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Institutional investors – doing it for themselves

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There's a growing trend in the infrastructure community for institutional investors to "go it alone", eschewing the services of fund managers as they deploy big tickets across the global market.

In this week's editorial, we are turning once again to the *IJInvestor* database – making use of new functionality that has just come online through II Direct – this time stripping out a fast-evolving sub-set of investors that is making a significant impact on the market in the provision of equity and debt.

As an early point of order, when we refer to institutional investors, we are talking about insurance companies, pension funds (private and public), endowments, and family offices (single and multi).

According to our data, this sector has been growing steadily from humble beginnings in 2002 to a bumper year in 2018 when institutional investors were involved in 91 transactions, an increase of 44.4% on the previous year which recorded 63 deals.

Due to the nature of their involvement, it is frequently impossible to hang a number on each investment made, so – again for the sake of this piece – we are looking at transactions (full value) that have been facilitated by institutional investor direct capital.

In total, from the start of 2002 to end 2018 direct institutional investor activity – excluding asset managers – amounts to $541.5 billion across 584 transactions.

The most active institutional investors over that period are:

- CDPQ – 64
- Ontario Teachers – 54
- CPPIB – 52
- Samsung Fire & Marine Insurance – 35
- PGGM – 34
- MetLife – 33
- Australian Super – 31

Looking down the list of institutional investors, perhaps the most interesting of them are less active players that may in the future be interested in a repeat performance, having already gone direct.

However, many of the one-hit wonder direct investors are supporting domestic deals where they are comfortable to deploy capital in assets they understand well. Good examples of these include:

- State Pension Fund of Finland – 2018 – acquisition of Elenia, the Finnish electricity distribution and heating company

where it contributed €600.8 million, matched by Allianz and Macquarie
- Alberta Teachers' Retirement Fund Board – 2016 – acquisition of 33% stake in the 270MW K2 Wind Farm, a C$65.3 million deal, working alongside Axium and Manulife
- Arkansas Teachers Retirement System – 2014 – 20% equity and a small slug of debt on the $738.5 million Arkansas-based Big River Steel Plant

Not all, however, fall into that category. Two curiously adventurous institutional investors have played a long way from home, investing direct in:

- Lancashire County Pension Fund – 2016 – acquisition of 12.5% Stake in Madrilena Red de Gas, a gas distribution company in Madrid, Spain
- Victorian Funds Management – 2007 – 50% alongside Ontario Teachers to acquire a 48.25% stake in Birmingham International Airport

Taking a look at the last year of activity – 2018 – for institutionals investing direct into assets, three regions (not surprisingly) dominate activity:

- Europe – 35%
- Asia Pacific – 30%
- North America – 28%
- Latin America – 7%

Drilling down into that, the 10 most active countries – this time from start 2002 to end 2018 – represent 84% of activity with the most popular countries for direct investment by institutionals being:

- Australia – 22%
- US – 17%
- UK – 14%
- Canada – 10%
- South Korea – 9 %

As to their strategies, it will again come as no surprise to read that almost three-quarters are focused purely on equity:

- equity – 72%
- debt – 27%
- equity and debt – 1%

And then you have the advisers. When it comes to legal, the top 10 firms have cornered 46% of the market and we have data on the involvement of 189 unique law firms advising institutionals on this kind of deal.

The most active law firms are:

- Clifford Chance – 8%
- Allen & Overy – 6%
- Linklaters – 6%
- Allens – 5%
- King & Wood Mallesons – 5%
- Ashurst – 3%
- Herbert Smith Freehills – 3%
- McCarthy Tetrault – 3%
- Norton Rose Fulbright – 3%

There's a lot more data to be taken from the *II Direct* function that is now live on *IJInvestor*, the latest data/tech innovation that has been driven under the umbrella of *IJGlobal*.

Shifting sands

In the past few months there have been a number of developments in the market that look to be prompted by this growing trend – institutionals investing direct – as specialists seek to capitalise on the shift.

AMP Capital, for example, has launched a global team to facilitate equity co-investments with its institutional investor partners, headed from the US by Dylan Foo with Patsy Sandys leading direct investments out of London to target European opportunities.

Another fine example is Ontario Teachers' and PSP's direct ownership of global renewables investment platform Cubico Sustainable Investments. Cubico launched in 2014 as a spin-off of a $2 billion portfolio of assets from Santander, and has been growing its portfolio with acquisitions – generally of ready-to-build or in-construction assets in Europe and, more recently, the Americas.

Earlier this year, Cubico Sustainable Investment acquired a 580MW solar portfolio from Cypress Creek Renewables. Ontario and PSP have already funded Cubico to the tune of $1.5 billion and is understood to have appetite for more.

And then there is Kasper Struve who exited Danish pension fund manager Industriens Pension in January after 11 years to create Unified Investors that will "help institutional investors build exposure to private markets through more cost-efficient structures", as he puts it.

Meanwhile, Whitehelm Capital late last year caught the market's imaginations with its first-of-a-kind fund targeting "smart cities infrastructure" equity investments, in sole partnership with Dutch pension fund manager APG.

Seemingly Whitehelm has ever since been beating off investors who are keen to join APG – which seeded the vehicle with a commitment of €250 million – but it's clearly not an open relationship… though it's likely thinking about repeating the process with other partners.

At the time of launch (November), Whitehelm chief exec Graham Matthews said: "This is the first institutional fund for investment in the sector... This fund will provide long-term financing to create fully-operational, privately-funded infrastructure programmes."

The reality is that in many cases fund managers' designs to exit after, say, 10 years does not match many institutional investors' desire to deploy capital and have it stay there.

It is this appetite that will feed growth in this area as this alternative option grows in popularity in a sector that is no stranger to innovation.