

The Personal Touch

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



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It is rational in times of crisis to focus on the short term and preservation of capital. Infrastructure investors, however, have the luxury of looking to longer-term horizons and not having to be overly concerned about short-term volatility in valuations.

But while infrastructure has a longer outlook than many other asset classes, its success depends on far more than simply operating an asset for a long period of time. We think the asset needs to be genuinely useful to society and must earn legitimacy by operating in a way that benefits all stakeholders, not just investors in the asset.

Why legitimacy matters

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

To deliver 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 sustainable legitimacy, private investment in infrastructure must be beneficial and it must be inclusive.

Across Europe, the debate about the legitimacy of private investment companies building infrastructure for public use is becoming louder. In some countries, regulators have started to lay down ground rules about how value and opportunity are 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.

Gaining stakeholder and societal trust

Vauban provides only essential infrastructure: that is, assets that will always be in demand no matter how the economy is performing and no matter how politi-

cal priorities change. Vauban focuses on building and maintaining projects in utilities, social infrastructure such as schools and hospitals, digital infrastructure such as fibre networks and transport.

Its investments are deeply embedded into the fabric of society and it constantly seeks ways to work successfully alongside industrial partners, public clients and the general public to find long-term solutions for infrastructure gaps. Our key questions to stakeholders are: how can we improve things for you? How can we enhance collective value? This approach represents a different mindset from mainstream infrastructure thinking.

To implement this thinking, we standardise the monitoring of assets and ensure best practice is always employed. Our team also makes sure it is always visible – clients and users are reassured when they feel they have someone to talk in person. Visibility 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 cash can be reinvested. Good relationships with industrial companies make resolution of problems easier and help 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 great opportunities, repeat business, happy stakeholders and fewer problems. All this, in turn, translates to lower costs and better potential for performance.

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 has become a fully-fledged affiliate of Natixis Investment Managers by a spin-off of general infrastructure team from Mirova, another Natixis affiliate.

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 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 may reduce infrastructure investment risk. Buying and selling

assets regularly can expose investors to price and interest rate volatility. Long-term essential assets, on the other hand, may offer investors security and long-term yields, because their cashflows are stable, diversified and predictable.

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

A new perspective on ESG

Infrastructure provides Vauban with a unique opportunity to make a positive impact on the environment and society. The proximity of Vauban’s team to the assets and stakeholders has a further advantage: facilitating unusual depth in its ESG approach.

Vauban is convinced that because of the scale and breadth of our infrastructure investments, how many people they touch and how they impact daily their lives, they are key to the fabric of communities, generally providing vital amenities: clean water, safe and efficient transportation, communication, education, health or services that underpin economic development and therefore Vauban’s responsibility is as significant as it’s passion.

Vauban’s ambition is beyond investing responsibly. It strives to maximize the impact within the sphere of its influence to push for ESG integration in the infrastructure investment ecosystem.

Conclusion – building for generations

The outlook for investment assets is currently uncertain, but infrastructure can build on its natural advantages during these unusual times to weather the storm. Skill and profit motive alone are no longer sufficient. Successful infrastructure investing will be increasingly dependent on the ability of the asset manager to understand and satisfy the needs of all stakeholders.

Vauban Infrastructure Partners is an affiliate of Natixis Investment Managers. For more information on Vauban Infrastructure Partners please visit www.im.natixis.com/vauban



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