

**Infrastructure  
Investor**

# Debt report

March 2020 • [infrastructureinvestor.com](http://infrastructureinvestor.com)



A photograph of an offshore wind farm with several wind turbines visible against a blue sky with light clouds. The water is a deep blue with white foam from the waves.

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# Insight

**Debt in focus** 2019 saw a flurry of fundraisings, including the final close of the largest mezzanine-focused infrastructure debt fund to date

JAN 2019

## **UBS exceeds target by €300m**

UBS Asset Management reaches a final close on its second infrastructure debt fund, Archmore Infrastructure Debt Platform II, raising €1 billion nine months after its launch at €300 million over target.

## **GIP launches infrastructure debt vehicle**

Global Infrastructure Partners launches its infrastructure debt-focused GIP Spectrum Fund. With no hard-cap, the fund plans to make between 10 and 20 investments focused on construction and acquisition financing, liquidity and growth capital, refinancing, recapitalisation and restructuring. The fund is targeting opportunities with high barriers to entry, complex structures and limited competition where it would be the sole, lead or anchor investor.

FEB

MAR

APR

MAY

JUN



## **Two closes, a new subsidiary and a refinancing**

Ostrum establishes a Hong Kong subsidiary as part of a plan to expand its infrastructure debt platform; news of Edmond de Rothschild Asset Management's plans to close its fourth infrastructure debt fund on €750 million in July surfaces; Asset Management One Alternative Investment's infrastructure debt fund reaches a first close on ¥30 billion (\$275 million; €250 million); and Palisade Investment Partners secures a \$115 million refinancing of its Hallett I Wind Farm in South Australia.

## **BlackRock infrastructure debt head moves on**

BlackRock head of infrastructure debt Erik Savi announces he is leaving the platform, leading to the formation of a new \$11 billion-plus real assets group built out of the infrastructure and real estate debt businesses. Jeetu Balchandani replaces Savi.

## **Final close for Kommunalkredit and a first close for AllianzGI funds**

Erik Savi, formerly of BlackRock, pops back on to the radar in May at Carlyle as global head of infrastructure debt. *Infrastructure Investor* also learns that Kommunalkredit is planning to hold the final close on its maiden €250 million debt fund at the end of H1 2019. AllianzGI holds first close on its Euro Core Infrastructure Debt Fund at €270 million, more than half of the fund's €500 million target.





### Red letter day for La Banque Postale

La Banque Postale reaches first close on its European Responsible Infrastructure debt fund at €375 million, nearly two-thirds of the €600 million target and more than halfway to the €700 million hard-cap. The focus will be transition projects, such as energy storage and electric vehicle charging infrastructure.

### South Korean insurers back IFM infrastructure debt

Foresight Group launches its first Australian infrastructure debt-focused fund, with the Foresight Renewable Energy Income Fund targeting between A\$150 million (\$101 million; €92 million) and A\$200 million from wholesale and smaller institutional investors. IFM Investors, meanwhile, closes two OECD-focused infrastructure debt funds on a combined total of \$420 million after commitments from eight South Korean insurance companies.



### Biggest mezzanine debt fund raise closes

AMP Capital closes its fourth infrastructure debt fund on a hard-cap of \$4 billion, \$500 million over target, with an additional \$1 billion in co-investment rights and another \$1.2 billion from investors in separately managed accounts. The fundraise is thought to be the largest ever in the infrastructure mezzanine debt space. Nest also awards a private credit mandate to BNP Paribas Asset Management for an open-end private credit fund with initial exposure to infrastructure debt, real estate debt and European mid-market loans.

JUL

AUG

SEP

OCT

NOV

DEC

### Glennmont underwrites a range of European renewables projects

MEAG holds the final close on its debut MEAG Infrastructure Debt Fund at €660 million, well over its €500 million target. Roughly two-thirds was raised from German investors, with the rest from investors elsewhere in Europe. Meanwhile, in Italy, Glennmont Partners, Natixis and Banca Popolare di Bari underwrite the first asset-backed securities lending deals in the Italian renewables market as part of Glennmont's new renewables debt fund. The financing comprises a mix of Class A and Class B floating rate notes with proceeds used to acquire a portfolio of project finance loans from an Italian bank covering 14 wind and solar assets with total capacity of 66.5MW. Glennmont also provides debt financing to WRM Group for the acquisition of loans backed by solar assets with a total capacity of 85MW across 74 plants in a deal underwritten by UBS Management's Archmore Infrastructure Debt Platform II.

### Nest launches first private debt position

UK multi-employer pension fund National Employment Savings Trust announces it will commit up to £500 million (\$652 million; €590 million) to private debt investments via BlackRock and Amundi in its first foray into private debt. BlackRock will manage investment in infrastructure debt, and Amundi will focus on real estate debt.



### Starwood makes new appointment and Clifford and AIB partner

Starwood Capital Group appoints Armin Rothauer, formerly of Deutsche Bank, to lead the firm's new infrastructure-focused lending business. *Infrastructure Investor* sources also say Starwood plans to launch an infrastructure debt fund. Meanwhile, Clifford Capital and AIB create an Asian infrastructure debt platform with plans to capitalise \$1.98 billion, including \$1.8 billion in debt issuance capacity guaranteed by the Singapore government.

## Editor's letter

# Many happy returns to a maturing asset class



**Chase Collum**

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Rejoining PEI Media after a three-year absence – I was formerly a reporter at *Infrastructure Investor* – I can't help but be impressed at how the asset class has matured. Infrastructure debt has witnessed significant growth since my last by-line graced these pages. As a tip of the hat acknowledging that growth, we've tacked on an additional five positions to our now annual ranking of the top debt fundraisers. Even if we had chosen to stick with the top 10 format, there would've been plenty to talk about given the some 25 percent increase in the total holdings of the 10 largest infrastructure debt investors compared with 2019. Managers made it into the top 10 last year by raising \$1.6 billion. This time round a firm would have needed \$2.5 billion to make the cut.

With growth has come maturity. Strategies are becoming more tightly focused, as shown by data gathered by our research team. Whereas some players, like Macquarie, have made it a point to invest in areas where the concentration of capital chasing deals is lighter, others, like AMP Capital, have focused on the subordinated and mezzanine space to avoid compressed returns.

Our contributors unanimously agree that there is still room for further expansion, and we're told a cyclical downturn could actually be positive for the asset class. This is particularly true for those who have investments in senior secured debt tranches. But even in the mezzanine and subordinated space, credit documents remain tighter than in other areas of the leveraged finance world.

Regardless of cyclicity, investors expect that the number of funds and opportunities will continue to grow. As that happens, we should also expect a greater number of consolidations and aggregations.

I hope you enjoy the report as much as I have enjoyed re-joining the team to produce it.

Chase Collum



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# KEYNOTE INTERVIEW

Low interest rates and favourable regulatory treatment are elevating investor interest in infrastructure debt



*Macroeconomic conditions make infrastructure debt the ideal bet for 2020, says head of infrastructure finance at Ostrum Asset Management, Céline Tercier*

## **Q What makes infrastructure debt an attractive asset class right now?**

Infrastructure debt is an income driven product, so it is a good fit for insurance companies and pension funds. It also offers long-term and predictable cashflows, which fit with the liability matching requirements of those types of investor.

Debt, of course, offers better protections than equity. And the recovery rate for infrastructure debt is extremely high, at around 76 percent, compared to corporate, unsecured loans, at around 40 percent. Meanwhile, as an illiquid asset class, infrastructure debt provides an illiquidity premium when compared to traditional fixed income products.

Finally, regulators have recognised the specific characteristics of infrastructure debt, which receives a very favourable Sol-

## **SPONSOR OSTRUM ASSET MANAGEMENT**

vency II treatment as a result – something that is important for European insurers. Ultimately, this is a stable asset class that offers highly attractive risk-adjusted returns.

## **Q How would you describe investor appetite for the space, in light of all these benefits?**

Appetite has grown significantly since the first wave of investor interest in 2010. This is not only because of the advantages that I outlined, but also because of the persistent low interest environment that has forced investors to seek higher yielding products.

Initially, a lot of investors began with exposure to infrastructure equity. But many

are now hitting a ceiling for that type of product. That means they are now looking to find positive yield but with low regulatory capital requirements. Infrastructure debt is one of the answers.

Other investors, not affected by Solvency II, are interested in infrastructure debt for the purpose of diversification. The borrowers we work with are not the type of borrowers who would go to the public markets, so we offer a new type of exposure.

Given that we offer the whole spectrum of solutions in terms of accessing the asset class, we are certainly seeing increased appetite from a whole range of different investor-types. The largest institutions are starting to invest directly or invest through segregated mandates with asset managers. The smaller and less sophisticated investors are interested in commingled funds.

### Q Which regions are providing the most interesting opportunities for you?

Historically, the market has been driven by Europe and America and there are still lots of opportunities in those regions. Dealflow is strong in core Europe, but also in southern and eastern Europe. We are more opportunistic in the US, especially for euro-denominated funds and mandates for which we have to implement a currency hedge policy.

### Q And what about Asia?

Asia is also booming right now. Traditionally, that region has been driven by Australia, but we are seeing increasing opportunities in Japan, Korea and Indonesia. We believe this to be a growth region and we set up a team in Hong Kong, in 2018, in order to take advantage of it.

### Q In terms of sector, energy transition is clearly one of the big infrastructure themes. How is that manifesting itself in dealflow?

Renewables – ranging from solar, to offshore wind, geothermal, hydro and energy storage – currently represent more than 60 percent of our pipeline. I think this trend will continue. There are a huge number of opportunities around the world. Even in the US, where the federal government may not appear to support renewables, there are myriad initiatives at the state level, including the first offshore wind farm projects in the region.

From a financing perspective, we have seen the cost of technologies come down dramatically over the past decade, which has paved the way for subsidy-free projects. That has changed the shape of the risk profile, bringing more merchant and counterparty risk into the equation. We are well versed in analysing this new type of risk associated with greenfield assets.

We also see plenty of refinancing opportunities with more traditional, regulated tariffs. It is great to be involved in both types of transaction, because it provides diversification of cashflow streams, which we are very attentive to in our portfolio construction.

Finally, from a technical perspective, we think offshore wind will continue to develop, even outside its birthplace in core Europe. We have seen projects in Poland, and Estonia and Latvia have just announced a joint offshore wind project. There are more than 30 live proposals in the US right now, as well as some in Taiwan and Japan. Mean-

# 60%

Amount that renewables represent in Ostrum AM's pipeline

while, the next wave of development will be floating. That applies to both wind and solar. It's important for solar because it reduces the environmental impact on agricultural land. It will also decrease the cost for offshore wind and increase the potential scope for development by allowing wind farms to go further out, into deeper waters, limiting the environmental impact on the seabed.

### Q Are you also looking at opportunities around green mobility?

Green mobility will be a key challenge in the coming years because transport is one of the biggest contributors to carbon emissions around the world. And, even though COP25 was not a great success, everyone realises that we must do something to tackle this problem. I think green mobility around rail, electric cars and charging infrastructure will certainly create interesting investment opportunities in the future.

*“Ultimately, this is a stable asset class that offers highly attractive risk-adjusted returns”*

### Q Digitisation is the other major global trend. How is that impacting the infrastructure industry?

There is a huge demand for data in today's world. Everyone wants to have high-speed connections, wherever they may be. There is also a strong political will to expand connectivity, not only in the cities but in rural areas. Even core Europe is a little behind the curve in this regard, but governments are promoting investment plans to remedy this. The advent of 5G will accelerate this process, because additional fibre will be required to stabilise the 5G network.

### Q What is your approach to origination as a firm? How do you identify and select investment opportunities?

Ostrum AM's private debt expertise is managed by a team of former bankers with more than 20 years' experience each, on average. This background provides a vast origination network. It is very important to have your execution capacity understood and recognised in this market. Our execution capacity covers all sectors and geographies. Furthermore, we have the capacity to do direct lending, which gives us access to unique investment opportunities that won't be seen in the often-crowded syndication market.

Our objective, always, is to select the best opportunities available on the market at any point in time and to build a diversified portfolio in terms of geography and sector, but also in terms of risk. Risk profile is a fundamental pillar of our portfolio construction methodology. All in all, selection is paramount for us and we only invest in around 10 percent of all the deals that we screen.

### Q How would you describe pricing dynamics in the current environment?

We have witnessed spread compression over the past years, but that now seems to have stabilised. And it is important to remember that with infrastructure debt, whatever the conditions, this is still an illiquid product, offering an illiquidity premium and attractive return profile. Considering the strong credit metrics of the asset class, the risk-adjusted returns are even better.

### Q What about the way that deals are being structured? If we are, potentially, on the cusp of a





### Q What role are environmental, social and governance considerations playing in investor decision-making?

There is strong demand within the asset class for ESG strategies. We have received the Greenfin label from the French government ministry of Ecological and Inclusive Transition for one of our strategies. This demonstrates to investors our approach to sectors, the way in which we integrate ESG into our investment decision making and asset monitoring, and ensures reporting on carbon emissions. There is a real appetite for this type of green product.

*“The persistent low interest environment ... has forced investors to seek higher yielding products”*

### downturn, are transactions being approached appropriately in order to weather the storm?

There are certain financial covenants that we will always want to see in the credit documentation. If we see structuring that looks a bit aggressive, we will steer clear. We operate in the credit space, so for us the best way to earn money is not to lose any. That means discipline is critical. We will only participate in transactions where we can recover our capital.

I think the industry has been pretty disciplined around structuring, in general. Where we are seeing some evolution is regarding interest rates. We are seeing more and more opportunities with zero floor Euribor for short- and medium-term loans. This is quite new to the market and we push hard for this solution.

We are also seeing more mezzanine and junior debt opportunities, which can be interesting, especially if you are working with an investor that is not under a regulatory

framework such as Solvency II, because the yields here are higher. This is one of the strategies that we are currently developing in Asia.

### Q Beyond a potential shift in the macroeconomic environment, are there any other challenges facing the infrastructure debt market?

I think the big challenge for investors this year will be reduced rates. But while that will be a challenge for investors, undoubtedly, it will also represent an opportunity for asset managers and for the asset class more broadly.

I think regulation will also play a role for investors, encouraging them to seek out alternative sources of deals. Infrastructure debt will be one of the beneficiaries of that quest. In addition, we will continue to see different types of players entering the infrastructure debt space.

Historically, the market has been driven by banks – and only banks. Then came the

asset managers, either raising dedicated infrastructure debt funds or managing segregated mandates. Now, we are starting to see some institutions investing directly.

Competition has certainly increased – although some of the banks will now have to retrench in light of capital constraints such as Basel IV. But nonetheless, this is a big market. Infrastructure debt represents 80 percent of all infrastructure investment – it dwarfs equity. And so, I think there will be a natural place for every type of market participant going forward.

### Q What does the future hold for infrastructure debt?

We will see more and more investors entering the market. Today, it is primarily the large institutions that are involved in this space. It is a relatively new asset class and there is a cost to enter it. However, I think smaller investors will also seek to gain exposure through asset managers. That will be the next major evolution. ■



# The Infrastructure Debt 15

*Fundraising by the leading managers surpasses \$80bn*

Infrastructure debt is trending upwardly, with firms ramping up their credit assets under management. That is particularly evident in our Infrastructure Debt 15 ranking, *Infrastructure Investor's* list of the top debt fundraisers in the asset class.

This is the second time we are publishing this list, and a comparison with our first edition is instructive. Managers made it into last year's top 10 by raising \$1.6 billion. This

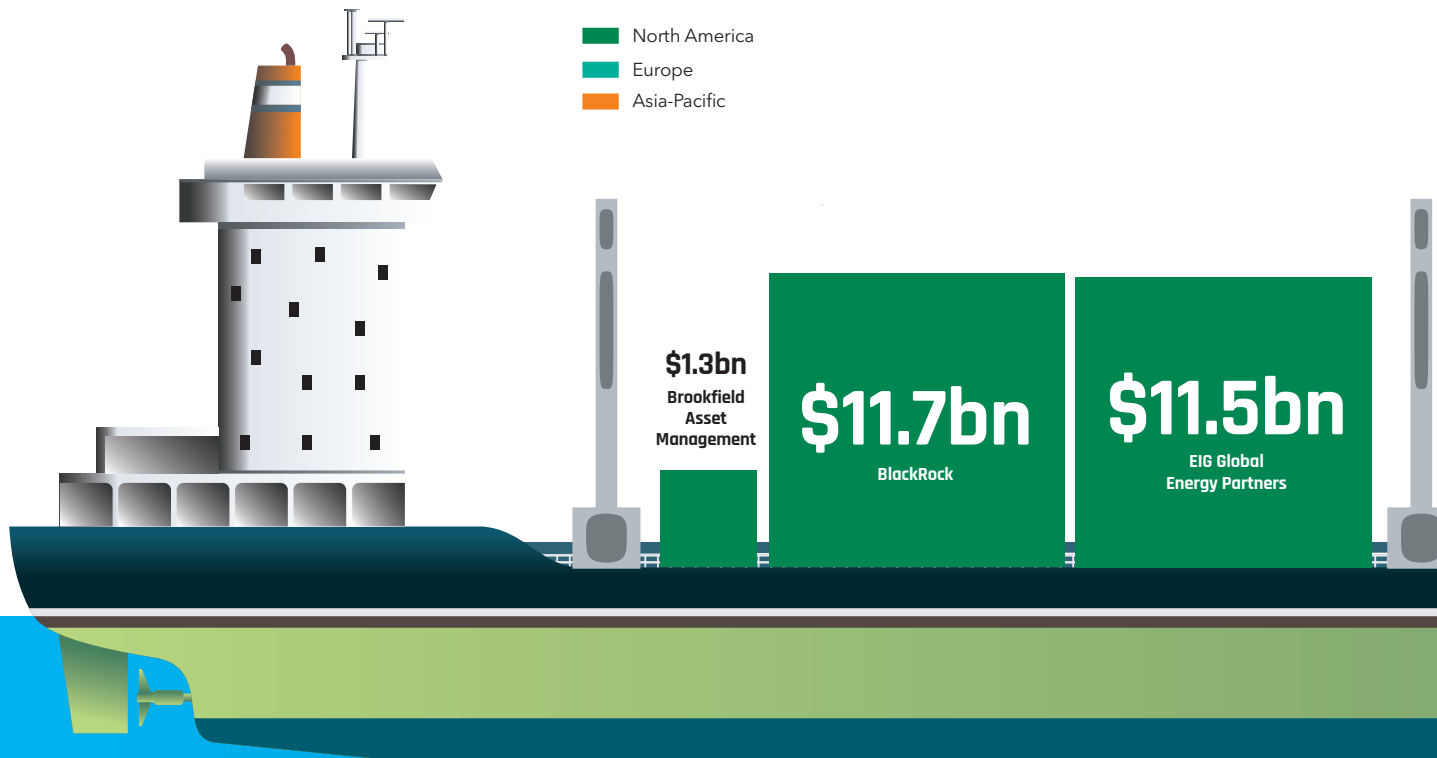
time round a firm would need \$2.5 billion to make the top 10.

Our first \$1 billion fundraiser now pops up at number 15, which is why we've expanded our list by 50 percent this year to cover managers that have raised at least \$1 billion in third-party capital between 1 January 2014 and 31 August 2019. The top 10 in 2019 raised \$59.8 billion in just over five years.

This year's top 10 have raised \$74.9 billion – an increase of some 25 percent on last year.

The entire Infrastructure Debt 15 ranking has raised \$83.8 billion in total.

Of the top 15, 60 percent are based in Europe, just as 60 percent of the first 10 had been. The top two firms are based in the US, but only one other manager in the ranking has its headquarters in North America – in Canada, rather than the US.



Firms required \$2.5bn to make the top 10 in 2020, compared with \$1.6bn in 2019

2020 Rank	2019 Rank	Manager	Headquarters	Capital raised (\$m)
1	2	BlackRock	New York	11,681
2	1	EIG Global Energy Partners	Washington DC	11,527
3	5	AMP Capital	Sydney	10,896
4	4	AXA Investment Managers - Real Assets	Paris	10,321
5	3	Macquarie Infrastructure and Real Assets	London	8,149
6	6	Westbourne Capital	Melbourne	7,510
7	8	Rivage Investment	Paris	4,783
8	-	IFM Investors	Melbourne	4,561
9	9	Edmond de Rothschild Asset Management	London	3,005
10	-	Schroders	London	2,512
11	-	Vantage Infrastructure	London	2,475
12	-	La Banque Postale Asset Management	Paris	1,917
13	10	UBS Asset Management	Zurich	1,796
14	7	Allianz Global Investors	Frankfurt	1,372
15	-	Brookfield Asset Management	Toronto	1,270

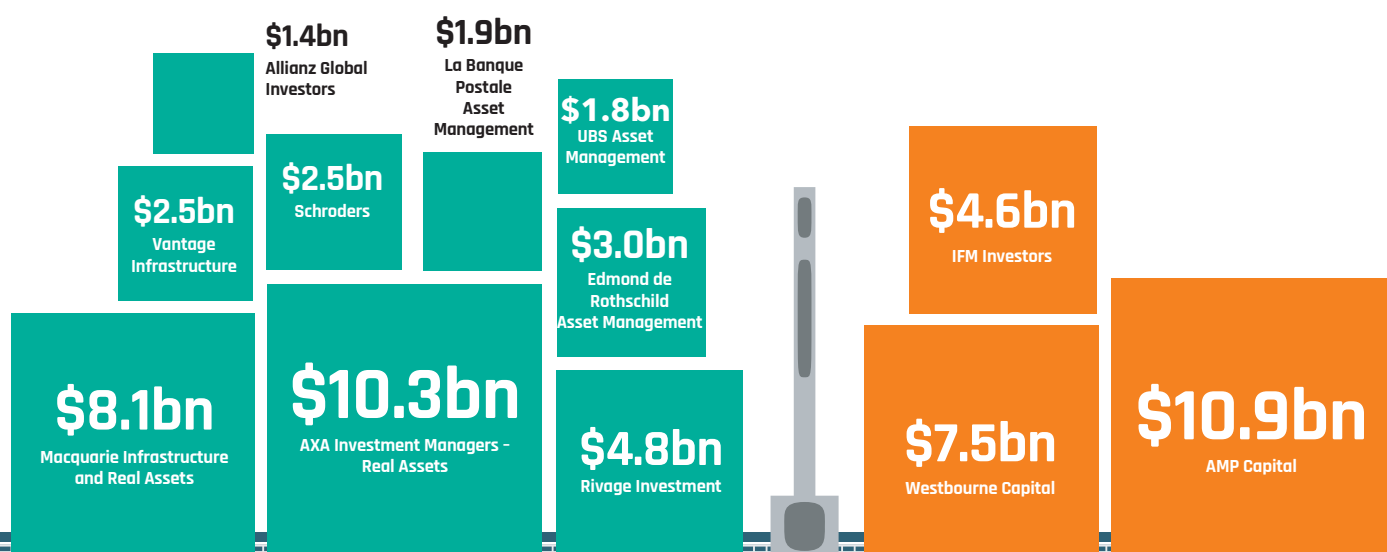
Source: Infrastructure Investor

There are three Australian managers on the list, but the other nine are all based in Europe. Of those, four list their headquarters as being in London and three in Paris.

The lower down the list is where the growth has been concentrated; there is far less expansion at the top. Last year, EIG Global Energy Partners was top with \$11.5 billion raised; this time it is BlackRock with \$11.7 billion. BlackRock was second last time, and the previous top dog, EIG, is this year's runner-up. Movement, as well as growth, is limited.

Three firms rank in the same position as last year: AXA Investment Managers - Real Assets, Westbourne Capital and Edmond de Rothschild Asset Management, in fourth, sixth and ninth place respectively.

One of the joys of an expanded list, however, is that it brings new names into the fold. IFM Investors joins the party, breaking into the top 10 in the process. Schroders is another new entrant to the top 10. Vantage Infrastructure, La Banque Postale Asset Management and Brookfield Asset Management all missed the cut last time but join the expanded ranking. If infrastructure debt continues to progress at its current rate, it won't be long until we're forced to expand our list to 20. ■



# How we compiled the Infrastructure Investor Debt 15

## *Our ranking methodology explained*

### What counts?

#### Structures

- Limited partnerships
- Open-end vehicles (capital must be raised within the specified dates)
- Co-investment funds
- Separate accounts
- Capital raised by infrastructure managers that happen to be publicly traded
- Seed capital and GP commitment

#### Strategies

- Debt strategies
- Mezzanine funds
- Financing of existing assets (brownfield), development-phase assets (greenfield) or a mix of both

### What does not count?

- Expected capital commitments
- Public funds
- Contributions from sponsoring entities
- Capital raised for funds of funds
- Capital raised for infrastructure funds that seek to own assets for a period of time
- Secondaries vehicles
- Real estate funds
- Private equity funds
- Equity funds: core, core-plus, value-add, opportunistic
- Hedge funds
- Capital raised on a deal-by-deal basis
- Leverage
- PIPE investments

The 2019 *Infrastructure Investor Debt 15* ranking is based on the amount of direct infrastructure debt investment capital raised by firms between 1 January 2014 and 31 August 2019.

Where two firms have raised the same amount of capital over this period, the higher ranking goes to the firm with the largest active pool of capital raised since 2014 (the biggest single fund). If there is still a 'tie' after taking into account the size of a single fund, we give greater weight to the firm that has raised the most capital within the past one or two years.

The highest priority is given to information that we receive from or confirm with the infrastructure managers themselves. When firms confirm details, we seek to 'trust but verify'. Some details simply cannot

be verified by us, and in these cases we defer to the honour system.

In order to encourage co-operation from firms that might make the *Infrastructure Investor Debt 15*, we do not disclose which firms have aided us on background and which have not. Lacking confirmation of details from the firms themselves, we seek to corroborate information using firms' websites, press releases, limited partner disclosures and other sources.

### Defining infrastructure debt

The definition of infrastructure debt investing, for the purposes of this ranking, means capital raised through fund structures for the purpose of providing debt financing to tangible, physical assets, whether these be existing (brownfield) or development-phase (greenfield). Capital must be raised in dedicated funds, and we cannot include large

one-off investments in the asset class made on an opportunistic basis. There are certainly grey areas with regard to these parameters, but *Infrastructure Investor* has taken pains to ensure that the capital counted for the purposes of the ranking falls within our definition to the furthest extent possible.

### Quantifying capital raised

This means capital definitively committed to an infrastructure direct investment programme. In the case of a fundraising, it means the fund has had a final or official interim close after 1 January 2014. We might count the full amount of a fund if it has a close after this date, or the full amount of an interim close – a real one, not a 'soft-circle' – that has occurred recently, even if no official announcement has been made. We also count capital raised through co-investment vehicles. ■



# 1 BlackRock



## \$11.7bn

It has been a significant 12 months for BlackRock's infrastructure debt department, with the ascent to the summit of the *Infrastructure Investor Debt 15* providing the year with a fitting conclusion.

Early in 2019, the New York-headquartered firm combined its \$10.5 billion infrastructure debt platform with its real estate business to create a single real assets debt platform, led by Robert Karnes. The reshuffle was prompted by the departure of Erik Savi, who had been head of infrastructure debt.

As the unified team was created, Jeetu Balchandani was made head of Americas and Asia-Pacific infrastructure debt.

BlackRock ranked second in last year's inaugural *Infrastructure Investor Debt 10*. However, it has risen to the top of the pile after increasing its capital raised by more than \$1.4 billion, compared with the period covered by the previous ranking.

The majority of BlackRock's debt AUM is managed through separate accounts. However, the firm also invests through its own vehicles, including its \$700 million Global Infrastructure Debt Fund.

# 2 EIG Global Energy Partners



## \$11.5bn

The Washington DC-headquartered firm took the top spot last time and stays in the upper echelons after raising slightly more – an extra \$44 million – than it had in the period covered by last year's ranking.

It is also only \$154 million behind BlackRock but \$631 million ahead of third place.

The firm is a major investor in oil and gas operations, power and renewables.

Its flagship EIG Energy Fund XVII held a first close in 2017 and has so far raised \$1.9 billion, with a \$5 billion target. The fund is currently investing in energy in Western Europe, North America and Asia-Pacific.

Within the period covered by the *Infrastructure Investor Debt 15* the firm also closed its \$100 million EIG Emerson Partners and its \$500 million EIG-Keats Energy Partners debt funds.

The firm completes a one-two punch for the US. The other firms in the top 10 are headquartered in either Europe or Australia, and there is only one other North American name in the Debt 15 – based in Toronto.

# 3 AMP Capital



## \$10.9bn

AMP Capital is the top-ranked entrant from Asia-Pacific, as it was in the previous ranking. Even more impressively, however, it has doubled its total capital raised and rocketed from fifth to third place as a result.

The Sydney-headquartered firm has a focus on subordinated debt, arguing that mezzanine infrastructure debt can reduce investment volatility and give customers access to strong yielding investments with carefully managed downside risk.

At the tail end of 2019, the firm held a final close on its \$4 billion AMP Capital Infrastructure Debt Fund IV – \$500 million above its target.

AMP also secured \$1 billion in co-investment and an additional \$1.2 billion through separate accounts.

AMP raised \$5.45 billion for the previous ranking. Its figure this time around is precisely double that, at \$10.9 billion. Of that increase, \$3 billion came through Debt Fund IV.

## 4 AXA Investment Managers - Real Assets



**\$10.3bn**

AXA holds on to the fourth-place spot, albeit with a healthy \$3.4 billion added to its total this time round. The Paris-headquartered firm, which manages investments on behalf of AXA Group and third parties, raised \$6.6 billion in 2019 mandates. This contributed to a total of \$10.3 billion of direct infrastructure debt investment capital raised between 1 January 2014 and 31 August 2019.

AXA's infrastructure debt platform was launched in 2013. It held a final close for AXA European Infra Senior I, its debut infrastructure debt fund, on €1.18 billion in 2017. Isabelle Scemama, AXA IM – Real Assets' chief executive, told *Infrastructure Investor* last year that one of the biggest challenges is managing the growth of capital available across all asset classes, and that this made it important for the firm to remain disciplined in how capital is raised and strategic in how it is deployed. She noted that AXA IM – Real Assets is interested in all the "classic infrastructure sectors". AXA European Infra Senior I is currently investing in energy, transport, social infrastructure, renewables and telecoms across Europe.

## 5 Macquarie Infrastructure and Real Assets



**\$8.1bn**

Rounding out the top five is a second European firm, which has raised \$966 million more than it had at the time of the Debt 10.

MIRA is on something of a roll: it is also top of the *Infrastructure Investor* 50, our ranking of managers by the amount of infrastructure direct investment capital they have raised.

The London-headquartered firm is currently investing through two debt vehicles: the £110 million (\$144 million; €130 million) Macquarie Infrastructure Debt Fund (UK Inflation Linked) 2; and the \$444 million Macquarie Global Infrastructure Debt Fund, which has held a third close and has a target of \$1 billion.

Although the former focuses on the UK, the latter is also targeting Australia and the US.

Macquarie's debt asset management business was established in 2012 to pursue investments with higher yields than long-term sovereign or high-quality corporate bonds, but with longer durations and lower risk profiles than high-yield debt.

## 6 Westbourne Capital



**\$7.5bn**

Westbourne Capital prides itself on being a pioneer of infrastructure debt. Established a decade ago as a specialist investment manager focused on investing in infrastructure debt globally on behalf of institutional clients, the Melbourne-based firm has raised \$2.2 billion more than it had for the previous ranking, but that has not been enough to move it higher than the sixth place it achieved last year.

The second Australia-headquartered firm on our list, it has been doing a lot of business through Westbourne Infrastructure Debt Program 3, which has held a first close and is sized at \$2.9 billion. It is currently investing in transport, social infrastructure and telecoms in North America, Asia-Pacific and Western Europe. The \$225 million Westbourne Infrastructure Debt Opportunities Fund, which closed in 2017, also invests in transport, social infrastructure and telecoms in Asia.

The firm offers debt in support of acquisitions, refinancing and the construction or expansion of greenfield or brownfield projects. It is primarily focused on debt investment in infrastructure assets in OECD countries.

## 7 Rivage Investment



# \$4.8bn

Paris-headquartered Rivage Investment has climbed a place up the ranking, with its capital raised some \$485 million more than last time. Last year, it held a final close for its €1 billion REDI 3 fund just seven months after launching it, hitting its hard-cap well ahead of anticipation. That fund is now investing across Europe and targets senior secured, investment-grade infrastructure debt with a spread of 200-250 basis points above the swap curve.

REDI 3 focuses on mid-size transactions in brownfield assets where Rivage can play a role in structuring the financing. The firm also invests through the €400 million REDI HR vehicle, which closed in 2018, the €500 million RHIF, which closed in 2016, and the €628 million REDI 1, which closed in 2015. The €696 million REDI 2, which closed in 2017, is fully invested.

Rivage's infrastructure debt funds generally focus on euro-denominated credit in France, Germany, Italy, the Netherlands, Spain and the UK. As of September 2019, the firm had more than €4 billion of commitments through 12 infrastructure debt funds, nine of which were segregated and three of which were pooled.

## 8 IFM Investors



# \$4.6bn

The first new name on the list is IFM Investors, another Melbourne-based manager. The specialist credit and infrastructure debt manager has a 20-year track record and manages A\$49 billion (\$33.2 billion; €30.1 billion) of debt investments globally. IFM burst into the top 10 after quadrupling its capital raised in the five years to August 2019 when compared with the amount raised in the five years to August 2018.

The firm launched its \$635.6 million IFM US Infrastructure Debt Fund (Open-ended) in 2018, targeting opportunities in energy and other sectors in North America. It is its first open-end infrastructure debt fund and aims to replicate the success of IFM's \$28.7 billion equity fund, which is one of the world's longest-running.

The debt fund attracted a \$100 million commitment from Kentucky Retirement Systems, with fellow US public pension Plymouth County Retirement System and Australian peer CareSuper also committing.

IFM restructured its Australian infrastructure investment team last year, making redundant the positions of three directors in anticipation of a quieter domestic market.

## 9 Edmond de Rothschild Asset Management



# \$3.0bn

Edmond de Rothschild Asset Management ranks ninth in our list for the second time, holding steady in its position despite having raised more than \$1 billion extra. The London-based manager raised just over \$3 billion between 1 January 2014 and 31 August 2019, compared with \$1.9 billion in the period captured by last year's Debt 10.

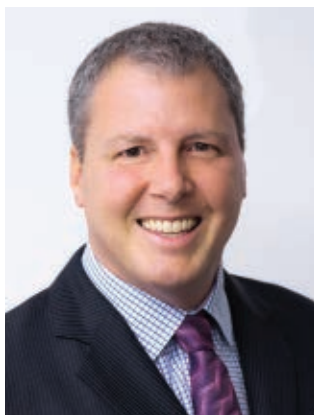
The firm's name has a considerable pedigree in infrastructure, going back to the 19th century, and Edmond de Rothschild Asset Management remains active in advisory services and financing for major infrastructure projects.

Edmond de Rothschild Asset Management is currently investing through the €595million Benjamin de Rothschild Infrastructure Debt Generation (BRIDGE) fund; the €147 million (target €800 million) Benjamin de Rothschild Infrastructure Debt Generation II (BRIDGE II); and the €250 million Benjamin de Rothschild Infrastructure Debt Generation IV (BRIDGE IV) – Higher Yield fund.

It also launched the €500 million Benjamin de Rothschild Infrastructure Debt Generation IV (BRIDGE IV) – Senior Energy Transition fund in June 2018.

# KEYNOTE INTERVIEW

## Side-stepping compressed returns with a subordinated approach



*Mezzanine marries both yield and security as we near the top of the cycle, says **Andrew Jones**, global head of infrastructure debt at AMP Capital*

**Q What is your focus in terms of sector and geography and which areas are interesting in the current market environment?**

Our strategy looks across all the main sectors within infrastructure – so, energy generation, transportation and regulated assets, as well as digital infrastructure. In fact, over the past 12 months, across both Europe and North America, we have been most active in the digital space, driven by the rollout of 5G. We have participated in deals involving fibre-optic roll-out, cell towers and data centres. That is a very significant opportunity and one that continues to grow with the ever-increasing consumption of data, video, cloud computing services and other emerging technology trends.

Power generation is the other sector I would point to right now. In North America, investment opportunities have been born out of the fundamental shifts in fuel sources to gas and in response to the

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new demands being placed on the electricity grid. In Europe, meanwhile, renewables have dominated, and both wind and solar have become areas of focus for us. We expect renewables to remain attractive, given the policy objectives that have resulted in a strong pipeline of projects with significant funding requirements.

**Q What about opportunities in Asian markets?**

We do also see an uptick in long-term opportunities in Asia as infrastructure investment in the region increases to meet the demands of growing populations and expanding economies. Where historically, infrastructure projects may have been funded by government, private sector funding is becoming more important.

**Q Where do you play in the capital structure?**

We have a dedicated focus on mezzanine and subordinated debt. We do not participate in the senior debt market. That is because our own observation has been that there tends to be quite a lot of liquidity in the senior infrastructure debt market, as banks aggressively seek to build portfolios and as institutional appetite for senior loans in the infrastructure space has continued to grow. There has been clear pricing compression as a result. The mezzanine space, however, is a far smaller and more niche market environment. We have found there to be significantly less competition for assets and, as a result, returns have held up particularly well.

**Q What are the advantages of focusing on deals in which you can be the sole arranger and underwriter of mezzanine and subordinated tranches?**



Our experience has been that if we are the ones negotiating the terms of an investment opportunity, structuring the loan and arranging the security provisions, then we are able to achieve outsized returns for our investors, while minimising their risk of loss. Our approach is very much to focus on directly originated opportunities rather than take part in pre-packaged deals through a syndicated process.

**Q Has there been any of the same pressure on terms that we have seen in the corporate loan market?**

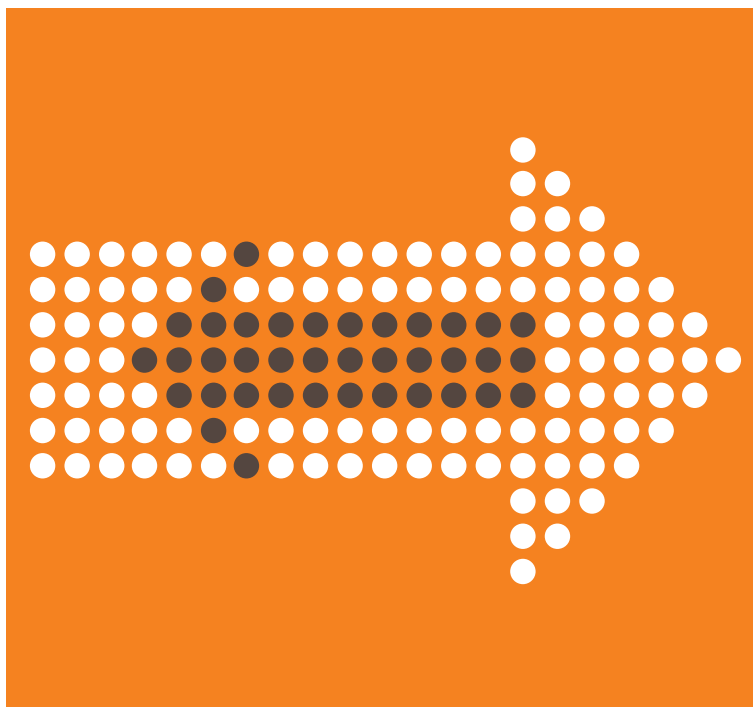
That is certainly one of the conversations we have been having regularly with our investors and potential investors over the last year or two. They ask us if we have seen any watering down of terms because, as you say, the majority of corporate buyout debt being issued right now is covenant-lite in nature and with limited security.

Our own experience, however, has been that we haven't see any dilution of investor protections in the mezzanine infrastructure debt space. The types of covenants, restrictions and security structures that we were able to achieve 10 years ago, we are still able to achieve today. We haven't seen a great deal of change in terms and conditions, and we see that as a very positive thing when compared with other loan markets where protections for investors have deteriorated.

**Q Is that impacting the relative appeal of infrastructure debt for investors? What changes are you seeing in terms of the fundraising market?**

Infrastructure, as an asset class, continues to be attractive due to the stability of the returns that are generated from assets that are providing essential services, with strong cashflows that are largely non-cyclical. And so, for lenders to infrastructure assets, not only do you have the benefit of lending money to those same defensive companies, you also have the additional security of having equity sitting ahead of you in terms of your risk of loss. Those two things combined have generated quite a bit of interest in infrastructure debt as an asset class.

**Q What types of institutions are committing to infrastructure debt, and to mezzanine and subordinated strategies in particular?**



## Defensive debt

**Q What are the biggest challenges the infrastructure debt industry is facing?**

There is a broad expectation that we are nearing the top of the credit cycle and we can reasonably expect to see a surge in default rates, in particular from corporate loans, over the coming years. But we believe infrastructure debt has the defensive characteristics that will position it well to generate consistent returns, even in a downswing in the global economy and in an environment where corporate defaults are rising. The challenge for infrastructure debt players, then, is to help investors understand those characteristics that differentiate infrastructure debt from corporate debt. If we get that right, infrastructure debt could even benefit from a downturn.

*“Infrastructure debt could even benefit from a downturn”*

The demand comes from a wide range of investors, right around the world. The vast majority of investors that support our strategy are either private or public pension plans and insurance companies, together with a meaningful number of the larger sovereign wealth funds.

What do those institutions have in common? In an environment where it is becoming difficult to find attractive risk-adjusted returns, they are searching for that rare thing: both yield and security.

High yielding infrastructure debt has emerged as an asset class relatively recently, commanding a higher yield than senior debt, with the same stable nature of infrastructure assets.

### **Q Are you seeing much innovation in the infrastructure debt space?**

Outside of our particular area of focus, the broader infrastructure debt market has certainly seen a large increase in the types of offerings available to investors.

In addition to our subordinated private infrastructure debt strategy, AMP, for example, runs an attractive bond offering that gives investors exposure to traded, largely investment-grade rated, infrastructure loans in a more liquid approach. The proliferation of investment opportunities in the broader infrastructure debt space has certainly encouraged more investors to take a good look at the asset class.

### **Q How important are environmental, social and governance concerns to those investors and how do you integrate ESG into your investment decision-making?**

ESG is a hugely topical issue and a growing area of focus for investors. Within our own strategy we have tried to stay ahead of that trend in investor demand. So, for many years now, ESG has been a very significant component in our assessment of investment opportunities.

One of the things we pride ourselves on is continuing to improve our approach to the role ESG plays in investment decisions. The tools we use and the way we consider ESG risk continue to evolve, as does the requirement from investors that ESG is right at the top of the list of things to consider when making a new investment. It is a critical element of our investment strategy today.

### **Q How has the geopolitical environment impacted infrastructure debt and how do you mitigate those sorts of risks?**

Geopolitical developments will always have an impact on the asset class. The current range of issues – trade tensions between China and the US, Brexit and the rise of populism in various parts of the world – are all things that we factor into our risk assessments.

We are very familiar and are regularly reminded that one of the key underlying risks with regulated assets stems from the geopolitical environment, and so that is certainly a core element of our due diligence and our risk analysis.

*“We have found there to be significantly less competition for assets and, as a result, returns have held up particularly well [in the mezzanine space]”*

### **Q In what other ways do you expect the asset class to evolve?**

There has been very significant evolution over the past decade already. Today, there are multiple ways that investors can access infrastructure debt opportunities with various degrees of liquidity and duration. That has broadened the opportunity set for investors dramatically when compared with where we were 10 years ago. We are also seeing other trends that we would expect to see in a maturing market. We are seeing more and more investors interested in investing directly, for example, and building up their own in-house teams. In addition, we are not only seeing more funds in the market, but also larger funds. That means that infrastructure debt funds can support the very largest investment opportunities being undertaken by the very largest infrastructure equity funds globally.

### **Q Are you seeing new sectors emerge, or else come to the fore?**

We have seen a continual evolution of the types of asset being targeted in the infrastructure space. Our own corporate approach has been to try and define the types of opportunity that we want to pursue by the core characteristics that they possess – defensive, non-cyclical, stable companies providing highly visible cashflows and delivering essential services, often in a regulated environment. We are certainly seeing more and more sectors fall into that category. As I mentioned, a great example of that has been the rise in demand for digital infrastructure. The types of opportunity that we see in that space certainly have the characteristics that we look for.

### **Q What are your plans for the business in the next few years?**

We have enjoyed great support from our investors and so have experienced significant growth. That has enabled us to deepen our relationships with the leading global infrastructure equity investors and allowed us to continue to support those clients as their businesses grow. We would expect that trend to continue. We have made a point, however, of staying focused on directly originated, subordinated opportunities, and I think that focus has allowed us to deliver consistent returns over a long period. We will therefore be making sure that focus is maintained in the coming years. ■

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## 10 Schroders



# \$2.5bn

Having only narrowly missed out on a place in the top 10 last year, Schroders has strongly boosted its figure for capital raised from \$1.4 billion to a little over \$2.5 billion. This means that every firm in this year's top 10 has raised at least \$2.5 billion, 12 months after \$1.65 billion would have made the cut.

Schroders is the third London-based firm to make the top 10. Its infrastructure division, led by Charles Dupont, head of infrastructure finance, was launched in September 2015 and has the following active infrastructure debt funds: the €465 million Schroder Euro IG Infra Debt I; the €135 million Schroder Euro IG Infra Debt II; the €349 million Junior Loans Infrastructure Europe; the €73 million Schroder UK Infrastructure Debt (its first such UK fund, with a target of €300 million); the €283 million Schroder Euro IG Infra Debt III; and the €650 million Schroder Euro IG Infra Debt Fund IV.

The Schroder UK Infrastructure Debt fund was launched in 2017 and targets junior loans in the transport, energy, environmental, social infrastructure and telecoms sectors in the UK.

## 11 Vantage Infrastructure



# \$2.5bn

Hot on Schroders' heels comes Vantage Infrastructure, which has raised only \$37 million less than its fellow London-based manager. Most of its capital has been raised through separately managed accounts as it makes its first appearance in our debt ranking.

Vantage is the former European arm of Hastings Fund Management. It has a diverse infrastructure equity and debt portfolio with more than \$2.8 billion (\$3.7 billion; €3.3 billion) invested in assets across Europe, North America and Australia.

As many firms are increasingly doing, Vantage puts environmental, social and governance considerations at the heart of its investing. It's a signatory to the Principles for Responsible Investment and a GRESB Infrastructure member. It was awarded a GRESB five-star rating and a first-place ranking within its peer group in the 2019 GRESB Infrastructure Assessment.

As senior partner Valeria Rosati told *Infrastructure Investor* last year: "Vantage's participation in PRI and GRESB surveys is not driven by a thirst for third-party accolades, but a desire to deliver best-in-class client outcomes in sustainability."

## 12 La Banque Postale Asset Management



# \$1.9bn

La Banque Postale Asset Management did not make the ranking last year but has increased its capital raised by almost €1.5 billion to reach €1.9 billion. It is a significant leap for the Paris-based firm and brings it comfortably inside the *Infrastructure Investor* Debt 15.

The LBPAM European Responsible Infrastructure Debt Fund was launched last year and has so far raised €375 million of its €600 million target. The fund is investing in diversified sectors across Europe. The firm also runs the €453 million LBPAM European Infrastructure Debt Fund 2, which held a final close in 2017.

LBPAM European Responsible Infrastructure Debt Fund is the group's third infrastructure fund. LBPAM applies its own ESG screening processes to investments through this vehicle, which can be made across the infrastructure spectrum.

René Kassis, head of private debt at LBPAM, told *Infrastructure Investor* last year that the fund would look beyond traditional renewables by investing in energy storage and electric vehicle charging infrastructure. It would also pay close attention to heating assets in the Nordics.



## 13 UBS Asset Management



# \$1.8bn

UBS Asset Management made the list for the first *Infrastructure Investor* Debt 10 and is back again, having raised marginally more capital to bring its total over the trailing five-year period to \$1.8 billion.

The Zurich-based firm has made a strong start to its involvement in infrastructure debt, having only closed its first €570 million fund in 2016.

Not all of the €1 billion raised for its second debt vehicle – Archmore Infrastructure Debt Platform II – could be included in last year's ranking due to the cut-off date, but it is included now. That fund had an initial target of €700 million and is investing in medium-sized debt opportunities across several sectors in Western Europe, primarily through direct lending on senior secured projects.

Archmore Infrastructure Debt Platform II raised capital from 48 LPs, comprising a mix of pension funds and insurance companies from 10 countries across Europe and Asia, with a re-up rate of more than 70 percent. The second fund follows the €570 million UBS Archmore Infrastructure Debt Platform, which was both launched and closed in 2016.

## 14 Allianz Global Investors



# \$1.4bn

Allianz Global Investors is a major player in infrastructure debt. The *Infrastructure Investor* Debt 15 ranking only takes account of third-party money and shows the firm's total capital raised over the past six years or so to be \$1.4 billion, which is a decrease on the total recorded at the same point last year.

In March 2019, the Frankfurt-headquartered manager launched Allianz Euro Core Infrastructure Debt Fund, a €600 million fund with a target size of €750 million, investing in energy, transport, renewables, utilities and telecoms across Europe.

The Euro Core fund represents a branching out for Allianz, which was already managing pooled sterling vehicles alongside large separately managed accounts.

Claus Fintzen, the firm's chief investment officer, infrastructure debt, says: "This latest fund launch provides yet another access route to the unique cashflows available to investors through our market-leading infrastructure debt platform... Investor demand for this new fund underlines how investing in infrastructure debt has quickly become an integral part of institutional investor allocations."

## 15 Brookfield Asset Management



# \$1.3bn

Rounding out the Debt 15 is Brookfield Asset Management. The Toronto-based firm has mainly made headlines for its much-publicised purchase of a 62 percent stake in Oaktree Capital Management for \$4.7 billion. It has also been busily working towards its infrastructure debt goals, increasing its total capital raised from just under \$1.2 billion in the last ranking to almost \$1.3 billion. Every manager in the *Infrastructure Investor* Debt 15 has raised more than \$1 billion.

The firm closed its debut infrastructure debt vehicle, Brookfield Infrastructure Debt Fund I, in December 2017. The fund is backed by a diverse group of institutions, including pensions, and won *Infrastructure Investor*'s 2018 award for debt fundraising of the year in the global category. The fund was launched in 2016 with a \$700 million target and focuses on mezzanine credit investments in core infrastructure assets, primarily in North America but also in South America, Australia and Europe. By final close it had already made several investments in infrastructure debt – covering transport, renewables, power and energy – worth about \$200 million.



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## KEYNOTE INTERVIEW

## A coming of age



*Infrastructure debt is at a stage where winners and losers may start to emerge, says Jean-Francis Dusch of Edmond de Rothschild Asset Management*

**Q What role has regulation played in supporting the appetite for infrastructure debt?**

The Solvency II infrastructure definition, which was put together by the EU and the European Insurance and Occupational Pensions Authority, has certainly created a very friendly regulatory framework in terms of the solvency capital requirement levels that investors benefit from. A senior eligible debt portfolio can have SCR levels of less than 10 percent, which compares very favourably with non-eligible debt or equity instruments. That certainly makes the asset class attractive in terms of how we can be accounted for by investors.

**Q What are the other favourable characteristics of a senior infrastructure debt product?**

There is a diversified universe of deals available, predictable cashflows and assets are usually regulated. Of course, long-term liability matching is another feature. Senior debt continues, for effective asset manag-

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ers, to generate attractive spreads relative to the risk profile. Strong asset managers are generating senior debt spreads above 200 basis points. We ourselves are giving investors spreads of around 240-250 bps.

**Q And what about your junior debt offering?**

Junior debt can also be attractive, although you are talking about more complex instruments. It is a less commoditised and intermediated space that offers asset managers with structuring skills, like us, the ability to shine. We are even more focused on how effective the covenants and security package that we negotiate are and, on the pricing, what we can achieve relative to the risk taken. There are players out there with an equity background that can target 6-8 percent-plus for junior debt, but that

might typically involve a little less credit discipline than our approach. We target BB internally rated credits, with a shorter duration than senior debt, but still with a great deal of structure, and we manage to generate credit spreads of around 500-plus bps across the portfolio. That is a very attractive risk/return profile, while keeping the key features of infrastructure assets.

**Q How do you select the deals you ultimately choose to pursue?**

First of all, you have to act as an asset manager. You have to understand that you work for your institutional clients, to which you are completely accountable. This is very different to working off a balance sheet. You have to be, among other things, highly credit disciplined.

Such discipline involves thorough due diligence, and investment managers need to know and understand what they are looking for. We have investment directors who worked for industrial sponsors. We believe understanding the technical ration-



## Q Where do you see the most attractive sectors in Europe right now?

You have to be able to operate across all sectors. The reality is that trends can change very quickly depending on liquidity. Right now, for example, there is a rally in telecoms, and renewables remain strong. Social infrastructure is a little more competitive and spreads are tighter. However, it is still possible to identify one or two ‘juicy’ opportunities in a portfolio of 10-15 assets without taking additional risk.

For us, it is more about how you can quickly identify a sector or geography where you have an advantage, but then be prepared to move on to the next opportunity when competition becomes too intense. A good example would be Spanish solar. We were a first mover in that space back in 2016, really taking a view on the regulatory framework and how you could structure deals to mitigate any risk. But after six months of doing several interesting transactions, we saw our peers coming to the market. With this, sponsors were able to negotiate looser covenants and be a bit less generous on spreads. We were prepared and invested in other sectors and geographies while still capturing strong renewable assets. And, as I say, 2019 was the year where telecoms came to represent a much bigger chunk of the infrastructure universe, while renewables are still a strong contender, particularly for asset managers like us that really believe in the energy transition.

ale and integrity of an asset is the first level of security that you need. We also have people who have advised extensively in the public sector. This can prove important because it is one of the key parts of the infrastructure play – understanding how the regulators and granting authorities think is critical.

We have very strong structuring capabilities, by which I mean the ability to negotiate a debt instrument so that the final debt structure meets the mandate that you have from investors. That is crucial. As a consequence, we will rarely buy debt in the secondaries market.

We pursue a mix of landmark and proprietary deals. But it is vital for us to be able to structure the debt instrument, whatever the circumstances, and sourcing is therefore a priority. Sourcing means going directly to private equity sponsors, as well as industrial sponsors and operators, to ensure we have access to deals at the earliest stage and are able to influence terms and conditions from the outset.

## Q What changes are you seeing, then, in terms of the way deals are being structured?

You know what? I don’t think I really see that much change if you are disciplined and experienced. For senior debt, in particular, there is a certain framework that needs to be met. I don’t think we are under any more pressure to accept looser covenants and take on more risk. If you are selective and a good negotiator, then very little has changed at all.

What we are applying is an even greater level of due diligence – whether that relates to a specific technical, market, tax or legal consideration, for example – because, for us, risk mitigation is key. We cannot afford a write-off in the portfolio. When we identify risk, we really need to be comfortable with the mitigant in place.

## Q To what extent do you see environmental, social and governance criteria as a risk and what is your approach to mitigating that?

Since 2016, we have had an increased focus on the ESG-related aspects of transactions, both in terms of the investment process – how we assess transactions and undertake due diligence – but also on the monitoring of such aspects. We have made a quantum leap in this area and there is an increased



recognition that ESG is incredibly important to investors.

We were one of the first debt funds to obtain an energy transition label – the Greenfin label – in early 2018. That has enabled us to progress significantly in terms of how we demonstrate the effects of good ESG practice.

One of the measures of impact we have chosen to focus on is carbon footprint. We are able, on an asset-by-asset basis, to convey the carbon footprint impact of every investment we make in any sector.

### **Q How would you describe competitive dynamics and pricing at the moment?**

You could argue there has been a compression of spreads over the past few years across the sector – taking into account liquidity from banks. But I believe we have proved, through our track record of performance, that if you are highly selective, get involved in deals at an early stage and structure transactions without taking on any additional risk, it is possible to keep spreads for senior debt at 240-250 bps at a portfolio level, with spreads for our junior product, which was launched more recently, holding up at above 500 bps. A competitive environment gives you the opportunity to demonstrate your efficiency as an asset manager.

### **Q Infrastructure debt remains a nascent asset class for institutions and is unproven in a downturn. What implications could a change in the economic environment have for the industry?**

It is difficult to say because, to a certain degree, infrastructure is much less correlated from economic cycles and political shocks than other asset classes. And the beauty of this particular asset class is that governments can seek to boost economic growth through infrastructure programmes, which creates recurrent opportunities for us.

I would point to the technological shift we are seeing and the deployment opportunities it is creating. We see technical advances within the energy transition space – be that battery storage, the production of batteries themselves or renewable technologies such as floating offshore wind. In the telecoms sector, 5G and fibre optic deployment are active. And then there is the interconnectivity of infrastructure, of which

*“Senior debt continues, for effective asset managers, to generate attractive spreads relative to the risk profile”*

*“We are now at the stage where there may be winners and losers in the industry, and the winners will probably consolidate”*

‘smart’ cities are an example. There is also a need for existing infrastructure to be upgraded or just simply maintained, so, for us, this is a stable asset class offering recurrent investment opportunities. And, at the end of the day, debt represents the lion’s share of the infrastructure assets’ capital structure. I don’t think it is a question of cycles, but of being able to capture the right opportunities and market trends at any point in time.

### **Q What challenges does infrastructure debt face in the current market?**

I think the industry may face a consolidation process in terms of asset managers. You need scale to be a long-term player. We now have €2.6 billion of assets under management and that enables us to attract even more commitments. It also enables us to have a real impact as a debt provider and to capture the right opportunities in this broad universe.

Infrastructure debt has existed as an institutional asset class for six or seven years now. That means there are data for investors to compare asset managers, even for ESG considerations. So we are now at the stage where there may be winners and losers in the industry, and the winners will probably consolidate. That doesn’t necessarily mean acquiring other platforms, but simply capturing a greater share of the liquidity available in fundraising.

### **Q In what other ways do you expect the infrastructure debt industry to evolve?**

Appetite for infrastructure debt will continue to grow. In terms of institutional appetite, you might argue that around 75 percent of liquidity is currently targeted at PE funds. But, in terms of infrastructure finance needs, one could argue that around 75 percent of it is debt.

This is now known as an attractive and growing asset class. The rationale for investment is well known to investors and many are now making the decision to carve out infrastructure debt allocations. I would not be surprised to see 2020 and 2021 as bumper fundraising years. That’s when we will find out who the winners are going to be. ■

Jean-François Dusch is global head of infrastructure and CIO of infrastructure debt at Edmond de Rothschild Asset Management

# The attraction of infrastructure debt

*As the hunt for yield and a narrowing return differential between debt and equity converge, the asset class is poised for prominence, writes **Sakshi Sharma***

It is no secret that infrastructure debt has become more attractive to investors. A combination of compressed yields in core infrastructure equity and the maturation of infrastructure debt as an asset class has led investors to queue up to participate.

There was high-profile fundraising activity among debt fund managers last year. This was a reflection of the growing awareness of the benefits the asset class has to offer compared with infrastructure equity investments.

In the context of strategic asset allocation, the investment community observed that, in the past, equity gave double-digit returns or at least as much as 8-9 percent. Core equity would return much more than debt. However, today's tightening yield curves have impacted returns on both, shrinking the difference between them.

Paul David, head of Americas for infrastructure debt at AllianzGI, says: "We are now seeing the highest quality equity give returns of 6-7 percent and debt at about 4-4.5 percent. Debt carries advantages like lower risk, lower capital charge and better risk-reward balance.

"This year is predicted to be at the fringes. We are seeing activity in infrastructure debt pick up and are pleased others are interested. We hope for newcomers and will continue to see plenty of appetite from those present already."

According to an AMP Capital report, *Infrastructure Debt: The Private Capital Advantage*, published in February 2019, "from an LP's perspective, the draw of the private

*"We are now seeing the highest quality equity give returns of 6-7 percent and debt at about 4-4.5 percent"*

PAUL DAVID  
AllianzGI



debt asset class is clear: it offers returns that exceed most defined benefit plan actuarial return assumptions, while providing better downside protection than other private asset classes, both through capital structure seniority and faster distribution-to-paid-in capital return. The median private debt fund reaches a 1.0x DPI in its sixth year, compared to the eighth year for private equity".

The report also noted that the rapid growth of the infrastructure debt asset class is largely a consequence of the global financial crisis. Private investors have absorbed market share hitherto provided by banks: "With lending to businesses gradually increasing over the past decade, 2017 at last saw deployment and fundraising surpass pre-crisis highs."

Patrick Trears, head of infrastructure debt for the Americas at AMP Capital, says: "The core reasons for LPs liking the space are cash yields and stability of investments with way less volatility. The asset class has become more mature and LPs are becoming comfortable with it."

## Healthy closures

AMP Capital closed on its latest debt fund strategy at new highs last year. In October 2019, the fund manager announced a record \$6.2 billion fundraise for its fourth infrastructure debt strategy, which included the final close of the AMP Capital Infrastructure Debt Fund IV, co-investment rights and separately managed account commitments. This is AMP Capital's largest closed-end fund to date and is considered to be the largest fundraise in the world for an infra-



structure mezzanine debt strategy. The fund reached its hard-cap of \$4 billion, surpassing its \$3.5 billion target. An additional \$1 billion was secured in co-investment rights with a further \$1.2 billion from investors wanting access to AMP Capital's infrastructure debt deal capabilities.

Stable business models and reliable cash yields make infrastructure assets a highly attractive proposition for liability-driven investors, the fund manager noted in its February 2019 report.

"Many more deals are using mezzanine debt now and this is attracting attention from an LP's perspective to its stable long-term returns component," Trears says.

In January 2019, UBS Asset Management's real estate and private markets business also announced the final close of its second European infrastructure debt fund, Archmore Infrastructure Debt Platform II. It raised a total of €1 billion within nine months of its launch, substantially exceeding the original €700 million target following oversubscribed investor interest.

Alessandro Merlo, UBS-AM REPM's head of investment for infrastructure debt, says the asset class "is being favoured and is growing at a faster pace compared to equity". This, he adds, is driven by several factors including the low yield environment: "There is a strong focus on yield generating assets. Interest is also driven by the fact that investing in infrastructure debt means investing in contractualised returns, while equity relies on the capacity of distributing dividends and exiting investments."

### Funds galore

Other managers that recently closed fund-raising on their own infrastructure debt funds include: Paris-based Rivage Investment, which held a final close on its third infrastructure debt fund at €1 billion in November 2019; IFM Investors, which closed two infrastructure debt funds worth a total of \$420 million in August 2019; and Brookfield Asset Management, which in 2018 held final close on its inaugural infrastructure debt fund targeting mez-

zanine investments and raised a total of \$885 million.

Infrastructure debt started to cement its position in investor circles following the financial crisis. During this period, regulation required banks to match their own funds to the loans they originate, which made it difficult and costly to lend money over the long term. Institutional investors, therefore, were in a better position than banks to address the long-term financing needs of infrastructure.

This created an opening for institutions that were better suited to operating as long-term financiers. This began to reshape the market. Pension funds went for infrastructure debt with great enthusiasm. Faced with low fixed-income yields, pensions were keen to find a substitute for coupon income. In addition, since infrastructure debt is illiquid, rates are higher than those for traditional fixed-income securities, which provided another attraction for pension funds.

Stefano Mion, co-head of Ardian

Infrastructure US, says: “Lenders are trying to look for longer maturities to replace the investment in government bonds and maintain risk profiles that generate appropriate returns in a compressed yield environment.”

Hadley Peer Marshall, a managing director in Brookfield’s infrastructure group, agrees that infrastructure debt has been popular with an increasing number of investors and sponsors thinking about credit as a tool in their overall capital structure.

She says: “2019 witnessed a nice element of more demand and supply of debt capital. Within the asset class there are various forms of mezzanine capital where some are targeting higher return and risk, and some are focused on distressed assets.”

Banks, however, still have a part to play. They will likely absorb the short-term lending tenors in the early, riskier stages of a project, though institutions are expected to take an increasing amount of senior long-term debt.

Although equity still has a larger share, infrastructure debt remains a very active market. According to Mion, the main reasons for this are structural.

“Everyone is trying to find a safe asset class to generate long-term yields,” he says. “The LP side exposure to infrastructure has increased, and institutions have gotten more accustomed to infrastructure risk. While we continue to be equity investors and also use debt for our transactions, we expect the market to remain friendly.”

LPs in general seek returns at an appropriate risk level. With government bonds suffering rate decreases, they need to place positions on investments that yield good returns over a meaningful tenure. This makes infrastructure debt a “winner”, says Mion.

### Sector focus

With infrastructure debt maturing as an asset class, fund managers are also trying to differentiate and offer sophisticated strategies. Some of these are based on scale, global scope, or credit seniority, while others are based around financial characteristics such as inflation protection.

David of AllianzGI says the core sectors of energy and power generation, including all other contracted frameworks, remain solid investment themes. “Anything that does not include merchant risk, such as stable transport projects, gas pipelines, gas storage,

*“Interest is also driven by the fact that investing in infrastructure debt means investing in contractualised returns, while equity relies on the capacity of distributing dividends”*

ALESSANDRO MERLO  
UBS-AM REPM

liquefied natural gas, renewables – wind, solar, hydro – is good, as well as any assets providing stable long-term cashflows.”

He adds that AllianzGI expects to see dealflow in all of those sectors this year, across investment grade countries in North America (particularly the US), Latin America and Europe.

For Ardian, although it sees activity across all sectors, renewables remain in focus as they enable investors to achieve their green targets. “Based on our conversations in the market there seems to be no slowdown in the first quarter of 2020,” says Mion. “There’s been no change in perspective in terms of the quality of the economy and underlying macro-economic trends.”

Transport, renewables, midstream, utilities and data remain Brookfield’s main investment focus and it plans to concentrate on those this year as well.

Merlo of UBS says it sees “an expanding trend in appetite in 2020 for telecom infrastructure including fibre optic, telecom towers and data centres”. He also sees digital infrastructure as a fast-growing trend.

The infrastructure debt asset class is still in ramp-up phase, industry participants say. But, as it grows, the need for sector diversification and appetite will also increase.

“Further education on the investor side is important,” says Peer Marshall. “It is still new, and we see opportunities for infrastructure debt to be an established asset class.”

The challenges that remain are finding the right deals, good origination strategy and deploying capital in a timely manner.

### What lies ahead?

Infrastructure debt has started to attract greater interest from investors. It is seen by some as a defensive, attractive diversifier away from corporate credit, with returns in line with their portfolio objectives – especially as corporate credit spreads continue to be challenged.

Often, it is seen as a complement to infrastructure equity portfolios, adding to the downside protection in the portfolio.

Broadly, fund managers say they expect LPs and institutional investors to continue to allocate funds to infrastructure debt, keeping risk profiles and yield strategies in mind.

The strong, co-ordinated, low-rate environment is also expected to continue, which will further favour the asset class. ■

## KEYNOTE INTERVIEW

## It pays to be picky



*Europe offers a broad array of opportunities for infrastructure debt investors. But selectivity is key, says **Bertrand Loubières**, head of infrastructure finance at AXA Investment Managers – Real Assets*

**Q Why is infrastructure an attractive asset class for investors?**

Infrastructure investment involves real assets – tangible, concrete projects. Furthermore, we are mobilising funds to finance services that are essential to society. That means we have a heightened ability to forecast cashflows. It also means those services will be needed in good times and bad, supporting the asset class's resilience. They are highly decorrelated to movements in GDP and therefore provide attractive diversification from a portfolio construction perspective.

A major component of what we do, meanwhile, involves financing ESG-compliant projects. We have the ability to focus on renewables or energy efficiency, or any number of sectors that have an overall positive impact. As an example, when you

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are financing a new motorway, you are, in fact, taking traffic away from old roads and putting it on bigger and better managed new roads. Even though you may have to cut down some trees to get there, you can achieve a net positive impact.

**Q And why infrastructure debt, in particular?**

At AXA IM – Real Assets, we focus specifically on private infrastructure debt. We are not looking at companies that have huge programmes of public debt. Private infrastructure debt involves illiquid instruments. That means we can capture an illiquidity premium when compared to the public markets.

Many investors in infrastructure debt have very long-term investment horizons – pension funds and insurance companies, for example. Infrastructure debt offers maturities of 10, 20 or even 30 years – although we primarily focus on maturities of 10 to 15 years. It is hard to find maturities of those levels in the public markets, outside of government bonds.

In short, then, infrastructure debt delivers diversification, decorrelation to GDP, an illiquidity premium, longer-term stable income-driven returns and the ability to target investments that can have a positive impact on society and on the environment. That is a highly attractive proposition.

**Q Where do you see the most exciting opportunities in terms of geography and sector?**

Our focus is on Europe. The reason being



that all the sectors that you would define as infrastructure – be that water, transportation, telecoms or renewables – are open to being financed privately. That is very different to the US, for example, where the bulk of the infrastructure market involves energy, because most of the transportation assets are financing themselves through the muni bond market.

We therefore consider Europe to offer a wide breadth of exciting opportunities. That said, you always have to be very careful in terms of selection. You have to look at how transactions are structured, who the sponsors are and what the business model underpinning the credit is. It is very much a bottom up approach.

In terms of which sectors we see as particularly interesting right now, I would point to the telecommunications industry and in particular to financing the rollout of fibre optic networks. There are some very compelling business models emerging there.

In terms of geography, we are open to investment opportunities everywhere. It is really a matter of relative value. Of course, we like France, the Netherlands and the Nordics. We are also looking at the UK, albeit with some caution. Hopefully the political backdrop will stabilise and more clarity will emerge about how things are going to evolve.

### **Q What is your approach to origination and deal selection?**

We believe that, thanks to our track record and our ability to mobilise significant amounts of liquidity, people are very interested in working with us. That means we are approached on a regular basis by advisers, borrowers and banks to see how we can work together. But once again, the key here is asset selection. We carefully analyse every opportunity. Sometimes it doesn't take long to realise something is not going to work. Sometimes you need to spend a little more time. Sometimes you need to spend an awful lot of time if the situation is complex.

We review many opportunities every year, but only bring between 10 and 15 deals to our investment committee per annum. It is a very thorough selection process and transactions have to meet highly stringent criteria in terms of relative value, structuring, sectors and ESG before they pass the threshold to be brought forward for investment committee review.

## Meeting borrower needs

### **Q How would you describe investor appetite for infrastructure debt and is it changing?**

We see significantly more interest coming from traditional institutional investors – so, insurance companies and pension funds that are looking for new ways to meet their distribution liabilities in the current depressed interest rate environment. Other types of investors – sovereign wealth funds, for example – may be less inclined towards senior debt because the returns can be relatively tight. In terms of geography, there has been an increase in interest from Japanese investors in European infrastructure. US investors are also looking at this market carefully because of the favourable exchange rate.

Indeed, institutional investor participation in infrastructure debt has increased dramatically, altogether. If you look back 10 or 15 years, there was very little involvement, but the relative share of institutional financing has grown significantly and continues to grow. Banks have retreated to a large extent and that gap has been filled by institutions. We believe there is no turning back to a bank-led market. Over the past six or seven years, the institutional investor base has demonstrated an ability to meet borrowers' criteria and has proven to be a highly dependable and trusted source of liquidity.

### **Q Where in the capital structure do you focus?**

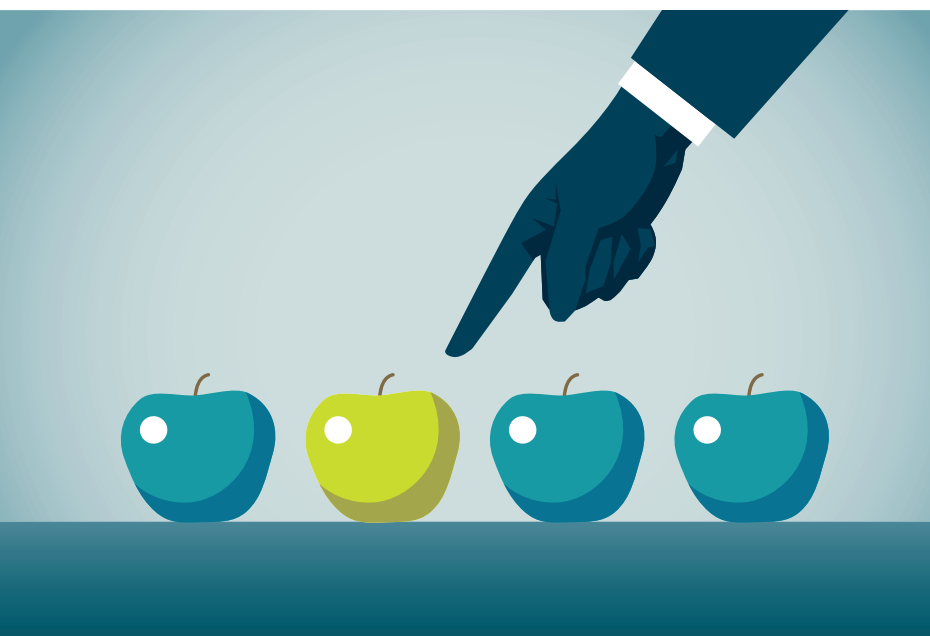
Our focus is on senior secured debt at both an opco and holdco level. We don't do mezzanine or junior debt. We don't mind being structurally subordinated, but we want to be senior secured at the level of the borrower.

### **Q How would you describe competitive dynamics and pricing, and the subsequent impact on returns?**

I have always operated in a competitive environment. Yes, you have pressure on spreads. But Solvency II's recognition of the specific characteristics of infrastructure debt means investors can generate savings in terms of regulatory capital. That means transactions that are deemed Solvency II-compliant are all structured in the same way. For this reason, we haven't really seen transactions that are covenant-lite or too aggressive, and so pricing as the variable of adjustment has tightened. That said, even though margins are coming inwards, there are still opportunities for quality transactions.

Relative value still exists, but it is important to exercise caution. There are many transactions that we have declined because pricing went away from us. So yes, there is healthy competition, but although the institutional investor base is gaining market share at the expense of the banks, the overall mar-

*“We believe there is no turning back to a bank-led market”*



ket is getting bigger. It isn't a feeding frenzy where pricing has tightened so much that you can't execute. You just need to be careful.

**Q What other changes are you seeing in terms of the way deals are being structured?**

The good thing about our platform is that we are not in the position of having to deploy capital at any cost. Sometimes you need to hang back because the market conditions aren't right, or pricing is too aggressive. We can afford to sit it out and wait for things to improve. We maintain very high underwriting standards and therefore will not compromise on terms.

What is important, in terms of transaction structures, is understanding why things are structured in a particular way. There has to be a strong rationale behind it. That could be regulatory changes or capex programmes, for example, but there must be objective justification for why a repayment profile has been sculpted in a particular way. What we don't like is being presented with a case and when we ask the question "why", the answer is, "because we can".

**Q What role do environmental, social and governance issues play in infrastructure debt and what is your approach?**

It is important to look at every environmen-

*"It isn't a feeding frenzy where pricing has tightened so much that you can't execute. You just need to be careful"*

tal aspect relating to a project, and to that end we have developed an internal methodology. When it comes to the social and governance elements of ESG, it can be more difficult to establish a clear set of criteria for infrastructure debt, but we certainly look very closely at sponsors' policies, as well as the overall sector and whether or not it has a positive impact.

When it comes to governance, we look at sponsors' governance policies which are generated at a group or fund level. We also look at the geopolitical environment. Some countries are more proactive than others when it comes to ESG and climate change. Finally, we look at how many of the 17 UN Sustainable Development Goals a project will meet. An investment in a water project, for example, is likely to contribute towards sanitation and health objectives.

**Q How is infrastructure debt positioned if and when the economic cycle turns?**

Top of the market behaviour is more of an issue for infrastructure equity. It is fair to say, if you look at mergers and acquisitions transactions, that the multiples being talked about are pretty high. We, however, focus on senior secured debt, and primarily investment grade senior secured debt. Only so much debt on any given asset can be investment grade, based on underlying cash flows.

In that sense, it doesn't matter if the asset trades at 20 or even 30 times EBITDA – the investment-grade senior secured debt may be capped at five times EBITDA. The underwriting standards for senior secured investment-grade debt have continued to be strong – unlike in the leveraged finance market, for example, where we are increasingly seeing covenant-lite structures, and leverage going up. We just haven't experienced that in the infrastructure debt space.

**Q What does the future hold for infrastructure debt?**

It is a market that will experience a great deal more growth. It has established its place as a credible and dependable source of liquidity, which means that more money will continue to be committed to the asset class. Meanwhile, structures will increasingly evolve to meet the precise needs of the different sub-sectors within infrastructure. It remains to be seen whether pricing will widen or tighten, but I am confident about the ability of the infrastructure debt market to grow. ■

# Debt takes the main stage

*The key to a successful debt strategy is to offer flexibility and added value, while keeping overall project costs competitive, Chase Collum hears at the annual Infrastructure Investor New York summit*

At the Infrastructure Investor New York Summit in December, a cohort of infrastructure debt managers gathered to discuss strategies they have found to be successful and why the debt opportunity is so interesting.

Debt managers, who were all speaking under the Chatham House Rule, were keen to emphasise the importance of balancing cost of capital against overall project cost.

“Part of the reason why so much infrastructure is owned locally in the US is because the tax-exempt financing was advantageous,” noted one of the panellists. “But governments don’t think about total cost of ownership. They only focus on the upfront cost when the reality is that a lot of times, a tax-exempt financed project costs more money in the long run because governments aren’t very good at maintaining projects.”

“We all try to continue to make that point to governments. They are getting there; it’s just taking a long time.”

And, of course, it’s not only governments who are out for the lowest possible cost of

*“Governments don’t think about total cost of ownership. They only focus on the upfront cost”*

capital. “Certainly, any GP would want to capitalise their projects and businesses at the lowest possible price,” said another panellist. Although there are still plenty of projects that qualify for tax-exempt financing, “not every project qualifies, not every industry, and not every use of proceeds. So, you say, okay, what’s the cost of actually putting that piece of paper together? What’s the flexibility that I’m going to be able to achieve should the project need to have some flexibility associated with it?”

That brings up another point that the panellists hammered home: private infrastructure debt provides financial flexibility to projects and portfolios that tax-exempt and bank debt financing can’t always match.

One panellist said his team frames





## A growing market

**The panellists unanimously agreed that infrastructure debt is a market with room for expansion.**

“The overall pie of opportunities is really growing,” said one of the panellists. “So, it’s not just a race to the bottom of a market with limited opportunity.”

The public sector is driving many of these opportunities, the panellist added. One reason for this is that US local governments are budget constrained. “All the dollars they have are going to services and pensions; they don’t have money to fund infrastructure, but they have problems and the problems are becoming acute. They’ve deferred things for too long.”

Infrastructure debt funds raised \$67.3 billion over the past decade, with 50 in-market funds seeking an additional \$20.1 billion as of 1 January 2020 – a sign of the appetite and opportunity for infrastructure debt.

flexibility around the ability to include a delayed draw component. “With tax-exempt bonds you have to take funding on day one. So, though our rate might be higher, total interest costs at the end of the day are actually competitive.”

The flexibility provided by private infrastructure debt can also manifest in the form of longer tenors. Whereas banks tend to be limited by tenor, certain infrastructure debt providers have learned to get comfortable with tenors as long as 30 years.

Flexibility is an important point for infrastructure debt investors because it’s an area where they can add value beyond simple cost of capital, said one panellist. “As a debt investor, an LP investment team has to think about what besides costs they are really

giving to the GP. Why should the GP get another other party in to what are typically complicated opportunities and projects?” he asked.

### Equity vs debt

The important thing to assure your investment partners is that you will provide alignment of interests. “What you really don’t want as a debt fund investment team is to make an investment or a loan to a GP and the day after that loan closes that GP is trying to figure out how to get out,” he said. “The good teams ... understand that and spend a lot of time not just putting up a term sheet but really sitting down to understand the investment thesis.”

The differential between core infrastructure equity and infrastructure debt returns has tightened to only a couple of turns over the past year. With that in mind, one of the panellists noted that it is “fascinating” how

much focus there is on infrastructure equity “when infrastructure equity is only in some cases 10 percent of your capital stack [and] the majority of the funding to build infrastructure is going to come from the debt side of the equation”.

Another of the panellists added that the risk/reward picture for infrastructure debt and real asset debt is strong and “it will be able to get upper single digits and you obviously have an equity cushion below you”.

With so many people in the private market predicting that the next economic downturn is within striking distance, downside protections, equity cushions and a solid risk/reward proposition are all front of mind, making infrastructure debt all that much more attractive to investors, the panellists said.

“Even at the holdco level, you can better underwrite your exposure” in infrastructure debt deals, one panellist said. “You’re not lending to a large corporation that has multiple issues. You get a very specific view of the projects. You can underwrite the cash-flows, the barriers to entry, you have collateral, you have something real and tangible you can get into, and these are all covenant heavy transactions.” ■

## KEYNOTE INTERVIEW

# Doubling down on infrastructure debt



*Appetite for infrastructure debt is growing as investors become more familiar with the asset class and concerns about the credit cycle grow, say Macquarie Infrastructure Debt Investment Solutions co-heads **Tim Humphrey** and **Kit Hamilton***

### **Q** What is drawing investors to infrastructure debt?

**Tim Humphrey:** In this low-yield environment, there is pressure on pension fund and insurance company solvency levels. These institutions traditionally invested heavily in high-quality corporate and government bonds but are now looking to other asset classes in search of higher returns. Infrastructure debt can offer similar economic characteristics to more traditional public bond allocations, but it can also deliver additional returns through acceptance of the greater complexity and illiquidity associated with private markets.

In addition, investors are increasingly recognising the portfolio diversification benefits it can offer, mainly because the as-

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sets can deliver stable cashflows with low correlation to GDP. This makes them well positioned to weather a downturn.

### **Q** How have these attributes shaped the current make-up of the investor community?

**TH:** A lot of our early capital was raised out of Europe, with the EU's Solvency II Directive pushing local insurers towards high-quality, long-dated, fixed-income products for liability matching. At the same time, sophisticated defined-benefit pension

funds, particularly in the UK, were similarly looking to better match their assets and liabilities to reduce volatility on their corporate sponsors' balance sheets.

More recently, though, we have seen strong interest from Asia, and particularly Japan and Korea, in addition to promising signs in the US.

It is fair to say that investors in these regions are at different stages in their journeys of allocating to private markets. A lot of our clients were early adopters, but it now feels as though a second wave is coming through. Many of the more recent investors we are seeing started out in infrastructure equity. Others started out in direct corporate lending or real estate debt and are now looking for diversification.



## Q How are investors addressing the asset class from an allocation perspective?

**TH:** Historically, our investors typically allocated to either investment grade or sub-investment grade strategies. However, we are increasingly seeing allocations across a combination of the two, with more flexibility being given to asset managers to find the best opportunities within the capital structure.

Investment grade infrastructure debt typically involves lending to core infrastructure and can replace high-quality corporate or government bonds in a portfolio. An investment grade portfolio can typically deliver a yield uplift of 0.5 percent to 1 percent relative to corporate bonds of similar credit quality and duration, although that will vary by transaction depending on the complexity and asset sourcing channel. Those returns might not sound very exciting, but when those investors can lock in that return for 20 or more years, that can have a meaningful solvency impact.

Sub-investment grade infrastructure debt, meanwhile, may involve increased leverage or revenue uncertainty. This could include core-plus borrowers, or be more junior in the capital structure for core borrowers. So, it comes with additional yield. Our sub-investment grade strategy is still targeting well-structured transactions with a focus on capital preservation, which distinguishes it from mezzanine debt strategies.

In current conditions we see portfolio returns of around 4-5 percent above government bonds, although that can vary significantly by deal type. Investors committing to this kind of strategy are generally looking at a five-to-10-year maturity with allocations coming out of return-seeking buckets, rather than liability matching. For example, we have seen investors selling publicly listed equities at their current historically high levels and using the proceeds to fund their allocations to assets with attractive cashflow and diversification characteristics.

## Q Where do you see the most attractive opportunities in terms of deployment?

**Kit Hamilton:** Our platform was established with a global focus and broad sector coverage. To provide our clients with the most attractive opportunities, we look to invest in those parts of the market that have the least competition at any point in time.

In just the last few months, we have in-



## Q How does your business approach environmental, social and governance issues?

**KH:** The consideration of ESG risks really is central to all our investment decisions. ESG is hardwired into our investment committee discussions from the outset and remains front and centre throughout the period of our investment. This is not just because ESG is important to investors; it is what our people want to deliver as well. ESG should also be recognised for the opportunities it can offer investors.

Obviously, there are a great number of renewables projects that investors are allocating to. However, there are a lot of ancillary opportunities as well. For example, I was recently talking to an advisor about how they are helping an airport install onsite renewables and energy efficiency initiatives. The desire was to get the airport to carbon neutral and, aspirationally, to zero-carbon. There are lots of exciting opportunities in the ESG space currently, and even more to come.

**TH:** A substantial proportion of investors' due diligence is now spent on the topic of ESG, and rightly so. While we may not own the assets or operate the infrastructure, the high level of scrutiny we apply makes it clear to borrowers that they need to up their game. Ultimately, the assets we finance underpin economies, so it is really important that they are focused on the contribution they are making to the environment and communities they serve.

*"In some ways, if the cycle turns it would be positive for infrastructure debt"*

**TIM HUMPHREY**

vested in the UK, France and the Nordics, as well as Ohio and California in the US. We have also been very active in Spain, with our team executing five investments in the country's solar sector in the last couple of years.

We see a greatly increased pipeline in the digital infrastructure space and have recently helped finance the roll-out of fibre broadband networks in Europe. The other theme to mention is renewables, which is where we have found the richest supply/demand balance. Today, around 35 percent of our portfolio is in renewables and we see no signs of that diminishing over the next few years. These transactions not only involve solar and wind, but increasingly energy-from-waste facilities and biomass. We



### **Q** We may be near the top of the cycle, what are the implications for infrastructure debt?

**TH:** In some ways, if the cycle turns it would be positive for infrastructure debt. It would showcase some of the characteristics of the asset class, and help more investors see the value of including infrastructure debt as part of their portfolio. Historically, the credit quality on corporate lending has been more affected by a downturn, particularly following a period where covenants have been weaker. The cycle turning should lead to a lot of deployment opportunities and good relative returns for infrastructure debt.

**KH:** Infrastructure debt typically has a lower correlation to GDP and is often regulated with strong government oversight. That means it is not as exposed to a change in the cycle as other parts of the market. And while terms have relaxed in the corporate lending space, that hasn't been as pronounced in the infrastructure debt market, particularly where managers can access proprietary dealflow and avoid the most broadly marketed assets.

are also seeing opportunities in the related infrastructure around grid connections and the associated networks that need to be upgraded in order to facilitate the additional capacity.

### **Q** Which strategies are proving most popular in the current environment?

**KH:** You can't say that either sub-investment grade or investment grade is more popular than the other at the moment, as there are disparities across geographies, sectors and individual capital structures. With our debt offering spanning the majority of the capital structure, we find that we can best align capital to the area most in need while avoiding the more competitive parts of the market.

**TH:** Investor demand for sub-investment grade came as the search for additional yield intensified. Investors who were not constrained by regulatory capital or liability matching requirements found that they could achieve an attractive yield uplift for modest levels of additional risk. At the same time, on the borrower side we saw significant fundraising into private equity infrastructure funds. Junior debt has become a useful part of the M&A toolkit for sponsors seeking to enhance returns or increase ticket size to bid for larger transactions.

*"Today, around 35 percent of our portfolio is in renewables and we see no signs of that diminishing over the next few years"*

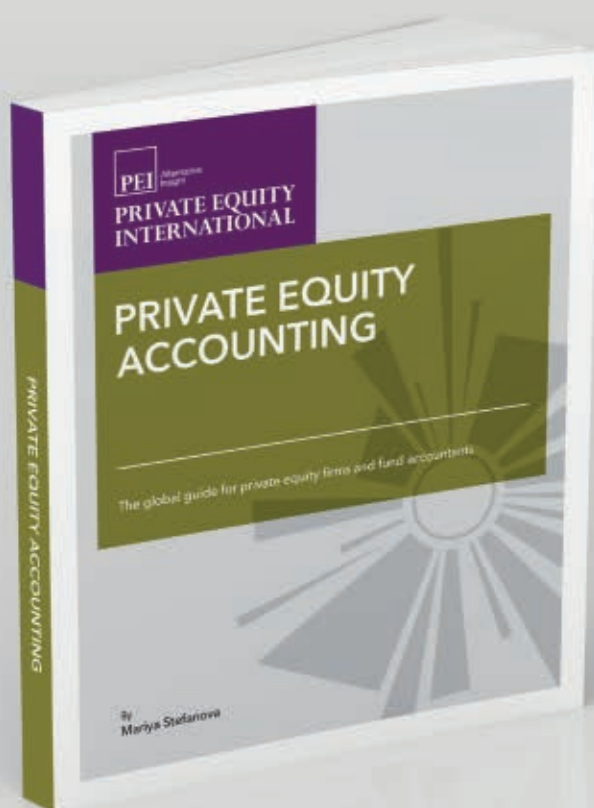
**KIT HAMILTON**

### **Q** In what other ways do you expect the infrastructure debt industry to evolve?

**KH:** When a borrower is looking to put together a refinancing or an acquisition package, the institutional market is now one of their very first calls. Borrowers are increasingly looking to design their capital structure around the permanent funding, before filling the gaps with bank debt and other products. That is a significant evolution. Historically, banks would provide short-dated loans at the outset and then the borrower would look to refinance. But institutional investors have proved themselves to be nimble and reliable, so why take additional execution and interest rate risk through a two-stage process when you can put long-term capital in place from day one?

**TH:** The bank's share of the market is shrinking as borrowers become increasingly familiar with institutional sources of capital. It is also not getting any easier for banks from a funding or capital perspective, so I think that trend will continue. We built our business on early adopters, but are now seeing a second wave of investor capital coming into the asset class. Infrastructure debt is increasingly becoming a core element of any asset allocation process. We expect that will only accelerate as concerns around the credit cycle grow. ■

# Private Equity Accounting



*The global guide for private equity firms and fund accountants*

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- Every precise detail and required practice explained, with user-friendly examples of all accounting processes and standards

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\$67.3bn

Raised by infrastructure debt funds holding a  
final close 2009-19

118

Infrastructure debt funds that held a final  
close 2009-19

\$5.2bn

50

Infrastructure debt funds in market as  
of 1 January 2020

Raised by the largest  
infrastructure debt fund to  
close in the past decade  
(AMP Capital Infrastructure  
Debt Fund IV)

\$20.1bn

Sought by infrastructure debt funds in  
market as of 1 January 2020

## Signposts of a maturing market

*The debt market continues to develop, with average fund sizes on the rise and strategies becoming more specific. Research from Infrastructure Investor highlights the trends that matter*

From 2014 through 2019, the top 10 infrastructure debt funds to reach final close amassed a combined \$20.7bn

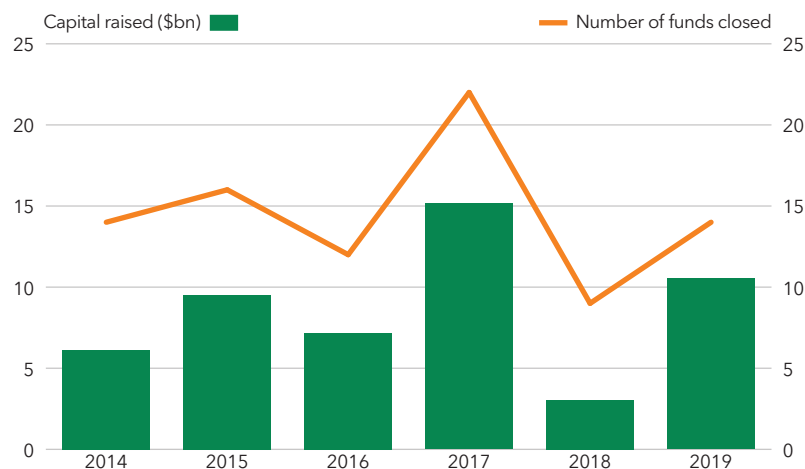
Fund name	Head office	Fund manager	Current size (\$bn)	Region
AMP Capital Infrastructure Debt Fund IV	Australia	AMP Capital	5.15	Multi-regional
AMP Capital Infrastructure Debt Fund III	Australia	AMP Capital	4.10	Multi-regional
Carlyle Energy Mezzanine Opportunities Fund II	US	The Carlyle Group	2.82	North America
AMP Capital Infrastructure Debt Fund II	Australia	AMP Capital	1.35	Multi-regional
AXA European Infra Senior I	France	AXA Investment Managers - Real Assets	1.34	Europe
Highstar Capital Fund III Continuation Fund	US	Oaktree Capital Management	1.30	North America
Macquarie Infrastructure Debt Fund I	Australia	Macquarie Asset Management	1.26	Europe
Partners Group Multi-Asset Credit Strategy 2016 (MAC III 2016)	Switzerland	Partners Group	1.13	Multi-regional
Archmore Infrastructure Debt Platform II (IDP II)	Switzerland	UBS Asset Management	1.12	Europe
REDI 3	France	Rivage Investment	1.12	Europe

Source: Infrastructure Investor

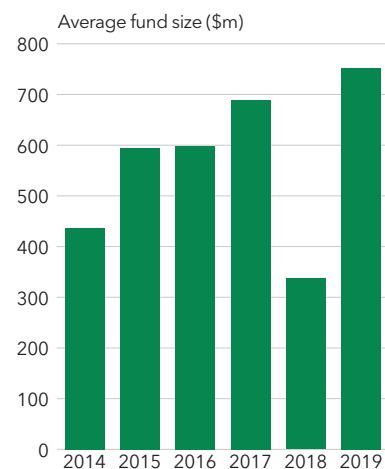


## Data

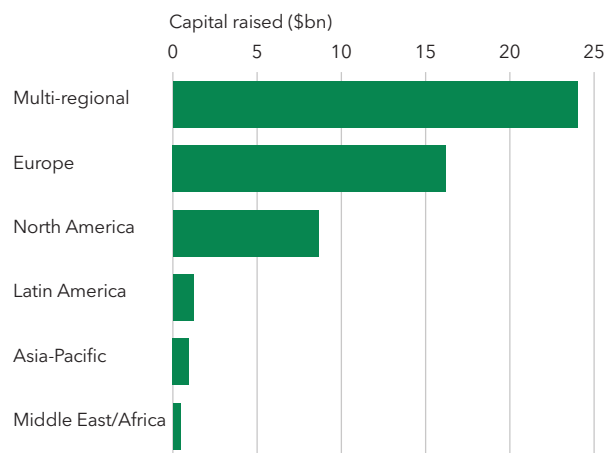
Fundraising results across the past five years have been somewhat choppy...



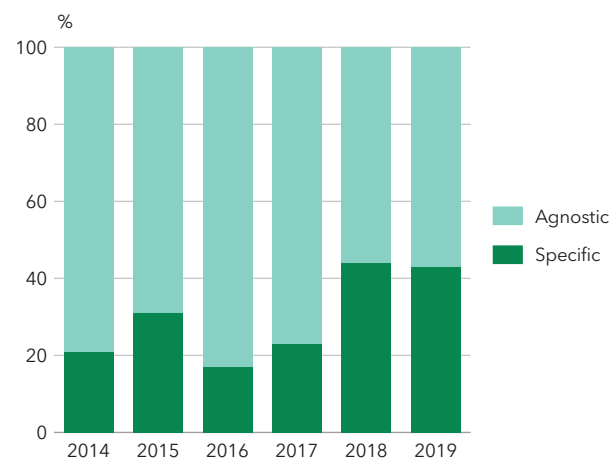
...but the average size of infra debt funds has been largely following an upward trend



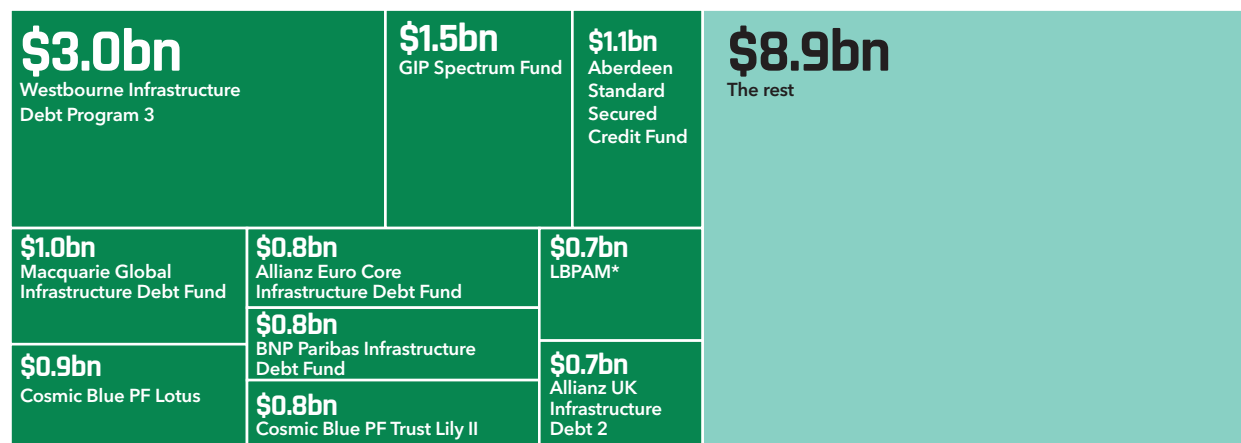
The majority of infrastructure debt funds have been multi-regional, with European and North American funds combined accounting for a nearly equal share of allocations



Sector-specific infrastructure debt funds are becoming more common as the market matures



The top 10 funds in market as of 1 January accounted for more than 55% of the total amount being raised across the market



\*LBPAM European Responsible Infrastructure Debt Fund

Source: Infrastructure Investor



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## KEYNOTE INTERVIEW

# Patience and predictability as the market evolves



*With definitions of infrastructure expanding and abundant liquidity available in the debt market, managing risk is top priority, says **Matthew Norman**, Crédit Agricole CIB's global head of infrastructure*

**Q Given where we would appear to be in the economic cycle, how is infrastructure debt positioned, from a risk point of view?**

When you compare infrastructure debt to other comparable asset classes, such as corporate debt, we have historically seen far lower default rates and higher recovery rates. The risk features for traditional, investment grade, core infrastructure are very attractive across the cycle and I think that is one of the principle draws of the industry.

**Q What are the other attractions of infrastructure debt as an asset class?**

For market participants, the infrastructure

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sector benefits from positive underlying fundamentals, including high capital intensity and large historic underinvestment. The sector simultaneously enjoys very strong tail winds from a set of longer-term mega trends sweeping the globe such as urbanisation, electric mobility and energy transition. In addition to these overarching macro factors, infrastructure debt can offer relatively attractive returns, superior structures and a highly visible way to invest in environmental and social impact products.

Specially in relation to returns, relative

to that corporate benchmark, infrastructure debt offers an illiquidity and complexity premium, which is attractive for anyone looking for extra yield.

But the returns infrastructure debt can offer are proving to be appealing. I would add that, the ability to make an impact from an environmental and social perspective is also striking a real chord.

Finally, infrastructure debt can offer greater structural protection than other types of debt opportunities. While on a corporate, investment-grade transaction, you typically get limited structural protection, weaker covenant packages and relatively limited information, infrastructure debt can benefit from all three.



## Putting clients first

### Q What is your approach to deal selection?

We are a client-centric organisation offering a reliable, experienced and flexible client partnership. In terms of deal selection we have a strong, disciplined approach towards risk assessment which allows us flexibility to look at all infrastructure sectors whilst ensuring that these assets exhibit the relevant set of characteristics that we deem appropriate as agreed within the bank's global strategy. We are very much a long-term player within the sector providing financing for clients, not only in liquid market conditions like we see today, but also when and if the cycle turns we want to ensure that we offer agility and flexibility to support our clients in more difficult market conditions. That doesn't mean we will do every deal with those clients, but it means that we will not work on deals where the bank has no broader business relationship. Furthermore, we work with clients across our global advisory business sourcing opportunities in terms of both debt and equity which range from M&A services, capital structure optimisation and rating advisory.

### Q Are you seeing the same sorts of shifts in deal structuring that we are seeing in the LBO space?

Infrastructure is experiencing a similar phenomenon to that seen in other parts of the market. There is less protective documentation and, in some areas, elevated leverage. There is significantly more flexibility for borrowers and while I wouldn't say that covenants have disappeared – as they have, in many cases in the LBO world as cov loose has given way to cov lite – some aggressive behaviour has crept into the infrastructure space. The crucial point in this market is ensuring that you have patience, consistency and discipline in your approach to asset and deal selection over a long-term horizon which is suitable for this kind of industry. This is always a big challenge when operating on the buy-side in a predominantly long-only industry. Crédit Agricole CIB benefits from 30 years' experience in the structured finance sector with a very strong and stable capital and shareholding base with an extensive international network and specialist infrastructure and energy teams.

### Q Where do you see the most attractive opportunities given where we appear to be in the market cycle?

What we like to see is a pipeline of opportunities coming to market supported by our core client base. We want to work with our core clients, and we want to work with them around the world. So, where does that lead us in terms of geography today? We see a very strong and healthy pipeline of large-scale, PPP-style greenfield opportunities in Australia. We also see interesting greenfield concession opportunities in Latin America, road and transportation assets in Columbia and Peru, for example.

The situation is a little different in Europe. What we see there is corporate clients focusing on rotating their mature portfolios to raise capital to invest in new growth areas. That has led to a lot of M&A activity involving infrastructure assets being brought to market by traditional corporates, which is creating an interesting flow of opportunities, particularly in Southern Europe – in

*“The big challenge is how to generate enough new opportunities to satisfy the huge level of demand that is out there from investors”*

France, Italy and Spain. Finally, of course, renewable energy is creating attractive opportunities on a worldwide basis, pushed by the energy transition.

### Q How have you seen the make-up of the industry evolve?

Over the past few years, we have seen institutional investors playing a much more active role in the infrastructure debt market. Not only has the number of investors increased, but the appetite of those investors has increased as well. What has happened though, is that, as allocations for the sector have expanded, the number of opportunities has not expanded at the same rate. So now, not only are we seeing structures deteriorate as borrowers take advantage of a ground swell in liquidity, but pricing is also narrowing significantly. We have seen a significant reduction in that complexity and liquidity premium that I mentioned earlier.

In order to offer the same target yields that they initially promised their clients, investors are having to expand their definition



of infrastructure moving into core plus or else change their geographical remit to capture the additional yield targets promised to their LPs.

**Q You mentioned the ability to deliver impact as one of the key drivers of appetite for infrastructure debt. Can you explain what you mean by that?**

ESG is one of the key themes that the investment community is focused on these days with many investors reporting their proportion of ESG investments. But what is changing is that investors now want to see concrete actions and tangible sustainable financing opportunities. That is an important point. When ESG first arrived on the horizon, the emphasis was on accessing green bonds, but the challenge became one of greenwashing. How do you ensure money being raised is actually being invested in assets that produce a positive environmental, social or sustainable impact?

One of the key advantages of the real assets sector, including infrastructure debt, is that impact can be readily tied back to funds raised. For example, a light rail system will take cars and congestion off the streets, offering people green transportation. There is a very clear link there between the proceeds raised and the impact those proceeds are having.

Crédit Agricole was a pioneer in the field of green finance and is continuing to invest in that field, making it the societal aspect of its Medium Term Plan pillars. The Crédit Agricole Group intends to consolidate its role as a leader in green and sustainable finance, extending its offering of sustainable solutions to all business lines; we have a role to play in that in the infrastructure debt arena.

**Q What are the other key challenges that the infrastructure industry is facing right now?**

The big challenge that we see is how can we generate enough new opportunities to satisfy the huge level of demand that is out there? The PFI/PPP model has clearly come under a great deal of pressure, not only in the UK, but in other jurisdictions as well. Governments are stretched from a sovereign perspective, but with so much negative perception around these private financing models, how can the authorities bring forward new projects and get them financed?

*“One of the key advantages of the real assets sector, including infrastructure debt, is that impact can be readily tied back to funds raised”*

The question is, if PFI has been put in the corner, what is going to replace that as a means of allowing the private sector to participate within the infrastructure market, with all the discipline that brings? Yes, we have renewables. But what about social infrastructure, transportation and other environmental projects? In the UK, the regulated asset-based approach appears to be providing an alternative, but, certainly, one of the big challenges over the past 18 to 24 months has been a pretty significant slowdown in core greenfield infrastructure, right across Europe. I really think the emphasis is on the industry to develop private initiatives and help the government re-invigorate the greenfield pipeline.

**Q Can M&A opportunities not fill that gap?**

We are certainly spending a lot of time on brownfield M&A opportunities. That is all well and good, but those opportunities are, by definition, finite. There are only so many times that you can trade around the same assets. The risk is, that if you are not continuing to feed that pipeline, the market could become unsustainable as assets are passed from player to player, with asset values increasing each time they change hands. We have already seen this happening in the equity market, with assets trading out of corporates into funds, and out of funds into direct investors. As asset pricing runs up and equity feels the squeeze, that gradually filters down into debt, too.

**Q How are you preparing for a possible downturn? What skills or experience do you think you need to have in place?**

In private markets, where there is less information available, you need to have the expertise and teams in place to ensure you are sourcing the right opportunities to put your portfolio in a strong position as we move through the cycle.

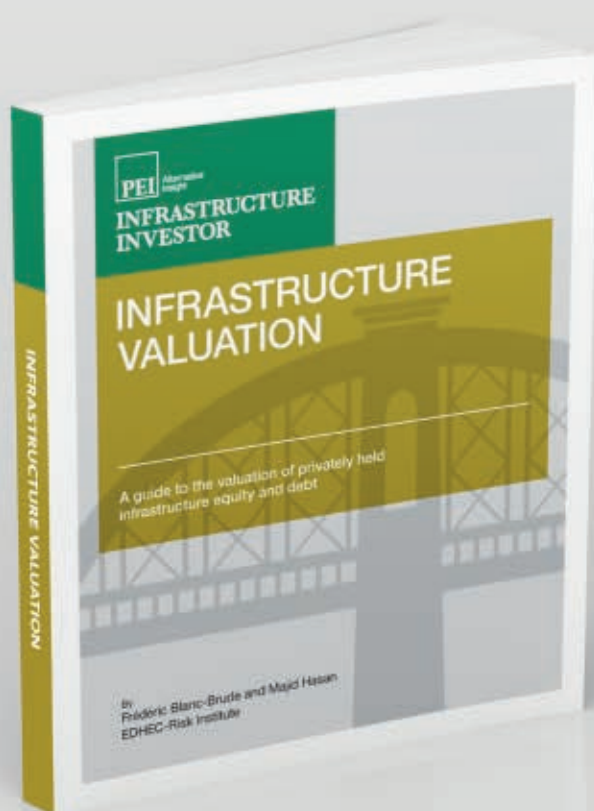
As debt investors, we are not as hands on as equity players, but we still need to be prepared if things don't go according to plan, so that we can resolve those situations. At Crédit Agricole CIB, we are long-term investors. This isn't an asset class that we will dip in and out of. It is all about patient capital, and when there are problems, we will seek to work those through with our clients, which is why we have not only invested heavily in our front office functions around the world, but in our portfolio management teams as well.

**Q Beyond the immediate prospect of a downturn, what do you believe the future holds for infrastructure debt?**

Investors will continue to be drawn to the asset class for its illiquidity premium, default rates and ESG credentials. I also expect to see more aggregation and consolidation as the asset class continues to mature. That is already happening on the equity side, and I think it will come to debt too. Finally, I think we will see the continued expansion of infrastructure debt as the industry becomes more adventurous in its search for yield, from the perspective of both geography and sector, as well as where the industry plays in the capital structure. ■



# Infrastructure Valuation



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# Expert insight into infrastructure debt

*“Investors need to be agile to adapt to market changes ... to embrace the pathway to net zero and consider how to help governments meet the level of investment required”*

**DARRYL MURPHY**  
Head of infrastructure debt at Aviva Investors

*“We are now seeing the highest quality equity give returns of 6-7 percent and debt at about 4-4.5 percent”*

**PAUL DAVID**  
Head of Americas for infrastructure debt at AllianzGI

*“[The asset class] is growing at a faster pace compared to equity”*

**ALESSANDRO MERLO**  
Head of investment for infrastructure debt at UBS-AM REPM

*“Lenders are [looking] for longer maturities to replace the investment in government bonds and maintain risk profiles that generate appropriate returns in a compressed yield environment”*

**STEFANO MION**  
Co-head of Ardian Infrastructure US

*“The core reasons for LPs liking the space are cash yields and stability of investments with way less volatility”*

**PATRICK TREARS**  
Head of infrastructure debt Americas at AMP Capital

*“We are now at the stage where there may be winners and losers in the industry, and the winners will probably consolidate”*

**JEAN-FRANCIS DUSCH**  
Global head of infrastructure and CIO of infrastructure debt at Edmond de Rothschild Asset Management

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<sup>1</sup> As of 31 December 2019

<sup>2</sup> Source: INREV Fund Manager Survey - May 2019