



Alternative  
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**FOR THE WORLD'S INFRASTRUCTURE MARKETS**

# INFRASTRUCTURE INVESTOR

**KEYNOTE**

## **THE VALUE HUNTER**

**PRATER ON PARTNERS  
GROUP'S FLEXIBLE  
APPROACH**



# Keynote

Brandon Prater, Partners Group

## Doing it their way

Partners Group will scour the globe, mix and match funds and hop across sectors (and asset classes) in its search for relative value. Brandon Prater, head of private infrastructure Europe tells **Bruno Alves** and **Zak Bentley** why the firm is strengthening its fundraising bench, what it won't do in a tightly priced market and why it's not averse to an early exit

There are three terms that come up repeatedly over the course of our hour-long conversation with Partners Group's Brandon Prater, head of private infrastructure Europe. They are: 'value creation', 'de-risking' and 'global' and if you're looking for a succinct summary of Partners Group's infrastructure investment strategy, you need look no further than that.

Of course, that doesn't tell the whole story. Plus, we would make a strong case for adding 'flexibility' to that mix, considering the way Partners Group mixes and matches funds from mandates and blind pool funds – sometimes across different asset classes – in the pursuit of optimal returns.

However, those three terms are instrumental to the Partners Group way of doing things, which is, if not completely unique,

certainly distinct – and if recent events are any indication, investors are backing it with ever-larger amounts of money. In late February, the Swiss manager raised €3 billion for the asset class, including €2.2 billion for its Partners Group Direct Infrastructure 2016 fund (the remainder was for separate accounts).

Shortly after that, we broke the news that it is gearing up to raise €1 billion for its Partners Group Global Infrastructure 2018, a vehicle looking to invest 40 percent in direct infrastructure deals, with 60 percent to be deployed in both primary and secondary infrastructure funds.

No doubt keen to seize on the positive fundraising momentum, Partners Group poached two investor relations professionals: Vittorio Lacagnina, from Australia's QIC, and Robert-Jan Bakker, from Dutch pension manager APG. They will hold mirror roles as heads of busi-

ness development, private infrastructure for the Americas and Europe, respectively, with capital origination and fundraising at the heart of their duties.

"So why are we bringing them on? What's happened is that as our investor base has grown and as our investment ambitions have grown also, it puts a lot of focus on us doing investing as much as talking to investors. After a while, you can't do both effectively, so to have that resource internally is a great division of labour for us," Prater explains.

It's not all about growth, though: investors are also asking more complex questions about the ins and outs of Partners Group's strategy. "Questions about the value-creation strategy," Prater says, "particularly about constructing infrastructure, which is part of what we do, and the risks embedded in that. The diversification we bring, because we take



a global view, is seen as a real positive, but we're asked about managing currency risk, asset management across a global portfolio, how we source investments – those are some of the common questions we get asked."

That inquisitiveness is a telling sign of investors' growing familiarity with the asset class. "There are more managers now coming into the market and investors are asking a lot more questions about investment style, different sectors – they're becoming much savvier about the different parts of infrastructure they can invest in. And it's not just the giant Canadian investors anymore; it's the mid-sized institutions, too," he adds.

#### PICK 'N' MIX

For those unfamiliar with the Partners Group ethos, perhaps the most important thing to understand is "that we are not the typical single-strategy GP you will see in the market, in that we don't go out and raise one pool of capital, invest it, and then go out and do it again", Prater points out.

Yes, Partners Group has commingled funds and separate accounts, as mentioned above, but it also has a range of strategies that cut across asset classes and investment types.

"There are two things going on," Prater explains. "One, we have the investment side, where we try to find investments according to our thesis and our views; and then we have the client side, where we have different teams shaping different strategies tailored to client preferences. Some clients are wanting access to primary deals, others secondaries, others specific asset classes. At the end of the day, it's a combination of exposures for them."

The end point of all that cross-sector, cross-asset-class flexibility can be found in Partners Group's recent investment in the United States Infrastructure Corporation – which focuses on underground utility damage prevention across the US and Canada – a deal that includes investments by funds from both its infrastructure and private equity teams, although it is led by the latter.

**We believe it's better to create value than to buy it – that's how we are adapting to the high valuations seen in the market"**

Prater, however, is somewhat cautious about heralding USIC as symbolic of a new direction. "I wouldn't want the whole portfolio to look like USIC because it's clearly a niche kind of infrastructure, which is services-focused and not asset-based," he admits. "What's compelling about USIC is that it's an essential service to utilities – it sits between the utilities and the people doing the maintenance or new installation work – and they're the biggest supplier of that [damage-prevention] service in the US, which comes with huge barriers to entry.

"Now, we could have said, 'That's not infrastructure so we don't want to do that'. But from our clients' perspective, missing that opportunity for that part of the portfolio would have been a mistake, because it provides an essential infrastructure service."

#### A GLOBE-TROTTERING VALUE HUNT

USIC, then, is very much a part of Partners Group's global hunt for value, away from what it regards as the saturated, overpriced corners of the market.

The Swiss manager's views about the market are no secret, if only because it makes a point of sharing them regularly through its well-known *Navigators* publication. If you're familiar with it, you will know that Partners Group favours offshore wind in Europe – where they have two investments – as well as distributed energy, such as district heating. It is also bullish on communications infrastructure (primarily fibre optics) in both Europe and North America.

And in the midstream space, it continues to find value in North America, as exemplified by its recent deal with OPTrust to purchase a stake in the Superior Pipeline Company for \$300 million, though Prater says he also sees attractive opportunities in Europe.

"We believe it's better to create value than to buy it – that's how we are adapting to the high valuations seen in the market," Prater says. "For example, offshore wind has become a bit more competitive, but we have construction experience and there's a big enough difference between de-risking those assets and buying them de-risked."

That difference amounts to a roughly 300-basis-point construction premium, the firm estimates in its latest *Navigator*, uplifting returns on construction offshore wind to between 7 and 11 percent from the 5 to 8 percent generated by operational projects.

It's also more or less inversely proportional to the kind of return cut Partners Group is not willing to take by overbidding on assets – "half of the transactions we ultimately did not transact on [in 2017], the winning buyer paid a price that implied a return between 200bps and 350bps lower than we were prepared to accept," the firm said in the same paper.

Needless to say, you won't find the returns-focused manager bidding on core utility assets. "There are amazing assets in the core space," Prater concedes. "But let's say you're getting 6 to 7 percent gross return on a core asset, you're still exposed to things you cannot control. At the same time, you have a macro environment where base rates are going up, so that a 6 to 7 percent return with a base-free rate of 2 to 3 percent starts to look a bit thin for some of the risks, like regulatory risk, that are present."

#### SLOW TO INVEST, QUICK TO EXIT?

The flipside (perhaps inevitably) to a more cautious approach is that Partners Group might not be the quickest manager to deploy capital.

Last year, Hymans Robertson, consultant to the Suffolk County Council Pension



Fund, which invested in the €1 billion Partners Group Global Infrastructure 2012 fund, stated in a report that Partners Group had “found it difficult” to deploy the vehicle into brownfield infrastructure investments.

Paul Finbow, corporate finance specialist at the pension fund, later refuted the firm had found it “difficult” and said Partners Group had just been slower to deploy the vehicle amid a more selective approach.

“I think that was taken a bit out of context,” Prater asserts. “Because we have a global mandate, we don’t have a problem deploying capital, as we’re trying to respond to what we see in the market. What we definitely don’t want to do is make investments for the sake of speed as that does no favours for investors. I think people forget that because infrastructure is always seen as safe, but things can go wrong sometimes.

“Infrastructure is not like venture capital, where you can get a handful of investments in a fund very right and the rest wrong and still meet overall target returns – with infrastructure, you have to get them all right. We need the investment cases to be quite robust and we think our investors are happy with that pace.”

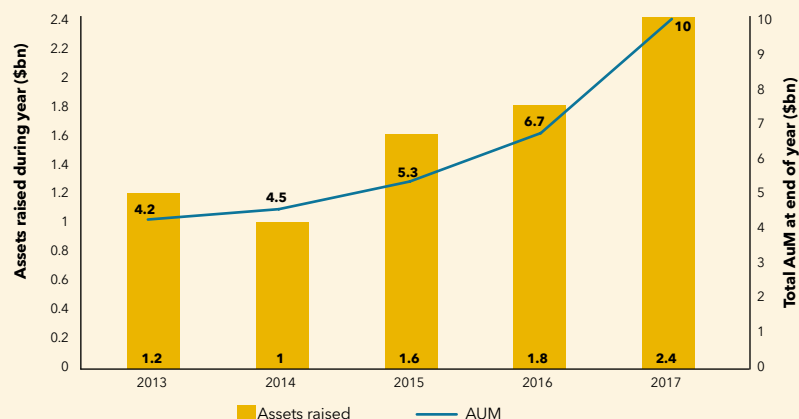
Given the work required – and considering that many investors want to hold on to infrastructure assets for the long term – isn’t Partners Group letting go of assets a bit too quickly? A glance at some of this year’s exits shows that it held on to US solar platform Silicon Ranch – which it sold to Shell in January for up to \$217 million after investing \$100 million in it – for less than two years. It also divested Japan Solar to a Global Infrastructure Partners-led consortium after four years of ownership, as part of that consortium’s \$5 billion purchase of Equis Energy.

“A two-year horizon is not in our typical base case,” Prater acknowledges. “We always look at what would happen if we held on for the life of the asset. What usually happens is we go through the value-creation phase – which can be less than two years or up to four years – and during that period the value of the business increases as we

## Partners Group at a glance

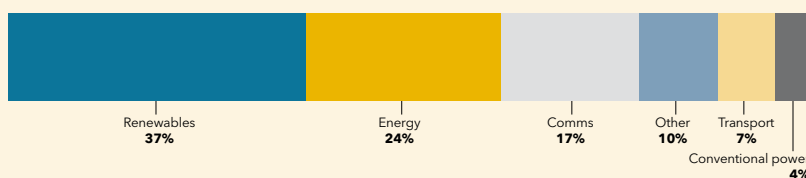
### STEADY GROWTH

Last year was a record fundraising year for Partners Group, with \$2.4bn raised for infrastructure



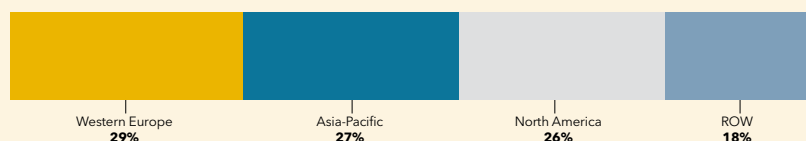
### A TASTE FOR ENERGY

Some 60% of the Swiss manager’s infrastructure AUM is in the energy sector



### WELL DIVERSIFIED

The group’s infrastructure portfolio is almost evenly split between the various regions



Source: Partners Group

de-risk it through construction or efficiency gains. Then you get to the next stage, where you’re hopefully harvesting the benefits of that strategy. And then you stop and take stock and decide whether to keep it in the portfolio or find owners with a lower cost of capital to either take it to the next phase or run it as it is.

“But sometimes we get an offer that is so attractive to our investors – that’s better than taking the asset to the next phase our-

selves or holding on to it for its lifetime – that we would want to take advantage of that. Right now, we’re taking advantage of a very strong exit market. But it’s really case by case and based on what’s best for our investors in terms of total return.”

It makes sense. After all, when you’ve spent the past few years warning your investors about the pitfalls of an overheated market, it would be remiss not to allow them to bask in that heat every once in a while. ■