

Top 10 with...

Interview with **Roland Hantke** on Multi-Managers Infrastructure

Edition 4 – September 2020

MM INFRA facts

2004

Business established

USD

~4.5bn

AuM¹

80+

Fund commitments²

~150

Clients¹



Roland Hantke, Head Multi-Managers Infrastructure, Real Estate & Private Markets

Adjusting to an ever-changing landscape

Infrastructure is undergoing a seismic shift. Several years ago infrastructure funds would raise around USD 30-40 billion per year. Today this number is at the USD 100 billion³ mark and growing. Roland Hantke, Head Multi-Managers Infrastructure (MM INFRA) explains to us how infrastructure has evolved as an asset class and how MM INFRA is well positioned to cater for increasingly specialized client requirements.



1

What led to the establishment of MM INFRA?

MM INFRA started life in the early 2000s as part of a broader team investing in alternative asset classes, including Private Equity and Real Estate. In 2004 we discovered a number of funds investing in Public Private Partnerships and infrastructure assets such as water and gas utilities. We decided to take a closer look and convinced some of our pension plan clients that these would be good investments for matching long-dated liabilities. The first commitments to these funds started shortly after.

From then on the market evolved quickly, with European infrastructure offerings followed by North American funds. Given these opportunities, we decided to establish a dedicated team investing in infrastructure, and this was the start of the MM INFRA business. Since then infrastructure has developed into a separate asset class, with institutional investors creating dedicated allocations to invest in the space.

2

What strategies is your business pursuing?

We offer a range of different products and strategies, including both multi-manager fund products and separate account mandates, managing circa USD 4.5 billion in client commitments.

For our mandate clients we offer bespoke strategies comprising core/core+ focused strategies, or those targeting higher returns with a growth focus. Strategies can also be tailored by market; eg. focusing on Europe, North America, or global strategies. We invest in primary, secondary and co-investment transactions.

For our Swiss-based clients, we have created a dedicated structure that allows them to invest flexibly and efficiently in infrastructure. For our European and international clients, we have created Luxembourg-based structures, for which we are currently raising the third fund in that particular series. We have also launched a platform in Canada catering to the specific needs of institutional clients over there.

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3

How has the infrastructure universe evolved over the last few years?

We've certainly seen a very substantial growth in the assets raised per year. Several years ago infrastructure funds raised around USD 30-40 billion per year. Today this number is at the USD 100 billion mark and growing³.

At the same time, the number of available strategies has increased significantly. Today, some 200 infrastructure funds come to market each year. Funds are also becoming more and more specialized; for example, we are now seeing dedicated funds focusing on communication, clean energy or transport infrastructure. There is also segmentation by size, with some funds targeting small ("under the radar") transactions, while a good number focus on mid-market assets, and a smaller percentage pursuing very large transactions.

Another trend has been the emergence of independent infrastructure managers. At MM INFRA's outset many funds formed part of either insurance companies or banks. Today, most infrastructure funds are either independently owned, or managed by dedicated teams within private equity or alternative asset management houses.

Finally on an asset level, the investment universe keeps on expanding while opening up new investment opportunities for us. A good example of this is the large capital expenditure required for investing in off-shore wind farms or the roll-out of fiber networks.

A recent trend that continues to gain momentum is the creation of Continuation Vehicles by some funds which are at the end of their fund life. These vehicles put one or several of the existing assets in a fund into a new vehicle, which gives existing investors the opportunity to stay invested for the long-term with a focus on dividend yield.

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What is the value-add for clients?

Given that we have been investing in the market since 2004, we have longstanding relationships with a number of highly sought after funds. This often allows us to secure allocations in oversubscribed vehicles for our clients.

At the same time we seek to leverage our economies of scale as a large investor in the sector. We are regularly able to negotiate lower management fees for our clients. We also can pool legal, tax and other costs across a number of our portfolios, leading to lower overall costs.

Given that we are invested in over 80 different infrastructure funds, we have unique access to co-investment opportunities, as well as Continuation Vehicles offered by the funds we are invested in. Both of these have become very popular with our investors.

Finally, we follow a systematic investment process, and implement well diversified portfolios. This, for example, helps to reduce regulatory risks, as well as creating downside protection and stable returns.

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What gives MM-INFRA its competitive edge?

We have extensive experience of managing diversified infrastructure portfolios with a stable team. Our track record spans in excess of 15 years and we've had the benefit of seeing infrastructure assets through cycles and periods of stress. Consequently, we've learnt from these experiences and implement them in our investment approach.

MM-INFRA has a privileged access to co-investments because of our extensive relationships with leading infrastructure funds. We manage a very extensive infrastructure fund portfolio, and these investments provide us with regular co-investment deal flows.

Finally, we also differentiate ourselves from our competitors through a thorough and systematic due diligence process run by our investment team. We also put a strong emphasis on working closely together with the managers we invest in.

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What are the top 3 challenges you see in the current market?

Some funds have substantially increased in size over the past years. This can lead to a shift in strategy, slower rate of deployment, or investments in geographies and sectors where the investment team lacks experience.

Another challenge is the introduction of new infrastructure sub-sectors; eg. social infrastructure space, infrastructure services, or asset leasing structures. While an asset class should naturally evolve, each of these needs to be carefully evaluated in respect of their characteristics.

Another challenge is the level of competition for infrastructure assets, with infrastructure funds, direct investors and industrials frequently competing against each other. The ability to generate differentiated deal flow and off-market transactions becomes ever more important.

7

What are the top benefits of indirect investing in infrastructure?

When compared to direct or single fund investments, a multi-manager approach facilitates diversification (relative to managers, stages, regions, and vintages) and therefore improves resilience to downward cycles. It is also efficient as the investment management process is covered holistically from sourcing to due diligence to reporting, and therefore ties up less resources for the investor.

Investing across a portfolio of primary and secondary infrastructure funds as well as co-investments also allows us to reduce the risk implied with infrastructure investments. For example, regulatory risk can be best addressed through avoiding overexposure to a specific regulatory regime.

We can also react more quickly to changes in the market. For example, during the current COVID-19 crisis we have been quick to work on several secondary opportunities at lower entry valuations.

Finally, an indirect approach also allows access to market niches – such as building an exposure in Asia Pacific or the greenfield sector – which are best approached through investments with specialized managers.

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What role do co-investments play in your portfolios?

From our perspective, co-investments are a good addition to a diversified portfolio. They can help lower the overall cost structure, as well as help to build-up an infrastructure exposure more quickly. At the same time, we believe it is important to be mindful of the additional concentration risks and manage these appropriately.

We are well positioned to offer our clients a broad set of co-investment opportunities. And given that we invest in a large portfolio of infrastructure funds, we have a strong deal flow of co-investments. This is being complemented by commitments to Continuation Vehicles.

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How do you incorporate ESG considerations in your investment process?

ESG plays an important role throughout our due diligence process. As a first step we assess how a manager incorporates ESG into its investment philosophy and fund strategy, and in which ESG organizations they are active; eg. UN PRI and GRESB.

We then consider how a manager incorporates ESG policies throughout the investment process, both during the origination as well as the asset management phase. This forms part of our on-site due diligence, but we also do background research on specific portfolio investments. Another area we review is the Health & Safety processes that a manager has in place. We've also developed our own ESG due diligence template, which each manager needs to complete. All available ESG reporting is then reviewed before we make suggestions for change (if required). We then provide our own ESG reporting to investors, which is based on the findings of the underlying funds in a portfolio.

10

What are the top 3 trends you foresee emerging in the infrastructure fund industry over the next years?

The COVID-19 pandemic has accelerated several trends in the infrastructure sector. The digitalization of the economy through working from home has further increased the requirements for communication infrastructure. As a result, we expect the trend for investments in fiber optic networks, data centers and mobile communication to further increase. The pandemic has also shown deficiencies in health care facilities, and we believe investments in social infrastructure will also grow in importance.

We also believe that ESG aspects of infrastructure investments and their impact on society will continue to grow in importance. We expect the investment universe to further expand in this area, for example with offerings in the areas of energy efficiency, battery storage, EV charging stations and others.

Finally, we see co-investments and single asset secondaries/continuation vehicles as another area of growth. From the perspective of the investors this is an interesting way to lower overall costs, and for GPs it is a way to keep control over larger investments without having to bring in external partners.



Notes: Past performance is not an indicator for future result.

1 Figure as of 30 June 2020; includes hard commitments. 2 Commitments to date in infrastructure funds (as at 30 June 2020). 3 Preqin, 2020

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