KEYNOTE INTERVIEW

Finding growth in infrastructure

Agility and proven experience are key to identifying opportunities and capitalising on infrastructure's mega-trends, says InfraRed Capital Partners' Jack Paris

The infrastructure landscape is changing rapidly. Evolving mega-trends are creating significant opportunities, while the sector's reputation as a resilient and reliable asset class is continuing to capture investor attention at a time of extensive macroeconomic challenges and geopolitical tensions.

Jack Paris, chief executive at global infrastructure asset manager InfraRed Capital Partners, discusses the dynamics shaping the next generation of infrastructure and highlights the key tools for capturing opportunities the market has to offer. He emphasises the importance of growth, diversification and working in partnership with investors.

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Q How do you think about identifying assets and building portfolios?

We look at it in several ways. When we think about managing risk, we look for the defensive characteristics that really define infrastructure. That means identifying attributes like inelastic demand and resiliency over various economic cycles. But importantly, we're also looking for growth.

If you were to survey 100 investors and ask what frustrates them most about alternatives today, the first response would likely be realisations. We've demonstrated a consistent ability to monetise positions, while others have relied on continuation vehicles. For true monetisation, one of the key aspects an investment must have is growth.

In the mid-market, where we operate, we're starting with transactions and investments that are initially of a relatively modest size. That means there's the ability to scale. And we're seeking to purchase assets that have strong prospects within their sectors, which we can actively support through repeatable processes. Together, these factors can deliver a steep operational growth trajectory, and this is a critical point of differentiation that sets us apart.

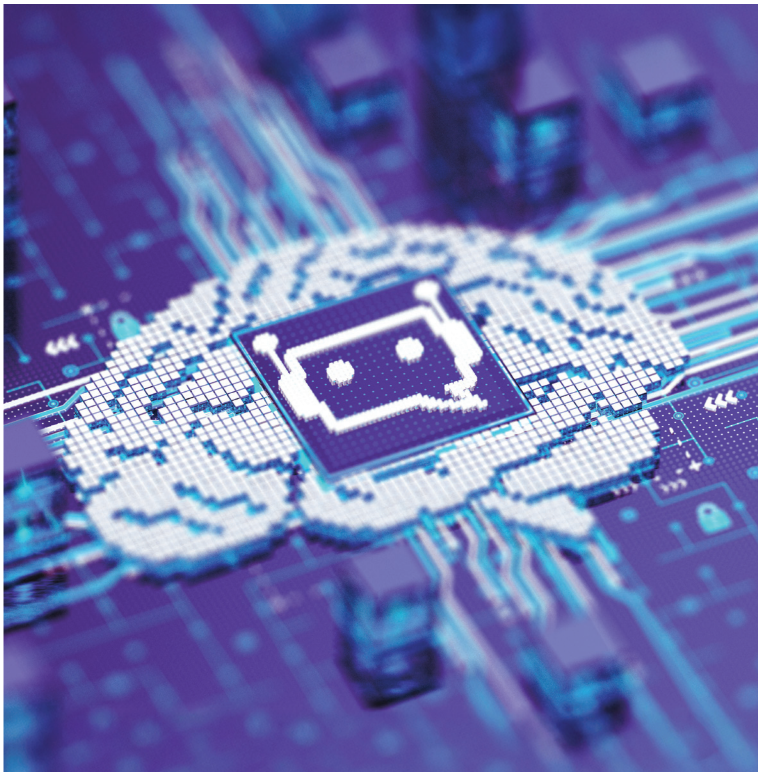
As a global investor, we also consider risk-return across various geographies. That helps diversify our portfolios. For example, we're constantly reviewing opportunities in the energy sector and recently identified a compelling investment in Finland. Voltan Energy, an energy company focusing on ground source heating in residential and commercial buildings, has all the desired defensive characteristics – such as long-term fixed rate contracts and proven technology. But it also has a large, scalable addressable market for future investment.

Equally important as geographic spread is having diversification across the themes that we target – whether that's energy, digital, transportation, logistics or social.

Q What role does the mid-market offer over the large or mega-cap?

We feel fortunate because we have a strategy and business positioned to benefit from significant tailwinds over the foreseeable future. The infrastructure mid-market will be a hub of activity over the next decade and beyond. If you look at transaction volumes over the past year, 79 percent of deals were below $150 million. That's a significant opportunity set. There's also a dynamism within the mid-market as we move towards new technologies in infrastructure.

When you look at large-scale transactions, competition is intense. If you're a participant in that marketplace, and an opportunity becomes available, you're almost obligated to explore it. Across Europe and North America, there's been an explosion of small to mid-sized businesses with infrastructure assets. These firms are looking for partners to provide the capital and take



Q Where do you see opportunities to invest in assets with growth potential?

Today, there's a significant investible opportunity driven by infrastructure's key mega-trends. For example, we estimate that annual investment opportunities in the energy sector will total approximately $4.5 trillion.

As has been widely discussed, there's significant interest around digital infrastructure and the associated energy infrastructure that's required to fuel cloud migration and the artificial intelligence boom. We've seen a step change in demand for both data centre capacity and the energy needed to power build-out. Our focus is on the growth associated within those types of subsectors across the themes we target.

For example, we recently agreed to acquire a Canadian digital infrastructure business, Qu Data Centres, for one of our value-add funds. The firm has an established customer base and a proven track record, helping to meet growing demand for co-location capacity. This acquisition presented an opportunity to take something that was perhaps a little undervalued within a large conglomerate and apply greater focus on operations and customer service to help fuel growth.

However, it's important to remain disciplined when evaluating these types of investments. We always consider whether growth potential is being overestimated. Out of prudence, our investment case doesn't factor in upside from AI.

For Qu Data Centres, the combination of a stable customer base, proven track record as well as the opportunity to enhance growth and invest in the business going forward – paired with a reasonable acquisition price – made it a unique digital investment opportunity.

them to the next level of growth. We have the advantage of choosing from a much broader base of opportunities to identify the most attractive relative risk-reward investments.

A good example of this dynamic is another recent addition to one of our value-add funds. In July, we acquired GulenSkyss, a ferry and ambulance vessel owner and operator in Norway. The core business had all the key features I've outlined – barriers to entry, price and inflation protection, as well as growth potential. We felt it had a proven management team and a core business that we could take to the next level.

Q How important is global reach in the mid-market?

Investment managers with a global footprint tend to focus on larger transactions. We, however, have always been a mid-market player since our inception over 25 years ago, with a typical transaction size of between $100 million and $300 million. Few investment managers with our global reach focus on this part of the market, which provides meaningful advantages.

This means that we can assess relative risk and return across various geographies – whether Finland, Canada or Norway. The value of a globally diversified portfolio cannot be overstated. For instance, if we're comparing a networks business in Germany to one in the US, our positions in both markets mean we can assess relative risk and return effectively.

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One of the most appealing aspects of Qu Data Centres is that Canada has been very focused on data sovereignty in recent years, particularly in light of political tensions around tariffs and trade. Looking ahead, there's expected to be an even greater focus on regional and local data centres across the country. This has enabled us to determine how we can facilitate future growth, identify potential customers and understand why they would find our product appealing.

Q What other attributes are important to identifying opportunities in today's landscape?

A proven track record, along with deep relationships, is a prerequisite for success. We often find ourselves repeatedly transacting with the same counterparts across our value-add and core strategies. When investments prove successful, the enthusiasm of management teams to re-engage or present fresh opportunities is very high.

The willingness to listen to investors in terms of what investments they like – combined with a top-down approach when identifying and selecting opportunities – is also important. We have a research component within our business that analyses opportunities. Starting top down, we drill deep into sectors, digging into growth forecasts and metrics to guide where we believe future opportunities will emerge.

Q How is working with investors changing?

Although the commingled fund approach remains valuable and the most appropriate route for many investors, sophisticated investors are also increasingly looking for more customised solutions.

We have investors that say: we really like your approach but we want some

"Across Europe and North America, there's been an explosion of small to mid-sized businesses with infrastructure assets"

incremental exposure to this particular subsector. In those cases, we work with them to create a managed account focused on securing the exposure they're after, with some participation across our other strategies.

Increasingly, we're finding that many of our investors, particularly those with well-built-out portfolios, are looking for specific solutions to fill gaps in their existing portfolios. A related example is the SMA we agreed with Dutch pension services provider APG. Their goal was to gain greater exposure to social infrastructure across Europe, which they believe will be an important theme as populations age.

However, pursuing investments in that sector is challenging because they tend to be lower mid-market-focused and asset management-intensive. We have a proven track record in the sector and a large asset management team with expertise across the UK and Europe.

In some cases, it's their needs that are evolving.

Large institutional investors are becoming more sophisticated in articulating their requirements – what they're looking for and what's needed in their portfolios. They may not initially have all the answers. But the ability to work with them, find solutions and offer expertise that others don't have is key. Having a collaborative approach is essential. ■