Q&A

Green energy's investment appeal

Brandon Prater, co-head of infrastructure at Partners Group, explains why the company is focused on making investments in renewables

Interview by Joe Marsh

Partners Group is a Swiss private markets investment manager with $55 billion in asssets under management (AUM), $6 billion of which is committed to infrastructure assets. The firm is a core-plus investor and typically targets a gross internal rate of return in the low- to mid-teens on its infrastructure investments.

Across all Partners Group's asset classes, as of end 2015 clients in Asia and the Middle East accounted for 8% of overall AUM, and Australia for 4%. Europe accounted for 70% and the Americas the remaining 18%. The figures also reflect the breakdown of its infrastructure business.

According to research house Preqin, Partners is raising two global infrastructure funds – an 'integrated fund', which invests in direct, primary and secondary assets, and a direct investment strategy, both of which opened for capital last year. The manager declined to comment on the closure dates or fundraising targets.

Partners' 2011 direct infrastructure fund (with €295 million ($329 million) in AUM) has posted a net internal rate of return of 8.4%, while its 2012 €1 billion integrated infrastructure fund has a net IRR of 9%, according to Preqin's latest information.

London-based Brandon Prater is co-head of infrastructure, overseeing a 40-strong investment team located across six offices. Before joining Partners, he was a director at Infracapital, Prudential M&G's infrastructure fund and an investment officer at the AIG-EEIF Emerging Infrastructure Fund.

Q Please outline Partners Group's infrastructure investment strategy.

A Our investment mandate is global, and we think that's a better approach than regional or sector-specific mandates. With a narrower focus, if market conditions change you don't have the flexibility to find the relative-value, best risk-weighted returns on a global basis. There are other global investors, but they tend to be more large-scale; we focus on the mid-cap market.

We're looking for investments that offer potential for us to work with the business to make it a more attractive asset. We're therefore a core-plus investor.

We believe returns in the core space [the safest, most established infrastructure in stable markets] are currently unattractive. We think some of the valuations are hard to justify, given that they aren't bonds – they're actually businesses that have risks, whether regulatory or GDP-related.

Q To what extent do you invest in emerging markets?

A Counterparty risk is a key factor for infrastructure investments, so when considering investments in emerging markets, you

‘Taking a $500 million bet on one deal is not something that we generally feel comfortable doing’

often have to consider higher counterparty risk in areas such as regulation, taxes, public markets and commercial law.

For example, in the public-private partnership [PPP] market in Europe, since the mid-2000s returns have been relatively low because the counterparty risk is considered very low. When considering similar investments with less strong counterparties, we would seek higher returns – say 2% to 4% higher.

Q What sort of deals are you doing in Asia?

A We're very involved in the renewable energy space in Asia. We have invested in a large solar platform in Japan – Nippon Renewables – and are hoping to build a platform that will generate 300MW (megawatts) to 400MW of solar energy. This reflects the massive energy infrastructure shift [away from nuclear] in Japan post-Fukushima [the nuclear disaster caused by a tidal wave in March 2011].

We have also invested in solar in more emerging parts of Asia, for example in Thailand and the Philippines. Most recently we announced plans to build a solar power platform in Taiwan, with long-term support from the government underpinned by a switch in energy, similar to Japan.

Q Some countries in Asia – such India, Indonesia, Thailand and the Philippines – have a huge need for infrastructure investment. Are you looking at them?

A Renewable energy has been the most accessible sector for us in emerging markets. In some of the countries you mention, counterparty risk is really critical. So in certain sectors, there might not be sufficient depth of counterparty experience for us to find a partner to help build a railroad network or an LNG [liquefied natural gas] terminal.

But renewable energy is quite scalable, and something where we bring a lot of construction and operating experience to the table.

We made an early investment in Thailand in the wind sector in 2011 – we provided capital for one of the country's first utility-scale wind farms. We found them to be very supportive and transparent; and it was the same in Japan.

However, there are certain countries where regulation and government support of infrastructure is less developed, and we have to judge how stable that regulation or support is.

Q Can you give an example of how a regulatory change has caused an issue?

A Yes. In Italy we invested in solar energy in 2010, and the government subsequently decided to change some of the support mechanisms and a lot of the ways renewable energy interfaced with the power sector. That had a somewhat negative impact on our investment. Luckily we had structured the investment to reduce the effect of such a change on our returns.

Q Are you seeing investors wanting more transparency about the assets you invest into or looking to make more direct investments?

A This is an important trend in the infrastructure category – there are more institutional investors doing things more directly. But unless they're the very largest, we find they're usually investing on a co-investment basis. We see this from our own client base more and more – they say ‘if you find a good deal, we'd like to invest alongside you’.

Q What would be the size of a typical fund you'd raise these days?

A The last fund we closed was a global infrastructure fund at €1 billion [$1.13 billion] in 2014, and we'd expect the next one to be at least as big as that. But let's put this in context. In infrastructure, the largest funds raised recently have been in excess of $10 billion, and one was closer to $15 billion [Canada-based Brookfield closed a $14 billion strategy in July]. We're not looking at that sort of size, nor are we looking at those sorts of deals.

‘Renewable energy is quite scalable, and something where we bring a lot of … experience’

Q What's your typical deal size?

A It's €200 million to €300 million. Infrastructure is supposed to be the safer end of the spectrum of private markets. So we don't want to take very large, concentrated risks. Taking a $500 million bet on one deal is not something that we generally feel comfortable doing. We'd do smaller ticket sizes – such as €100 million or below – if we feel there's value and we can build a platform out of our original investment.

Q You're presumably looking to identify assets as you raise money?

A Yes, we invest while we're raising capital. By the time we announce a fund close, we will usually have deployed a lot of it.

Q Do you see your Asian client base growing as a proportion of the whole?

A It has the potential. Based on meetings I've had in Asia, I would say infrastructure is an asset class people are exploring more, but I don't think a large number of pension funds and insurance companies have invested in it outside of their own domestic markets.

Q What is your approach to choosing general partners to invest in – why and how you would do so?

A My focus is really on the direct investment side. However, we might look to allocate to a manager that covers a sector that we wouldn't normally invest in for our investors. So if a firm had an attractive, niche strategy, such as emerging market energy, or they're in a market where we're trying to get more exposure, then we might back them. The fund investing side and the direct investing side of the business have both grown, but the latter has grown faster. ■