In defence of funds

Antin chief executive Alain Rauscher tells Bruno Alves why fund managers are essential in providing access to Europe's complex deal pipeline and explains why the latter is ill-suited to direct LP investment

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Bruno Alves

The European Union (EU) might be doing its best to harmonise laws and regulations across its 27 member states, but ask any investor operating within the continent and he will tell you that navigating its member states' patchwork of legislation is an art.

Spend a few minutes chatting to Alain Rauscher, chief executive of Paris-based Antin Infrastructure Partners, which recently raised a €1.1 billion European-focused infrastructure fund, and you quickly find out just how tricky it is to raise a fund attuned to the continent's idiosyncrasies.

Bigger not better

Take deal size, for example. Europe may offer a robust pipeline with a plethora of opportunities across different sectors. But if you are an infrastructure fund looking to position yourself to capitalise on the majority of Europe's pipeline, size matters, argues Rauscher. But bigger isn't necessarily better:

"Every year, we look at roughly 60 transactions with a view to doing between two and three deals. If you look at the deals out there, you will find that those with an enterprise value (EV) of up to €500 million account for some 70 percent of the pipeline. Deals with EVs of between €500 million and €1 billion comprise 20 percent of the deal flow. And transactions of more than €1 billion make up the remaining 10 percent," he begins.

"This means a very simple thing: if you are a €1.1 billion fund looking to take either 100 percent stakes or holdings that will allow you to acquire significant rights to run an asset, you can basically benefit from some 90 percent of the existing deal flow. But if you are a €5 billion fund, you need to write equity cheques of between €500 million and €1 billion, so your deal universe is going to be limited to five or six deals per annum," Rauscher explains.

That's not a place he would like to see Antin operating in because, as he puts it, "that means you get into a situation where everybody is fighting for the same deals. And if you are going to fight for too few assets you will end up overpaying," he says, before adding: "But I am confident the average deal size will grow over time."

To access the type of opportunities that a brownfield-focused general partner (GP) like Antin targets, you also need to be well attuned to the continent's sources of deal flow and do your homework well in advance of deals coming to market if you want to be competitive.

"When you look at many European corporates, the financial pressure hanging on some of these companies is not immediately apparent," Rauscher says. But when you look at their capex requirements, they can be significant and these do not show on the balance sheet. So they will need to sell assets to fund capex and keep a decent [level of] gearing. That's why a lot of deals will come from energy strategics," he explains.

As it happens, many of Europe's largest companies, including in the energy sector, are French, something that is not lost on Rauscher. "We spend a lot of time working with strategics and in particular the French ones," he admits.

Guarantor

The more one talks to Rauscher, the more a pattern begins to emerge about how he views his role as a GP. Put simply, Rauscher sees the GP as a guarantor of good investments, and, as such, as an indispensible part of the infrastructure ecosystem. He also views GPs as the best chance limited partners (LPs) have of getting their money's worth when it comes to infrastructure investing – at least in Europe.

Unsurprisingly, you won't find Rauscher extolling the virtues of direct LP investment. But it's possible to see beyond professional self-preservation in his views; they are rooted in the peculiarities of the European infrastructure market. In Europe, he argues, direct investors have little chance of competing for anything that is not a flagship asset.

"Look at the European energy sector, which offers lots of opportunities nowadays. In this segment, you see few sovereign funds and hardly any direct investors because it requires in-depth knowledge of local markets. Anybody can buy a toll road. But when it comes to buying a gas pipeline in Germany or wind farms in Spain and Italy, the complexity of the asset and of its regulatory environment can be mind-boggling. You need to know the industry inside out. And even when you do, you ask yourself: 'are we sure we know all the risks'?"

He continues: "If Heathrow airport is put up for sale tomorrow you will have investors from all over the world fighting for it. It's like Coca-Cola - you are buying a brand. To date, direct investors have gone predominantly for flagship assets because their investment committees are more likely to agree to buy them. But most of the European deal pipeline isn't like that."

And while Rauscher doesn't say so on this occasion, it is implicit from his previous comments that if you can only compete for a handful of assets each year, you are again likely to overpay in order to close a deal amid ferocious competition.

Stick to the term sheet

Perhaps that is why Rauscher doesn't shirk from asserting the GP's right to stand by its term sheet if it is genuinely adding value.

"Of course we compromised on some points," he offers, "but we stuck to our term sheet. We are not going to get rich by charging LPs 1.5 percent management fees – not on €1.1 billion [the amount Antin closed on]. We would rather invest in reinforcing the team as we did at Antin. Maybe you can make money on that fee if your fund is €5 billion or €6 billion in size, but not on €1.1 billion."

Rauscher continues: "The term sheet which is pervasive for quality funds today is an adaptation of the private equity model with some yield thrown in, which I believe is a good thing. I think it works." But not too much yield, he argues, as an undue focus on it can jeopardise good asset management:

"It worries me that some limited partners (LPs) are reluctant to pay carried interest and want instead to give a portion of yield to managers. Why? It's easy to deliver some 5 percent or 6 percent of yield if you do not invest in an asset. You cut your capital expenditures and then you are going to get your assets back in five to 10-years' time in a poor condition. This is not in the long-term interest of investors."

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