Infrastructure debt
A mature and diversifying asset class

Infrastructure debt has demonstrated its ability to withstand the sanitary and financial crisis. Philippe Benaroya discusses the future of this asset class, considering the importance of the European energy and digital transition, in this insightful interview.

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Philippe Benaroya, Managing Partner and CEO of Generali Global Infrastructure
Philippe has over 26 years of infrastructure finance experience, including 20 years on the buy-side and is one of the pioneers of the infrastructure debt industry. Prior to GGI, he was co-founder and co-Head of the BlackRock European infrastructure debt platform and covered different managerial positions in the monoline insurance sector (FSA) and at Schroders. Philippe graduated as civil engineer at the Ecole Nationale des Ponts et Chaussées (French Grande Ecole)

A RESILIENT ASSET CLASS

How has the asset class changed over the past year?

In spite of the economic and social repercussions of the Covid-19 pandemic, infrastructure has once again demonstrated its resilience. Most of the financing processes initiated before the crisis on quality assets have been completed succesfully and the pipeline of European transactions on core infrastructure investments is expected to remain solid.

In this context, the market share of institutional investors and asset managers compared to European banks has continued to rise. Even though banks remain an important source of capacity for the market, they are progressively reducing their infrastructure financing activities as they are mobilised in supporting the economy by financing the sectors that have been closed due to the lockdown.

We can also observe a sector evolution through the acceleration in the development of assets linked to the energy transition, environment transition and digitisation of economies.

Investments in telecommunications and renewables have in fact notably increased. This is also true for rail transport, which emits less carbon than other types of transport. The climate challenge has now become one of the major catalysts for infrastructure investments supported by the various stimulus plans at European level.

In terms of pricing, unlike public markets where spreads narrowed, we have seen an increase in the illiquidity premia. There has been a slight contraction from May 2020, but we are still above pre-Covid levels.

Have you modified your investment approach during the crisis?

The pandemic has arguably had a material impact on the wider financial markets however our activities in the infrastructure debt market have proven to be largely insulated from these adverse conditions which have not negatively impacted our performance and have created opportunities. Our investment approach is conservative and well suited for this kind of environment therefore, we didn't need to change our investment strategy.

We target core and essential infrastructure assets that operate within regulated and monopolistic/quasi monopolistic markets and that are characterized by defensive financing structures, with predictable and stable cash flows and a solid track record. We favour sectors and assets that demonstrate strong ESG (Environmental Social and Governance) and Impact Investing features. This strict approach has protected our investors from exposure to the sectors that are more severely affected by the current situation.

We have seen good resilience of all our investments, including the ones we made before the crisis and expect to keep benefitting from elevated pricings.

In order to secure attractive margins, investors targeting infrastructure investments need to rely on experts demonstrating strong origination capabilities across a broad investment universe and a high level of selectivity.

A careful selection of assets and design of the right deal structures and risk mitigants are fundamental elements in our approach to build resilient portfolios with proper diversification.

Only for professional investors subject to the Directive 2014/65/UE that act on their owns and/or on behalf of third parties on discretionary basis.

A DIVERSIFIED SET OF OPPORTUNITIES

Which sectors present the strongest opportunities?

Increased emphasis is put on sectors better suited to withstand the current situation and a recessionary environment. Today we see the opportunity to contribute to the recovery and resilience of our economies and we target to channel more capital in social infrastructure (i.e., health and education), in the telecom sector to accelerate digital transformation and to increase the support to the energy transition (renewable energy, green mobility, energy efficiency, etc…) and to the environment transition (waste and water management).

The vast majority of our assets benefits from cashflows that are contracted or regulated. In certain jurisdictions concession contracts include economic rebalancing clauses, supporting the long-term stability of the revenues and cashflows even in an adverse unforeseen environment. The assets are owned and operated by experienced and robust financial and industrial sponsors.

Infrastructure is very attractive for investors, especially in the current context, as it is a defensive and resilient asset class. This is particularly true for core infrastructure assets, which are the main focus of our investment strategy.

What is the performance of below investment grade debt compared to investment grade debt in the current market?

The current market presents interesting opportunities in both investment grade and below investment grade. On average in the senior investment grade debt space, the remuneration is around 250 to 300 basis points (for a BBB- average rating) while in the below investment grade debt space we focus on senior and junior debt with credit spreads between 350 and 500 basis points. It is important to note that the investment universe is very broad for both.

Therefore, a wide access to transactions and the ability of a manager to select only those that he believes are the best from a risk/return perspective is one of the conditions for optimising financial performance within a portfolio. For instance, in senior infrastructure debt, we analyze over 400 deals per year to carefully select only around 15.

THE INCREASING IMPORTANCE OF ESG AND IMPACT INVESTING

The European Union wants to promote energy transition and develop green infrastructure, is debt an appropriate tool for this?

Debt is a tool able to guide and influence investments made by their issuers. Some issuers that do not implement a serious ESG policy or which are part of sectors presenting weak ESG profiles are beginning to face difficulties in accessing financing.

Assets with a good ESG rating are instead part of a virtuous circle: they have easier access to financing and meet existing needs. However, we do not pay more to finance virtuous assets. ESG integration is not at the expense of performance. With regards to utilities which are still dependent in great part on gas as an energy source, we can intervene if the operator adheres to an energy transition logic. It is true that the list of exclusions is increasing, but rightly so.

ESG selection criteria also led us to make good credit decisions. For instance, we avoided investing in airports as the business plan we reviewed did not appear sustainable to us pre-Covid crisis. These turned out to be good decisions from an ESG and from a financial perspective.

There is a positive correlation between credit rating, asset resilience and the implementation of ESG filters. At GGI we invest with a sustainable mindset, we want to stay true to our convictions and therefore we strictly apply the exclusion criteria.

We believe that the contribution of infrastructure will be strategic in bringing strong social and economic benefits to society. In line with our convictions and with Generali Group's intention to invest in initiatives to support the recovery of the European economies impacted by the pandemic, we have recently developed thematic investment strategies which focus on Green Mobility, Environment & Energy Transition and on Social Infrastructure & Digital Transition. Our investment team, one of the pioneers in the infrastructure financing space at international level, selects investments which are considered having a distinctive capacity to contribute to the recovery of the European economies and to the UN Sustainable Development Goals. Our strategies are compatible with the Paris Agreement.

Source: Option Finance's RT

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Generali Global Infrastructure

Generali Global Infrastructure (GGI) is an independent infrastructure asset management company, regulated by the French Autorité des Marchés Financiers (AMF), founded by Philippe Benaroya, Alban de La Selle and Gilles Lengaigne in partnership with the Generali group.

GGI currently manages over €4 billion AUM and has a team of 26 experienced infrastructure professionals, operating from its Paris and London offices.

The creation of GGI represents a cornerstone in building Generali Investments' multi-boutique platform bringing together highly specialised investment skills and attracting capital both from Generali Group and third-party investors.

GGI investments focus on resilient infrastructure assets within Core and Core+ Infrastructure, capable of contributing to a sustainable development and generating stable returns over the long term. The company invests in themes strategic for society, such as energy transition, renewable energy, green mobility, digital transition and social infrastructures.

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