IJ interview: Hans Meissner, Managing Partner, EISER Infrastructure

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EISER Infrastructure Partners is an independent equity fund manager with a focus on pursuing intelligent infrastructure investments. Its debut fund, EISER Infrastructure Fund I, was set up in 2005 with €1.1 billion of capital commitments. The Fund is now fully invested with a diversified portfolio of 11 operating and development investments which have a combined enterprise value exceeding €3 billion.

Hans Meissner, Managing Partner at EISER Infrastructure, talks to IJ News Editor Sarah Tame about the challenges and opportunities facing the market.

Infrastructure Journal: The current fundraising environment has been described as being "slower" than in previous years, do you agree with this and what a factors do you think are currently affecting fundraising for fund managers?

Hans Meissner: While there have been some successes, the fundraising environment is challenging. The over-riding factor affecting the pace of fundraising is the continued uncertainty at a macro-economic level, and prospects for growth. Without clarity on the future of the Eurozone in particular, investors are reluctant to commit capital. In addition, new regulatory measures governing capital requirements are creating an additional burden on insurers and banks, leading some to review their alternative asset allocations. Those managers with a strong track record and proven expertise will be best-placed to raise additional funds.

IJ: There has been a lot of talk about institutional investors, particularly pension funds looking for ways to bypass the infrastructure fund model in order to avoid "high fees". What experience have you had with investors in recent months, are they looking for cheaper fee models?

HM: While in some cases fee structures needed to become more flexible to take into account the changing economic environment, investors are most concerned with the risk/return balance. What investors and fund managers both want is to ensure that funds are structured to optimise the alignment of interest and that there are no rewards for failure. Investors understand that managers must be incentivised through an appropriate structure, and fund managers are also aware of cost pressures on pension funds and other investors. The reality is that only the very largest pension funds have the resource to invest directly. It takes a significant amount of time and money to establish a direct investing function and in the current environment is not a particularly viable option.

IJ: More and more investors are looking for opportunities for co-investment, why is that? And what benefits can investors get from co-investment?

HM: Co-investment can be a valuable option for firms and investors. Investors can claim a range of economic benefits, from regular yield, to equity upside on the sale of the asset and avoidance of admins costs which are borne by the fund manager. Co-investment can also have a beneficial effect on fee arrangements for investors. For funds it enables them to put more capital to work and perhaps bid for larger assets than they would otherwise be able to, as well as sharing the risk of putting capital to work.

IJ: What are the key challenges facing fund managers in Europe and what is Eiser doing to overcome these challenges?

HM: Uncertainty related to the Eurozone crisis remains the number one challenge. It is essential amid such turbulence to stay close to portfolio company management and ensure the right strategy is in place to manage events. We have a very hands-on approach to managing our assets and this has served us well through the crisis.

On the investment front, banks are extremely reluctant to lend without clarity on the future direction of the crisis and this of course has a material impact on our activity. Valuations can also be difficult in such an uncertain environment. When your ability to invest is largely dictated by events which are out of your control, managers take a measured, even cautious approach to evaluating deals, and ensure they continue to actively manage the portfolio.

IJ: What sectors of infrastructure are presenting the greatest opportunities for investment in the current market, and why?

HM: Our sector focus is very much dependent on conditions within individual countries. We invest across a range of sectors; primarily energy, environmental services, transportation and social infrastructure such as schools, and assets within these sectors may be more or less attractive depending on the country. Each country has its own distinct range of drivers which determine its infrastructure strategy, with little uniformity across countries. One sector where opportunities are likely to grow across Europe is renewable energy. While budgetary constraints are causing some governments to review incentives for renewables, the long-term trend is set and governments will continue to look at ways of stimulating investment into low-carbon energy solutions.

IJ: What geographies present the biggest opportunities, and why?

HM: While the location of an asset is an important consideration, it is often not the over-riding one, given the globalised nature of business. Some of the troubled Eurozone countries may be struggling on an individual basis, but it may be possible to find bright spots in certain sectors even in these countries. Markets in Europe which have stable PPP/PFI-type rules in place are attractive and we would look at assets in these countries across a variety of sectors. The infrastructure investment need across Europe is significant and, as austerity measures continue to take effect across Europe, private sector investment will be crucial to future upgrades and developments.

IJ: Are there certain countries you would avoid investing in, and why?

HM: Greece would obviously present a difficulty at the moment, given the profound uncertainty the country is experiencing. That being said, we wouldn't necessarily exclude any country within Europe on the basis of its macro-economic difficulties. The key to any investment is in-depth analysis of the asset and the sector to ensure you are comfortable with the risk profile. We are also long-term investors and this ability to take a longer view can enable us to look beyond current events and factor in changes, whether at a country or sector level, over a number of years.

IJ: Where is the majority of investment opportunity in Europe, in the primary or secondary market?

HM: While we are seeing opportunities in both, there are an increasing amount of primary opportunities due to demographic growth and aging assets. Budgetary constraints are forcing governments to seek private partners for infrastructure investments, both greenfield and brownfield.

IJ: With RREEF Infrastructure and Axa Private Equity currently up for sale do you think that more fund managers will follow EISER and become independent?

HM: Independence may not be the correct avenue for every manager but it certainly has a number of benefits. As an independent fund manager you remove any perceived conflict of interest and are able to be more agile in reacting to certain situations or opportunities. Regulatory pressure is also forcing the big banks and insurers to focus on their core business and this is likely to be another driver for funds considering independence.

IJ: What do you hope to see from the UK government's PFI reform?

HM: Private sector spending is absolutely crucial to deliver infrastructure projects in the UK. We would like PFI to be structured with certainty and efficiency, so that each party is in no doubt as to the terms of the arrangement they are committing to. While it may have had its flaws, and some criticisms are valid, the structure of PFI as it has stood for the last decade or so in the UK has ensured large scale projects have been delivered, with the private sector bearing a significant portion of the risk. A radical overhaul of the way PFI is structured could have long-term negative consequences for the UK and may mean many years of delays in upgrading and replacing critical infrastructure.