



Keynote

Todd Bright, Partners Group

PHOTOGRAPHY: MARK BYRON

Walking the walk

Todd Bright makes the distinction between claiming to be a global infrastructure investor and actually being one, identifies the firm's sweet spots in the Americas and explains how the communications sector is rife with as many opportunities as energy. **Kalliope Gourtis** reports





“It’s easy to say that you’re a global investor but it’s actually harder to *be* a global investor”

“It’s easy to say that you’re a global investor but it’s actually harder to *be* a global investor with a global platform – and Partners Group has invested in that,” Todd Bright, who joined the Zug, Switzerland-based private markets investment firm in December 2013 as head of infrastructure for the Americas, says.

Partners’ New York office alone is testament to the investment Bright speaks of. While Partners has had a presence in New York since 2000, its current office space, located in the iconic Grace Building and occupying the entire 37th floor, represents a significant expansion from 5,000 square feet at its previous location to 31,000 square feet currently.

But it’s not just the increase in square footage that underscores Partners’ growth. The firm has gone from employing around 300 people in 10 offices to close to 750 people in 18 locations worldwide and over \$40 billion in assets under management.

Partners’ breadth and scope were among the factors that appealed to Bright when he decided to leave fund manager Denham Capital to join the firm. Another reason was how Partners’ business plan aligned with his own view of how the infrastructure market was shaping up.

ROOM FOR IMPROVEMENT

“Assets that have some sort of value creation agenda, whether they are construction or expansion, re-contracting, operational improvements – I think those are the sweet spot of the infrastructure risk-reward spectrum right now,” he remarks.

“On the one hand, we’re not taking private equity risk so we’re not doing development-stage investing; on the other hand, when you look at where large-scale assets – mature assets in mature markets – are trading, they’re at historical highs right now. So we’d rather be selling into that large-cap, core infrastructure space, rather than buying into it at the moment,” Bright adds.

Value creation is a running theme throughout Partners' investments. One example is Fermaca, a natural gas pipeline operator, in which the firm acquired a majority stake in February 2014.

"Since we made our investment on behalf of our clients we've had a very successful bond offering for the existing two pipelines we bought into," Bright explains, referring to the \$550 million Partners Group raised a year ago to refinance Fermaca's existing debt.

Last December, the state-owned power utility CFE (Comisión Federal de Electricidad) awarded Fermaca a contract to build a 423-kilometre (km) pipeline. El Encino-La Laguna will connect with Fermaca's existing Tarahumara gas pipeline and will transport up to 1.5 billion cubic feet of natural gas per day (cf/d).

More recently, in March 2015, the Swiss firm partnered with ONEOK Partners, a US master limited partnership (MLP), to build a 200-mile pipeline. The Roadrunner, which will have a capacity of 640 million cf/d, will run from the Permian Basin in Texas to the US/Mexico border and will also connect with the Tarahumara pipeline.

"What Fermaca is doing, is basically putting together a fully-integrated US to central Mexico gas pipeline network that will be – once it's built – a very unique asset and really levers or plays off of the opportunity set that was already there and that's being accelerated by the energy reforms," Bright notes.

Coincidentally, on the day of this interview Partners announced that it had raised more than \$500 million in fresh equity for Fermaca's expansion. Once debt is factored in, the \$500 million will easily turn into \$2.5 billion to \$3 billion of potential investment capital.

In addition to combining a brownfield asset with a greenfield opportunity, Fermaca also had the advantage of having a "good" and "proven" management team – a key factor since the natural gas pipeline operator was not simply a one-off acquisition for Partners but a platform for the midstream sector in Mexico.

"We'd rather be selling into that large-cap, core infrastructure space, rather than buying into it at the moment"

LATAM DESTINATIONS

Midstream, along with the broader energy sector and power are Partners' focus areas in the Americas. This is evidenced by the firm's decision to choose someone with Bright's background – 23 years in energy and power investing – as well as choosing Houston, the US' energy capital, for the location of its newest office in a bid "to build out the firm's investment activities in the US and Latin America," according to a press statement.

Speaking of Latin America, Bright points to Chile, Colombia and Peru as the other markets in the region which Partners is exploring.

"Infrastructure assets, power and energy in particular, tend to be dollarised so you



don't have the foreign exchange risk that you do for example in Brazil," Bright says, explaining Partners' focus on the Andean countries.

While Chile is in a category all of its own – "Chile is the only OECD country in South America and has a double A credit rating" – Colombia and Peru are also attractive, because they, like Chile, have stable government regimes, predictable regulatory frameworks, strong rule of law and sanctity of contract. Furthermore, management of their economies is good and liquidity is well established, according to Bright.

"Clearly when you look at the Americas, relative to other geographies around the world, I think power and energy as a sub-sector within infrastructure really dominate the opportunity set," he comments. "That's not to say we don't see good opportunities across the spectrum and I think our current portfolio demonstrates that."

Asked which sub-sector would rank third after energy and power, Bright believes communications is the clear contender.

BEYOND CONNECTING

"I think the size of the opportunity set – in terms of annual investment need – is every bit as large as the power and energy opportunity set," he says.

It's not just the growth in broadband demand that creates the opportunity, it is also the fact that there is support from policy makers who view broadband access not as a by-product but as a driver of economic growth.

"I've seen statistics like \$20 of economic benefit for every dollar spent on broadband infrastructure," he remarks.

Another key factor is that broadband users, such as carriers, content and internet providers, and telecom companies – have concluded they don't need to own the infrastructure itself, just the capacity.

"And so it opens the door for infrastructure investors like us in a major way," Bright says.

A case in point is Seabras-1, a 10,000km subsea fiber optic cable that will transport



"I've seen statistics like \$20 of economic benefit for every dollar spent on broadband infrastructure"

data between New York and São Paulo.

"It's an amazing technology when you consider that a piece of data will travel on this cable back and forth between the US and Brazil four times in the blink of a human eye," he explains.

But while the technology is cutting edge it is also well established. Alcatel-Lucent Submarine Networks, the submarine cables subsidiary of Alcatel-Lucent, whose roots and expertise date back to the 1860s, is building Seabras-1.

While a communications asset, Bright likens Seabras-1 to Fermaca. "It is a platform play the way Fermaca is a platform play for us, where we're partnering with a very good, very capable management team. They [Seaborn] can take what they've done on one project and apply it to other projects," Bright says.

According to the press release announcing Partners' investment in the project in January, Seabras-1 is envisioned "as the first of a series of independent, carrier-neutral alternative networks providing broadband capacity between nations and serves as a template for the two firms to work together in the future and expand the portfolio."

"The [Seaborn] management team is really implementing a new business model," Bright comments. "These cables have tended to be built by consortiums of carriers in the past. [...] Seaborn is building the Seabras cable under an independent cable operator model, kind of borrowing a page from the energy infrastructure playbook for transmission lines or gas pipelines like Fermaca. While this is a pipeline for data instead of for natural gas, it is project financed in the same way that capacity is sold under long-term contracts and it's a model we think can be replicated around the globe on other routes."

KEEPING OPTIONS OPEN

While Partners Group may have prioritised certain sub-sectors as investment targets, the firm nonetheless remains vigilant for

opportunities wherever they may arise within the infrastructure space, although it may be more “opportunistic” when it comes to water, transportation and public-private partnerships.

An example is the passenger terminal at Billy Bishop Toronto City Airport.

“We liked Billy Bishop for a number of reasons,” Bright says. “First it’s a very stable, very low-risk and predictable operation. Most of the revenues come from aeronautical fees that aren’t directly exposed to passenger traffic fluctuations.”

Furthermore, because the investment is in the passenger terminal and not in the entire airport, Partners is not responsible for large airfield capital expenditures such as runway maintenance, which according to Bright can erode 20 percent to 30 percent of EBITDA.

“So it’s a straightforward operation with a really good contractual framework around it. But by the same token we feel like we’re catching it on the upswing,” he continues.

Passenger volumes at Billy Bishop, a 75-year old regional airport, have grown at a compounded annual growth rate of close to 40 percent since Porter Aviation, the seller, built a new terminal and launched a ferry service in 2006 to 2007.

But not only does the airport have a demonstrated demand for growth, it also has the capacity to grow further.

“There are a number of infrastructure enhancements both in process and in the planning stages that should lead to enhanced service for passengers and airlines, and we expect this will translate to further revenue growth for the passenger terminal,” Bright explains.

There is also a long-term master plan and a concurrent environmental impact study under way, which is examining the potential introduction of jet service to the airport, which at present can only accommodate turbo-prop planes. Should the environmental study allow this part of the master plan to be implemented, Billy Bishop would go from being a regional



“You can’t stay away from auctions completely; we like to participate only where we think we have a particular edge”

airport into one able to provide longer-range destinations.

“That all represents material upside for us,” Bright notes.

In addition to the opportunity for value creation that Billy Bishop provided, it was also unique for Partners for another reason.

With a target deal size ranging from \$100 million to \$200 million and a prefer-

ence for controlling stakes, auctions are usually not the ideal platform for Partners to make new acquisitions.

“You can’t stay away from auctions completely, but what we like to do is only participate in the auctions where we think we have a particular edge,” Bright says, going on to explain how Billy Bishop was one such instance.

“Billy Bishop was sold through an auction but we felt it was really important for that asset to be partnered with some local investors that had good relations with the Port Authority, the City of Toronto and even the sellers,” he notes.

Partners did not participate in the first round but instead teamed up with InstarAGF, a Canadian alternative asset manager; Kilmer Van Nostrand, a Toronto-based private equity firm; and JP Morgan Asset Management, which together comprised Nieuport Aviation, the consortium which acquired the airport terminal in January this year.

“Billy Bishop was somewhat unique because it was viewed as a regional airport. Porter is the dominant airline; they’re not a large airline and so to tap into the growth potential there you had to have those local relationships on the ground,” Bright comments.

This last statement is a reminder that local relationships and a local presence are fundamental principles for Partners in terms of how it does its business.

“Each of the regional teams are resident within the regions that they cover and the team members within those regions bring years and years of experience and networks within those regions to their roles,” Bright explains.

“The only way to have a global mandate is to have a global platform to go along with it,” he concludes.

Looking out the window from the 37th floor, which provides sweeping views of New York City and a sense that you’re sitting on top of the world, it’s hard to imagine that Partners is not well positioned to deliver on its global mandate. ■