ROUNDTABLE

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Surviving disruption

From tech advances that were only recently the stuff of sci-fi, to the most virulent of global pandemics, infrastructure managers must always expect the unexpected, four infra professionals tell Amy Carroll and Jordan Stutts

It is the job of asset managers to swerve even the most unpredictable of disruptions – and so the covid-19 pandemic has certainly tested their mettle. Wessel Schevernels, a senior investment director at Whitehelm Capital, recalls being in the middle of a complex social infrastructure carve-out in the Nordics when the crisis struck.

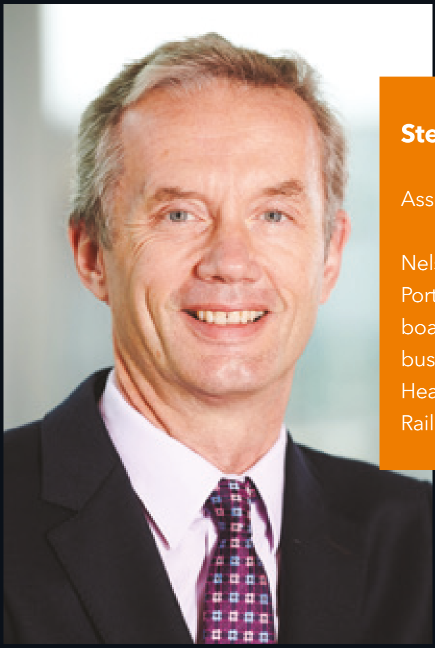
"We were in that post-merger integration phase," he says during *Infrastructure Investor*'s latest asset management roundtable, held virtually in early March. "I, myself, had been seconded as interim chief executive, working nearly full-time from Oslo. From one week to the next, that entire process moved online. Recruitment, the transitioning of relationships, developing a new brand identity – everything happened remotely.

"That business has done extremely well and gone on to grow by 25 percent in new properties over the course of the past year, which goes to show just how much can be done during lockdown. I see that as remarkable proof of the resilience of our industry."

That resilience is born in part out of the essential nature of the infrastructure assets themselves. Fourteen out of 16 of Antin Infrastructure Partners' investee companies were deemed essential by authorities, says Simon Söder, a partner at the firm. Söder adds that the seamless provision of those essential services was a priority from the outset, given the role infrastructure has played in enabling society to continue to function. This included fibre assets facilitating working from home, and social assets, such as Antin's German laboratory business, which has processed more than 1.5 million PCR covid tests, operating on the frontline.

It is fair to say that material disruption to service has been incredibly rare. But this resilience is not only a product of asset selection. "Since the beginning of our infrastructure investments, we have never passively sat on an asset and waited for the dividends to roll in," says Simo Santavirta, senior managing director and head of infrastructure management at Ardian. Intensive asset management has also proved critical to infrastructure's robust performance during the pandemic, both operationally and financially.

Ardian, for example, has been focusing heavily on the digitisation of infrastructure assets in recent years, which has stood it in good stead over the past 12 months. Santavirta points in particular to a Nordic district heating business the firm owns. A digital operations platform enabled that asset to be operated remotely. "Real time data analytics means highly skilled operators no longer need to be physically located at sometimes remote industrial



Stephen Nelson

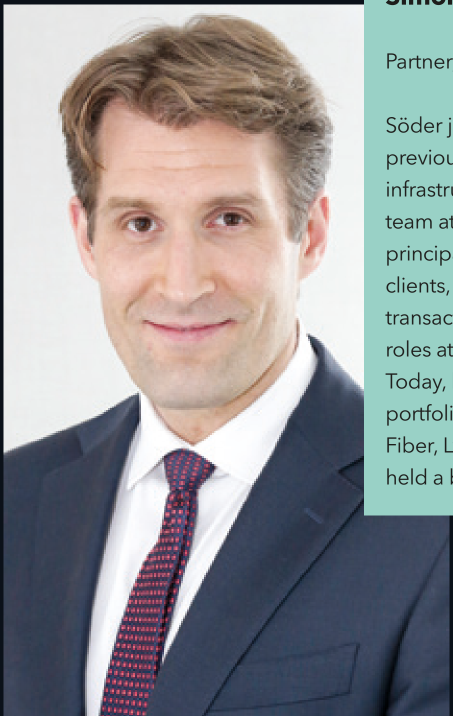
Asset management managing director, Infracapital

Nelson joined Infracapital in 2013 and is the asset manager responsible for Gruppo Portuali Investimenti, CGE and Gigaclear. He has more than 15 years' operating and main board experience encompassing transport infrastructure, as well as consumer-facing businesses. Nelson was chief executive of BAA when it owned and operated London's Heathrow, Gatwick and Stansted airports. He is a non-executive director of the Office of Rail Regulation.

Simo Santavirta

Senior managing director and head of infrastructure asset management, Ardian

Santavirta joined Ardian in 2016, having previously spent 13 years at the global power generation group InterGen, being based in Europe, Asia, Australia and North America. His most recent role at InterGen was that of vice-president, strategy and portfolio management, in the US. An engineer by background, he began his career at Finnish energy company Fortum Oyj. He has represented Ardian on the boards of LBC, Andberg Vind, Kallista, Enovos, Skyline Renewables and Hill Top.



Simon Söder

Partner, Antin Infrastructure Partners

Söder joined Antin in 2014, having previously spent eight years on the infrastructure, utilities and renewables team at Macquarie, where he worked on principal investments, as well as advising clients, including Antin, on infrastructure transactions. He joined Macquarie after roles at Westpac and Lacima Group. Today, he serves on the boards of Antin portfolio companies Eurofiber, FirstLight Fiber, Lyntia and Sølvtrans. He previously held a board seat at Roadchef.

Wessel Schevernels

Senior investment director, Whitehelm Capital

Schevernels heads the ongoing asset management of investee companies and is global head of responsible investing. He has extensive experience in global energy and logistics markets, midstream and shipping industries, having worked for over 17 years in Europe, the Middle East and Asia. He has been a director of PPP, SCIF Fullerton, Kvitebjorn Varme, Storrun, VTEH and SAE.

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>
> **STEPHEN NELSON**
> **Infracapital**

sites, leading to material cost savings and helping to mitigate disruption risk," he explains. "Expanding digital solutions for operations has been a key focus of ours for a number of years and is something we believe will help us in the future, whenever there is a threat of disruption to operations due to external events."

Meanwhile, the quality of firms' internal operations and processes has also proved critical – in particular, access to accurate and timely data. "That information flow, the integrity of it, has been vital," remarks Stephen Nelson, asset management managing director at Infracapital. "In the very earliest stages of the crisis, we looked extremely closely at the categorisation of that information – the comparability of our data – to make sure it could be accessed and understood by all stakeholders."

Preparing for the next crisis

On the face of it, then, infrastructure's ability to preserve value and maintain operations during the most extreme of disruptions can be marked down as a success. But how is asset management likely to evolve as a result of the crisis?

Söder believes the asset class will be able to build on practices enforced during lockdown to work more efficiently in the future. "In some ways this isn't necessarily a new trend. It is an acceleration of an existing trend – the ability to do more things remotely," he says. "I suspect we are all looking forward to returning to the office and having that human interaction. But virtual operations have to an extent worked better than expected. That knowledge will bring time efficiencies going forward as well as the ESG benefits of reduced travel, even though there are also things that are better done in person when possible again."

Söder also thinks infrastructure investors have emerged from the crisis with a heightened awareness of cyclical risk, which will only reinforce the importance of defensive asset selection. "This crisis is very different to the financial crisis. And the next crisis is likely to look very different again," he says. "But if your philosophy is to invest in essential assets that are as decorrelated as possible and supported by long-term macro trends such as data consumption or the energy transition, those assets are set to continue to grow, even if there is temporary disruption."

Nelson agrees that portfolio selection and diversification will prove to be critical components. However, he adds that other considerations have also raised their heads. "Employee welfare in the broadest sense has been shown to be vitally important," he says. "How you are communicating with your team; how they are incentivised; whether their needs are being met from a psychological perspective; how your teams are organised. A higher premium is being placed on all of these things as a result of the stress that workforces have been under."

Nelson also believes that infrastructure managers will pay close attention to supply chains, as well as revisiting their financing structures, in a bid to improve their position. "We are all watching inflation very closely. There are likely to be opportunities to renegotiate covenants," he says. Contracts are also likely to be scrutinised in light of such an extreme demand shock. "People have gone scurrying back to look at their *force majeure* clauses and reps, warranties and indemnities. I imagine, as asset managers, our minds will stay very focused on the support provided by our legal advisors and consider if any enhancements need to be made for the future in light of experience."

In addition, infrastructure managers will be updating their contingency planning to make sure assets are stress-tested for severe downsides, rather than simply long-term economic cycles, says Santavirta. "As Simon said, the next crisis is unlikely to be a pandemic. The nature of these things is that you don't know what is coming. We need to look carefully at fixed costs, debt structures and covenants to make sure assets can sustain intense demand shocks of any kind in the future."

Future-proofing for disruption

Yet although asset managers must prepare their portfolios for the unknown, they must also ready those businesses for disruptions that are well underway. Chief among these is climate change and the energy transition.

"We assess the risk of climate change on assets and we assess the impact of those assets on climate change," explains Santavirta. "We also see this as an opportunity, for example an opportunity to decarbonise by switching power generation assets from fossil fuels to renewables, which is a transformation strategy we are currently undergoing with our utilities. That is likely to mean more investment, but you are future-proofing those assets and making sure the potential buyer pool is as broad as possible when it is time to exit."

Whitehelm's Schevernels adds that modern slavery is another potentially disruptive force as the focus on ESG continues to expand beyond the environment. "We all tend to think about modern slavery in the context of developing countries," he says, pointing to the use of migrant labour in large construction projects, like the stadiums being built in Qatar for the World Cup. "But it is important to look closer to home as well, particularly when working on large maintenance programmes using labour from low-cost parts of the EU. As an asset owner, you need to look carefully into the employment conditions of those temporary staff throughout the supply chain, especially when labour is being sub-contracted."

Schevernels also alludes to the potentially disruptive effects of geopolitical events. He cites the as-yet-unknown,

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>
> **SIMO SANTAVIRTA**
> **Ardian**

What is the main lesson asset managers can take from a highly disruptive 2020?

Steven Nelson, Infracapital: "The value of the consistent, systematic and high integrity communication of data cannot be underestimated. The quality of information and the real-time nature of that information is key."

Wessel Schevernels, Whitehelm Capital: "The crisis has brought sustainability into the mainstream. It is not about single events anymore but has become a more holistic concept and will increasingly be embedded in everything we do – not just in this industry, but in the wider economy."

Simo Santavirta, Ardian: "This crisis has reinforced our conviction that focusing on the digitisation of assets is the right thing to do. Smart solutions are an important part of future proofing."

Simon Söder, Antin Infrastructure Partners: "Investment in digital tools and data is important, of course, but so is investment in people. In many ways, we are happy to oversize the management teams in our assets. When something unexpected happens, you then have the bandwidth to deal with that."

impact of Brexit on the long-term relationship between the UK and the EU as an example. And, of course, disruption does not have to be negative. The leadership change in Washington that has seen the US re-join the Paris Accord will have a significant impact on the energy transition market. "There are several important EU elections coming up that, depending on their outcome, could ultimately spark a real push to achieving climate goals," Wessel says. "We also anxiously await the outcome of this year's COP26 to see how that may play out for the wider infrastructure industry."

Technological disruption, meanwhile, is a constant. Indeed, the speed of tech advances has accelerated to a point where any asset could be affected. "AI, augmented reality, autonomous travel, new energy sources – there is going to be a huge amount of change in the coming decades, all of which could impact the way an asset is viewed on exit," says Söder. "It is important to spend time upgrading assets accordingly. Or, if you are uncertain about the direction of travel, it is best to stay away from that sector altogether."

And as the parameters of the digital realm continue to expand, cyber security is another hot topic for asset managers. "Getting that right has become increasingly important as we digitise the operations of our assets," says Santavirta.

"It would be a bold person who said they were going to build pandemic planning into their continuity strategy, not least because that is, arguably, a once-in-a-generation experience," adds Nelson. "But cyber-threat is undoubtedly the next big macro risk to national and international security and I think it will pay dividends to focus our attentions heavily on that area going forward."

Don't get stranded

Failure to pre-empt and respond to disruption can ultimately lead to stranded assets, of course – either economically stranded assets, where operations have become unprofitable and returns unpalatable, or assets that have become obsolete.

Obsolescence is typically talked about in the context of energy – particularly midstream assets, pipelines and gathering and processing facilities in the US, for example. But Nelson points out that it is important to remember that any asset can become stranded. "The long-term visibility on fibre is good, but the technology is constantly evolving, bringing both threats and opportunities. You have 5G on the horizon and Elon Musk with Starlink," he says. "Who knows what could happen down the line? While there is no such thing as a fully, future-proofed industry, investors should be wary of taking technological bets."

Söder agrees that the risk of stranded assets exists in all sectors, most

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WESSEL SCHEVERNELS
Whitehelm Capital

evidently in energy and transport, perhaps, but is also prevalent in social infrastructure and telecoms. "This is something we are obsessive about because the risk is very real," he says. "It is something that must always be front and centre of an asset manager's mind."

The key, according to Schevernels, is whether disruption fundamentally alters the essential characteristics of the infrastructure. "As long as disruption does not dramatically alter the fact that an asset is providing an essential service, its resilience will remain in place," he says. "But there are industries where companies and sectors will not be able to retain their critical infrastructure status, and there you have a real risk of stranded assets."

To avoid stranded assets, infrastructure managers must be proactive, adds Santavirta. And for that you need the right asset management skills in place. "You need to understand how to decarbonise assets. You need to be able to add value with digital solutions while understanding the cyber risks," he notes. "It is vital to have the right industrial expertise to execute on transformational business plans to ensure not only ongoing resilience but value creation." ■

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SIMON SÖDER
Antin Infrastructure Partners