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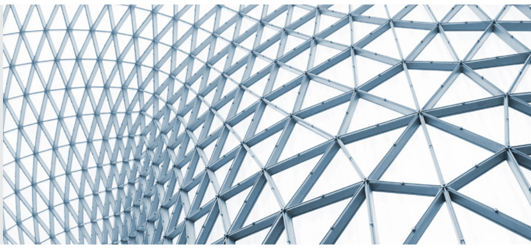

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Infrastructure: let's get personal

Getting really close to assets and stakeholders increases the chances of consistent returns

Key Takeaways:

- To keep delivering alpha, infrastructure providers must be cognisant of shifts in societal attitudes. To gain legitimacy, infrastructure must be beneficial, inclusive, adaptive to technological disruptions, and have a long-term outlook.
- The keyto gaining legitimacy is to reconcile all parties around a project. Working in harmony with industrial partners reduces costly disputes and enables investor funds to be deployed quicker, ensuring investors receive steady returns.
- Getting really close to the asset, and to all the stakeholders in the asset, is a key differentiator for Vauban Infrastructure Partners, an affiliate of Natixis Investment Managers. Vauban, which manages €2.8bn in assets, was created by transplanting the infrastructure team of Mirova, another Natixis affiliate, into a specialised infrastructure equity affiliate.
- The proximity of Vauban's team to the assets and stakeholders facilitates unusual depth in its ESG approach. Vauban issues a long and detailed questionnaire to all its industrial partners, in an effort to find out exactly what the ESG risks are, how each one is evaluated and who has responsibility for each risk.

Infrastructure is unlike other asset classes. It has a direct impact on people's lives, facilitating the functioning of critical activities without which everyday life would grind to a halt.

The efficient building, maintaining of roads, bridges, schools, hospitals, energy supplies and digital networks is vital to the development of communities. This means infrastructure investing cannot be viewed as transactional, as a one-off event.

Its huge impact on society means infrastructure, and those who create it, assume substantial responsibilities. Only by meeting these responsibilities can infrastructure investments gain legitimacy in the eyes of its users, of stakeholders, and of society as a whole.

Gaining legitimacy is not a nicety – it is essential to the investment strategy. Gaining the trust of all stakeholders is critical to sourcing deals, avoiding overruns, minimising costs and, ultimately, maximising returns.

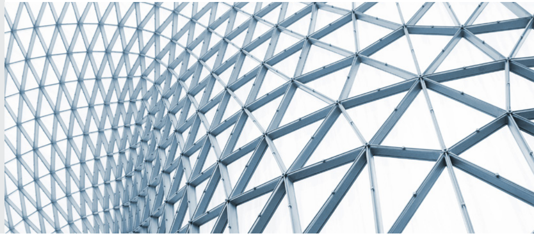
Gwenola Chambon
CEO, Founding Partner
Vauban Infrastructure Partners

Mounir Corm
Deputy CEO, Founding Partner
Vauban Infrastructure Partners

Why legitimacy matters?

Historically, infrastructure has offered an unparalleled risk-return profile. Investors are attracted to the stable, long-term income streams, derived from tangible assets which have economic and society utility. The decorrelation of infrastructure from financial markets is also appreciated by investors. As a result, infrastructure fundraising and deployment is booming.

But to keep delivering alpha, infrastructure providers must be cognisant of shifts in societal attitudes. The growing role of private infrastructure investment in society is becoming widely recognised by users and stakeholders, and political classes are increasingly keen to ensure that value is shared, and that the



long-term futures of communities are secured. To gain legitimacy infrastructure must be beneficial, it must be inclusive, it must have a long-term outlook.

"Investing with a long-term view is a key factor in aligning the interests of all stakeholders – investors, industrial companies, employees, public-sector stakeholders and users – with the needs of the real economy," says Mounir Corm, of Vauban Infrastructure Partners, a specialist infrastructure investment firm.

Across Europe, the debate about the legitimacy of private investment companies building infrastructure for public use is becoming louder. In some countries, the regulators have started to lay down ground rules about how value and opportunity is shared between investors and users. One-shot projects are increasingly frowned upon and providers of these strategies may be shut out of future infrastructure deals.

"The key for infrastructure strategies is to reconcile everyone around a project," says Corm. "We do everything in our power to deliver on our commitments and earn the trust of our clients and partners. We put our best resources and expertise to work on designing strong, well-structured and equitable agreements."

Gaining stakeholder and societal trust

Vauban, an affiliate of Natixis Investment Managers, is a provider of essential infrastructure. That is infrastructure which will always be in demand no matter how the economy is performing and no matter how political priorities may change.

It builds and maintains projects in transport, utilities, social infrastructure such as schools and hospitals, and digital infrastructure such as fibre networks.

4 KEY SECTORS

1 **Transportation (tramways, highways, parking lots and HS rail lines)**

402 km of motorways

More than 44,0000 road users per year

20,000 rail passengers per year

2 **Utilities (district heating networks, water treatment, waste and power grids)**

More than 13,000 km of electric grid

554 GWh/year of electric grid

3 **Social infrastructures (government building, hospitals, schools, universities, etc.)**

2,000 hospital beds

98,000 places in educational institutions

4 **Digital infrastructures (optical fiber networks, data centers, etc.)**

15,000 km of optic fiber

+6m FTTH plugs in France

Source: Vauban brochure 2019

Its investments are deeply embedded into the fabric of society so the legitimacy challenge is all the greater. It seeks ways to work successfully alongside industrial partners, public clients and the general public to find long-term solutions for infrastructure gaps. "Working on essential assets means both users and clients must be satisfied with the asset performance over the long term," says Gwenola Chambon, chief executive of Vauban Infrastructure Partners. "Our key questions to stakeholders are: how can we improve things for you, how can we enhance collective value?"

This approach, she says, represents a different mindset from mainstream infrastructure thinking. "Our whole team has to keep these questions in mind," Chambon adds.

A team member is appointed to standardise the monitoring of assets and ensure best practice is always employed. The team also makes sure it is always visible – clients and users are reassured when they feel they have someone to talk in person. It demonstrates to stakeholders that a project is long-term, that the strategy is sustainable and the commitment long-term.

Equally, working in harmony with industrial partners enables funds to be deployed in a timely manner, reducing costs to investors and ensuring they receive returns earlier so they can be reinvested. Good relationships with industrial companies make resolution of problems easier, and help create sensible timelines and to find the right balance in financial negotiations so neither party feels it is being short-changed.

Although it takes time to develop local industrial partnerships, once established they become a great source of dealflow, saving time and money compared with sourcing deals through banks and other intermediaries.

"Legitimacy is about accessing great opportunities, repeat business, happy stakeholders and fewer problems," says Chambon. "This, in turn, translates to lower costs and greater returns."

Overall, target yields from funds under management are in the region of 8%-9% over 25 years for long-term core investments. This compares to current yields of around 1% for core European sovereign bonds and 2.5%-3.5%[1] on senior secured debt.

Vauban – what's in a name?

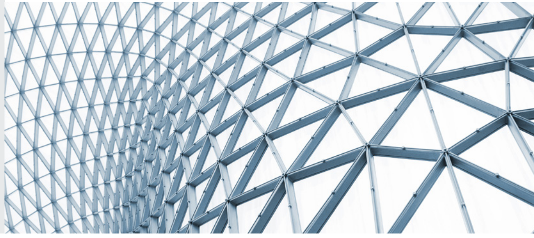
Getting close not only to the asset, but to all the stakeholders in the asset, is a key differentiator for Vauban. The firm was created by transplanting the infrastructure team of Mirova, another Natixis affiliate, into a specialised infrastructure equity affiliate. Vauban, which manages €2.8bn in assets, has already raised five infrastructure funds as part of Mirova and invested in more than 50 assets across Europe.

The firm is named for Sébastien Le Prestre de Vauban, a 17th Century engineer whose innovative ideas established him as a pioneer of the Age of Enlightenment. Vauban, the investment firm, believes its combined analytical minds, attention to detail and ability to anticipate future trends justifies its borrowing of the engineer's name.

Vauban's core infrastructure investments are largely long-term, buy-and-hold assets, with performance driven by regular cashflows.

A long-term buy-and-hold strategy should reduce infrastructure investment risk. Buying and selling assets regularly can expose investors to price and interest rate volatility. Long-term core assets, on the

1. Source : Bloomberg



other hand, offer investors security and long-term yields, because their cash flow are stable, diversified and predictable.

The other key plank of Vauban's strategy is its focus on mid-market infrastructure assets. A portfolio of smaller assets requires diverse investment resources, so this segment is less attractive to the broader market which does not always have the variety of skills required. As a result, there is less demand for smaller assets and the segment has not suffered from the strong increase in pricing of larger infrastructure assets.

Because the mid-market is smaller and more niche, it requires resources, expertise and commitment to tackle. "Even if it's hard, we make sure it will happen," says Corm. "We are agile and we like new ideas. We are also tenacious and relentless, which is important when dealing with so many parties."

A new perspective on ESG

The proximity of Vauban's team to the assets and stakeholders has a further advantage: facilitating unusual depth in its ESG approach.

Since the team was transferred from Mirova, a sustainability specialist, it is not surprising that ESG is a priority in Vauban's infrastructure deals. In fact, Vauban has been able to take this ingrained expertise and take it a step further in an infrastructure setting, monitoring ESG impact on infrastructure assets at a deep level.

One of the ways it does this is by issuing a long and detailed questionnaire to all its industrial partners, in an effort to find out exactly what the ESG risks are, how each one is evaluated and who has responsibility for each risk.

"When we started doing this, it was not as mainstream as today," says Chambon. "The industrial companies were, I admit, not always delighted to do it because of the time and effort. We had to help them building their reportings and they are now thankful and committed to it as ESG has become a key concern for the whole market"

But as the benefits of the outcome of the questionnaires started to flow, stakeholders bought into the concept. Many of the companies appreciated being able to benchmark themselves against other projects across Europe and strived to ensure they were ranked among the best.

This improved their processes and led to the creation of more value-added services and strategies. A win for industrial companies and a win for Vauban's investors.

Conclusion – building for generations

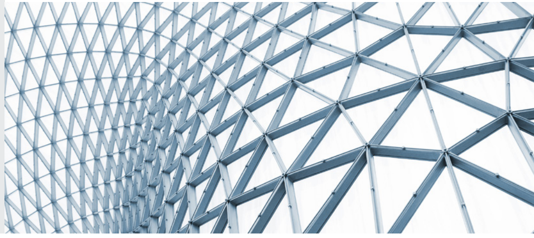
Successful infrastructure investing will in the future be dependent on the ability of the asset manager to understand and satisfy the needs of all stakeholders. Skill and profit motive alone are no longer sufficient. This shift in approach necessitates getting close to the asset, and to the clients and users.

Vauban Infrastructure Partners has the expertise and human resources to rise to the challenge. Many of its deals are bespoke and its innovative, hands-on approach is essential for structuring complex projects and realising maximum value with minimum risk.

Its philosophy to operate public assets, which are essential to local communities, over the very long term is critical for creating long-term value for investors.

After all, the essential infrastructure in which it invests: schools, hospitals, roads, trains, utilities, fibre networks will be the building blocks of society for generations to come.

Written on 30 September 2019



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Vauban Infrastructure Partners
Vauban Infrastructure Partners has not yet been approved by the AMF to act as management company and/or alternative investment fund manager. The Core Infrastructure team that will make up Vauban Infrastructure Partners currently is a part of Mirova, a limited liability company with a share capital of €8,322,790. RCS Paris no. 394 648 216. Regulated by AMF under no. GP 02-014. 59 Avenue Pierre Mendès-France, 75013 Paris.

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