

Asian investors switch on to infra

Delegates at sister publication Infrastructure Investor's first virtual Seoul and Tokyo Forum heard that many Korean and Japanese investors are showing a keen interest in the asset class, reports [Adalla Kim](#)

Infrastructure debt continues to gain interest from long-term investors, particularly those in South Korea and Japan. Here are five takeaways from the sessions devoted to the sub-sector at *Infrastructure Investor's* Seoul and Tokyo Forum.

1 Rise of infra direct lending

Toru Inoue, a Tokyo-based vice-president at Goldman Sachs, pointed out that Japanese LPs' direct exposure to infrastructure has been growing aggressively. "The concept of direct lending, from a Japanese point of view, has suddenly arisen," he said.

Inoue told delegates that, historically, infrastructure projects in Japan were financed by taxpayers or from the corporate balance sheets of large utilities. Five to six years ago, he added, Japanese LPs did not have direct exposure to infrastructure, such as project financing or non-recourse infrastructure financing. However, following the government's initiative in 2012 to privatise some infrastructure assets, starting with renewables and airports, the change had been "dramatic".

"The rise of infrastructure direct lending is very welcome from the lenders' point of view," Inoue said. "Japanese LPs are awash with so much

liquidity and issuers and lenders have no idea what to do with it."

Others also see a growing landscape of infrastructure debt investments. A speaker familiar with the Korean institutional investor community told delegates that more Korean LPs are targeting a higher required return rate of

5-6 percent, compared with 4 percent previously.

Nick Cleary, a New York-based partner at fund manager Vantage Infrastructure, said his team had seen a lot of interest in the investment grade spectrum over the last decade. "Insurers and other types of investors looking for asset liability matching and better value than in government debt or high-rated corporate [debt] have come into the space," he said. "What we are seeing now is that investors are filing into the middle of this spectrum between long-term investment grade to hold-co mezzanine."

2 Rush for deals

Two infrastructure managers shared their views on the implications of the coronavirus for dealflow and investor preference. Put simply, there may be too much money chasing too few deals.

Cleary said covid-19 would be a catalyst for upcoming changes in selected industry segments. His team focuses on renewables, energy distribution and storage, as well as telecommunication and data-related assets. "These are still driven by the development and build-out phases, and there is still a lot of competition in this space," he added.

Erik Savi, a New York-based managing director and global head of

"Japanese LPs are awash with so much liquidity and issuers and lenders have no idea what to do with it"

TORU INOUE
Goldman Sachs

Carlyle Infrastructure Credit, agreed with Cleary on the increasing amount of capital flowing into the market: “Investors are searching for dealflow, searching for yield.”

3 Pricing and risk budgeting

Two panellists said participants in bank-driven markets, such as those in Europe and Australia, had seen a lot of liquidity provided by governments. Yet during the “March to May crunch”, the banking market seemed in disarray, according to Scott Lawrence, a founding partner of fund manager Glennmont Partners. “[It seemed] hard to hold the pricing for more than weeks,” he noted.

Panellists agreed that Korean investors have become substantially invested in the asset class, from hold-co positions to mezzanine debt opportunities.

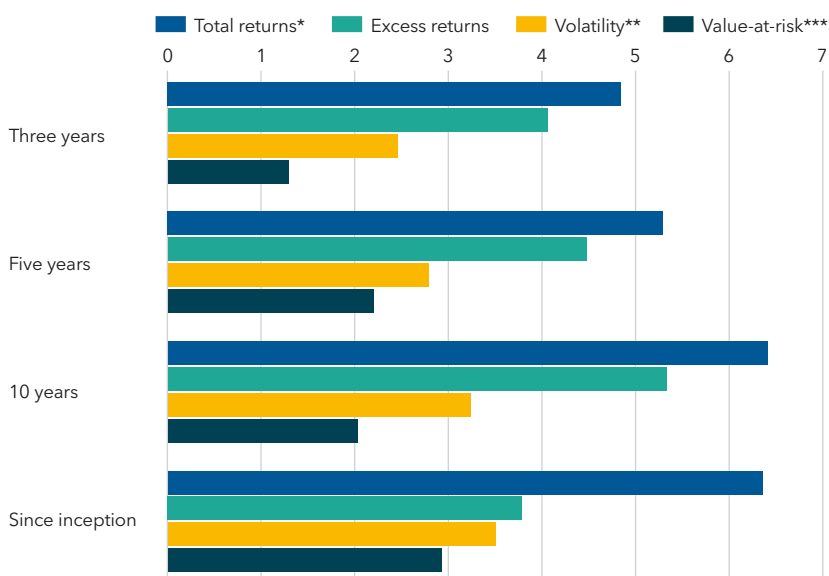
According to Jae Hyung Kwon, head of North Asia at the Multilateral Investment Guarantee Agency, an international financial institution and member of the World Bank Group, many Korean institutions were paying yields as high as 7 percent a year. “So they need these asset classes to pay their customers,” Kwon explained.

Elsewhere, panellists noted that Korean investors have been using swap mechanisms for the Korean won versus the dollar or euro to be able to realise an uptick in the net return on their own balance sheets. Cleary said that locking in value in currency swaps should be an overlay of managing the currency risk.

4 Coping with complexity

At the height of the pandemic, new opportunities emerged and certain markets began to be disrupted. As many organisations opted for remote working, global demand for data centres increased and the panellists agreed that they had seen more capital flowing into sectors such as telecommunications.

Broad market private infrastructure debt indices, equally weighted (local)



Source: EDHECinfra; results based on current constituent count of 1,128, representing \$265.19bn of market cap; as of 30 June

*total returns include cash yield and price returns; **volatility is the standard deviation of total returns; ***value at risk is the 99.5% Cornish-Fisher VaR

Yet the disruption also had a negative impact among investors. “Now people are really freaking out,” said Inoue in reference to Japan, where many banks have rushed into airport debt and equity investments: “It is still a work in progress, but I think we will see some level of shuffling in the sense that people who really understand infrastructure [assets] will obviously stay, but people who jumped on the wagon without knowing what the deal was [about] might think twice about the risk/return.”

Two panellists also noted that they were seeing a number of counterparties being challenged, especially in the transport and energy sectors. One panellist said that managers and investors should take a closer look at certain government counterparties, considering their weaker sovereign credit outlooks.

5 The essentiality of infra assets

Many investors regard data centres as real estate assets, but they have also been on the radar of infrastructure credit investors. Cleary said his team

was looking at many data centres and optical fibre-related assets: “I think that is an emerging sector for infrastructure lenders. It still has a lot of real estate characteristics and risks.”

Savi said there appeared to be confusion among investor groups over whether certain investment opportunities should be classified as infrastructure assets: “Infrastructure assets should be defined based on the essentiality of the assets and the predictable cashflow streams associated with them.”

His observation was that once investors start moving away from the predictability of assets by taking greater sovereign, volume and commodity risks, those projects might be the ones coming under stress in the current environment, where demand has been disrupted and volumes are in decline.

Other delegates reiterated the importance of the suitability of lending structures, given underlying assets and their characteristics. Cleary added that the definition of infrastructure is going to be tested in the post-covid world as many new managers come into the market. ■