BonelliErede

Takeouts:

Investing in non-core infrastructure

inspiratia

The hunt for alternatives outside of the core infrastructure sectors has become increasingly fierce. At inspiratia's "Investing in non-core infrastructure" event in conjunction with BonelliErede on 25 June at the Italian Embassy in London, a new report looking into non-core assets in the EU was launched and the potential secondary market activity of six non-core sectors was explored with market-leading panellists.

The reasons why sectors are transforming into institutional investment opportunities can be roughly split into two categories. On the one hand, we have opportunity driven non-core where changes to demography and regulation have led to a shift in the way these sectors are assessed by investors. On the other hand, technological developments have driven the relevance of some sectors to non-core investing.

However, it is the financial landscape facing long-term investors that turns these trends into viable investment opportunities.

"The market has high liquidity and the available capital is looking for investments in infrastructure," said Carlo Michelini, Chief Investment Officer of F2i SGR.

"However, core infrastructure is finite, so investors need to expand their search. Direct players such as pension funds have low cost of investment and are focusing on core, while fund managers are probably more used to evaluating and managing risk, and balancing such risks with the demand for returns on investment."

Non-core infrastructure itself is not easily defined, so inspiratia and BonelliErede's report focused on six sectors to examine in detail:

- Hospitals and healthcare
- Nursing services
- Data centres
- Funeral services and crematoria
- Car parks
- Education
- Attention on healthcare and nursing services

Attention on healthcare and nursing services

Hospitals, healthcare and nursing services assets are seen to have great potential, due to the long-term cash flows attributed to the sector and the target platforms already available.

Nursing services, and in particular elderly care, have seen significantly increased interest in recent years as the race to service the aging population's long-term care needs creates opportunity for investment. Older populations tend to require more healthcare, so this has had a knock-on effect on the viability of hospitals as an asset class.

However, prudent investors should be aware of the human element in investing in the service aspect of the healthcare sectors.

"There is a huge people element when it comes to investing in value-add infrastructure because these are real businesses, not bonds," says Mauricio Bolana, Partner at Antin Infrastructure Partners.

"If you have the right managers who do a fantastic job then you are likely to have a

great investment. If you have poor managers, even if the sector is on a good trend, you are likely to have problems."

Investors are also cautious about investing in healthcare and hospitals in unfamiliar regions, as the regulatory climate for healthcare can vary dramatically from country to country. Jurisdictions which have seen the benefits of PPP programmes, such as the UK and Italy, have well developed secondary markets in healthcare and robust regulatory frameworks, but more challenging regulatory landscapes will require more intensive due diligence to ensure good returns.

Data centres rush

Data centres have created much excitement as investors clearly see the potential in this accelerating market. The significance of these assets has been clearly underlined since the technology within these buildings as well as the data they house has immense value.

"Data is the new oil, and data centres are becoming a key element in this new environment," says Mario Roli, Partner and Leader of Energy & Infrastructure Focus Team at BonelliErede.
"Italy enjoys a strategic position, in the heart of the Mediterranean Sea, and is one of the major producer of green electricity in Europe, a key element for the development of the data centre sector."

Geographical placing of these data hubs within the global information network is critical to their value as an asset. Data centres are particularly concentrated in the region of Milan, Italy's business capital, which has the potential to compete with Europe's main data hubs, such as London, Amsterdam, Paris and Frankfurt.

As such, Italy is in a key position for the dispersal of data across the globe, as the data stream from the Middle East and the Asia-Pacific region flows through North Africa, Sicily and the Italian Peninsula, to be then distributed from Milan throughout Europe. This makes Milan a prime location for data centres, as was reflected in the research conducted by inspiratia.

Effective consolidation is the key for success

In certain countries, non-core sectors are ripe for consolidation strategies. Healthcare assets in Italy are a prime example, where, as was seen in inspiratia's research, deal counts have more than doubled from 2015 to 2017.

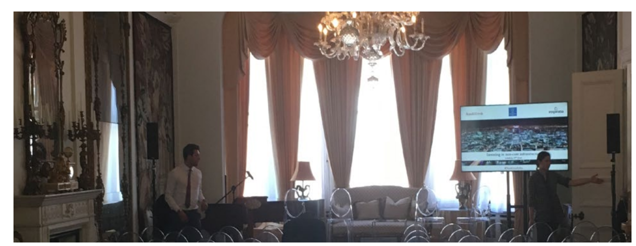
Where market landscape, cultural and demographic trends come together at the right time, the results can be lucrative, but how investors approach this strategy can be critical to its success.

"You can never do a deal because you think that the next one will make it good, or you can lose out," says Vincent Levita, President of InfraVia Capital.

"You have to do a deal because it is good in and of itself, and if you can do another deal that will build the platform, then that's even better."

Antin Infrastructure Partners' initial investment in UK crematoria is an example of careful timing and considered market research, with combination of the aging population demographic, an approximately 85% cremation rate in the country and the social trend of funeral ceremonies being conducted at the crematorium itself resulted significant consolidation potential. This allowed Antin to add to the platform later and then divest the asset to two pension plans looking long-term cash flows.

However, a sector of highly fragmented assets lacking a medium sized platform from which to initiate a buy and consolidate strategy may not be considered cost effective for more sophisticated investors. This has been seen particularly with the car parking



sector in Italy, where a lack of a major market players has hindered investment.

The Italian question

Generally, Italy as a jurisdiction is seen to have immense potential for non-core investment, as there is an equity gap waiting to be exploited. Moreover, a great number of Italian infrastructure target assets could benefit from institutional investment, and many shareholder structures which could use the guidance of sophisticated management. Where investors can gain a foothold in non-core platforms, there is vast opportunity to deploy long-term institutional capital to fuel growth in capex.
The current Italian political landscape is a concern for some investors, but for those familiar with investing in the jurisdiction, the situation has not drastically changed.
Risk may have increased slightly, but some would argue that there is a disconnect between the rhetoric of the political parties and the reality of activity in the business world. That being said, some investors will take some time to watch the situation develop over the next 6 to 12 months in order to better target assets in 2019.

The north of the country is, perhaps unsurprisingly, still seen as the main focus for investment in the country, with its high GDP per capita and the most well developed secondary markets. inspiratia's supports this view, as many of the assets and platforms for nursing services, hospitals and healthcare, data centres were seen to be located in the northern regions, and most of the market activity is focused in these areas. However, it was also noted that the south of the country, with plenty of space and access to renewable energy, may also potentially be seen as a target location for greenfield activity for data centres.

The future is in non-core

The keen interest in non-core sectors is set to continue as there has been no let-up in the popularity of core investments. There is also a fear that competition is too great and so these investments may fail to see much by way of returns on investment. At the pace of change in modern technology, global demographics and social attitudes, we are likely to see more sectors opening up to institutional investment in the near future.

Transportation systems were unsurprisingly of great interest to investors, with high-speed rail and smart city mobility being two major focus points. Also, around the transport sector, investors are looking at investing in railway station retail services rather than the railway infrastructure itself as the push for consumers to use more public transport opens up opportunities in commuter hubs.
In the short term, the need for more data centres globally looks unlikely to diminish, so investments in this non-core infrastructure sector are accelerating at a pace.

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>
> Mario Roli, Partner, BonelliErede

“As consumers, we need to be more connected to our provider, to other users and to our global systems, so we need our data centres to be nearby to have the best access to our data,” says Emmanuel Becker, Managing Director of Equinix.

“This is becoming a global phenomenon because consumers won’t wait. As such, we’re investing in Italy, not just on a regional level but on a city-by-city basis.”

INVESTING IN NON-CORE INFRASTRUCTURE
LONDON, 25th JUNE
#NonCoreInfra
MARKET OVERVIEW
HOSPITAL & HEALTHCARE
NURSING SERVICES
FUNERAL SERVICES & CREMATORIA
EDUCATION
DATA CENTRES
CAR PARKS
6 NON-CORE ASSET CLASSES
NON-CORE OFFERS A HIGHER ROI
2008 = HIGH COMPETITION for NON-CORE INFRASTRUCTURE
DATA CENTRES - MILAN COULD ACT AS A HUB
mix with renewable
SOUTHERN ITALY
CAR PARKS - HUGELY UNDERDEVELOPED
EDUCATION - RECESSION - PROOF
NURSING SERVICES
DEMOGRAPHIC CHANGES
HOSPITALS OFFER THE MOST MATURE MKT.
DRAMATIC CHANGES
REAL ESTATE IS GOVERNED BY OPERATIONAL CONCERNS
NON-CORE HAS A LOW BARRIER TO ENTRY
ACTUALLY LOW RISK
MULTIPLE LEVERS
WE NOW NEED IMMEDIATE ACCESS TO OUR DATA
THERE ARE LOCAL DATA NEEDS
24/7 & 365
CONNECTIVITY
IMPROVED PROCESS
BIZ INTELLIGENCE
TECHNOLOGY IS EVERYWHERE
DEFINE: CAPITAL INTENSIVE
VALUE-ADD INVESTMENT
MARKET DYNAMIC?
People are still KEY
BUT the Value MUST belong to the PLATFORM
NON-CORE IS AN OPPORTUNITY for HIGH CONSOLIDATION
CREMATORIA: · VARIES CULTURALLY · UNIQUE UK MKT
HEALTHCARE IS GROWING IN DATA NEEDS
ITALY IS IN THE TOP 10 BUSINESS DESTINATIONS
THERE IS A TREND AGAINST MOBILITY...
"SMART CITIES" ARE THE FUTURE
ITALY?
LOTS OF FAMILY - Potential for DISAGREEMENT
POLITICS - WAIT!
MILAN - DATA HUB
ITALY IS A LEADING EUROZONE ECONOMY
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