IFM Investors

Our learnings from three decades of infrastructure equity investing

By Kyle Mangini

IFM Investors has been investing in unlisted infrastructure assets globally for nearly three decades. Since our inception we've been at the forefront of advances in this asset class and we have many learnings and insights to share.

Our approach to infrastructure investment is differentiated by the long-term objectives of our institutional clients, for whom we've developed a durable long-term strategy with the aim to deliver attractive risk-adjusted returns across market cycles. Our investment strategy and processes are tried and tested, reflecting six fundamental learnings.

Kyle Mangini
Global Head of Infrastructure

Learning 1
Take a long-term view

We think in decades, not years and quarters. We build financial models that extend 30 or 40 years, reflecting the nature of the underlying assets we invest in. These essential infrastructure assets serve communities and underpin the smooth-running of economies over life spans stretching 50 to 70 years, or more.

With a long-term hold strategy and active management approach, we seek to identify opportunities to re-invest capital in value-accretive improvement programs or bolt-on acquisitions over time, rather than withdrawing it for distributions.

Learning 2
Construct an all-weather portfolio

As markets become increasingly complex and investors continue to navigate economic and geopolitical disruptions, we remain focused on building a portfolio that's resilient to a range of market conditions.

One of the strengths of our long-term, open-ended fund structure is the ability it affords us to construct an all-weather portfolio, which means a portfolio that seeks to generate stable returns through varying market and economic conditions over time.

We've constructed a diverse portfolio comprising 41 assets across multiple sectors and sub-sectors, with a diversity of revenue types (even within the same sector) and operations spanning predominantly OECD countries.

People and economies use essential infrastructure all day, every day. A well-constructed all-weather portfolio can help protect overall portfolio resilience over time.

Learning 3
Build the right team

People are central to our ability to drive value for our clients. From our own global team and pool of senior advisors to the teams who run the companies in which we're invested, we look to cultivate a diversity of skills and experience.

It's important that we have people with the right expertise to address the challenges and opportunities that arise across the diverse portfolio companies we manage. The first thing we do when we acquire an asset is consider whether the people currently managing the asset are the right people for the job, given the asset's lifecycle stage and challenges. As necessary, we second or appoint people with the relevant experience and expertise.

Our own team of more than 120 executives underpins our capabilities globally, enabling us to have our own people on the ground in local markets where we manage investments and where we see attractive deal flow. We have one of the longest-serving teams in the market with diverse backgrounds across engineering, construction management, investment financing, mergers and acquisitions and sector-based operational experts.

Diversification cannot ensure a profit or protect against loss in a declining market. It is a strategy used to help mitigate risk.

Learning 4

Buy well

Buying well is the most critical part of the infrastructure investing equation. It's very difficult to recover from a bad investment decision. As a fundamental starting point, when considering investment opportunities, we look for a series of distinct characteristics, which include:

- Strong market positions with high barriers to entry. We typically invest in assets that sit 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, for example, inflation.
- Inelastic demand for the asset's services, giving pricing power.
- Governance rights, i.e. board representation, that will help us drive value-add initiatives through our long-term active management approach.
- Opportunities to continue re-investing in an asset over the long term, to drive returns over multiple cycles.

We aim to leverage our extensive portfolio footprint and global presence to identify investment opportunities offering relative value. The natural advantage that deal flow via our relationships often creates for us is less competitive acquisition processes.

Learning 5

Take a conservative approach to leverage

We take a conservative approach to leverage that fits with our strategy to deliver a product characterised by lower levels of risk.

Over time we've seen good companies with high levels of leverage become bad deals. These scenarios have usually involved a company with a high level of cash flow predictability, making a high level of leverage possible. However, a highly leveraged company is more sensitive to internal and external market hiccups that could disrupt the balance sheet.

As a long-term investor investing through open-ended funds, we aim for capital structures that are resilient to market cycles. Our conservative approach to leverage means we focus on our portfolio companies issuing long-dated, fixed-rate debt while maintaining investment grade credit ratings. This approach, in addition to helping to lower risk, has helped to manage the cost of capital and mitigate the impact of rising interest rates.

Further, a portfolio company's investment grade credit profile can help to ensure continued access to capital even in the face of market volatility, such as that experienced during the global financial crisis in 2007 – 2009 and more recently during the COVID 19 pandemic, when markets were significantly disrupted and stressed.

A conservative approach to leverage can provide a lower level of risk over time, helping to ensure great assets don't turn into bad investments.

Learning 6

Create long-term value through active management

Infrastructure is not a set and forget asset class and actively managing our portfolio companies is one of our most important tools for maximising long-term returns to our clients. We have a dedicated asset management team that works closely with our investment professionals to identify opportunities and implement initiatives to build value or to de-risk portfolio companies. Our asset management initiatives range from capex programs, financing, M&A, safety reviews, mitigating climate change risk and cyber security.

By being an active owner – usually with board representation – we have the ability to drive the business strategy within our portfolio companies, exercise influence to manage and reduce risks, generate alpha and pursue decarbonisation strategies, with the aim of generating stronger returns for our clients.

Our approach to divestment

Fundamentally, our strategy through the investment cycle is based on buying well and managing intensively. As we focus on maximising returns to clients, we also recognise opportunities to create alpha or de-risk the portfolio through selective divestments.

Our opportunistic approach is based on our preference to have the "best" portfolio, not the "biggest".

Before we consider a divestment, we aim to de-risk portfolio companies through our asset management capabilities and be in a position to demonstrate how we've changed its risk profile during ownership through our value-add initiatives.

Pictured: Our active management initiatives include driving and improving the safety performance of portfolio companies.

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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.

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