Ardian

Investing in Latin America requires having a clear plan and the right partner

Recently, **Chase McWhorter,** Institutional Real Estate, Inc.'s managing director, *Institutional Investing in Infrastructure,* spoke with **Juan Angoitia,** senior managing director, Madrid, for Ardian. Following is an excerpt of that conversation.

Could you describe Ardian's footprint in Latin America?

As you may already know, Ardian was a pioneer in European infrastructure. We began investing directly in infra assets there beginning in 2005 and closed our fifth Western European–focused fund at €6.2 billion last year, with an emphasis on control investments and an active asset-management approach.

However, Latin America is an increasingly important region for us. We have a specific fund for renewable and clean energy with a global mandate. In 2016, we acquired an 81 percent stake in Solarpack, four solar PV plants in South America — three in Chile and one in Peru. With this same fund, we have invested in another two solar PV plants in Peru.

In 2017, we raised our first U.S.-dollar fund to invest in the Americas. We are targeting 60 percent of the fund to be invested in the United States and Canada, and the other 40 percent in Latin America. This combination gives us a very good risk/return profile for the investment, which is why Latin America is becoming important for us. Last year, with our U.S.-dollar fund, we took a stake of Vespucio Norte and Túnel San Cristóbal, a toll road business in Santiago, Chile.

We also opened an office in Santiago in 2018, giving us a local base from which to manage our investments, and also allowing us to focus on building closer relationships with our LPs and other institutional investors in the region. As a firm, we prioritize the deep knowledge and relationships that can only come from an on-the-ground perspective, allowing us to understand the needs of our investors and portfolio companies on a granular level.

Are there particular sectors or regions in Latin America that you focus on through your infrastructure investments? And are there countries you think present better opportunities than others because of the geopolitical landscape?

With the U.S.-dollar fund, we focus on the OECD countries — Mexico, Chile, and also Colombia, which has been invited to be an OECD member. With the clean-energy fund, we can also expand into Uruguay and Peru, where the legal framework and the financial markets are sound. In Mexico, Colombia and Chile, they have deep markets, and we feel comfortable in those countries. The approach we want to implement in Latin America is similar to what we are doing in Europe. In Europe, we focus on what we call essential infrastructure, which, for us, is transportation — toll roads or airports — and energy. In energy, we include renewables: wind, solar PV and mini-hydros; and networks — and this can be transmission or distribution of electricity and gas. We can also do midstream oil and gas, especially storage, and telecoms, meaning fiber and towers. These are the types of infrastructure that we understand and know how to manage, and this is what we want to continue doing. There is a clear need for infrastructure investment in the region, and that is why we see this as an excellent opportunity. We like to be an active shareholder, and we like to participate together with our partners in the decisions and in the processes of the portfolio companies. That is one of our features — we are very active on asset management.

How do Latin American investments help diversify portfolio risk?

For us, the region is quite attractive because it will allow us to have a balanced portfolio of investments in the fund — we will have investments in the United States and Canada, which have a particular risk/return, and we will have investments in Latin America, which have a different risk/return profile, usually offering good opportunities for growth. Both profiles are very complementary, so that is why Latin America is very attractive.

Has this increased footprint in Latin America led to an expansion in your Latin American LP base in your infrastructure funds? And what would you say are the biggest priorities of the LPs in that region?

Yes, definitely. Being an active investor in the region has given us a profile that we didn't have before. Being active in infrastructure is giving us more visibility and different access to the clients. Obviously, the performance of these different strategies of Ardian is probably the best way to help to gain new clients. Also, in Latin American countries, pension funds and insurance companies are evolving, and the regulation is allowing them to invest in alternatives including infrastructure. Before, they had several constraints in most of the countries; those countries are now relaxing those constraints, and institutional investors can invest in a number of options on the table.

Can you walk us through your investing philosophy?

There is a lot of liquidity in the market both for equity and debt — and not only in the Americas, but worldwide. That has several implications. We know how to manage, even during downturns and difficult times. You must make decisions, and if you don't thoroughly understand the assets and the businesses, the chance of making good decisions is slim. That is why we stick to essential infrastructure, to those types of businesses that we understand very well and know how to manage.

We are very active on the asset-management front. When we are assessing an opportunity, the first question we ask is: What do we want to do with this company? Do we want to grow this company? Do we want to get into a new business line? Are we willing to invest in capital expenditures and get new contracts? If we don't have an answer to these very simple questions, if we don't have any industrial plan for the company, we don't continue looking at the opportunity.

We are firm believers that, whether regulated or not, companies must anticipate the market to predict structural changes and be efficient — otherwise, sooner or later, they will be out of the market. In supporting companies to be efficient, we put a lot of emphasis on ESG. This is also critical because, in the long term, companies that are not efficient in every single aspect, including relationships with clients and ESG, are not going to do well.

Having an initial crystal-clear plan and implementing it — that is our philosophy, and that is how we think we can best deliver the performance to our LPs in the category of assets that we invest in.

What have you found is the best way to source infrastructure deals in Latin America?

It is a question of relationships and reputation in the market. By relationships, I mean those with our corporate and industrial partners, with other financial players, with the various governments, administrative bodies, and regulators in the countries. By reputation, I mean that we deliver what we say. As an example, with the solar PV plants in Peru and Chile, the first transaction back in 2016 — it was with Solarpack, a Spanish developer, and the transaction was a positive experience for both of us. Today, the relationship with Solarpack and our team is extremely strong. Subsequently, we had the opportunity to acquire two more plants in Peru and, again, because of the strong foundation, it advanced the deal-making conversations because we started them from a more mature place. We have built a level of trust and Solarpack knows that if we say something, we are going to deliver on it. We also have very strong relationships with industrial players across Europe that open up Latin America opportunities, allowing us to have deeper conversations and partner with them in Europe and LatAm.

Even though the Ardian infrastructure team is located across Europe and the Americas, we are a single team. As a firm, we have local people on the ground in 15 different countries, which allows us to leverage relationships across borders. For the infrastructure team in Europe, it is a big advantage because we are on the ground in France, Italy, Germany, the United Kingdom and Spain, and we can nurture our relationships in each of those regions. In the Americas, we are also well covered between New York and Chile. To have a team on the ground in Chile gives us visibility and access to transactions that would be difficult to see from New York or Europe. We also have a nuanced understanding of the regulatory constraints in each of the LatAm countries.

What are the biggest challenges to investing in Latin American infrastructure?

We are long-term investors, our funds are 15-year funds, and we assume we are going to hold the investment for a long period of time. So we must have conviction in the country in the long term. That's not to say you won't have short-term ups and downs, but in the long term, you must believe in the fundamentals for investing in infrastructure in those countries.

Once you have gone through that screening, then it is a question of finding the right partner, situation, and opportunity. It is also important to have a local partner who can help you navigate the situation in the country. In emerging countries, it is critical to have time to manage the entry and, especially, the exit. To that point, currencies in Latin American countries could move against the U.S. dollar in difficult macroeconomic situations. Being a long-term investor allows us to choose the most optimal timing for the exit.

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CORPORATE OVERVIEW

Ardian is a world-leading private investment house with assets of US$96 billion managed or advised in Europe, the Americas and Asia. The company is majority-owned by its employees. It keeps entrepreneurship at its heart and focuses on delivering excellent investment performance to its global investor base. Through its commitment to shared outcomes for all stakeholders, Ardian's activities fuel individual, corporate and economic growth around the world.