KEYNOTE INTERVIEW

The importance of proactive asset management

Why Igneo's John Ma and Michael Ryder believe a hands-on approach to guiding infrastructure portfolio companies is needed

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John Ma and Michael Ryder are partners and co-heads of North America at Igneo Infrastructure Partners, the direct infra investment arm of global asset manager First Sentier Investors Group.

With $17.8 billion of assets under management, Igneo invests in mid-market core and core-plus opportunities, targeting the renewable generation, transportation, digital, water, waste and recycling sectors in North America, the UK, Europe, Australia and New Zealand. Ma and Ryder say Igneo's approach to creating long-term value centres around direct engagement with management teams, encompassing governance, alignment of goals and incentives, operational improvement and growth.

Q What does it mean to pursue a strategy of active governance?

Michael Ryder: For every infrastructure investment we make, we have a clear plan for how we want to grow the business, improve operations, create value and, importantly, manage risks. We have a dedicated lead person on every investment and an asset management team that we put together of two to five people for each portfolio company. People sometimes mistakenly think that active management isn't as important for an infrastructure business because they are so basic and essential, but that is not correct.

We are frequently in contact with the senior executive team, so we can support them on the execution of the value creation plan. We really do see this as active asset management through multiple team members having multiple touchpoints with the day-to-day management of these companies.

We typically have more than one person sitting on the board of directors of a company we control, helping to provide governance and oversight. We appoint independent expert board members, recruiting our nominees based on their knowledge, industry experience and the skillsets they can bring to bear for that particular company. Their role is not just showing up at quarterly meetings, but helping to improve the level of strategic thinking and challenging us on the direction of the company.

When we buy a company, we prepare a 100-day plan for the transition to our ownership. In addition, we design compensation and incentive plans to align senior management with our clients' interests. This is a critical component to how we design our asset management plans, to link management and company performance to the best interest of our clients.

We seek to design evaluation criteria for management that build very, very clear alignment between the performance of the company and the long-term value that we create for our clients. We don't want to have our management team solely focused on making budget in any particular year.

Our incentives are much broader than that. They also cover non-financial metrics such as mitigating risk and driving long-term value through managing employee and customer engagement.

On an annual basis, we prepare a value creation plan with the company's senior leadership and discuss it internally with our broader regional team, to solicit input from people who aren't on the asset management team. We complete annual assessments of our portfolio company management, during which we review the performance of the prior year and plan the initiatives and priorities for the current year. Then we have a meeting halfway through the year to check on progress against those initiatives and identify any changes or new developments in the market or the company.

Q What is the significance of sustainability in an overall infrastructure strategy?

John Ma: Infrastructure consists of long-life assets. So, we need to think about sustainability holistically, since these are long-term businesses by definition. Infrastructure businesses are also often old-fashioned businesses given their essential nature, and like many industries they are dealing with ageing workforces. So, workforce development and employee engagement are crucial.

Recruitment, training and retention are all important for the health of the business over the long term. This is an aspect of sustainability that doesn't get talked about all that often. We make sure the management teams of our portfolio companies are focused on the quality of the workforce, upskilling, recruiting and training their workers and the next generation of employees.

Michael Ryder: Our employees are critical elements of our overall strategy. In addition to supporting employee development, lifelong learning and engagement, we of course focus on their safety. Many of our companies are in heavy-asset industries where employee safety is a critical priority at all levels of the organisation.

We also look for opportunities to identify best practices around strategy and operations across portfolio companies. We own several utility-scale renewables businesses around the globe, so for those platforms that could be sharing experience and discussing approaches to decisions on battery storage, commercialisation or procurement, for instance.

Q How does an active governance strategy contribute to value creation?

John Ma: When we acquired Patriot Rail, a short line freight railroad operator, in 2019, management was excellent from an operations perspective. They know the rail business and the industry, they have a terrific network, but under the prior ownership structure there was very limited ability to invest in attractive opportunities for bolt-on M&A or new development to drive growth. We needed management to add that capability and an investment evaluation framework.

Our team worked very closely with

senior management on building up that function internally by providing guidance and support. As they added people and built a team, we helped them with establishing criteria to screen and evaluate these types of opportunities.

MR: You can also create value by derisking the business. We have a significant investment in Terra-Gen, a large renewable IPP primarily focused in the California market but also active in certain other states in the US.

In 2020, when we made the investment, the company had a fair amount of merchant power exposure. One of the key facets of our business plan was to take some of this uncontracted power generation and enter into long-term contracts, to dovetail with strong tailwinds in the power contracting market, particularly in California.

For an example which is more forward-looking, we closed earlier this year on the acquisition of US Signal, a data centre and network services provider. This is our first digital investment in North America, and we had a very ambitious 100-day plan when we came into the company. We brought in a new CEO, Daniel Watts, and we have added to and augmented the management team where we felt the company could benefit from incremental talent.

We have identified a series of strategic priorities for the company, with both organic and inorganic growth ambitions. On the organic side, we plan to invest in our existing footprint to densify the fibre network and expand the existing data centres, and eventually develop new data centres in that area.

Inorganically, we are looking at opportunities to further expand through potential acquisitions of data centres, either in and around our footprint or potentially in adjacent markets. We developed that strategy through the due diligence and negotiation phases of assessing the investment. As we brought in new leadership, we have worked closely with them to flesh that out and move from a strategic vision to an execution plan for the next three to five years.

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>
> **JOHN MA**

Q What determines whether to pursue organic or inorganic growth for a given portfolio company?

JM: It is very specific to the company, the industry and the environment they are operating in. On a risk-adjusted return basis, there are many considerations. If you are developing a new project, you need to go through the steps of getting permits, securing contracts and building out the project, which has its own set of risks. But the capital you put into that sort of a development is at cost, and can drive great returns.

On the other hand, if you are doing a bolt-on acquisition, you have to look at the premium you may be paying the current owner, relative to the value and synergies you can create out of the asset by bolting it onto an existing business. So, it is very case-by-case specific. We don't make generalisations, but those are the types of considerations we look at.

Our thesis when we invested in Patriot Rail in 2019 was that the shortline industry was quite fragmented, with hundreds of mom-and-pop-type operators as a byproduct of deregulation 40 years ago, so there are still a number of attractive opportunities for accretive acquisitions when you have a high-quality platform. Terra-Gen is an example of a different approach, with organic growth the primary focus.

As we look around the utility-scale renewables landscape, doing bolt-on acquisitions has not been so attractive in recent years, on a risk-adjusted return basis, as the company doing its own development. Since late 2020, when we invested, Terra-Gen has built out an extremely robust pipeline of attractive new renewable projects. In some cases, these are expansions or add-ons to existing operating assets that are in place. ■