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Newsletter
Special Anniversary Edition

LTIIA at 5: the way forward

LTIIA was founded in late 2014 to facilitate and promote investment in infrastructure which enables long-term and sustainable development of communities & countries. It set out to work proactively with public and private stakeholders to support the flow of private capital to the right infrastructure by bringing transparency, sharing best practices, and through standardization, benchmarking and research.

As we enter 2020 and a new decade, we took the opportunity to pause and reflect upon the recent evolution of the infrastructure market for institutional investors, the trends at work and how LTIIA can best remain relevant and useful to its members since the Association was set up 5 years ago.

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- The most significant investment trend on a global scale has been the **mainstreaming of Environment, Social & Governance factors (ESG)**:

The past 5 years have seen a dramatic change with ESG moving from a good practice niche to a key dimension of infrastructure investing. This is a real game-changer for the industry: with changing expectations from LPs and Society and a sustainable future at stake, ESG is no longer a "plus" factor but a requisite at all stages of the investment lifecycle - from design to active hands-on management. This carries specific risks, reputational and operational (still too often hidden in the portfolio) and opportunities (in the renewable field with the decrease in generation costs, in particular). It also creates a corresponding responsibility to act for long-term infra investors like LTIIA members. Indeed, LTIIA had identified ESG and sustainable infrastructure as key dimensions from the outset but it now needs to further flesh out recommendations and guidance on operational tools by pooling and sharing insights and best practices. This is not going to be an easy prescription. Being an active ESG investor entails extra staffing and process costs as transparency and disclosure require additional efforts that are reflected in fees. As to the competitive advantage it may provide, it could erode as ESG approach is mainstreamed. LTIIA, together with EDHEC Infra, GRESB and other concerned parties within and beyond the Association, intends to further clarify and document the link and causality relation, if any, between ESG and financial performance…

We are already incorporating these new developments in the new version of our ESG Handbook scheduled this year together with best practices from our members. Also, beyond ESG proper, a new space is already opening - thanks to LTIIA pioneers like Meridiam, among others - on contribution to SDGs and measuring positive impact of investment that may become the next milestone in the road towards sustainability… and, we reckon, we'll have to do more and better to sustain the required momentum.

- Close behind is the **emergence of Smart infrastructure**:

Historically, infrastructure has been slow to digitize. It is still perceived by many as essentially a "brick & mortar" business line whereas the digital revolution has already disrupted most other sectors. This will start shifting in 2020 with the scheduled deployment in Europe & in North America of 5G telecoms which will enable the rolling out of the Internet of things (IoT), smart & connected infra networks, beyond the oft-quoted smart cities or data centres, by adjunction of a digital tech dimension to traditional infras. This coincides with the emergence of new funds in the investment landscape (such as a dedicated fund to digital infra by Digital Colony or a fund targeting new tech to optimize the current inventory of existing infras by InfraVia Growth Fund, to mention just a few members of LTIIA).

The entry of new actors/investors from the hi-tech sphere, such as Google (Alphabet) who just launched the Sidewalk Infra Fund, brings with it a considerable financial & technical firepower as well as the potential for further disruption of the Institutional investors in infra scene.

From this year on, LTIIA intends to periodically collect and share insights from its member base to feed in communications, future guidance & webinars regarding this "New Frontier" of infrastructure investment.

- **Investor allocation strategy** has been thoroughly reassessed over the same period.

Whereas most institutional investors still viewed Infra in 2014 as part of an "alternative" market allocation, there is now a growing global appetite for Infra, where it is seen as part of an increasing real-asset allocation. This has been fostered in no small way by the very low or even negative interest rates that seem to be prevailing for the time being.

This has materialized, among other aspects, by a growing "wall of money" chasing a limited number of "bankable" projects with equity investors having to shift into project development mode to access an appropriate deal flow. Over the last 2 years, unlisted fundraising has topped or neared US$100bn p.a. The corresponding "dry powder" and continuous raise in multiples have fed fears of peak market valuations or even a bubble, coupled with what some label as a "strategy drift" beyond the traditional remit of infra to seek better returns. Combined with the multiple disruptions due to technology leaps, behavioural changes and geo-political crises, it has the potential to affect the traditional promise of infrastructure: stable, predictable, and low-risk cash-flows. The advent of mega-funds is another characteristic of recent years: current record stands at US$22bn for the new GIP IV with others walking in their footsteps. On the other hand, LP investors retain a wide choice with around 200 infra funds currently on offer globally.

Contrast this picture with global need assessments (the infamous "infrastructure gap") and public authorities remaining cash-starved to fund the new infra projects required, it seems that the industry has its work cut out with prospects of ever-increasing market-share. But we should remain careful of the increased public scrutiny this may bring potentially jeopardizing the private sector license to operate collective services and facilities.

Already, in some jurisdictions, the regulatory pendulum appears to have swung significantly in favour of end-users, potentially affecting investors interests. Mitigating this risk will require increased engagement with third-party stakeholders and governments, transparency/disclosure and appropriate governance of the assets.

There again, we believe LTIIA has a role to play to identify good practices and build the required narrative of the benefits that can be expected from private sector participation in infrastructure, illustrating it with relevant examples. We will need to be careful in articulating the narrative, as there will always be a degree of scepticism about the private sector motives, and we will try to enlist other organizations with a similar agenda (ideally from public sector such as development & promotion banks with whom LTIIA maintains close links).

Overall, it is our heartfelt conviction that the long-term vision of sustainable infrastructure we have articulated since our inception has been vindicated. There are still many challenges to address before Infrastructure can be considered as a full-fledged asset class and much remains to be done, requiring a scaling up of resources and efforts by our association and other concerned players. But we believe that the direction of travel is right and, with your support, we can further advance this agenda.

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