KEYNOTE INTERVIEW

A thematic approach to infrastructure

Esther Peiner of Partners Group says the global shift to renewable generation presents a wide range of opportunities, but significant resources, deep expertise and intense collaboration are critical for success

Using its unique thematic sourcing approach, Partners Group is at the forefront of the energy transition life cycle. Managing director for private infrastructure Europe, Esther Peiner, explains how the firm delivers value for investors while creating sustainable infrastructure assets.

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Q How does Partners Group approach sourcing investments in today's environment?
At Partners Group, we have developed a bespoke thematic sourcing approach whereby we conduct regular analysis to identify those sectors and subsectors that offer higher value relative to others in today's market.

In order to be successful, we need to find themes and geographies that we believe will yield the most attractive investment opportunities for our clients. For example, we look at a handful of thematic global energy trends, in terms of where energy is sourced from, produced and used, as well as trends around urbanisation and mobility. There is a need for capital to construct, upgrade or scale-up infrastructure.

That's where we play to our strengths. Our ownership model is based on a five- to seven-year period where we work actively alongside our assets to grow and further de-risk their business.

We are in an up cycle today, but we know the music will stop. While our thematic sourcing approach dictates which sectors, regions and specific sub-themes we focus on, we are also conscious of the need to identify potential headwinds in these areas.

Q How do you navigate the complex European landscape as an infrastructure investor and what benefits do entrepreneurs get from partnering with Partners Group?
The theme of the energy transition and investing in the construction of renewable energy generation has been an important focus area for us over the past few years. We have been successful in delivering large and resource-intensive offshore wind projects in Europe, and we have demonstrated that we bring value-add to those projects.

Recently, onshore renewable build-out has slowed in Europe, which is a consequence of complex additional local regulations and permitting issues in various countries. This has led to a lot of smaller scale developers struggling to access funding and, inversely, created an opportunity for larger players to consolidate and secure attractive wind or solar sites for future production.

To counter regulatory obstacles, one must diversify across different geographies. A greater degree of scalability and diversification allows a company to better develop and grow a portfolio more swiftly. We can provide a very good understanding of the European landscape to our partners as we have conducted due diligence on projects in almost all European markets.

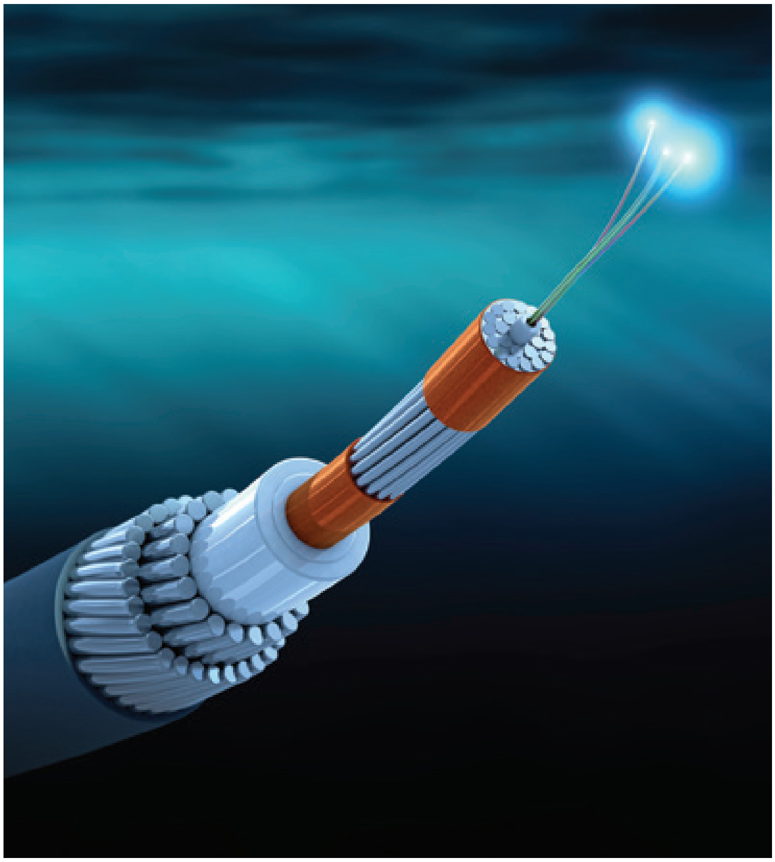
For example, our track record led us to discussions with the founding partners of German renewable developer VSB Group, which also has a strong presence in France. VSB is a developer, owner and operator in the renewable energy sector that has delivered over a gigawatt of wind and solar across Europe. We acquired an 80 percent equity stake in VSB in January because the company valued our expertise. A business like VSB requires a partner to fully capitalise on the market opportunity by providing not only capital but also experience outside Germany and France to strategically unlock other markets.

The next step with VSB is to seek out markets which we can develop bottom up and identify acquisition targets that would enable us to expand VSB's pipeline. This would be an example of materially scaling up a business and of how a large platform like Partners Group can provide a big advantage.

Q How do you ensure, as an owner, that the infrastructure assets and businesses you've invested in have adequate governance structures?

Adequate governance requires a senior group of executives that can jointly contribute to the development, scaling up and de-risking of an infrastructure asset or business that we're invested in. This is not a controlling committee; it is one that provides strategic guidance led by members with different backgrounds and expertise.

For VSB for instance, we will now build a board that will combine international and functional expertise, and we have started to make our first hires. Some board members will be highly knowledgeable in renewable



Q What infrastructure assets and businesses look particularly attractive in 2020 and beyond?

The global energy transition trend requires us to move from around 25 percent renewable generation today to over 60 percent globally by 2050. That shift to renewable generation presents a big opportunity for us.

However, increasing the degree of renewable generation in an economy while phasing out higher carbon-emitting sources of energy like coal requires increasing production to address generation variability. That leads to a decentralisation of generation, where instead of operating one big coal plant there are several intermittent generators.

That means there is a lot of strain on grids and we need solutions for building new infrastructure or upgrading ageing infrastructure to cope and ensure energy stability. For instance, natural gas has a good intermittency response in generating energy that aids the transition to renewables.

Solutions such as interconnectors can also support the transition. For example, we have invested on behalf of our clients in Greenlink, a project to construct a 500MW subsea interconnector between Ireland and Great Britain. Greenlink will use a high-voltage direct current cable system to connect the two countries' power markets, improving the security of electricity supply and reducing average electricity costs for consumers. Once operational, it will be a much needed, regulated, core energy asset.

This project is one among a list of around 40 high-priority electricity interconnection projects that the EU has identified. So clearly, there is political consensus on a European level that such infrastructure needs to be supported for the long term. If we can be the one that delivers the procurement, financing and construction of these types of assets, we play to our strengths.

infrastructure technology and recommend what storage technologies are to be chosen in which location, while others will have proven expertise in business-building.

An experienced board provides a great resource when quadrupling the scale of a business, since that comes with growing pains and challenges. Having board members who can be partners to the management team, as they go through a rapid expansion phase of a business, is very important for us. They are also our partners on the investment side. We invite them to invest their personal net worth in the business. Each board member takes on responsibility for one or more value creation projects and is held accountable for them, which is a very hands-on type of governance. This makes our board meetings intense, in terms of their length and depth, and we meet as a board more often than is customary in the industry.

We debate and share a broader view on sectors, trends and business strategy. The market we're in today presents a substantial risk of macro-economic interruptions or interest rate fluctuations. So ultimately, we want to be in control of our destiny and deliver value creation in projects.

Q What role does your network of industry advisors and operating directors play in supporting you during the sourcing, due diligence and ownership phases of the investment life cycle?

The model that works best for us is to identify the right assets, then own them in the appropriate way so that they are worth considerably more when we realise them. Actively working together as a cohesive team is a simple recipe for success, and we replicate that across our portfolio.

For instance, during the due diligence process of our investment in the 400MW Merkur Offshore wind farm development in Germany in 2016, we engaged a highly capable senior advisor who was instrumental in renegotiating every contract around the construction of the wind turbines, and the associated infrastructure installations. That ultimately allowed us to get the most competitive offshore financing in the market. It also ensured that what had been negotiated in the contract was then enforced with the contractors. As a result, not only did we manage any challenges that arose between the parties involved during the construction, but we also refinanced the project before it went into operations. In fact, we had offers on the table from buyers even before it was operational.

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Ultimately, we decided to exit the project in late 2019. During our ownership, there were challenges around marine planning technology and subsea cables, which were tackled well; and importantly, we have been able to transport the lessons learned from this project across to other projects in our portfolio.

Our advisors have deep technical expertise. They apply lessons learned to future projects, and they understand how we think and how we like to de-risk assets. It is a highly collaborative relationship. We look to replicate such successes across all the different industries in which we operate.

We have a network of hundreds of senior executives who support us worldwide. If they support us on an investment opportunity which we end up executing, they have a right to invest alongside us, particularly those that have been through successful investments with us.

Our strong network is also a useful source of potential investment opportunities. Often, such opportunities are not out in the open yet, which allows us to prepare and refine our investment thesis well before they become available for investment. This gives us a clear competitive advantage.

Q What is the single most important investment theme emerging this year?

For us, it is decarbonisation, and this goes beyond renewable build-out. It is the need to decarbonise transportation systems. It revolves around solving the increasing challenges placed on industries around the world that are trying to reduce the carbon intensity of their production efforts.

One can address a lot of these decarbonisation needs through infrastructure investments and upgrades. By connecting the right dots one can unlock a lot of value in these assets.

Often those who look to decarbonise might not have the expertise or be willing to tie up capital into long-term infrastructure. That is where investors like us look to construct and operate infrastructure with a counterparty that will require it in the long term. ■

Esther Peiner is managing director, private infrastructure Europe, at Partners Group