IFM Investors

Our learnings from three decades of infrastructure equity investing

Learning 4

Buy well

By Kyle Mangini

Kyle Mangini
Global Head of Infrastructure

Our fourth learning is about buying well, which is the most critical part of the infrastructure investing equation. It's very difficult to recover from a bad buying decision.

As a fundamental starting point when considering investment opportunities, we look for a series of distinct characteristics, which include:

- Essential services that underpin the smooth running of local economies, including toll roads, airports, seaports, pipelines, terminals, utilities and more.
- Strong market positions with high barriers to entry. We typically invest in assets with a dominant market position within the top five market positions in the relevant jurisdiction.
- Long-term concessions or leases of 25 years, up to 99 years.
- Relatively stable and predictable contracted or regulated revenues, providing downside protection against inflation, for example.
- Inelastic demand for the asset's services, providing pricing power.
- Governance rights, i.e. board representation, that will help us drive value-add initiatives through our long-term active management, as well as influence aspects such as strategy, potential acquisitions and divestments, capital structure, industrial relations, risk management frameworks, capital expenditure and executive selection and remuneration.
- Opportunities to continue re-investing in an asset over the long-term, to drive returns over multiple cycles.

Less-competitive deal flow opportunities

When it comes to deal flow and accessing opportunities, it's not always about the size of the cheque. Sometimes when an asset is being sold, in part or outright, the vendor/s are solely focused on maximising proceeds. In other situations, other factors come into play. The long-term nature of the institutional capital we represent and invest creates a natural advantage for IFM. This advantage takes the form of a distinct and often less competitive deal flow through partnerships that welcome our patient approach and the care we take to consider a broad range of stakeholders over time, as the two examples in the feature box aim to demonstrate. This contrasts with a more myopic approach which would aim to extract every dollar in a shorter period of time.

CASE STUDY

Partnership approach supporting deal flow

Manchester Airports Group

In 2013 IFM acquired a 35.5% equity interest in Manchester Airports Group (MAG). MAG owner Manchester City Council's (MCC) decision to partner with IFM was informed by our long-term investment approach aligned to the long-term interests of our pension fund owners and institutional clients; our ability to help drive MAG's long-term growth plans in partnership with MCC, including the acquisition of London Stanstead Airport; and our more than two decades of airport management experience.

Under the joint-ownership, airport passenger volumes have steadily grown and capital has been reinvested in terminal expansion programs. MAG has also supported job creation in the local community, international trade, tourism and foreign direct investment.

Aqualia

When IFM established a team in Madrid we developed a bilateral relationship with the local family and controlling shareholder of the FCC Group, which owned water management company Aqualia. The family was seeking a long-term-focused partner with M&A capabilities and a local presence in Spain and Mexico to invest alongside them to achieve Aqualia's growth plans. In 2018, IFM was able to acquire a 49% equity interest in Aqualia on a bilateral basis. Under IFM and FCC's joint ownership, Aqualia has been able to expand its footprint both in its home market of Spain, as well as in Georgia and the USA.

Pictured: Aqualia

UNLOCK MORE EXPERTISE →

After almost three decades of investing in infrastructure globally, we continue to focus on leveraging the learnings outlined here for the benefit of our clients and their beneficiaries. And we are still learning.

This is our fourth learning in a series of six infrastructure equity learnings.
Unlock more infrastructure expertise at ifminvestors.com.

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. The 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 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. 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 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.

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 particular 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.

This material is confidential and should not be distributed or provided to any other person without the written consent of IFM Investors.

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.

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.

IFM Investors – 12 March 2024 - 3431348