ROUNDTABLE

SPONSORS

ARDIAN • FENGATE ASSET MANAGEMENT • IFM INVESTORS

Asset management takes centre stage

Proactive asset management at a company and portfolio level has never been more important, three industry professionals tell Amy Carroll and Siqalane Taho

The era of multiple expansion is now firmly behind us, and proactive asset management has become integral to success. "In earlier vintages, returns were driven in part by an abundance of cheap finance, but since the early 2020s, a clear asset management plan on entry has become critical to yielding results," says Patrick Freer, managing director and head of value creation and asset management at Fengate Asset Management. "How you develop, build, optimise and de-risk during your hold period is now the key differentiator when it comes to fund performance."

Certainly, in a competitive fundraising environment, investors are placing more emphasis than ever on managers' operational know-how. "LPs are extremely focused on asset management capabilities," says Simo Santavirta, head of asset management for infrastructure at Ardian. "Being able to demonstrate a track record of executing operational excellence programmes, creating industrial value and supporting portfolio companies as they grow is what matters most when fundraising today."

Of course, these are not easy waters to navigate. The macroeconomic and geopolitical backdrop remain extremely volatile, and each individual sector has its own set of challenges.

Both the digital and power sectors are currently facing supply chain issues, for example. Freer explains that Fengate is pre-buying equipment to ensure it can enact growth plans as opportunities arise. "This is a bit of a departure for us, but it is something we are doing strategically to help our businesses grow given the long lead times for certain equipment."

Santavirta adds that OEMs in the renewables space are experiencing labour shortages and issues with labour quality. "That has the potential to create problems but we have been able to systematically build relationships with key suppliers, which means we get priority treatment, as well as better terms in our procurement and EPC contracts.

"We first saw how powerful these relationships could be during covid-19, but it remains the case today. Because of our relationships, we have been able to ensure that our projects are adequately staffed with qualified personnel, which is not the case for everyone in the current environment."

Tech risk

Investors in data centres, meanwhile, face the prospect of overhauling their facilities as tenants increasingly demand the latest chips.

Max Fieguth, executive director of asset management in the infrastructure team at IFM Investors, emphasises that the primary technology risk generally remains with the client: "It is important that we provide clients with the right operating environment, but any impact from a tech refresh is typically managed through commercial agreements."

Freer adds that smart data centre companies are also building with future-proofed flexibility in mind by, for example, raising floors so that the data centre can be adapted for liquid cooling without having to revise the original building design as tenants' requirements change.

Santavirta, meanwhile, points to Ardian's investment in data centre platform Verne – a certified Nvidia partner. "Verne has recently deployed 15MW of capacity with the Blackwell Ultra Nvidia GPUs in its Icelandic campus. This deployment is 85 percent liquid cooled. You need expertise to enable such an installation, so it is important that you are backing the right management teams.

"That said, I agree, we are infrastructure investors. We are not directly exposed to hardware depreciation. That is the responsibility of the tenants."

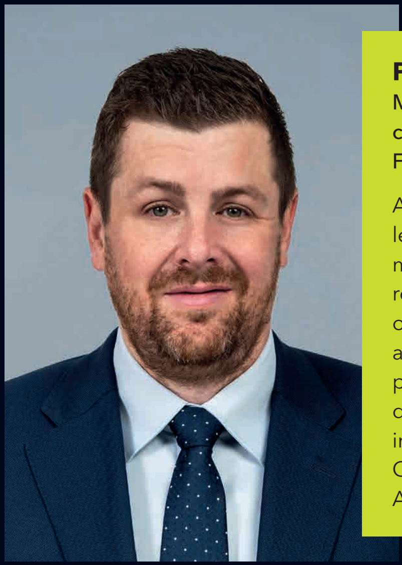
Santavirta adds that the tech advances taking place also create benefits: "These are dense installations, which means you can fit more capacity on the same surface. It is true that when tenants require a refresh, capex may be required, but the appropriate protections should already be in place in contracts to ensure that those costs are borne by the client."

Indeed, change is inevitable, in any sector. Asset managers, and the teams they back, need to have the agility to respond accordingly.

"There will always be sector-specific challenges that make projects harder to deliver," says Fieguth. "What matters most, therefore, is ensuring that you, as a firm, and the management teams that you back have the requisite capabilities to navigate those challenges as they arise. We place a lot of emphasis on evaluating a management team's track record of delivering against a

Max Fieguth
Executive director, asset management, infrastructure, IFM Investors

Max Fieguth leads a team of asset management professionals responsible for implementing value creation opportunities across the IFM infrastructure portfolio. He joined IFM in 2016, having previously worked as a management consultant with McKinsey & Company and on the Crossrail project with Bechtel.



Patrick Freer
Managing director, head of value creation and asset management, Fengate Asset Management

As the commercial and relationship lead for Fengate Infrastructure's asset management team, Patrick Freer is responsible for both construction and operations of each project, as well as ongoing client communications, performance analysis and business development. Prior to joining Fengate in 2014, Freer worked at Graham Construction, Stantec Consulting and Acciona, among others.

Simo Santavirta,
Head of asset management, infrastructure, Ardian

Simo Santavirta joined Ardian in 2016 having previously spent 13 years at global power generation group InterGen. An engineer by background, Santavirta started his career at Finnish energy company, Fortum in 1998.

business plan even in the face of those challenges.

"Then, once we have completed the deal, we play an active role in supporting management and seconding people in to help deliver projects where necessary. We really get into the nuts and bolts where appropriate, in order to ensure that everything runs smoothly, regardless of external pressures."

> *"How you develop, build, optimise and de-risk during your hold period is now the key differentiator when it comes to fund performance"*
>
> **PATRICK FREER**
> **Fengate Asset Management**

'Boots on the ground'

Local knowledge is essential for providing hands-on support. "You need to know local market rules and regulations. You need to speak the language. You may even need to know which individuals within a local authority are responsible for signing off before something is commissioned," Fieguth says. "It might seem mundane, but if you don't get the right sign-offs on the right dates, that can really derail a business plan in ways that firms need to plan for carefully."

Santavirta agrees: "Having local teams that know how to operate within local laws and that understand the culture and language is essential. It has always been our strategy to have boots on the ground."

Sector expertise is also key, which is why there has been a pronounced trend towards sector specialisation in recent years.

Santavirta argues, however, that generalist managers such as Ardian have the benefit of scale, coupled with deep sector knowledge: "Scale allows us to have the team size and structure to ensure we have deep expertise across the digital, energy and transport sectors. Combined with centralised industrial and data science capabilities, that allows our diversified funds to operate with specialist-level insight. Our extended team of operating partners also play a critical role."

"We don't consider ourselves to be generalists, even though we manage diversified funds," says Freer, "because we have four separate investment and value creation teams across digital, energy transition, social infrastructure and transport. We are specialists because that is what it takes to realise the return expectations that investors have."

Fieguth, meanwhile, says that while sector expertise is crucial, there is also a real advantage in diversification. "If you are large enough to be diversified and still have the right sector capabilities, that is a position of strength from a portfolio management perspective."

Asset-level risk

For both sector specialists and generalists, managing asset-level risk is paramount, particularly in these times of extreme geopolitical tension where critical infrastructure is facing potentially existential threats.

"The operations of every underlying portfolio company need to be resilient to any sort of disruption, whether that is cyber-based or real world," says Fieguth. "Recent events in the Middle East have only highlighted the risks that global portfolios face and the

"If you are large enough to be diversified and still have the right sector capabilities, that is a position of strength from a portfolio management perspective"

MAX FIEGUTH
IFM Investors

"We are also cautious on the size of transactions. We have walked away from several single-sector, single-country deals that were large on entry, in order to manage exit risk"

SIMO SANTAVIRTA
Ardian

importance of having robust risk management frameworks in place."

IFM's approach to managing these risks is twofold. First, each company is required to review its own resilience in terms of its critical assets and processes. "People working within those companies have plans in place for specific outages or operational scenarios. This is something they prepare for," Fieguth explains.

"As fund managers, we are also able to make certain resources available, in particular by bringing people together to exchange knowledge and ideas. For example, we have been bringing the chief information security officers of our various portfolio companies together for 10 years now in order to exchange information on how they see the cyber-threat landscape evolving. There is definitely a requirement for a company-specific approach, augmented by a portfolio view, given the range of threats that exist today."

Cybersecurity has certainly become an asset management priority. "We conduct digital assessments for all our investments to assess cybersecurity maturity and then follow that up with a deep-dive assessment as part of our 100-day plan," says Santavirta. "We then monitor the maturity of the portfolio on a rolling basis to make sure there is continuous improvement, while providing portfolio companies with tools, guidelines and expert support."

Santavirta adds that the threats faced by infrastructure assets are not just geopolitical in nature. While global conflict may be dominating headlines, climate change remains a real and present danger.

"Protecting our assets and ensuring their resilience to climate-related risk is a key part of our asset management strategy," Santavirta says. "We integrate climate risk assessments into all our investment decisions, supporting portfolio companies with business continuity planning and adapting operations when needed to mitigate exposure to extreme weather events or climate change more broadly."

Fund-level risk

Managing fund-level risk is as important for asset managers today as managing risk at the level of the individual asset. "Effective risk mitigation is key to avoiding underperformance at a company level, but it's important at a portfolio level too," says Fieguth. "One way to do that is to ensure you have sufficient diversification to mitigate systemic risks inside your exposures. That requires a granular approach to identifying underlying revenue streams and risk profiles."

One risk factor that IFM is particularly focused on mitigating or avoiding completely at the moment is political or tax volatility. "All assets have a degree of exposure to that, of course, but we want to make sure there is no systemic exposure on those fronts as part of effective portfolio construction," Fieguth explains.

Freer, meanwhile, says the key to portfolio-level risk management is discipline: "We build a portfolio allocation model by sector, region, risk profile and revenues, and we stick to it even when it means we have to be patient to ensure we get the right diversification. The importance of that approach has been underscored by covid-19 and recent geopolitical tensions when some managers' returns have been adversely effected by overexposure to GDP-linked assets."

Santavirta agrees that de-risking starts with disciplined portfolio construction. "For us, that starts with low GDP exposure. We typically have less than 20 percent direct GDP exposure and more than 80 percent

> *"Recent events in the Middle East have only highlighted the risks that global portfolios face and the importance of having robust risk management frameworks in place"*
>
> **MAX FIEGUTH**
> **IFM Investors**

> *"We conduct digital assessments for all our investments to assess cybersecurity maturity and then follow that up with a deep dive assessment as part of our 100-day plan"*
>
> **SIMO SANTAVIRTA**
> **Ardian**

inflation-correlated revenues. We also ensure low correlation to other asset classes and low concentration risk. To ensure diversification, our latest vintage is targeting between 12 and 15 deals, roughly balanced between our three sectors. Sometimes that might mean passing on an opportunity in order to remain disciplined from a portfolio construction perspective."

Finding the exit

A key aspect of maintaining adequate diversification is, of course, investment and divestment pacing in order to avoid cyclical concentration. "We like to keep a steady pace in terms of both investment and divestment," says Santavirta.

"We are also cautious on the size of transactions. We have walked away from several single-sector, single-country deals that were large on entry, in order to manage exit risk."

Freer agrees that size at exit has become a critical issue given that some businesses have scaled at a rate not previously anticipated: "As a closed-end fund investor, we need to make sure we can exit cleanly, which is what our LPs are looking for."

Fengate consistently revisits its exit strategy as part of an active management strategy. "Gone are the days of simple exits," Freer explains. "Dedicated teams are needed to maximise value on infrastructure assets that continue to grow in size and complexity."

Santavirta agrees that the exit environment has changed materially, which is why the Ardian infrastructure team hired a dedicated head of exits a few years ago. "Having someone for whom this is their day job really helps ensure we have a systematic approach to exits."

For IFM, which manages open-end funds, the situation is different. "Exits are not normally a part of our original plan. We have realised full and partial exits that have been value-accretive to our investors, but these tend to be opportunistic. We don't have that same pressure to exit at a particular time." ■

Tech tools

From performance analytics to contract management, data-driven portfolio management can reduce risk and boost returns

Asset managers are increasingly relying on data-based tools to support their optimisation and risk management activities at an asset and portfolio level. This is particularly evident in the renewables sector, where returns have been compressed.

"We are firm believers in data-driven portfolio management, particularly in renewables," says Ardian's Simo Santavirta. "We have deployed a second-level SCADA system across our portfolio called PowerFactors since 2019. That provides input data to our in-house data science system, Opta, and to our four-strong infrastructure data science team. We have estimated that this has enabled us from 2021 to 2023 to increase production by close to 2 percent per asset per year on average, which is material in this sector.

"We also have risk tools that can quantify the impact of new assets or PPAs on our portfolio. For example, we recently invested in a Swedish wind farm. With this tool, we were able to determine that the power price volatility exposure in our Nordic portfolio was reduced by over 20 percent."

Fengate also uses performance analytics tools and contract management tools, which prove particularly useful when analysing correlation at a fund level. "We take that into consideration when optimising the amount of contracted versus merchant risk we are taking in certain locations in order to ensure the fund is resilient through changes in the power market," Fengate's Patrick Freer explains. "There is a tendency towards more merchant exposure in North America, where we are focused, and so balancing those exposures, with the support of these tools, is critical."

AI is also starting to play a more active role in asset management. "We believe that data-driven systems deploying machine learning or AI can increase value, particularly in renewables where even marginal improvements can be material given the way that assets are structured," says Santavirta. "There is no real variable operating cost so a 1 or 2 percent increase in revenues goes straight to the bottom line."

"AI will help to optimise businesses. We are just at the beginning of that journey and the potential is huge as the technology continues to evolve," adds IFM Investors' Max Fieguth.

"We will continue to explore multiple different AI streams across our assets. It is clear that, at a minimum, it will make amalgamating and analysing information a lot easier," agrees Freer.