KEYNOTE INTERVIEW

Global themes transforming infrastructure for a better tomorrow

At a time of seismic change, private markets firms need to adapt and look to a future that might look very different to today if they are to remain relevant to investors and create value in their portfolio, says Actis senior partner Torbjorn Caesar

Climate change, digitisation and shifting institutional investor allocation patterns are some of the mega-trends shaping investment strategies around the world today.

Private markets are well placed to take advantage of these opportunities, to generate strong returns, while also bringing about the change needed to create more sustainable economies.

Achieving this will require long-term thinking and strategic moves by individual firms. Actis, a firm that has historically been seen as a generalist emerging markets private equity player, has been doing just this.

We caught up with Actis senior partner Torbjorn Caesar to find out how the firm is evolving to capture some of the biggest global shifts playing out over the coming years and why he believes its future is as a global sustainable infrastructure investor.

SPONSOR
ACTIS

Q You have historically been viewed as an emerging markets private equity investor. Why are you looking to shift perceptions around how your firm approaches the market?

Our mission is to transform infrastructure for a better tomorrow. Sustainability encapsulates absolutely everything. It's about what we do not where we do it. It's about investing behind global themes to deliver financial performance.

I consider Actis to be a truly global firm with expertise across various infrastructure sectors; we are probably best known for power, real estate and infrastructure. We have a long history of building businesses and operating assets across the world. Today, we have 18 offices from Mexico City to Seoul. That heritage and footprint has enabled us to invest thematically in sustainable infrastructure and it allows us to pursue the most attractive risk-return profile and then unlock those opportunities wherever we find them.

Q You say the world has moved on, how is this reflected in investment opportunities?

We're seeing some dramatic shifts in economies and society more broadly today. As a result, there are three main themes we're looking to invest around: climate, digitisation and yield. We see a complementarity between areas such as power, infrastructure and real estate.

If we look at power, electricity is growing at a pace that is well above GDP. Even without taking into account electrification trends, such as the move to electric vehicles, growing global demand doubles the need to build power plants. On top of that, the world needs to decarbonise and so there is an enormous need to invest here. Investment in electricity is already at the highest levels in history, and that now needs to accelerate – and fairly rapidly.

Green energy is at the heart of infrastructure, particularly in themes like digital from shopping, communication and services right through to work and leisure. The investment need here is equally as large as in electricity. Allied to this is also the need to build out new economy real estate to support these shifts. This includes all the elements that underpin e-commerce and fulfilment, industrial parks, life sciences parks and so on.

All these areas are interlinked, and they are areas in which we have been investing through our different types of fund, so we are drawing on existing and deep expertise – from green energy and digital infrastructure in our energy and infrastructure funds to digitalisation in private equity and data centres in real estate. There are synergies across all these and we can pull together the different threads across a consistent sustainable infrastructure strategy.

Q Many firms now claim to be focused on ESG or are launching impact funds. But what do you mean by sustainable?

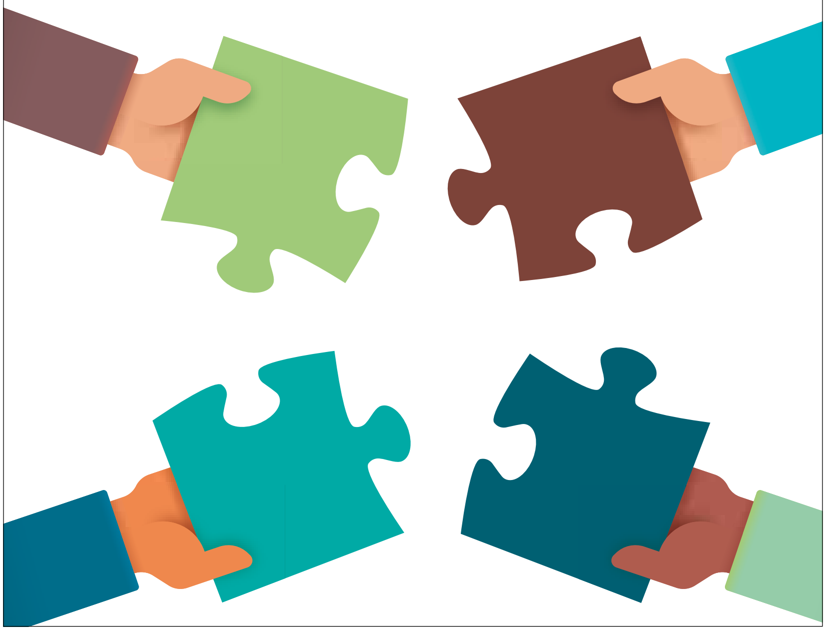
We create sustainability leaders. We don't just want our portfolio companies to become good in a specific market, we want them to become global best-in-class.

We infuse our sustainable leadership in our portfolio companies, giving them access to our broader network of sustainability leaders.

Q How do you think private market investor needs have evolved?

One of the biggest trends in private markets today is the consolidation of LP capital. Investors such as sovereign wealth funds and pension funds have increasingly large allocations to private markets and they can face challenges with deployment. As a result, they are looking to large funds to make commitments. We already have $15 billion of AUM, but we want to grow with our LPs. We want them to see us as strategic partners who can offer them scale and a range of global products.

Investors today are also looking for yield; some estimate that we're seeing $100 billion each month flowing towards private markets. This capital is being reallocated from fixed income and cash because investors aren't getting the yield they need from these assets. Infrastructure is a natural home for this: it offers inflation-protected cashflows, and it is the closest replacement for fixed income and cash because it is long term and offers yield.



Sustainability goes through everything today. It's the zeitgeist – and rightly so. But I think it has a broader meaning than the one many firms attribute to it. There is clearly a lot of talk – and in some cases – action around net zero, for example. That is incredibly important. But actually, focusing on just this fails to capture the full range of sustainability that needs to be addressed. For us, sustainability is far more holistic. It's about thinking long-term about the environment, employees, local communities, governance, financial health and so on.

We've followed an ethos for many years in our firm that we encapsulated in the phrase "values drive value" about a decade ago – it's a recognition that non-financial activities, such as improving the environmental standards, labour conditions, relationships with local communities and overall governance, have positive outcomes for people and the planet and that this drives financial value.

Sustainability is about being here today and tomorrow – and that's particularly important in a long-term investment such as infrastructure. That means moving towards net zero, engaging with local communities and the cities where we invest, as well as building transparent and well-governed businesses that are viable over the long term. This is also increasingly important to employees, who want to work in businesses where diversity is championed and where they can see the business is having a positive impact, through its operations as well as through philanthropic activities. This helps attract the best people – they want to be part of that value set.

All of this feeds into creating more valuable businesses that buyers will pay more for – we have a values-driven culture at Actis and we believe it is integral to generating strong returns.

"We create sustainability leaders - it encapsulates everything"

"Electricity is growing at a pace that is well above GDP. Even without taking into account electrification trends, such as the move to electric vehicles, growing global demand doubles the need to build power plants"

Q How do you demonstrate that to your investors?

Sustainability is integrated into every decision we make because our aim is not just to help portfolio companies become good in specific markets, it's to make them global best-in-class. So, from the outset, we have to define how they are going to get there. We identify specific sustainability drivers for each investment at investment committee level and these are included in the value creation plan – that means it's not just a sales tool, it's integral to how to invest in and support companies and bring about sustainable value.

Every investor has their own way of looking at sustainability and we do need to report in different ways and in different formats. However, our Actis Impact Score™ is a key tool for measuring and communicating the impact we've had on a business. It quantifies the impact achieved during our ownership and provides scores and multiples that sit alongside traditional financial measures, such as IRRs or MOICs.

Q Does that mean you don't focus on emerging markets today?

I think we see the world differently from many other investors. As I said at the beginning, we have a long heritage of unlocking opportunities wherever we find them and a truly global footprint.

We choose where we invest not according to whether it is an "emerging market", but according to where we can find the best risk-return deals for our LPs. If you look at the ecosystem for wind farms, infrastructure or new economy real estate, for example, it is global. An investment in Brazil is likely to use many of the same suppliers as one in Germany, from developers and construction firms through to insurers or financiers. That means the networks we have built up over the years apply to all markets, regardless of whether they are emerging or developed.

Our pipeline currently includes opportunities in Japan, North Asia, Europe and pockets of the US – that might surprise some people. ■