Spotlight on Infrastructure

Abu Dhabi, UAE – 27 July 2021

Infrastructure assets play an important role in diversifying ADIA's portfolio. With typically low volatility and reliable cash flows, infrastructure investments provide returns with low correlation to other asset classes.

ADIA's investments into infrastructure assets are made through its Infrastructure Division, which has a broad, flexible, and global mandate to invest across the asset class. It holds a diverse portfolio with a core focus on transportation, utilities, energy, and digital infrastructure assets, seeking to take minority stakes.

ADIA

To learn more about the Division's strategy, portfolio and focus for the future, we spoke to Karim Mourad, Global Head of Infrastructure at ADIA.

Q: ADIA has built a sizeable and diverse portfolio of infrastructure assets over several years. How would you describe the Division's strategy?

ADIA began investing in infrastructure in 2008 and, since then, we have built a portfolio of high-quality assets across all major sub-sectors and regions.

We have traditionally focused on detailed, bottom-up deal assessment, using our broad mandate and global sourcing ability to evaluate opportunities on a global relative value basis. Now that the portfolio has matured, we have introduced a periodic sector-led strategy and planning process, to work in conjunction with ADIA's overall strategy model, to manage the portfolio more holistically and to deliver stable returns that outperform the relative benchmarks.

This means we are purposefully seeking to increase our exposure to certain growing sub-sectors, such as renewables and digital infrastructure, while pursuing fewer but larger acquisitions and managing the overall number of positions in our portfolio.

Q: With so much industry focus on renewables and digital, do you expect overall demand for more traditional infrastructure assets, such as transport and utilities, to fall?

Core infrastructure will remain an important component in any diversified infrastructure portfolio and we are no different in that respect. The ability of core infrastructure to generate stable, predictable cash flows makes it attractive for ADIA's total portfolio and we will continue to balance that with other value creation and development opportunities.

Traditional infrastructure sectors like transport and utilities also often have better direct linkage to inflation through concession pricing structures or regulatory constructs and can enable us to tap into economic growth in preferred markets. Whilst renewables and digital assets can have other offsetting factors such as rapid organic growth, fixed revenue escalators and platform scalability, we would expect traditional infrastructure sectors such as transport and utilities to continue to receive investor focus.

Q: How has the Covid-19 pandemic changed things for infrastructure investors? How did you adapt?

As is the case with many other asset classes, it is hard to give a single answer to that question – the impact of Covid-19 was felt across the asset class but that impact has varied widely. For some sectors, such as passenger-linked transport assets, it was certainly a difficult year. For others, such as digital infrastructure and renewables, 2020 was a standout year.

To us, this underlined the importance of diversification, which is something we have built into the portfolio and will continue to actively manage as part of our strategy and planning process.

ADIA

Probably one of the most significant trends to emerge during the pandemic was the divergence in valuations between listed and unlisted infrastructure assets. Public markets suffered in the early months of the pandemic, and listed infrastructure was no exception. Because of our flexible mandate and foresight, we were able to move at speed to take advantage of changing market dynamics and completed three listed transactions in the second quarter of 2020, as the dislocation was unfolding.

Q: Do you plan to continue to increase your public market activity, or was this more of an opportunistic move prompted by the unique conditions in the early months of the Covid-19 pandemic?

The bear market in the first quarter of 2020 meant that we focused more on listed infrastructure, which served us well as markets recovered. That said, we have always been active in listed markets.

Given our flexible mandate and global relative value focus, we continue to seek opportunities in public markets and have spent a considerable amount of time over the last 12-18 months working on our listed strategy to refine a systematic coverage model. Our listed programme also means we can support key corporates with whom we have strong relationships on strategic transactions where they need to raise capital. This will continue to be important given our ongoing focus on larger, more strategic investments alongside other investors.

Q: ADIA was an early investor in renewable energy and now has direct investments in platforms with a renewable energy capacity, including pipeline, of more than 35 gigawatts. How is your approach to this growing sub-asset class changing?

We were an early mover in renewables. We recognised the opportunity for a long-term investor to back strong companies such as Renew and Greenko in India as they developed new technologies and new markets.

Looking ahead, we expect renewables will continue to grow their proportion of global energy capacity, supported by strong tailwinds from the flow of capital into the sector from ESG-focused funds. We have made investments in the USA, Europe, India, and developed Asia, in companies that are at different stages of maturity, and we remain a keen investor in the sector.

We are also working on various initiatives associated with energy transition more broadly and expect that to be a key area of focus for us in the near-to medium-term.

Q: How are you addressing the opportunities associated with digital infrastructure?

We have developed our thinking in recent years to consider digital infrastructure as a stand-alone sector within our portfolio. We think demand for these assets is likely to continue to grow, offering a source of diversification uncorrelated to more traditional transport or energy assets.

Over the past few years, we have built our relationships, capabilities and asset portfolio in the sector, and today we have exposure to fiber investments in the USA, Europe and India, exposure to towers across Europe and APAC, and have made inroads into data centers through listed investments. We expect to use the full playbook of strategies to access opportunities in this dynamic and growing sector.

Q: Geographically, where does your focus lie?

We are a global relative value investor with no pre-allocated pool of capital to a specific sector or region or mode of access. As such, we continue to evaluate investments on a global risk-adjusted basis.

Our portfolio is primarily in OECD countries, and that will likely continue to be our key focus, but we have also been early movers in India, having now built a sizeable portfolio in renewables, transport, and digital infrastructure, and are actively evaluating opportunities in other markets – for instance, we are engaged on multiple opportunities in Indonesia.

When assessing opportunities in countries around the world, currency volatility is also a key consideration, but we are not shy in embracing new geographies with regulatory and legal stability if we see long-term potential and can access investments at attractive prices.

Q: How do you see the portfolio evolving over the coming years? Are you planning to continue to grow at a similar rate as before and how will you manage your existing portfolio?

Our portfolio has significant scale and is highly diversified by geography and sector. We are still growing and, in fact, deployed more capital in 2020 than in any previous year.

Given the existing size and maturity of the portfolio, our focus over the near-term will be on selectively pursuing larger-scale investments in both core and non-core sectors, offering attractive risk-adjusted returns, supporting the growth of existing investments, and evaluating the listed universe for dislocated or relative value opportunities. The competitive environment for unlisted assets and high levels of industry dry powder mean that we will remain selective in participating in auctions and will focus our origination efforts on key relationships.

In parallel, we will continue to pursue strategic initiatives, disruptive theme sensing, scenario planning, and energy transition monitoring. We also expect to rotate out of positions that no longer meet our minimum size criteria or fit our strategic focus as we grow our portfolio over the medium-term.

Q: How do you see the team evolving? What changes have there been in the team and organisational structure over the years?

We are actively looking to grow the team as we see compelling opportunities across the investable universe. Our team is based in Abu Dhabi and we work across sectors and geographies. This broad exposure builds understanding and experience across the asset class as individuals evaluate the relative merits of each investment using a global lens.

Many members of our team have been with us from the early days of the programme and now play leading roles. We have a flat structure, and everyone sits on our Divisional screening committee with the opportunity to participate in strategic discussions.

--- ENDS ---