

INFRASTRUCTURE INVESTOR

ISSUE 19 | FEBRUARY 2011 | infrastructureinvestor.com

FOR THE WORLD'S INFRASTRUCTURE MARKETS



“ We are literally flooded with potential opportunity ”

TIGER INFRASTRUCTURE ON THE PROWL

RENEWABLE ENERGY

Shocks to the solar system

FRANCE REPORT

Why are high-speed rail deals so slow?

UK PPP RATINGS

Credit quality needs another look

FINANCIAL ENGINEERING

It's here to stay – and that's good

US GREENFIELD

Why the time to act is nigh

2010 LEAGUE TABLES

Who topped the charts?



On the prowl: Emil Henry (l), Julian Robertson (r)

Birth of a Tiger

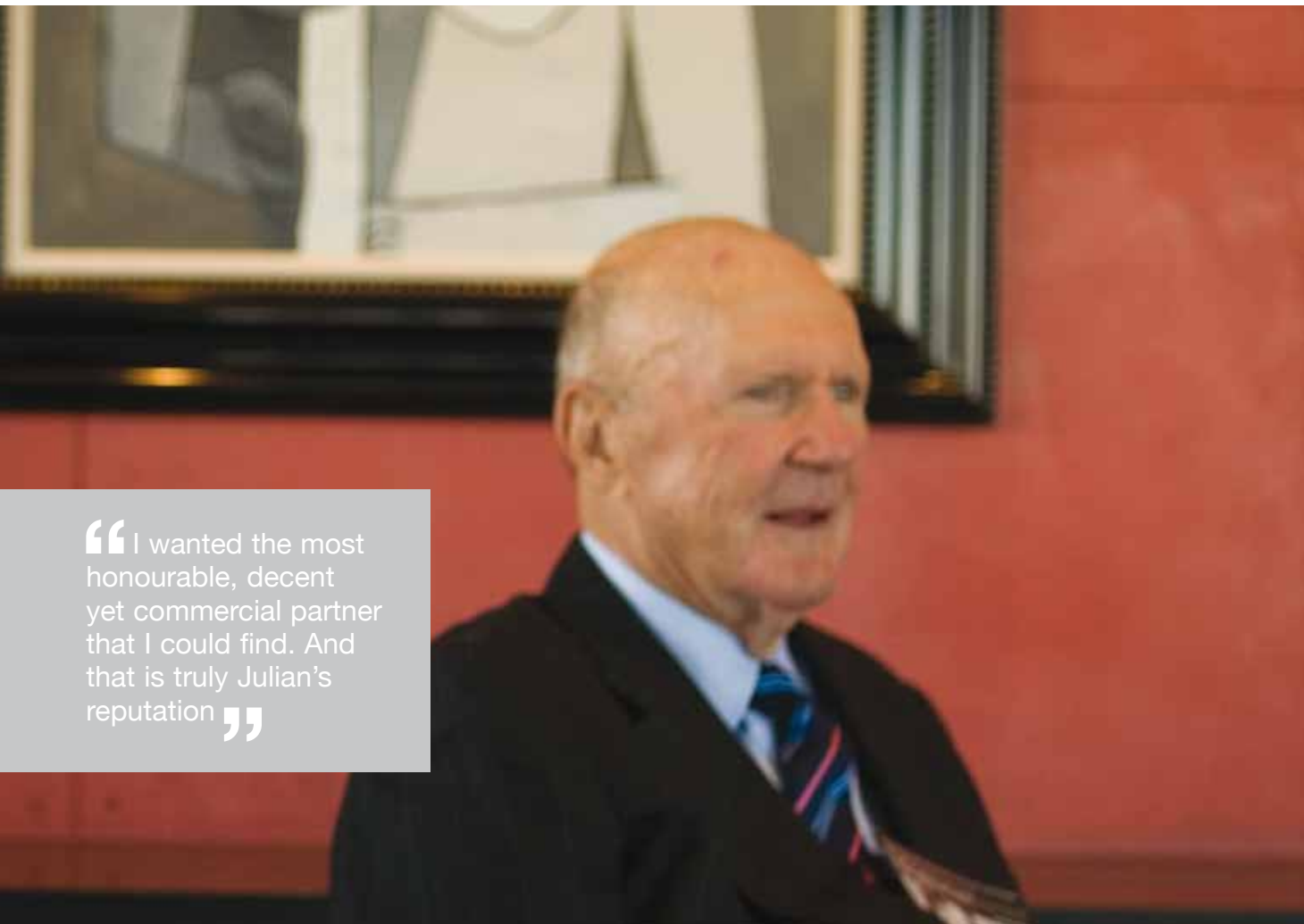
After the collapse of Lehman Brothers, global infrastructure head Emil Henry went looking for a new partner to seed his business. Here's the story of how he cut a deal with Tiger Management's Julian Robertson, and what lies ahead for Tiger Infrastructure Partners. By [Cezary Podkul](#)

LATE ONE NIGHT in the fall of 2009, Emil Henry travelled up to a small, elegant apartment just off Park Avenue on New York's Upper East Side. He wasn't really sure what to expect; all he knew was that, tired after a long workday, he'd now have to sit for a test – and the outcome might well decide his firm's future.

A proctor greeted him and soon he was being confronted with a series of mind-stretching challenges.

"I recall a series of memory tests, one of which was repeating a very long series of numbers that got increasingly longer and that you repeated both forward and backward," he says. "And they keep increasing the numbers until your brain simply can't capture all that info just to see how far you can go."

It didn't matter that Henry was a former assistant secretary of the US Treasury – a post for which he was hand-picked by the President of the United States and confirmed



“I wanted the most honourable, decent yet commercial partner that I could find. And that is truly Julian’s reputation”

by the United States Senate. Nor did it much matter that he had received the Treasury’s highest award for public service. Or that he had helped build up Morgan Stanley’s principal investment business. Or that he headed the infrastructure group at Lehman Brothers. Henry wanted to cut a deal with Julian Robertson, the billionaire hedge fund investor famous for turning an \$8.5 million fund management business, Tiger Management Corporation, into a \$22 billion empire between 1980 and 1998. So he had to pass Robertson’s test.

“It gives us a good idea about whether or not people will be successful,” Robertson says as he glances at Henry one morning at Tiger’s offices on Park Avenue. “And he of course took the test, as has everybody else here except me – I was just first here.”

It may not be the average story behind the birth of an infrastructure investment manager. But for Henry and his team of former Lehman Brothers infrastructure executives, it was a crucial step on the way to becoming Tiger Infrastructure Partners Private Equity.

‘WHITE CANVAS’

Granted, that was originally not the plan. When Henry left the Treasury in 2007, ending a two-year stint of commuting between New York and Washington DC, he joined the ranks of Lehman Brothers, which

was just beginning to explore the possibility of creating a dedicated infrastructure team.

“Lehman Brothers had gotten religion on the space and knew it was going to be a long-term business, as opposed to kind of capturing a trade for a couple of years,” Henry recalls. “So they needed a global head.”

Henry was intrigued by the opportunity. His previous career experience was in traditional private equity and hedge funds. But during his time at the Treasury he got looped into public policy discussions around the US’ competitiveness. “We sat there and we saw this massive infrastructure spend in these emerging economies and any sensible person who sits there sees that that’s a competitive advantage,” Henry says. Not to be outdone, he became convinced the US needed to do more to improve its infrastructure.

There was also a more practical element to his move to Lehman Brothers. The investment bank’s private equity arm, Lehman Brothers, had a historical focus on the middle market, despite its gargantuan size of \$32 billion in assets under management.

“I saw the middle market as the most exciting area of infrastructure,” Henry says. “I wanted to create companies and develop new projects. All that stuff is down in the middle market.” And so, in May 2007 he resigned from the Treasury to join Lehman →

Brothers as its infrastructure head.

It was an exciting time. The cracks in the financial system were not yet clearly visible (Treasury Secretary Hank Paulson later told Henry that had that not been the case, he would have required him to stay on the job) and every investment bank on Wall Street – Morgan Stanley, Goldman Sachs, JPMorgan – was building out an infrastructure team. At Lehman, Henry would get to start from scratch.

“I literally had a blank piece of paper, a white canvas, figuratively speaking, to create a team,” Henry says.

STICKING TOGETHER

But trouble was brewing below the surface. As Lehman’s asset management business surged ahead in private equity, real estate and infrastructure investing, Lehman was busy trying to hide a lethal mistake.

The investment bank had loaded up on sub-prime mortgage-backed securities during the height of the financial crisis. And now that the market for the toxic securities was quickly disappearing and write-downs loomed large, the firm needed to reassure investors that it could weather the financial storm.

So to make its leverage levels look smaller, Lehman temporarily removed \$50 billion of assets off its balance sheet at the end of the first and second quarters of 2008 using what’s called a “repo” transaction: selling an asset with a simultaneous obligation to buy it back at a later date.

The deals made Lehman look healthier at quarter-end according to a March 2010 report from the Lehman bankruptcy examiner, Anton Valukas. But as the financial storm gathered strength, the market lost faith in the firm’s assurances of financial strength: on Monday morning, September 15, Lehman Brothers filed the largest-ever bankruptcy petition in US history. A market capitalisation of \$30 billion as of January 2008 was suddenly a

penny stock.

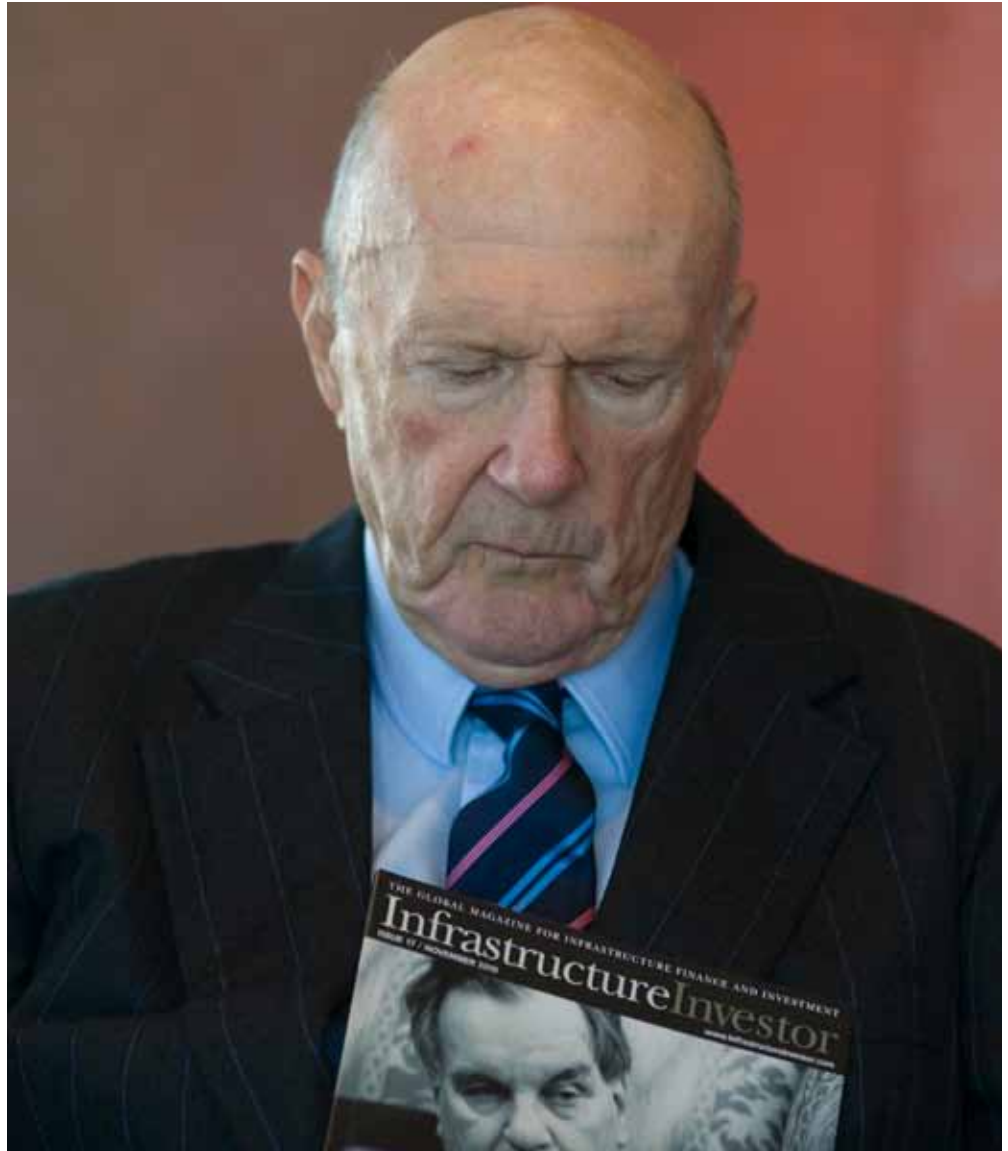
“It was surreal,” Henry says of that day. “It was people literally walking the halls like ghosts, almost. When it happened, many people were absolutely in disbelief that such a thing could happen.”

The bankruptcy triggered difficult questions for Henry as well as a host of other private equity and real estate managers embedded in the Lehman empire. Should they go elsewhere, or stick together and try to spin out? And if so, on what terms and with who’s backing?

For Charlie Ayres, the head of Lehman’s \$4.5 billion middle market buyout business, the answer came in the form of a deal with South African billionaire Johann Rupert.

Rupert bought a 49 percent stake in Ayres’ shop for \$10 million. The deal enabled Ayres to spin out and form an independent firm, Trilantic Capital Partners, in April 2009. “For someone to underwrite us independent of Lehman when the world was ending and to sort of put in capital alongside ours without control was significant,” says Ayres.

“From my perspective, when Lehman Brothers went belly-up, my team and I wanted to stay together,” Henry says. The team included New York-based Marc Blair, London-based Alessandro Boninsegna and Pascal Casavecchia, Leanne Bell and Adam Emmert. “We said we are going to do this as an independent firm. So the first thing that we needed was somebody to seed the business



and essentially to pay the bills,” he adds.

And so the search began for a new partner.

CLOSING THE DEAL

As anyone who’s ever looked for seed capital knows, it’s not easy finding the right fit. Henry was approached by some existing infrastructure managers, which he declined to name, who were looking for new management. “I didn’t want to do that because I had the unique opportunity to do something entrepreneurial,” he says.

So in early 2009, he decided to give a call to someone he had met briefly during the 1990s during his career in private equity at Gleacher Partners: Julian Robertson. “I wanted the most honourable, decent yet commercial partner that I could find. And that is truly Julian’s reputation,” he says.

It was a reputation built up over decades of making the right calls for investors in the equity markets. As pointed out by Sebastian Mallaby in his chronicle of the hedge fund industry, *More Money Than God*, Robertson’s Tiger Management Corporation earned an average return of 31.7 percent per year between its inception in May 1980 and its peak in August 1998. It was a return streak strong enough to debunk on its face the notion that a stock picker could not beat the market (the S&P returned a paltry 12.7 percent annual return during the same time horizon, by Mallaby’s calculation).

Mallaby ascribes part of Robertson’s success to the North Carolina native’s personality. He was able to recruit extremely talented people to Tiger and motivate them to live up to his high expectations. “There was something about Robertson that made you want to please him. He would zero in on people with his Carolina charm, flattering and drawling until they purred like sleepy kittens. ‘Pah-wah-ful, Bob,’ he might address a young subordinate. ‘Ah find mah-self utterly pah-ra-lyzed without your pah-wah-ful assistance,’ Mallaby notes, mimicking Robertson’s signature North Carolina twang. Many of his best subordinates found it easy to set up their own hedge funds.

One so-called “Tiger cub” is hedge fund manager John Griffin, whom Henry knew from their work together at Morgan Stanley back

“Name me a large country that has gone out of a serious recession by printing money and show me who hasn’t had inflation”

in the 1980s. Once Henry called Robertson to pitch the idea of seeding his infrastructure team, Griffin helped re-introduce the two men. “He was the real factor that put us together,” Robertson says, underscoring how important a good word from a Tiger cub can be in setting up a meeting with the legendary investor, now nearly 78 years old.

Infrastructure wasn’t initially an easy sell with Robertson. “It was a new thing for me,” he says, “so I was a little bit skeptical of it. But I did a lot of investigation of [Henry] and it came out very well.”

“He asked a thousand questions,” Henry recalls. “Incredibly thorough, incredibly detailed, incredibly probing.”

Robertson freely admits he applied a little extra due diligence in deciding whether to seed a manager outside the hedge fund world – and the Tiger cub family. “It’s quite a departure from our normal thing,” he says. “And it wouldn’t have happened, you know, just with an ordinary guy. We would have to have a lot more confidence with this man than we would with another hedge fund.”

To those who might wonder whether it isn’t a little strange that a hedge fund investor is seeding a manager in an asset class as long-term and illiquid as infrastructure, Robertson points out that Tiger’s investment

TIGER INFRASTRUCTURE PARTNERS AT GLANCE	
Company:	Tiger Infrastructure Partners
Launch:	Opened offices in New York and London in 2010
Background:	Former executives of Lehman Brothers’ infrastructure private equity team
Key Investment Professionals:	Emil Henry (Managing Partner), Leanne Bell, Marc Blair, Alessandro Boninsegna, Pascal Casavecchia and Adam Emmert
Strategy:	Middle-market infrastructure with focus on businesses that have growth or value creation potential
Targeted Sectors:	Power, natural resource infrastructure, waste, water, transportation and communications
Relationship with Tiger Management:	Julian Robertson’s Tiger Management seeded Tiger Infrastructure Partners and owns a minority stake in the business. Robertson serves as a senior advisor to Tiger Infrastructure Partners

philosophy isn't anathema to the infrastructure mindset: "Our people are all long-term investors," he says. "That's not to say they won't sell something fairly quickly, particularly if they're wrong, but if they are right about something, they'll hold stocks for many years or investments of all kinds."

Moreover, Robertson feels comfortable making a long-term bet on infrastructure because he believes there are some long-term trends that will make it an attractive asset class. First, there's inflation, which he believes is coming full speed toward industrialised countries that have pursued expansionary monetary policies. "Name me a – and you can't do it, I'll tell you that before we get into it – name me a large country that has gone out of a serious recession by printing money and show me who hasn't had inflation. It's just, it's an oxymoron," Robertson says of the US. Given infrastructure's ability to serve as an inflation hedge, he sees a part for it in his portfolio.

Secondly, and perhaps more importantly, there's the issue of global warming – the gradual rising of the earth's temperature because of carbon emissions from human activities. "I think the environment will force a big move towards infrastructure investing," he says, pointing out that the Empire State Building – impossible to miss from the view in his corner office – did an energy efficiency retrofit just because the economics of it made so much sense. "And I believe it's not just going to be that," he says. He envisions the need for a lot more desalinization plants, wind farms and solar plants – investments which will all necessitate the growth of "independent infrastructure funds all over the world".

But, Robertson cautions, "always better the person than the idea" – which is why he spent a lot more time probing Henry than he did the merits of the asset class as a whole. And it's also why, in fall 2009 – after about five months of negotiating the terms on which Robertson would back his team – Henry got an unexpected phone call.

"Julian called me as we're getting close to having this done. He said, 'you know,



you've got to take my test'. So this thing was almost completely done, I went, 'oh gosh, this is going to be embarrassing if I go take this darn test and Julian says, 'sorry, we're not going to do the deal.'" And so began that long night for him at the elegant apartment on the Upper East Side.

Suffice to say Henry passed Robertson's exam: "Julian Robertson and Emil W. Henry, Jr. announced today the formation of Tiger Infrastructure Partners LP, an infrastructure private equity firm," declared a press release soon after the test. And so a Tiger was born.

'FLOODED WITH OPPORTUNITY'

Despite the name, though, there are some important distinctions between Tiger Management Corporation and Tiger Infrastructure Partners. The name is a reflection of Robertson's strong vote of confidence in the team, but Robertson's involvement is limited to a minority stake in the business and a senior advisory role.

"He takes a very, very hands off approach," Henry says. "Our relationship is one of updating each other periodically." To do so, Henry must take a walk down Park Avenue, since the two firms share different offices – a reflection, he says, of the team's independence.

But despite the new partner, name and office, much remains the same. Henry's team is still following the same strategy as they did at Lehman – middle-market infrastructure – with a focus on North American and

European assets. In North America, that might lead Tiger Infrastructure to some of the environmentally-focused investments Robertson alluded to.

"In renewable power, there are many smaller opportunities such as biomass, geothermal and hydro which suit our strategy," he says. "We are looking for middle-market opportunities with growth or expansion potential."

His team has also been spending a lot of time looking at the natural gas sector. "There will be tens of billions of dollars deployed in the shales to get natural gas to market now that it's economic to extract it," he says, and he believes infrastructure managers like Tiger can play a role in helping build out the infrastructure needed to do that.

There's also a broader opportunity resulting from the sheer shortage of capital in the space. Since 2004, infrastructure private equity firms have secured some \$111 billion of capital from investors, according to placement firm Probitas Partners, which is almost nothing compared with the \$65 trillion the world needs to spend on its infrastructure needs in the next 20 years, according to the Organisation for Economic Cooperation and Development.

"Truly, relative to classic private equity, we are flooded with potential – literally flooded with potential opportunity," Henry says. "As long as it's not an asset class where capital is pouring into it . . . then the area's going to be capital starved. And capital starvation is a great dynamic for private equity investors." ■