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Infrastructure:
a strategy combining cash yield with capital appreciation

"We target sectors and assets offering the double benefit of generating cash yield as well as capital appreciation, which enables us to organize distributions to our investors every year."

At a time when the range of infrastructure funds in fundraising is constantly expanding, Access Capital Partners champions an original investment strategy that prioritises the mid-market segment, with a strong focus on Europe and on fast-growing segments such as Energy & Renewables, Digital Infrastructure, Mobility, and Environment & Circularity.

Aymeric Paul, Partner Head of Infrastructure, tells us more.

In which infrastructure investment segments do you invest?

We invest in infrastructure assets either directly through co-investments or indirectly via primary fund commitments and secondary transactions. We have built up extensive, although not exclusive, knowledge on the mid-market segment, which we define as funds of less than EUR 2 billion. For our direct investment activity, we co-invest alongside infrastructure fund managers operating in their field of expertise, industrials or institutional groups, ensuring optimal diversification in terms of sectors, ticket size and geographical coverage.

In recent years, infrastructure has encountered competition from other asset classes such as fixed income, while current economic conditions may be having an adverse impact. What is fuelling the investor interest?

Despite the competition, this asset class remains extremely vibrant with sustained growth of investment volumes, continuous emergence of new managers and increased diversification across GPs' investment strategies. The first infrastructure funds raised some 15 years ago have now grown in size and concentrate on larger assets. This has contributed to ease the competitive pressure on the mid-market, allowing deals to be completed at attractive entry prices. The infrastructure asset class also presents a significant growth component, which may be organic, due to rising demand in sectors such as fibre networks or decarbonised mobility, for instance, or driven by acquisitions, via consolidation transactions at a regional, national or multinational level. Low default rates on infrastructure assets, despite external shocks such as Covid, the spike in energy prices following the outbreak of the war in Ukraine and higher interest rates, illustrate the resilience of this asset class, particularly when combined with prudent use of leverage. All of the above underpin our determination to be invested in this segment.

The infrastructure market offers the double benefit of generating cash yield as well as capital appreciation. We target sectors and assets offering predictable revenues. So far, that has enabled us to organize distributions to our investors every year.

What strategy have you adopted to adapt to the high interest rate environment?

We focus on assets that generate predictable long-term revenues thanks to clearly defined regulatory or contractual frameworks. We like assets displaying strong direct or indirect inflation indexation that have a demonstrated ability to protect their operating margins. Our focus on assets capable to generate regular cash yield distributions with moderate debt levels, and long-term debt structures, has largely shielded our portfolio from the negative impact of a high interest rate environment. Continuous yield generation also contributes to the accelerated derisking of our portfolio.

Why do you like European infrastructure?

One of Europe's distinctive features is that it is made up of some 30 countries – hence an equivalent number of markets – which creates a large supply of mid-market opportunities and interesting options for external growth or asset consolidation strategies. We consider the European market to be the most active infrastructure market globally and, at the forefront of numerous sectors, including energy transition solutions, transport decarbonisation, water services. It is home to many global leaders operating in these industries. In addition, Europe benefits from mature regulatory and contractual frameworks, which is a particularly important feature for long term infrastructure investments.
More recently, we expanded our geographical coverage to include North America, which is a market in the throes of major change. After previously being centred on oil and gas, US infrastructure has pivoted to embrace issues linked to the energy transition and to digitalisation, which resonate well with our investment strategy. North America now offers attractive opportunities in these sectors.

On that topic, in what sectors are you positioned and why?

A significant portion of our investments is concentrated on Energy & Renewables, Digital Infrastructure, Mobility, and Environment & Circularity each of which has made up about 30% of our portfolios in recent years. These sectors are underpinned by major long-term underlying trends, namely the energy transition, including energy efficiency and optimised management of resources such as water and heat on the one hand, and digitalisation on the other hand. Investment needs and challenges linked to energy transition are well documented, while those of digitalisation receive a little less coverage. They are nevertheless substantial. They include for instance the need to ensure equal digital access to remote areas, underpinning increased fiber and tower network investments or the exploding data storage capacity needs in connection with the development of artificial intelligence, which triggers a considerable growth in the number of data centres. Besides these two focus areas, we are also interested in other sectors with attractive growth potential, such as mobility, where we favour investments with a decarbonisation focus, such as logistics, rail infrastructure or EV charging networks. We also invest in Social Infrastructure, outside of public-private partnerships. Overall, we seek to build diversified portfolios in sectors that are supporting sustainability-linked macro trends while fostering a more socially responsible society, which are of high interest to our investors. The fact that these sectors are growing fast does not mean that they are completely risk-free. A key component of our approach, driven by our knowledge of the market, is to de-risk our investments by paying meticulous attention to the financial structures in place, profitability issues and long-term relevance of business models.

You are ramping up your presence in infrastructure secondaries. What is your interest in this market?

The secondary market in infrastructure is less mature than that of other alternative asset classes, but it is poised for significant growth. This is a direct consequence of increased fundraising in recent years and the growing maturity of funds, which offers investors options when it comes to selling. Whereas the infrastructure secondary market used to feature a large proportion of GP-led transactions seeking to raise additional capital to support portfolio companies, we have noted an increase in the volume of LP stakes, driven by investors seeking liquidity. We believe that both these components of the secondary market are set to continue growing. The stable and predictable revenues of infrastructure assets are well adapted to GP-led deals, in situations where there is a clear mid-to-long term growth and development programme. The relative stability of infrastructure asset valuations makes selling analysis and decisions easier for an investor contemplating a disposal of an infrastructure fund interest.

What is your approach to this market?

So far, few firms have developed real expertise and specific solutions in infrastructure secondaries. Our expertise in infrastructure market dynamics as well as our deep knowledge of fund managers, through our primary activity, and of assets, thanks to our co-investment activity, is an undeniable advantage to source and execute secondary investments. We are also able to unlock potential synergies with our secondary investments in private equity.

To conclude, what are Access Capital Partners' competitive advantages in infrastructure?

We have set up a dedicated infrastructure investment team, equally active in fund selection and co-investments, within which most of the members have a direct investment or project finance background. This know-how is particularly precious when it comes to dealing with managers, because we speak the same language. It also allows us to have a detailed understanding of market trends and sector specific views on risks and opportunities. Our European presence via offices in London, Paris and Helsinki, considerably strengthens our geographical coverage and allows us to maintain close ties to managers.

About Access Capital Partners

Established in December 1998, Access Capital Partners is an independent Private Assets manager, majority owned by its management. With offices in six European countries and aggregate investor commitments of €14.3 billion, Access' integrated expertise offers exposure to Small-Cap buy-outs, Infrastructure, and Private Debt through multi-strategy funds, secondary funds, direct co-investment funds as well as customized client solutions.
As an early signatory of the UN-PRI in 2008, the firm is fully committed to integrating Environmental, Social and Governance best practices into its investment strategies, acknowledging that a responsible investment approach enhances long term returns.

www.access-capital-partners.com

€14.3bn AUM*

350 INVESTORS

6 EUROPEAN OFFICES

97 PROFESSIONALS

*funds historically raised

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