commercial and industrial customers.

Over the past five years, the cost of building small-scale assets has come down to the same level as utility-scale assets. Through community solar programmes, which are being rolled out state by state across the US, we're providing direct access to renewable energy projects to the 70-80 percent of American households that can't do rooftop solar, either because the roof isn't suitable, they don't own the property or they can't afford it.

We like the risk/return profile of these community solar programmes. These assets are highly contracted through the community subscriber base that buy the power at a saving versus what they would pay to the utility.

Besides renewables, we're also excited about the opportunities that carbon management, and energy and resource efficiency are expected to bring over the next few years as we continue to decarbonise our economy.

Q What sort of opportunities does new living provide?

Within the infrastructure vertical, this giga theme is represented by new mobility solutions that make it easier for people to move about in and around urban areas.

A good example would be Telepass, an Italian provider of electronic toll collection services. The business processes around €7 billion in annual transactions across Europe, servicing over 105,000km of motorway network. It is infrastructure-as-a-service, with a broad base of customers paying a recurring fee. As a result, the company even grew a bit during covid, which is highly unusual for a transportation asset.

Another example would be Parmaco, a Finnish business which provides modular buildings under lease arrangements to municipalities and school districts, covering the educational sector, the age care sector, pre-schools, as well as higher education. Parmaco has a strong base in Finland and plans to use that to expand into other markets in Europe.

> *"One way to stay in front of transformative trends is to have ESG factors front of mind"*

Q Do you see ESG as part of a value-creation strategy?

Absolutely. Firstly, the themes we focus on are largely ESG-driven to begin with, because one way to stay in front of transformative trends is to have ESG factors front of mind. So, ESG is something that is integral across our whole investment process, starting with sourcing. Our diligence also has a heavy ESG workstream, where we assess and benchmark new opportunities across at least a dozen or so different dimensions covering the E, S and G. We then come up with a plan for bringing those dimensions up to best-practice standards, if they are not already.

That then translates into ESG-related projects that are part of the business plan, with someone taking ownership either at the management team or board level, or both. So, yes, we very much do see ESG as a part of value creation.

Q What are the biggest challenges you face as a value-add investor? What keeps you awake at night?

Disruptive change. Disruptive change is happening at a faster rate than ever before, so you have to try to put yourself on the right side of it. What we try to do with our hands-on value-creation strategy is to drive returns through execution-orientated business plans, whereby if we execute on those plans, we will still have created value even if exogenous and macro factors go against us. Having said that, everything is much easier if you have macro tailwinds rather than headwinds.

That, again, comes down to understanding these thematics: decarbonisation, the energy transition, urbanisation, mobility, digitisation. These are all transformative trends we have identified, partly because we think they're on the right side of disruptive change. But that's what keeps me awake at night. Are we focusing on the right thematics?

Q How would you describe LP appetite for value-add strategies in the wake of covid?

Investors are attracted to value-add infrastructure strategies because it's a way for them to realise the double-digit returns they're after from their private market allocations, but to do so in a principal-protected way. That's the way that we underwrite.

We start with what has to happen for a 1x case – that has to be super robust – then we build the execution-orientated steps from there to get to our target returns.

Infrastructure is a very principal-protected asset class, but through value creation, strong returns can still be achieved.

I also think investors see infrastructure as being uncorrelated to other asset classes and I think they're attracted to the positive social impact of the asset class.

Finally, investors recognise the sheer need for infrastructure across all these subsectors. Governments cannot do this alone. They need private capital and that's not going to change anytime soon. ■