

Cube Infrastructure Managers

A long-term service to the community

Recently, **Chase McWhorter**, Institutional Real Estate, Inc.'s managing director, *Institutional Investing in Infrastructure*, spoke with **Renaud de Matharel**, CEO and managing partner of Cube Infrastructure Managers. Following is an excerpt of that conversation.

What is your vision of infrastructure?

Cube Infrastructure was formed by four partners who all came from the utility or the construction industry. When we were first about to create a European infrastructure fund, infrastructure was defined in our minds as what we had been doing so far, which was bringing private capital to public authorities who needed to invest capital in their local infrastructure to improve the quality of the service they were rendering to the community that elected them. So from the start in 2007, any investment of Cube Infrastructure Fund had to generate its cash flows from so-called regulated assets — assets contracted with a public authority or contracted with a utility that is at least investment grade. That approach to infrastructure was quite different from the private-equity-buyout approach that was already prevailing at the time and has prevailed since then.

How so?

From our experience of operating, managing and investing in European infrastructure assets, the main reason a public authority contracts with the private sector is because it is lacking the financial resources to make the investment that would improve service — and usually it needs it badly because population growth, environmental concerns and technological change make continuous investments in infrastructure absolutely essential. So the first need is capital. But in addition, and as the infrastructure assets are becoming increasingly complex, the public authorities are looking for private partners to contribute with their operational know-how and expertise. That is why elected officials across Europe are increasingly entrusting private players with the responsibility to finance, build, own and operate infrastructure assets that are essential to the day-to-day life of modern local communities.

We understand Cube focuses on local infrastructure. Why is that?

Infrastructure's purpose to render a long-term, high-quality service to the local community was just something that we could not cheat. That, we felt, was the definition of infrastructure and the reason we have focused on local infrastructure assets. It was the best way for us to leverage on our experience and provide investors with a compelling risk/return profile. Our firm belief is that, although infrastructure is rightly perceived as a real-asset business, the recurring yield-generation capacity is dependent on securing the satisfaction of the public clients on behalf of whom the service is to be delivered over the long term. A trusted long-term relationship with the local public authority is essential to preserve and enhance the value of the infrastructure assets you are owning and operating.

How do these considerations impact your actual practice?

Based on our experience, we decided to only invest where we are absolutely convinced the public sector needs a private partner for



Renaud de Matharel
Chief Executive Officer & Managing Partner
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Renaud de Matharel is founder, chief executive officer and managing partner of Cube Infrastructure Managers (Cube IM). With 26 years of infrastructure project management and investment experience, he was with Vinci Concession as general manager of Vinci Airport Management prior to founding Cube IM. Since its founding in 2005, Cube IM has successfully grown and has today €2.3 billion assets under management through three European infrastructure funds.

the long term — and not only private capital. The need of private capital is necessary, but not enough. We look to invest where the public authorities need our operational know-how. Really, the only true reason for being paid by the public sector a financial return that is significantly higher than long-term bond yields is to build and operate infrastructure better than the public sector can. Any other play to make money at significantly higher returns than what public bonds deliver does not hold for the long term, as there will always be someone to question why a private party is being paid so much without any justification.

Expand please.

We are convinced that you cannot detach the operating function from the assets you have invested in. Based on our experience, when there is an operational problem, the owner of the assets will also suffer. The best way (or perhaps the only way) to control this risk is to actively manage it. That is our approach to investing in infrastructure. As such, a sustainable investment in infrastructure is dependent on the quality of the operational management you have in place and on the relationship it has with the local public client. The only way to be sure that your cash flows are going to stay there for the long term is to be convinced the operating risk is a good risk, and that it is sustainable in terms of the relationship with the public sector over the long term.

How, then, do you decide what to invest in?

We found three markets that meet our criteria, as they all three require continuous heavy capital investment over the long term, driven by environmental concerns and technological change. The first area, which is by far one of the most important today given the environmental challenges and financial constraints many European local communities are facing, is what we call "Energy Efficiency." Currently in OECD countries, 50 percent of energy consumption goes for heating and cooling purposes of buildings. Obviously, the energy bill, both in terms of greenhouse-gas emissions and in terms of euros, at a country level and at a local-authority level, is a top priority item. Any person responsible for the budget and the accounts of a local authority will see in bold letters the cost of energy to the community for heating social housing, schools, the gymnasium, the swimming pool, the public offices, etc. Anything that you can bring to them in order to reduce emissions and the euro cost is going to be essential

to them because it will allow them to reduce local taxes and to make people feel better about the way they have managed the community.

How do you see this sector evolving in the coming years?

As part of the ongoing energy transition, technological change has been very significant over recent years and will continue to be so as we are moving from a fuel-fired industry to renewables. We have invested through five acquisitions to form a group called Idex, which has become the third energy-efficiency group in France. We were able to win a very significant number of new contracts with public authorities and have generated more than 10 percent of EBITDA growth over a seven-year holding period, which has allowed us to more than double the size of the company during those seven years.

Capital investment requirements will remain strong in this business in the coming years because, beyond the need to switch to renewable sources of energy, it is necessary to improve the management of heated or cooled air in a building to reduce the energy being wasted. This encompasses installing meters in every room to check on the temperature and recovering excess heat in computer rooms to recycle it in the rest of the building. Again, the evolution of infrastructure is always toward more operating know-how.

The second area where we found very similar concerns of local authorities is fiber telecoms.

What do you mean, specifically?

Fiber optic telecommunications involves the need for a rural or semirural community to install fiber to allow households and corporations to switch from copper telecoms to fiber to be able to access high Internet speeds. This is essential for a local authority, notably because of the risk that a corporation may leave the community — and any corporation that leaves means an immediate loss of tax revenue, which has an immediate impact on the local authority's budget. This is one of the highest items on the agendas of elected people in Europe today. The attractiveness of the business model we are focusing on — deploying fiber in rural and semi-dense areas — is that only one fiber network is economically viable, and as such you are in a defacto monopolistic situation. The fiber operators that we have invested in, Covage in France and DST Telecom in Portugal, are so called “neutral” fiber-optic operators, as they provide access to all the telecom operators to distribute their services to their clients.

What is the third main area that meets your criteria?

Public transport. We are probably the largest infrastructure fund investing in this area today. It is clearly an essential infrastructure for most local authorities, and elected officials know that very well. Public transport touches children who go to school, employed people who go to work and is an important tool to reduce pollution and congestion — so it is a very sensitive, visible area. And it is an area where there is a lot of technological change, mainly for the following three reasons: first, to adapt rolling stock in order to improve the accessibility for disabled people; second, to switch from conventional diesel-fueled vehicles to electric, biogas or even hydrogen-powered vehicles; and third, to shift to a driverless industry with autonomous vehicles. In this area, we have made several investments. In Germany, we acquired a subsidiary of Arriva PLC in partnership with Ferrovie dello Stato, the Italian railway operator. The company is called Netinera. It has grown very significantly and is today positioned as the main challenger to Deutsche Bahn, with a market share of the regulated German regional rail market of around 7 percent,

steadily growing thanks to the liberalization of the market. We have also invested significantly in the Nordic countries, as well as in Belgium and in France. Our approach to delivering the quality of the service is adamantly local. We will never brand our businesses “Cube Transport” or “Cube Energy” or “Cube Communications;” we will always make sure that our portfolio companies keep their local names and anchorage. We will always offer and encourage our local management to co-invest with us to further enhance this local positioning. Local authorities like locals doing business with local people because they perceive that as being

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politically less risky. Speaking the same language and sharing the same business culture also plays a role.

How would you summarize the main challenges, and the main opportunities, in these areas going forward?

The main challenges in our industry come from the fact that we are currently in an environment with a lot of liquidity and historically low interest rates after 10 years of sustained growth. With liquidity, asset prices go up, and local authorities believe that your return should be very low. How do we face that? In public transport, it is easy because, given the lack of competition from the infrastructure industry, so far we have been able to buy assets at very affordable prices. With respect to the two other industries, energy efficiency and fiber telecom, the challenge is greater because competition is everywhere from infrastructure funds, and prices have gone up. That is clearly a good thing to sell Fund I assets. But for investing Fund II, we need to stay extremely careful about entry prices and stay within our investment criteria. The technological change is so great that, if you are working hard, there is always something you can offer to a public authority. I believe technological progress is endless, and there will always be project cases to work on — and that is the corporate culture we are spearheading in the Cube team.

CORPORATE OVERVIEW

Cube Infrastructure Managers is an independent Luxembourgian management company focusing on investments in the European infrastructure space. The manager is constituted by a close-knit manager team with broad industrial and managerial experience, and with a highly international profile. Cube has €2.3 billion in assets under management through three funds, all active in the European infrastructure space.

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