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All I want from COP26 is…

European infrastructure managers share with Amy Carroll and Zak Bentley their hopes for the legacy of the latest global summit on climate change

Clarity and collaboration were top of the COP26 wish list when five European infrastructure investors gathered to share their views on the market, at the same time as the world's leaders were gathering to address the existential challenge of climate change.

"On a macro level I would like to see a greater commitment from China and the US, two of the biggest nations and biggest polluters on earth," says Ian Harding, managing partner at Arcus Infrastructure Partners, thus highlighting China's failure to send its president, Xi Jinping, to join the proceedings. "Global co-ordination is critical."

Harding adds that from an infrastructure investment perspective, he would also like to see concrete steps taken around three industries with some of the greatest emissions problems: aviation, shipping and heating. "Shipping accounts for something like 3 percent of global emissions. That is more than the whole of Germany," he says. "Similarly, while steps have been taken to develop synthetic renewable fuels for aviation, that reality remains a long way off. If we could make improvements in those three areas, that would represent a big win."

Picking winners

But to do so, governments will need to make decisions around which technologies to throw their weight behind. And clarity around that decision making is vital before infrastructure investors can deploy at scale. "We need more visibility on what steps are going to be taken and what technologies are going to get the necessary support for the hardest-to-decarbonise sectors," says James Harraway, managing director at Infracapital, which has invested in EnergyNest, a business that operates thermal batteries for industrial clients to deliver carbon-emission savings and cost efficiencies.

Stefan Weis, managing director of public transport and environment at Cube Infrastructure Managers, agrees that a global level playing field for carbon is essential and that a predictable and supportive framework around a timely energy transition is key. "It is important to promote what can be scaled quickly rather than wait for perfect solutions," he says. "We need to see state resources directed at geothermal technologies, for example, as well as hydrogen and carbon capture, rather than spending billions developing nuclear fusion, which remains a long way off."

Weis adds that, in his experience, incentives work better than prohibition when it comes to policy: "Instead of prohibiting commuters from driving into cities, for example, decarbonising public transport with electrified fleets is the better option."

He says that municipal owners of

Ian Harding

Managing partner, Arcus Infrastructure Partners

Ian Harding was part of the team that founded Arcus Infrastructure Partners in 2009. He is responsible for overseeing the formulation and execution of investment strategies for assets being acquired and for Arcus's assets under management. Prior to joining Arcus, Harding was with Babcock & Brown's European infrastructure team. He has also worked in Citigroup's infrastructure advisory group and with NM Rothschild & Sons' natural resources business.

James Harraway

Managing director, Infracapital

James Harraway joined Infracapital in 2014 and has over 16 years' experience in infrastructure investment and M&A. He is responsible for originating and executing investments across the European infrastructure sector and is a member of the firm's investment committee. He joined from CVC Capital Partners where he was an investment director, prior to which he worked in M&A at Deutsche Bank.

Stefan Weis

Managing director, public transport, Cube Infrastructure Managers

Stefan Weis leads Cube Infrastructure Managers' public transport platform. He is also in charge of developing investments in the environment and water sectors. Weis has more than 20 years of infrastructure direct investment and investment banking experience. Before joining Cube in 2017 as investment director, he worked in the advisory teams of InfraEnergy, UBS Investment Bank, ING BHF-Bank, JPMorgan Chase and Flemings in Frankfurt.

Angelika Schöchlin

Senior partner, Antin Infrastructure Partners

Angelika Schöchlin joined Antin Infrastructure Partners in 2010 and is a member of the investment committee. She is a board member of Amedes, GSR, Almaviva, Babilou and Hippocrates. Schöchlin previously worked for Goldman Sachs and Terra Firma and has experience in both principal investments and mergers and acquisitions. She also has significant experience in deal execution, financing solutions, operational change and asset management.

Athanasios Zoulovits

Partner, InfraVia Capital Partners

Athanasios Zoulovits is a partner at InfraVia Capital Partners, a European private equity fund manager focusing on infrastructure and technology investments. Prior to joining InfraVia in 2013, Zoulovits worked at Société Générale CIB and Access Capital Partners. He is currently a director of Nexrail, Sandaya, Mater Private, SAVE and Alkion Terminals.

transport operators have habitually found electrification more difficult than owners supported by infrastructure capital.

Athanasios Zoulovits, a partner at InfraVia Capital Partners, is keen to see greater clarity on the micro level, with implementation policies rather than just the macro objectives. One example would be setting specific regulatory support around plastic recycling rather than just speaking about the circular economy as a feel-good ambition. "We need to focus on implementation, not just objectives and buzzwords," he says. "For example, on circular economy we need to set incentives for treating waste so that recycled products no longer trade at a discount to new products. That is something that is relatively easy to fix with regulation, just as we have already seen with plastic bottles and PET. I think that specific implementation initiatives is something that appears to be missing from discussions at the moment."

The good news, according to Angelika Schöchlin, senior partner at Antin Infrastructure Partners, is that popular opinion, at least in Europe, now stands firmly behind measures designed to tackle climate change. "When you look at the younger generations, in particular, they are demanding that governments and businesses take these steps," she says. "That broad consensus is really helpful and if we can get some of these other big polluting nations pulling in the same direction, that would be great."

"It is important to promote what can be scaled quickly rather than wait for perfect solutions"

STEFAN WEIS
Cube Infrastructure Managers

Mitigating moves

In addition to providing greater visibility and predictability around investment themes, COP26 has been an opportunity to highlight the importance of climate change mitigation, particularly for infrastructure providing essential services. Infrastructure managers are already having to take steps to protect their assets. Harding points to Brisa, Arcus's toll road business in Portugal, where extreme heat and a lack of rainfall have meant cutting back roadside vegetation further than was historically the case in order to minimise the impact of forest fires on road users. "We are also very conscious of where we are placing active equipment for our fibre assets in the low-lying Netherlands, for example – a country which is potentially susceptible to flooding and rising sea levels," Harding adds.

Weis, meanwhile, has seen wildfires threatening powerlines. This means Cube is increasingly covering the PoPs, or points of presence, in its rural fibre assets in Portugal with voltaic panels and batteries to ensure energy supplies for an interim period in the event of power line damage. "These are things that must be systematically reviewed through the investment and asset management process," he explains. "Those risks are only increasing."

"Climate change risk is something we monitor carefully in due diligence," adds Schöchlin, who says Antin has passed on investment opportunities because of concerns around the impact of extreme weather events on energy prices.

However, Zoulovits says it is important to think of climate change adaptation as a value creation opportunity as well. "There are opportunities that arise from positioning yourself to take advantage of this huge secular trend – the energy transition," he adds. "That is a very different mindset from only thinking about climate change in terms of risk or disruption. Our portfolio companies have the chance to capture additional revenues and drive growth, whilst accompanying their customers in their own transition. That is what makes our job so exciting right now."

Infracapital has invested in a business called Last Mile Infrastructure Group in the UK, which owns and operates 425,000 gas, electricity and water connections servicing residential and commercial customers. "That company has recently established a joint venture with a ground-sourced heat pump owner and operator so that it can offer

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>
> **IAN HARDING**
> **Arcus Infrastructure Partners**

Beyond climate change

Europe should be proud to be at the forefront of the drive to combat climate change, says InfraVia's Athanasios Zoulovits.

"Europe is the world leader when it comes to regulation, implementation and thought leadership on this topic," he says. "The continent was largely responsible for the successful creation of a renewable energy industry and we have exported champions around the globe."

But while renewable energy generation and other infrastructure supporting the transition may be dominating the European investment landscape, it is not the only game in town. Digital infrastructure has become a mega-sector, particularly in light of the pandemic. "Covid accelerated digital advancement, as everyone has needed good connectivity whilst restricted to their homes," says Arcus Infrastructure Partners' Ian Harding. Infracapital's James Harraway, meanwhile, points to the growing opportunity to consolidate European fibre markets as winners and losers begin to emerge.

Antin's Angelika Schöchlin adds that covid has shone a spotlight on social infrastructure, explaining that the firm is selling a French clinic portfolio and a German laboratory business to infrastructure managers: "More broadly we are seeing a lot of activity in the elderly care homes market and in healthcare services and education. Interest was already there but covid has reinforced the essential nature of these businesses."

Transportation remains the least buoyant segment, following a slowdown as a result of international lockdowns. "With capital available through cheap borrowing to help these businesses weather the crisis, we haven't seen any distressed sales," says Harding. "It is not the right time to sell a transport asset if you don't have to and liquid debt markets mean that hasn't been the case, unlike during the global financial crisis. It also hasn't been the right time to buy a transport asset given the level of uncertainty around usage and recovery paths."

Yet Weis points that while opportunities abound throughout the asset class, the energy transition permeates them all: "Decarbonisation of district heating, in particular, is essential. And with nuclear and coal power being phased out, there is a clear supply gap that needs to be filled. Energy transmission is another important theme as the penetration of renewable energy grows. How quickly will European energy markets fully integrate and how does Germany get its offshore wind power down to its economic centres in the south?" Weis also points to a growing crossover between subsectors, such as electric vehicle charging combined with telecoms towers or solar generation: "That is de-risking those earlier stage investments."

Harding is focused on opening up new subsectors, including cold storage: "Those businesses have a lot of infrastructure characteristics and have been extremely resilient through covid. Similarly, we have also bought a tank container storage business – the liquid equivalent of the storage units you see on vessels all the time. That is an efficient and climate-friendly, intermodal way of moving liquids around the world and the business has gone from strength to strength, transporting pharmaceutical products used in hand sanitizers and disinfectants, for example. Infrastructure managers are always looking for those new areas of investment, available at good relative value points in the European market. That is the holy grail."

sustainable heating and cooling systems, allowing customers to transition away from gas," says Harraway. "I think those examples of businesses shifting their strategies to reflect climate change are what's really interesting."

Of course, climate change adaptation – whether to mitigate risk or take advantage of opportunities – typically requires significant capital expenditure, and that spending has to be factored into valuations. "You have to consider the capex required, particularly when a business has made a net-zero commitment," says Harraway, pointing to an investment in Netherlands-based inland terminal business BCTN. "That company already has hybrid electric barges, but we are now working with a major customer to develop a hydrogen-powered barge – the key advantage being that it would travel a lot further than a hybrid electric ship."

Harding, meanwhile, says that Arcus's cold storage logistics business Constellation Cold Logistics has invested in new refrigeration systems

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> **ANGELIKA SCHÖCHLIN**
> **Antin Infrastructure Partners**

for many of its facilities. "That has the dual benefit of reducing the amount of greenhouse gases emitted, but also, importantly, reducing energy costs by around two-thirds," he explains. "The upfront capex is paid back over time, while the environment is also benefiting. It's a win-win."

Electric bus fleets display a similar dynamic. "You have to invest significantly more upfront, but the maintenance and energy costs are far lower," Weis says. "There are also strategic advantages to be a front-runner in that you can use that experience to consolidate the market. Electrification is too complex for some smaller operators, which is creating opportunities for M&A."

Regulation

A climate change-conscious approach to investment may make good business sense, but proliferating regulation in Europe also means it is no longer optional. The Taskforce on Climate-related Financial Disclosures and the Sustainable Finance Disclosure Regulation have upped the ante on transparency and reporting, and infrastructure investors appear largely supportive of this change.

"Broadly speaking, we appreciate these guidelines. Infrastructure involves essential assets that serve the community and so it is vital that we are transparent as an industry and regulation can help support that," says Schöchlin. "It will also help improve the public image of the fund management industry in some regions where perception is still poor."

But there are challenges. Phase two of SFDR, to be implemented next year, currently lacks clarity, says Harding: "It is also important to ensure that everyone is working to a single standard or we risk comparing apples with pears."

Harraway agrees that consistency around data collection is critical. "That isn't always straightforward in private markets, where a lot of that data is secured through direct engagement with portfolio companies," he explains, adding that Infracapital has engaged a third-party specialist to aid the collection of greenhouse gas emissions data across the supply chain. "But we are certainly finding that management teams are keen to get on board with these initiatives and are seeing the advantages that it brings."

Zoulovits says: "As infrastructure investors we require a social licence to operate and it is to the benefit of us all to be able to differentiate between those who talk the talk and those who walk the walk."

He adds, however, that regulation isn't the only significant driver behind sustainable investment: "There are assets today that are off-limits for any investor with a long-term horizon because of the real risk that those assets will become irrelevant or stranded. That isn't about regulation. It is about rational economic decision-making and the future proofing of investments by both managers and their LPs." ■