Benefiting from a growth approach

Guest comment by **Emil W Henry, Jr**

Many GPs and LPs are focusing on 'growth' in infrastructure due to structural trends and risks in other markets and sectors, writes Tiger Infrastructure Partners' founder

The US Federal Reserve rapidly raised interest rates in 2022, sending shock waves through private markets, long beneficiaries of cheap debt and rising asset values. Transactions all but ceased, meaning LPs received neither distributions nor capital calls. With pacing plans invalidated, many LPs suspended or slowed their investment pace, halting GP fundraising. The buyout industry, in particular, was profoundly reshaped with many long-established firms failing to raise their next fund and entering run off, or raising much smaller pools and having to downsize.

In contrast, infrastructure has been relatively better insulated, buoyed by the fact that many LPs are still increasing infrastructure allocations. Paraphrasing Campbell Lutyen's Gordon Bajnai, this has created a "traffic jam" in infrastructure versus private equity's catastrophic "car crash". Based on his firm's data, the average fundraise now takes about three years and is lengthening. As a result, fundraising is now nearly perpetual.

Adjusting to the new normal, many GPs and LPs have evolved their investment philosophies. Historically, core had eaten fixed income's lunch in many LP portfolios and GPs were rewarded for paying up for assets using cheap debt. Core today is relatively less attractive, and LPs are seeking higher returns. With financial engineering less effective, many GPs are turning to growth to meet these LP expectations.

Long-shunned by LPs as too "private equity"-like, growth has become a more accepted strategy as many GPs and LPs recognise its potential. But successful growth investing requires a different skill set – one we call "business building" – and a note of caution is warranted for those foraying into growth for the first time.

Capture the change

Our experience as growth infrastructure investors has taught us to focus on execution as the key variable to success. Another is to avoid technology, business model, leverage and other unnecessary risks entirely – growth in infrastructure comes from deploying or acquiring more assets and can deliver attractive risk-adjusted returns without layering additional risks.

We have also come to recognise that there are three building blocks to a successful growth story: assets, people and capital. The 26 infrastructure platforms that we've built over the past 12 years now have more than 700 underlying assets.

In our second growth infrastructure fund, for example, we created Modern Aviation and invested primary capital to acquire long-term concessions for general aviation terminals, hangars and fuelling infrastructure. By the time Fund II exited Modern Aviation, it had assets at 16 airports around the US and we transformed the company from a start-up to an industry leader. This impressive growth would not have been possible without investing in human capital to construct management teams that were capable of managing those assets.

During Fund II's ownership, for example, we grew the Modern Aviation team from two co-founders to more than 400 professionals. As platforms mature, they command lower costs of capital and we find introducing leverage later creates asymmetric value. In the case of Modern Aviation, we invested on an all-equity basis to compile an initial set of assets before we introduced third-party equity and debt from Swiss Life and Brookfield, respectively, to help the business scale.

If you can build an infrastructure platform with a diversified portfolio of cashflowing assets, a fully built out management team capable of delivering further growth and an optimised capital structure, you can capture a step change in value because blue-chip, world-class businesses are very much prized. Done well, growth can be good. ■

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