KEYNOTE INTERVIEW

Adapting to a changing agenda

Infrastructure has always been about long-term certainty, but changes in everything from regulation to technology are pushing investors to embrace flexibility, say Vincent Levita and Bruno Candès of InfraVia

Q How have the investment parameters that govern infrastructure as an asset class changed over the past decade?

Vincent Levita: The asset class has evolved significantly over the last 10 years. Infrastructure was far more limited a decade ago; it was very much a one-size-fits-all asset class. Fast-forward to 2019 and the degree of sophistication that we see, among both general partners and limited partners, has changed exponentially.

There is far more segmentation – by infrastructure type, sector and risk profile. In many ways, the evolution of infrastructure has mirrored that of real estate. The market is smaller, of course, but as it grows it is following the same journey – expanding in scope with greater levels of specialisation.

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At the same time, you see GPs now ready to look at more complex situations and to extend their investment mandates. InfraVia, for example, was one of the first infrastructure firms to invest in data centres. Today – while not yet core infrastructure – data centres have become far more mainstream.

Bruno Candès: The same can be said about nursing homes and social infrastructure more generally. That is a sector that used to be reserved for private equity investors. But we believe the long-term trends, the interaction with public policy and the complexity of the care environment make it comparable with what we have been doing for years in other areas. We are currently invested in Carechoice, for example, the second-largest private owner and operator of nursing homes in Ireland.

Q How has regulation, specifically, changed the scope of the industry?

VL: I believe there are several separate but interrelated points to consider here. As infrastructure investors we, of course, consider regulatory risk as it relates to the investments that we make. With the exception of a couple of situations in Spain and Norway, however, the number of occasions where regulation has materially impacted the asset class in Europe has been extremely low.

Then, you also have to consider regulation in terms of the role politics plays in shaping future investment opportunities. Public policy can create opportunity in areas such as renewable energy and energy efficiency, for example. We have seen the same thing happen with high-speed internet access.

France has been ahead of the curve in pushing that agenda and that has given rise to a lot of infrastructure opportunities. It is also happening now in the UK, Germany and elsewhere. Each country has its own approach and the opportunities on offer vary as a result. But this is an example of how regulation is expanding and changing the infrastructure investment universe.

Finally, you have to think about regulation and policy more broadly, in terms of the level of acceptance there is for financial investors to generate return out of essential services. That is particularly important in the context of investing in a country like France. Each of these points is slightly different. But as a provider of essential public infrastructure, of course what we do as an asset class is shaped by the regulatory environment.

Q And how has technology shaped the investment opportunities that are available to you?

VL: Technology represents a risk, in terms of disruption, on the one hand, and an opportunity to enhance or augment infrastructure on the other. With the possible exception of the parking industry, there has been very little major tech-driven disruption in the infrastructure space over the past 10 years. We therefore see technology far more as an opportunity than a threat.

BC: What's interesting is that technology is not only creating new digital investment opportunities around networks, data centres, and telecoms, for example. It is also impacting traditional sectors such as mobility and energy. The other interesting phenomenon is convergence, where sectors such as autonomous vehicles combine transport, technology and energy transition themes.

It is fascinating when you think that 15 years ago infrastructure was a dull and predictable business. It's still predictable, because we are still delivering essential services, but there's been so much evolution in terms of what it is possible to develop.

Q What other trends have materially impacted the evolution of the asset class?

BC: The explosion of data consumption and the mobility of that data consumption has had a huge impact. It seems strange to think that the first iPhone was only launched in 2007. Facebook went live on the iPhone less than 10 years ago. The infrastructure requirements created by that data mobility in terms of data centres and fibre, for example, have been huge. 4G was about connecting seven billion people around the planet. Now we have 5G, connecting hundreds of billions of objects. The infrastructure demands keep on growing. The other major develop-

How technological advances are creating opportunities for flexible investors

InfraVia portfolio company Ocea Smart Building is a smart meter business that was initially developed as a by-product of a utility company.

With advances in technology around artificial intelligence and the Internet of Things, the big question InfraVia and Ocea's management team are now asking themselves is, what value is there in the data behind those meters? As Levita puts it: "If we have three million houses connected to smart meters, what is the quality of that data and what additional services and solutions can we offer around energy efficiency as a result? That is both the challenge and the opportunity."

InfraVia also owns and operates some extremely sophisticated, high-engineered electricity distribution grids in Finland. "We have started to look closely at whether AI could help in designing predictive maintenance programmes and optimisation of frequency balancing," says Candès. "In nursing homes, we are using mobile apps to connect families with residents, for example. All of these things are made possible by increased computer capacity and advances in machine learning, AI and the Internet of Things. Technology is changing fast and we are changing with it."

ment has been COP 21 Paris. There is still a question mark around the US, of course, but that has been a real inflexion point in terms of energy transition. There is a global awareness that we really do want, and need, to address climate change. That has been a critically important development over the past 10 years, and it will drive investment opportunities over the next 10.

Q Has the speed of change brought challenges, as well as opportunities?

VL: It depends on what you mean by the speed of change. It isn't like the internet, where you really need to re-evaluate strategy every quarter. But there certainly have been dramatic changes from one fund to another.

That means every three years or so you need to reassess which sectors will be effective and which will be dangerous. From an infrastructure perspective, therefore, the pace of change has been relatively fast. There are firms that have the same investment thesis around PPP, motorway concessions and renewables that they did 10 years ago. And that is fine for them, but I think it is a missed opportunity.

Q How have you as a firm adapted to embrace these changes?

VL: Our primary objectives are the same as they were when we started in 2008. We are concerned with how we can bring capital into the system and how we can create and add value to the assets we invest into.

Back then we were one of those firms doing PPP, motorway concessions and renewable energy. We were able to invest in those sectors successfully through minority stakes. Now, we are looking at a whole range of new sectors from energy storage and efficiency, to healthcare and ports and airports.

That means our value-add strategy has had to change too. We have progressively taken on more majority positions, bringing additional internal resources on board to support asset management, and developing a more private equity-style approach to working with the management teams of the companies we back.

> *"LPs are increasingly looking for direct involvement in one form or another"*
>
> **VINCENT LEVITA**

BC: We've been very proactive with digital transformation. We see it as our job to push the digital agenda within our portfolio companies. We have created a digital forum at InfraVia, for example, which enables the CEOs and CIOs of our companies to meet regularly in order to share experience and knowledge. Our most recent event was focused around cybersecurity. We are trying to build a community of experts within our portfolio businesses to ensure technology continues to represent opportunity rather than risk.

Q How have infrastructure managers been able to reconcile LPs' quest for certainty and long-term stable returns from this asset class with the accelerated pace of change?

VL: As a whole, I would say that the infrastructure industry has been relatively disciplined in terms of risk management, leverage management and even scope. There are firms that are pushing the boundaries today, in terms of what constitutes infrastructure, and we have been a part of that. We have done so with the full support of our LPs because we both say what we do and, more importantly, do what we say.

Some GPs refuse to go there. They have stayed within the confines of traditional infrastructure, and good for them. That strategic differentiation is what has helped create the more segmented marketplace that has made infrastructure so interesting.

As long as you do your homework and communicate those key macro trends around globalisation, urbanisation, devolution of government and demography that will have an impact on the infrastructure needs of the future, then LPs are very happy with that.

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>
> **BRUNO CANDÈS**

After all, we like to see ourselves as investing with as much of a focus on the infrastructure needs of tomorrow as of today.

Q What do you believe will be the gamechangers that alter the face of infrastructure investment in the next 10 years?

VL: Clearly technology is going to continue to be an absolutely fundamental driver of change. The likes of artificial intelligence and blockchain are not hypotheticals that may impact the next generation, they are happening now and we are convinced that what we're seeing is only the beginning.

I think we may also start to see a blurring of the boundaries between infrastructure and private equity investment. That is an evolution rather than a gamechanger and won't be too challenging to manage. I also think we'll continue to see the nature of our relationship with LPs evolve. LPs are increasingly looking for direct involvement in one form or another and I think it is vital we see the relationship as a genuine partnership.

Finally, the macro trend towards energy transition and addressing climate change will continue to have a massive impact on the infrastructure requirements of tomorrow. ■

Vincent Levita is founder and CEO of InfraVia. He has more than 25 years of experience in infrastructure investment, strategic planning and business management

Bruno Candès is a partner at InfraVia. He joined the firm in 2012 and focuses on origination and investment activities