ROUNDTABLE

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Why the mid-market is infra's happy hunting ground

With so much focus on the upper end of the market, seven industry experts tell Zak Bentley why they find the mid-market their favoured destination for investment

The timing of our third mid-market roundtable, occurring at the end of June, was opportune.

On the day it took place, it emerged that Antin Infrastructure Partners had reached a €2.2 billion final close on its Mid Cap I fund, a return to the mid-market segment for the Paris- and London-based manager. This part of the market, according to a statement from Antin's chief executive Alain Rauscher following the close, is "increasingly underserved" as "many prominent infrastructure managers [are] leaving the mid-cap segment due to fund size growth".

Growing vehicle sizes was a much-discussed topic at our two previous roundtables and Antin's return was not only a resounding boost for mid-cap strategies but also recognition that fund size discipline is a much-needed requirement in this space. As for Rauscher's contention that managers are leaving the space – notwithstanding our packed Zoom roundtable, which hosted seven infrastructure fund managers – this only made the market segment more attractive for Antin.

"More and more of the managers, including us, have raised larger funds, which means that some of the firms which used to be focused on the mid-market space no longer are," says Simon Söder, partner at Antin. "So, as some managers moved away from the mid-market, we saw an opportunity in a space where we have extensive experience."

Busiest year 'in our history'

Fundraising at the opposite end of the pandemic was iCON Infrastructure Partners, which raised $1.9 billion for its fifth fund in early April 2020. Mid-market supply has since proven to meet the demand. "Despite the impact of the pandemic, we've been able to commit over $1 billion, which is the busiest 12 months we've had in our history," reveals Iain Macleod, partner at iCON. "There's vindication of [the mid-market] both in terms of demand and the ability to deploy. And while not without its challenges, the quality and resilience of assets have shone through the crisis."

It seems some of the larger investors in the asset class may be starting to take note of this, according to Olivier Laganière, director at Northleaf Capital Partners. "Northleaf continues to believe in the middle market," he says. "We get access to less visible opportunities in fragmented sectors, investment in growth areas supported by subsidy programmes and partnership-driven transactions with under-capitalised developers and industrials."

For Chantale Pelletier, global head of infrastructure at Schroders Capital, it is such partnerships that have helped maintain the progress of the

Iain Macleod

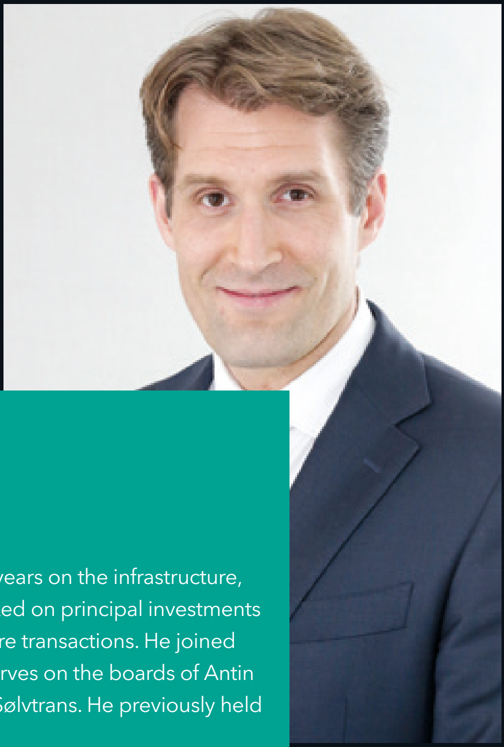
Managing partner, iCON Infrastructure

Macleod joined iCON as a managing partner and member of the investment committee in 2012. He is responsible for transaction origination, execution and asset oversight, and since joining iCON has led a number of the firm's transactions in the ports, logistics and healthcare spaces. Macleod has over 28 years' experience as an infrastructure professional. Prior to joining iCON he spent more than a decade at Deutsche Bank in leadership positions such as head of transportation and infrastructure for EMEA and head of M&A for Asia.

Roger Pim

Senior investment director and head of strategy and business development, Aberdeen Standard Investments

Based in Edinburgh, Pim has more than 20 years' experience in private markets and has been involved with the economic infrastructure business since its inception. He is a member of the investment committee and sits on the boards of CERI and NGT and is responsible for ESG integration across the business. Prior to joining in 2002, he worked for Goldman Sachs in London in its corporate finance team undertaking a number of transactions in the energy space.



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. He serves on the boards of Antin portfolio companies Eurofiber, FirstLight Fiber, Lyntia and Sølvtrans. He previously held a board seat at Roadchef.

Oliver Schubert

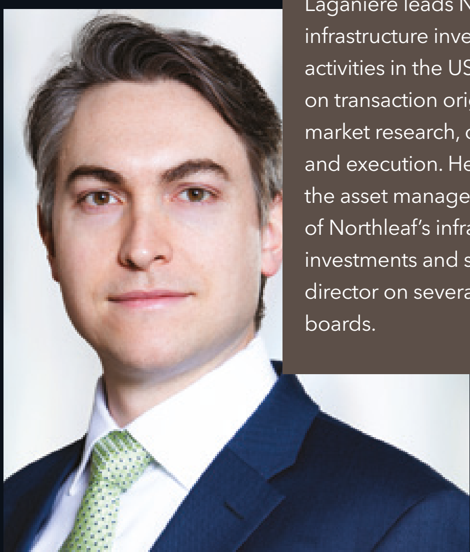
Senior partner, Vantage Infrastructure

Schubert leads Vantage's equity investments origination and execution team. He has been with the firm since April 2018, when Hastings Fund Management's European team was bought by Northill Capital. He joined Hastings as an executive director in 2012 and was a member of its executive and investment committees. He was previously a senior vice-president with Macquarie in Germany.

Spence Clunie

Managing partner, Ancala Partners

Clunie founded Ancala in 2010 following five years as a senior managing director at Macquarie. He previously held roles at Dresdner Kleinwort Wasserstein and the Royal Bank of Scotland. He has more than 25 years' experience investing in and managing infrastructure assets. He has led Ancala on transactions in sectors such as utilities, bioenergy, hydropower and gas pipelines.



Olivier Laganière

Director, Northleaf Capital

Laganière leads Northleaf's infrastructure investment activities in the US, with a focus on transaction origination, market research, due diligence and execution. He also acts as the asset manager for a number of Northleaf's infrastructure investments and serves as a director on several asset-level boards.

Chantale Pelletier

Global head of infrastructure, Schroders Capital

Pelletier focuses on enlarging the scale of Schroders' infrastructure platform globally across a range of sectors, such as renewables, energy, transport, digital infrastructure and utilities. Prior to joining Schroders, she was head of European infrastructure at Caisse de dépôt et placement du Québec, one of the world's largest infrastructure investors and the second largest institutional investor in Canada. Pelletier spent more than 20 years in senior global roles at CDPQ, where she has been actively involved in building and managing its infrastructure investment portfolio globally.

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> **SIMON SÖDER**
> **Antin Infrastructure Partners**

mid-market over the unique times of the past 18 months.

"For us, the middle market is where we use our local footprint and local approach in a specific market," she says. "With covid, the key advantage for a manager was the knowledge and the relationships you had in a specific market that helped you distinguish yourself and continue to do business. With those relationships, we get access to those off-market transactions and it's the right space to be in."

Dealflow is, of course, a key driver of LPs to the mid-market. Oliver Schubert, senior partner at Vantage Infrastructure, notes that in Europe, the mid-market is where a large majority of the activity is taking place. However, while people may have been separated for the bulk of the past 18 months, the human elements of the GP-LP relationship are still key. "We definitely see some investors looking to diversify away from the larger managers because they are already heavily exposed to them and because they feel that they are maybe less relevant than they would be with the same ticket size for a smaller manager, which is likely to have a mid-market strategy," Schubert says.

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> **IAIN MACLEOD**
> **iCON**

"I think investors are worried by the increasing flows of capital into the large-cap end of the space, and so there's increased interest in the mid-market," says Roger Pim, senior investment director at Aberdeen Standard Investments.

Söder points out an additional attraction for LPs that he believes is sometimes a less obvious benefit of the mid-market: "In some ways, you can build an even more diversified portfolio in this space because, for example, in some sectors, assets may only be of a certain size. In some sectors, businesses tend to stay national."

Choppy seas on maiden voyage

Market and sub-sector intricacies aside, there is ultimately a more obvious reason that LPs are increasingly attracted to this segment, according to Spence Clunie, managing partner at Ancala Partners.

"Investors want performance, they want the returns," he says. "From our point of view, we focus on making sure that we're sticking with an infrastructure asset that has that downside protection and then actively managing it to deliver the returns that we said we can. We've got to continue to deliver on that and show that in our track record, and I think that should be a key reason why LPs find the mid-market attractive."

This might be a little more difficult for some. Last year, Schroders launched its first commingled equity fund targeting mid-market infrastructure, and

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> **OLIVIER LAGANIÈRE**
> **Northleaf Capital**

Pelletier is under no illusions about the challenges this brings.

"The first part is about ensuring LPs have confidence in the manager and in you – that you will deliver and you will invest their money correctly," she says. "I think it's always harder to start from nothing, but I think it's an opportunity you have to say where you could distinguish yourself. It's about where you want to be and not necessarily being where everyone else is. It's about what element you're bringing to the investor."

Schubert agrees that first-timers need to start distinguishing themselves more, especially since most newcomers in recent times have been accessing the infrastructure sector via the mid-market.

"The nature of the team, the composition of the team and how long they've been working together is very important," he says. "But it's also very important to have an angle to what you do. Just simply trying to replicate what others do is not something attractive to investors. You do need to develop a strategy which is proper to you and different from other fund managers in the market."

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> **CHANTALE PELLETIER**
> **Schroders Capital**

As the infrastructure investment market matures and increasing numbers of managers are able to demonstrate a track record, the challenge for new GPs will only be greater.

"If you're an LP, you've got to sit down and ask if you're going to invest with a new manager, or with someone that's already proven the strategy and proven that they can deliver on that," says Clunie. "It should get harder and harder to justify going with a new manager unless that manager is offering something materially better than other managers are offering."

Deal-making in a new world

Macleod, though, is on hand to offer first-time managers a different perspective and some hope: "The capital availability to invest today is a lot broader and there are still new LPs coming to the market or increasing their allocation, and so there's more capital to go for."

As we establish that enthusiasm among LPs for mid-cap strategies is

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> **SPENCE CLUNIE**
> **Ancala Partners**

high, does the same buzz of activity remain with the GPs as they deploy this capital?

Pim expresses his surprise at how active origination has been during the pandemic, while Laganière observes how "dealflow hasn't stopped".

"A lot of our dealflow comes from organically developed opportunities resulting from strong relationships we've cultivated over the years, both with established industrials seeking external funding or earlier-stage developers looking for growth capital," he adds.

Schubert, while noting something of a slowdown in the first half of last year, agrees that dealflow is healthy. However, he sounds a note of caution: "The market is also very healthy in terms of price levels. Business plans and resulting valuations are still at the more aggressive end, which is consistent with the trends observed in the last few years. Therefore, you need to be very careful in terms of which transactions you select to spend time on."

This is certainly a common refrain in the infrastructure market today, although not everyone is seeing the evidence for it. "We are still seeing attractive pricing, which is able to generate good net return for investors without being pushed up the risk curve as a result of increased competition," says Pim. "In the mid-market, you also have the opportunity to be the sort of first institutional owner of assets. It's very easy to actually buy a platform and then, through add-on acquisitions, actually build some scale."

For some, out of crisis comes opportunity, as was the case in June last year when Ancala bought rail freight operator Hector Rail from EQT Infrastructure.

"Covid enabled us to find opportunities we wouldn't have been able to do outside of the environment the pandemic created," says Clunie. "We almost certainly wouldn't have been able to invest at the price we invested, pre-the covid lockdowns. That business has been very resilient during the crisis and has outperformed quite significantly our acquisition business plan. As a freight business, they were still going to have to deliver what they were delivering, so it still had that downside protection despite all the uncertainty covid and the related lockdowns created."

Going against the grain

It was not the only time last year that Ancala went against the grain. The firm sold its Netherlands-based fibre network operator Fore Freedom, and Clunie says it was keen to take advantage of the market dynamics.

"We felt the prices that people were willing to pay for fibre assets, they were paying for a lot of future growth and it made sense to sell into that and buy into a sector that everyone was deserting, but which still had the downside fundamentals," he says. "We're quite happy not to have digital infrastructure in our portfolio. It's not a requirement. We'll reinvest if it makes sense from a value point of view."

"For all of us, we're about buying high-quality assets at attractive entry prices," adds Macleod. "The market has no doubt seen an increase in valuations and none of us are immune to that. We have been able to, and will be able to, find relative value in the market and that's what our LPs invest in us to execute upon. We've grown in the last few years in North America, where we see really good prospects and where the mid-market in infrastructure is relatively less crowded than in Europe."

Elsewhere on the origination side, the hitherto-mentioned importance of partnerships in the mid-market has, for some, taken on even greater importance during the pandemic.

"What's really surprised us is the number of transactions we're doing on a proprietary basis, or limited auction basis, which in the middle market, particularly on the smaller end, you can do," says Pim. "That's not something we probably expected, but I think in the pandemic it's becoming even more relevant.

"If the vendor's a municipality, for example, they're very focused on reputational risk, so they're looking for a long-term, responsible investor who they know and can trust and it's not necessarily just about price. The same is the case with family offices. We've acquired a few businesses from families, where again, the price is not the key determinant."

A similar view is espoused by Pelletier, whose mid-cap fund is planning to invest about half its capital in France and the other half in the rest of Europe.

"Mid-market is about local and is about knowing the different stakeholders and the relationships that you could build and trust that you can have," she says. "Infrastructure is a social licence. When you deal with municipalities, who you are as an asset manager and an investor counts for them. By knowing the stakeholders, you appreciate better the risk and then you could probably have a better assessment of the valuations on the specific assets."

As we noted in our Q1 and H1 fundraising reports this year, there has been a trend towards investment

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> **OLIVER SCHUBERT**
> **Vantage Infrastructure**

in sector-specific vehicles, rather than broader strategies. However, our seven-person roundtable does not play host to a single sector-specific manager, and several at the table invest across both Europe and North America. So, are they happy not belonging to a particular party?

"Being a generalist fund is actually helpful because we can look at relative value across the market," says Macleod. "We are not driven by sector allocations. We look and compare the different risk-adjusted returns the various industry opportunities and geographies present and we make our investment decisions to build a balanced, diversified portfolio representing attractive risk and return characteristics."

Söder says that being classed as a "generalist" manager does not preclude a GP from being able to demonstrate the same level of expertise in a sector as a more specialist manager. "You still need to have deep knowledge of sectors, even with a wider mandate. That's still very important," he says. "We spend a lot of time on portfolio construction, and building a diversified portfolio and sectors is part of that. It doesn't mean that investments need to be exactly split 25 percent equally across the four sectors we focus on, but it does mean we would unlikely invest everything in one sector. The next crisis will be different and no one knows what that will look like. If you have spread your investments across different sectors with different risks, that's a good approach."

"A broader investment mandate also allows you to gain experience and develop skills through diversified asset management," says Laganière. "Whether it's by adopting best practices across asset types, learning from industry specialists, or participating at different levels in the debt financing landscape, being able to bring the experience gained by managing different assets across different sectors is an advantage you probably wouldn't get otherwise."

Diversification in mind

With the benefit of hindsight, Schubert is sceptical of the idea that sector-specific managers always remain fixed on that specialist mandate.

"A lot of them seem to be looking for diversification over time," he says. "PPP investors went into core infrastructure, renewables investors are more and more going into energy transition and so you do see, even with specialised managers, as more and more pile money into these strategies, it's more difficult to achieve those returns. A renewables manager trying to achieve 10 percent 10 years ago, that's going to be challenging in today's market. That creates a pull towards more diversified strategies. We will see what all the digital strategies out there do."

It is a good moment on which to end our roundtable. As the past 18 months have shown, we do not know what the future holds. However, these mid-market managers have certainly positioned themselves to be on the right side of any positive tailwinds. ■