IFM Investors

Indiana Toll Road, US

**Max Fieguth**
Executive Director,
Asset Management

# Adding value through active management and capital reinvestment

## The best opportunities for risk management and value creation in unlisted infrastructure investment are often found closest to home.

Creating value in unlisted infrastructure investments requires more than an ‘invest and forget’ approach. Seeking to maximise returns of these types of assets requires active management, long-term thinking and often ongoing capital reinvestment.

A key component of our active management approach is enhancing value by reinvesting capital in our portfolio companies. There are several ways we do this, including follow-on equity offerings, bolt-on M&A transactions, and capital expenditure (capex) projects to support existing customer demand. By taking an active, value-accretive, and long-term course of action, we work closely with our management teams to support the execution of key strategic initiatives.

Investing in assets which are already in a portfolio has several advantages relative to acquiring new assets in the market:

- **No competition.** These are captive projects that we already control, thus no premium price for entry.
- **Greater understanding of the asset.** Already owning the assets means we have clear knowledge of their potential and limitations, including the operational requirements, regulatory constraints and opportunities.
- **Existing customer base.** We have a strong understanding of our customers and the underlying demand for our assets, which gives us a high degree of conviction in the business plan.
- **Established relationships.** An existing asset has established links, not just with its market but also with its supply chains, from materials to services and the workforce. Existing relationships with third party finance may allow lower costs of borrowing.

These factors combine to significantly reduce investment risk while creating an attractive risk/return profile, as capital reinvestment in an existing portfolio asset eliminates many of the risks associated with investing in a greenfield construction project.

IFM is distinctly positioned to take advantage of these embedded opportunities because of the depth of our bench—nearly 140 internal infrastructure specialists and 25 senior advisers with wide industry experience including engineering, consulting, operations and finance—and the maturity of our portfolio. With 41 portfolio companies and 186 underlying assets across IFM's infrastructure funds, there are many opportunities for using cashflows to reinvest and build even greater value.

The recurring core level of reinvestment required across the portfolio—typically referred to as repex or maintenance capex—offers two opportunities to create significant value. The first is to leverage that basic maintenance capex to enhance the top line (see the Indiana Toll Road case study on the right for more on this). The second is to go beyond that minimum capital investment when there is an opportunity to generate further value by enhancing the income generating capacity and the capital value of an asset.

In fact, over the next five years, we will execute over $17 billion of capex projects across the portfolio, covering both growth projects and major maintenance expenditures.[1]

CASE STUDY

## Indiana Toll Road

The 157-mile Indiana Toll Road exemplifies IFM Investors' active management and capital investment approach. IFM invested in ITR Concession Company (ITRCC), the operator of the Indiana Toll Road, in 2015.

In the first three years following our acquisition, ~US$300 million was invested in road improvements and travel plazas to enhance safety and customer experience. This proactive management strengthened our relationship with the state government and key stakeholders, including road-users and the Indiana Finance Authority (IFA), our government partner.

In 2018, ITRCC shareholders agreed to pay the IFA US$1 billion over two years and committed an additional US$50 million to further improve road safety and amenities for heavy vehicle customers. In return, ITRCC was granted a one-time increase in heavy vehicle tolls.

The investments for roadway improvements as well as payments to the IFA, which were used for additional infrastructure improvements in Indiana, provided value generation for all stakeholders including customers, our government partners, and ITRCC shareholders.

Other elements of our active management approach have been a series of successful refinancings that

de-risked the company's debt. We have also worked closely with ITRCC's board and management teams on social and sustainability initiatives, particularly in relation to worker and customer safety, workforce diversity and emissions reductions.

ITRCC's revenues have increased over time, demonstrating resilience through several economic cycles. This, combined with IFM's successful active asset management outcomes, makes the investment an example of how well-managed core infrastructure can play a significant role in investor portfolios.

[1] This figure is equity-weighted.

CASE STUDY


## Manchester Airport Group

IFM's relationship with communities and wider stakeholders is epitomised by our holding in Manchester Airport Group, where we have a 35.5% stake (with 50% governance rights), alongside Manchester City Council, which owns a similar 35.5% stake, and nine other Greater Manchester local authorities whose combined holdings make up the remaining 29%.

The group is one of the UK's largest airport operators, managing Manchester, Stansted, and East Midlands Airports, while continuing to find opportunities for further expansion. Since IFM first invested in early 2013, there has been significant capital investment in the asset, including the £1.3 billion Manchester Airport Transformation Program backed by all shareholders. This project was funded with a modest injection of fresh capital from IFM and other shareholders, but the bulk of the investment came from reinvesting cash flows, rather than taking them as distributions.

The improved efficiency created by investment has translated directly into improved financial performance for investors while providing benefits to other stakeholders, including airlines, who can grow their operations and make them more efficient. Other benefits include smoother journeys for travellers, a better customer experience and expanded route networks, as well as a positive financial impact for local communities through jobs and economic growth.

The rationale was straightforward. Manchester Airport had runway capacity for 55 million passengers per annum, but its terminals could only manage 28 million. An expansion of the terminal facilities was the logical reinvestment opportunity, which creates value by making the most of existing runway capacity, improving operational efficiency, and augmenting the customer experience.

The transformation programme, which began in 2017 and will continue until 2025, will double the capacity of Manchester Terminal 2 and grow total passenger capacity by 50% to 42 million per year. The asset is now working far closer to its real revenue-generating capacity, thanks to capital reinvestment.

Meanwhile, a carbon reduction program means all three airports are now carbon neutral, with all energy needs met via renewable sources and offset programmes. Supported by IFM, the group has also made substantial investments in the Stansted Airport College, which trains airport industry workers of the future. This initiative builds public trust and contributes to economic prosperity for individuals, communities and the wider air travel industry.

**For more on the differences between open and closed-ended funds** see our white paper: *Open and closed-ended funds in infrastructure investment portfolios.*


IFM Investors

October 2023

Open and closed-ended funds in infrastructure investment portfolios

## Open-ended fund structures support value creation and attractive risk-adjusted returns

An open-ended fund structure is essential for long-term active management, allowing continuous investment and divestment without fixed deadlines, and enabling managers to focus on sustainable growth and value creation. Closed- and fixed-term funds have deadlines for returns, often prompting short-term strategies that may not maximise returns and, in the worst cases, can undermine long-term value.

Indeed, inadequate investment can lead to depreciation as insufficient maintenance can create the need for major refurbishment that can interrupt operations, undermine earnings, and create reputational risks during disruptive works.

Capital reinvestment in existing assets is greatly supported by the existing relationships between a company and its wider stakeholders, enabling better monitoring of supply chains and better relationships with employees, customers and communities. These relationships are part of long-term financial value and an important aspect of our credentials as custodians of essential infrastructure which seeks to maximise long-term value to our clients and their beneficiaries.

## Maximising the opportunities in front of us

Active management of assets and the judicious reinvestment of cashflows in capital development has long been the approach adopted by IFM Investors. That does not necessarily mean holding assets into perpetuity. Value creation through reinvestment can often enable us to sell assets at a significant premium, and when greater returns are available through sale to another investor or corporate owner that is the path we take.

But achieving such premiums starts with reinvestment. When we already own an asset with potential, one that can be grown and advanced through active strategies and capital reinvestment, that is an opportunity we seize.

## About IFM

IFM Investors is a private markets manager with a focus on infrastructure and capabilities in unlisted and listed equity, private equity and debt. We're based on four continents, with a global network that helps us uncover opportunities.

IFM was founded by pension funds. It's still owned by pension funds today. Our clients are stewards of capital too, with the same duty to deliver value over decades. We share a multi-generational vision: to invest, protect and grow the savings of millions of people. We do it by investing, owning and financing the assets our clients and their beneficiaries rely on to live their lives.

**Important Disclosures**

The following disclosure applies to this material and any information provided regarding the information contained in this material. By accepting this material, you agree to be bound by the following terms and conditions. This material does not constitute an offer, invitation, solicitation, or recommendation in relation to the subscription, purchase, or sale of securities in any jurisdiction and neither this material nor anything in it will form the basis of any contract or commitment. IFM Investors (defined as IFM Investors Pty Ltd and its affiliates) will have no liability, contingent or otherwise, to any user of the material or to thirdparties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of the information in this material. In no event will IFM Investors be liable for any special, indirect, incidental, or consequential damages which may be incurred or experienced on account of a reader using or relying on the information in this material even if it has been advised of the possibility of such damages. Certain statements in this material may constitute "forward looking statements" or "forecasts". Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to forecasts, projections of earnings, performance, and cash flows. These statements involve subjective judgement and analysis and reflect IFM Investors' expectations and are subject to significant uncertainties, risks, and contingencies outside the control of IFM Investors which may cause actual results to vary materially from those expressed or implied by these forward -looking statements. All forward-looking statements speak only as of the date of this material or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to IFM Investors or any person acting on its behalf are qualified by the cautionary statements in this section. Readers are cautioned not to rely on such forward-looking statements. The achievement of any or all goals of any investment that may be described in this material is not guaranteed. Case studies are provided for illustrative purposes only and should not be relied on to make an investment decision.

Past performance does not guarantee future results. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.

This material may contain information provided by third parties for general reference or interest. While such third-party sources are believed to be reliable, IFM Investors does not assume any responsibility for the accuracy or completeness of such information. This material does not constitute investment, legal, accounting, regulatory, taxation or other advice and it does not consider your investment objectives or legal, accounting, regulatory, taxation or financial situation or needs. You are solely responsible for forming your own opinions and conclusions on such matters and for making your own independent assessment of the information in this material. Tax treatment depends on your individual circumstances and may be subject to change in the future. Environmental, Social, and Governance ("ESG") strategies may take risks or eliminate exposures found in other strategies or broad market benchmarks that may cause performance to diverge from the performance of these other strategies or market benchmarks. ESG strategies will be subject to the risks associated with their underlying investments' asset classes. Further, the demand within certain markets or sectors that an ESG strategy targets may not develop as forecasted or may develop more slowly than anticipated. Sustainability- and ESG-related practices differ by region, industry, and issue and are evolving accordingly. As such, an investment's sustainability/ESG performance and practices, or IFM Investors' assessment of such performance or practices, may change over time. Similarly, new and evolving sustainability requirements imposed by jurisdictions in which IFM Investors does business and/or in which its funds are marketed may result in additional compliance costs, disclosure obligations, or other implications or restrictions on IFM Investors. Under such requirements, IFM Investors may be required to classify itself, its funds, or an individual investment therein against certain criteria, which may be open to subjective interpretation. IFM Investors' view on the appropriate classification may develop over time, including in response to statutory or regulatory guidance or changes in industry practices or approaches to classification. A change to the relevant classification may require further actions to be taken, such as requiring further disclosures by the relevant fund or new process to be set up to capture data about the relevant fund or its investments, which may lead to additional costs. It should not be assumed that any investment will be profitable or avoid losses. Investment on the basis of sustainability/ESG criteria involves qualitative and subjective analysis. There is no guarantee that the determinations made by an adviser will align with the beliefs or values of a particular investor, and we cannot guarantee that our ESG/sustainability policies will result in the performance or outcomes expected. For example, this document contains ESG-related statements based on hypothetical scenarios and assumptions as well as estimates that are subject to a high level of inherent uncertainty. Certain statements may also be based on standards and metrics for measuring a company's ESG profile, as well as standards for the preparation of any underlying data for those metrics, that are still developing and internal controls and processes that continue to evolve. While these are based on expectations and assumptions believed to be reasonable at the time of preparation, they should not be considered guarantees. Relatedly, there is no guarantee that any investment or its operations will achieve its ESG targets or, whether or not such targets are met, have a positive ESG impact, either on particular ESG topics or as a whole. There are significant differences in interpretation of what constitutes positive ESG impact, and those interpretations are rapidly changing. We may be required to expend substantial effort or incur additional costs to address such matters, including but not limited to evolving legal obligations or due diligence. Additionally, adhering to an ESG policy may result in missed opportunities, which may be difficult to predict due to the subjective and longer-term nature of some of these issues. Risks of IFM Investors' investment programs typically include: assets of IFM Investors funds may have limited liquidity; distributions are uncertain, a return on your investment is not guaranteed and you may lose all or a substantial amount of your investment; unfavourable economic conditions in the markets in which IFM Investors funds operate could adversely affect your investment; assets acquired with leverage have risks including loss of value and limits on flexibility needed if there are changes in the business or industry. Liquidity- An investment in the Partnership provides limited liquidity since withdrawal rights are not unqualified and Interests may not be transferred without the prior written consent of the General Partner, which may be withheld in its absolute discretion. Although portfolio investments may generate some current income, they are expected to be generally illiquid. Valuation- Most of the portfolio investments will be highly illiquid and will most likely not be publicly traded or readily marketable. Economic conditions- Interest rates, general levels of economic activity, the price of securities and participation by other investors in the financial markets may affect the value of portfolio investments made by the Master Fund or considered for prospective investment. Leverage- Portfolio investments may include businesses whose capital structures may have significant leverage. An infrastructure investment is subject to certain risks including but not limited to: sustainable finance transition, sustainability risks, lack of operating history and experience, long-term nature of investment, no market for limited partnership interests, no assurance of investment return, documentation risks, political risk, counterparty risk, liquidity risk, investments in regulated industries, rate regulation, purchases from distressed developers, sector risks, environmental, health, and safety risks, climate risks, development risks, construction risks, investments in the energy sector, investments in carbon offsets, regulation of offsets, offset transaction and offset-derivatives, changes to carbon regulations, macroeconomic trends impacting carbon and biofuel market prices, energy complex risks impacting market prices, offset ownership, offset program delay, risk of reversal, offset project performance risk, investments in the utility industry, privatizations, operational risk, demand and usage risk, merchant risk, inflation risk, land title risk, certain restrictions on ownership, market risk, technical risk, renewables risk, labour relations, currency risk, geographic risk, investments outside of the OECD, and other factors beyond reasonable control. Please consult the constituent documents for more information on risks specific to infrastructure investing. An investment in any of these investment programs should be made only after careful review of the risk factors described in the related offering documents. An infrastructure investment is subject to certain risks including but not limited to: the burdens of ownership of infrastructure; local, national and international economic conditions; the supply and demand for services from and access to infrastructure; the financial condition of users and suppliers of infrastructure assets; changes in interest rates and the availability of funds which may render the purchase, sale or refinancing of infrastructure assets difficult or impractical; changes in environmental and planning laws and regulations, and other governmental rules; environmental claims arising in respect of infrastructure acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established; changes in energy prices; changes in fiscal and monetary policies; negative economic developments that depress travel; uninsured casualties; force majeure acts, terrorist events, under insured or uninsurable losses; and other factors beyond reasonable control. This material is provided for educational purposes only and should not be construed as investment advice or a recommendation to buy or sell securities.

**US Disclosure**

This material is for use with institutions only and not for use with retail investors. The material, if presented in the US, is offered by IFM (US) Securities, LLC, a member of FINRA and SIPC.

**Australia Disclosure**

This material is provided to you on the basis that you warrant that you are a "wholesale client" or a "sophisticated investor" or a "professional investor" (each as defined in the Corporations Act 2001 (Cth)) to whom a product disclosure statement is not required to be given under Chapter 6D or Part 7.9 of the Corporations Act 2001 (Cth). IFM Investors Pty Ltd, ABN 67 107 247 727, AFS Licence No. 284404, CRD No. 162754, SEC File No. 801-78649.

**Netherlands Disclosure**

This material is provided to you on the basis that you warrant that you are a Professional Investor (professionele belegger) within the meaning of Section 1:1 of the Dutch Financial Supervision Act (Wet op het financieel toezicht). This material is not intended for and should not be relied on by any other person. IFM Investors (Netherlands) B.V. shall have no liability, contingent or otherwise, to any user of this material or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of this material.

**United Kingdom Disclosure**

This material is provided to you on the basis that you warrant that you fall within one or more of the exemptions in the Financial Services and Markets Act 2000 ("FSMA") [(Financial Promotion) Order 2005] [(Promotion of Collective Investment Schemes)(Exemptions) Order 2001, or are a Professional Client for the purposes of FCA rules] and as a consequence the restrictions on communication of "financial promotions" under FSMA and FCA rules do not apply to a communication made to you. IFM Investors (UK) Ltd shall have no liability, contingent or otherwise, to any user of this material or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance, or completeness of the information in this material.

**Switzerland Disclosure**

This Information is provided to you on the basis that you warrant you are (i) a professional client or an institutional client pursuant to the Swiss Federal Financial Services Act of 15 June 2018 ("FinSA") and (ii) a qualified investor pursuant the Swiss Federal Act on Collective Investment Schemes of 23 June 2006 ("CISA"), for each of (i) and (ii) excluding high-net-worth individuals or private investment structures established for such high-net worth individuals (without professional treasury operations) that have opted out of customer protection under the FinSA and that have elected to be treated as professional clients and qualified investors under the FinSA and the CISA, respectively. This material is confidential and should not be distributed or provided to any other person without the written consent of IFM Investors. This material is provided for informational purposes only. This material does not constitute an offer, invitation, solicitation, or recommendation in relation to the subscription, purchase, or sale of securities in any jurisdiction and neither this material nor anything in it will form the basis of any contract or commitment. Past performance does not guarantee future results. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur. This material is confidential and should not be distributed or provided to any other person without the written consent of IFM Investors.

**IFM-25SEPT2024-3872435**