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Infrastructure Market Insight – February 2021

By Rory Callow & Jon Michel, of our Infrastructure & Renewable Energy Division

After a difficult and testing 2020, is there light at the end of the tunnel?

As we kick off 2021 and put 2020 well & truly behind us, we can honestly say the infrastructure market seems to have weathered the storm relatively well. As an asset class infrastructure witnessed the least amount of defaults and downgrades, in comparison to the equivalent corporates globally, meaning valuations last year overall were much more resilient than most other alternative asset classes, even though a handful of subsectors were badly impacted.

Now in 2021, with a vaccine not far off being rolled out across Australia, the government will continue to focus their energy on how best to support the economy through the rest of this year in the interim of everyone receiving vaccinations. The most attractive proposition seems to be fiscal stimulus, through tax reductions, transfers and increased government consumption, intended to elicit an economic response from the private sector. The government will likely focus on spending more across decarbonisation, healthcare and digital infrastructure, with a main theme of supporting job retention, hopefully creating a tailwind for infrastructure investors.

Those assets most linked to GDP, like toll roads, ports and airports, have been most exposed to the ongoing economic shock, but the pandemic has impacted different infrastructure sectors to different degrees. For example, telecoms, renewables and most parts of social infrastructure have experienced less of an impact.

Transport

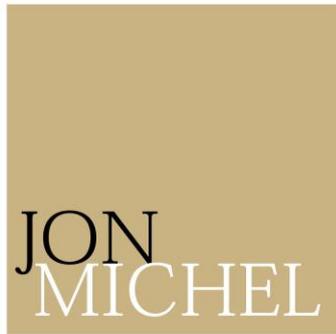
Airports sadly have been hit the hardest, with passenger levels in Australia dropping up to 80% capacity in some airports in predominately tourist heavy regions. With the easing of restrictions across Australia and interstate travel starting to loosen up, there has been some temporary reprieve but will remain low until international travel comes back online. Rail, ports and roads have all been impacted but to a lesser extent and have all seen decent volumes of traffic. Passenger volumes on roads have been relatively resilient outside of some of the various state lockdowns. Freight transportation infrastructure was predominantly unaffected despite the various lockdowns and restrictions, as goods still had to be delivered locally and around the world, this includes container port volumes, freight rail and air cargo. This has meant ports have been a particularly attractive and stable asset class across transportation.

Energy

Oil and Gas infrastructure has had its fair share of stress and has brought the midstream Oil & Gas sector into debate as to whether it is truly infrastructure and whether there is too much commodity risk in certain cases. The Oil & Gas industry has been put to the test over the last year, through COVID-19 and the bitter Russia vs Saudi Arabia dispute. Although a resolution has been found and the end of COVID-19 is in sight, there is still a lack of fuel demand globally.

Power & Utilities have only been impacted slightly and this was only during the short lock down period in Australia but recovered quickly as the economy opened back up. The financial impact of the dip in demand will also depend heavily on whether they have commodity price exposure or revenues secured through long term contracts. Renewables have again weathered the storm well, given the lengthy PPAs and high debt quality counterparties. Some of the current projects also have high margins and relatively low-cost models which even without contracted revenues allowed for downside protection during the short dip in demand. 2021 will see a big continued interest in renewable energy given how well it has withstood the last year and with continued improvement in technology and declines in cost, the economics are set to improve. Additionally, the extension of current favourable government policies will expand the opportunity in this sector for investors.

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Telecoms

Fibre networks, mobile towers and data centres all came into the pandemic with positive tailwinds given the exponential growth in data usage across Australia and the need for rapid investment & growth in these sectors. With large parts of the population required to work remotely for periods of time and with continued support for remote working, the pandemic has accelerated investment into this sector and political support to roll out fibre to everyone for better connectivity as a nation.

Social

Social Infrastructure has been a staple for private infrastructure investors and most have a long track record in the sector. With the first investments in this sector being structured as PPPs and as the pipeline started to dry up, investors looked towards areas in the market with less public funding available, which happened to be private hospitals, care homes, student accommodation and labs. This sector has been resilient through the pandemic, although costs have increased off the back of helping to keep residents, staff and patients safe. Although in Australia, some care homes operating in a more regulated situation received government support to deal with this increased cost and negate its impact. Looking into 2021, COVID-19 acts as a reminder to Infrastructure investors to the reputational risks associated with healthcare assets, given how many care homes were front and centre during the outbreak.

Looking forward.....

In 2021 we will see a big acceleration in the secular trends around digitalisation, decarbonisation and all investments related to an ever-aging population, which will continue to create a growing investment landscape for infrastructure investors. A big drive from government in Australia to get the economy back on track is to focus on building a green and safe future but being mindful that government spending hasn't matched the demands of an increasingly aging population over the years.

We have already seen a push into much needed Energy from Waste infrastructure across Australia and continued demand for access to Battery Storage to aid the difficulties around grid connections and surplus renewable energy production. Several greenfield investors continue to build capabilities in this sector and potentially are looking towards South East Asia for additional pipeline of opportunities.

With the entrance last year of several international investors like EQT, KKR, Stonepeak and the drive for direct investment from super funds, competition for capital deployment opportunities is heating up. Investors need to start looking into new growth areas like EfW, Energy Storage, Telecoms, Healthcare and Infra-Technology in order to keep a good healthy pipeline, and in most cases continue focusing on key growth markets globally.

We started to see last year, and will continue to see this year, infrastructure funds look for value add opportunities through infrastructure like businesses, taking a look through a Private Equity lens to see growth opportunity and value, with hopefully enough downside protection risk to call it infrastructure. This has required a much more active management style and these hands-on businesses have led to funds building out separate asset management capabilities, with those experienced in business strategy and turnarounds, as opposed to only asset managers well versed in operational improvements and management. This has led to a need for in house operating partners and ex strategy consulting type individuals to help grow these PE businesses into infrastructure like opportunities. A good example of this recently, is ICG's hopefully soon to be acquisition of Kinetic.



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Another trend that has come out of COVID-19 is the realisation by some infrastructure managers that the management teams they have in their investee businesses aren't as effective as they once thought. For a lot of their core investments, COVID-19 is the first storm this management team has ever had to weather, which in some cases has quickly shown where gaps exist in capability and leadership. We have already seen a drastic change in management and direction for some of these core businesses and we certainly know there are more changes to come in 2021.

This year on the face of it, is shaping up to be a busy one as we make up for some lost momentum last year and there is a general drive from everyone to fire this economy back up and continue to steer Australia into the future effectively and sustainably.

If curious to learn more about what this means for potential roles currently open across Infrastructure Investment Management or just a general catch up on what we are seeing across the market, please contact Rory Callow on 02 9235 9430 or rcallow@jmichel.com.au; or Jon Michel on 02 9235 9410 or jmichel@jmichel.com.au.

Movers & Shakers

Investments (Listed & Unlisted)

Domestic (Australia)

- Mark de Medici previously Principal at QIC, has been appointed as Chief Financial Officer at Brisbane based Cedar Pacific.
- Mark Murray has been appointed as Chief Financial Officer with Lighthouse Infrastructure. He was previously with Tilt Renewables.
- Monica Ryu has joined AustralianSuper as Senior Investment Director, Infrastructure. She was previously with L.E.K Consulting as Partner and Global Co-Head of New Mobility Practice.
- Sam Pearce has been appointed as Partner, Asset Management with QIC in Sydney. He was previously with APA Group for a number of years most recently in the role of Group Executive, Networks & Power. Andrew Jones previously with AMP Capital and Global Head of Infrastructure Debt, has been appointed as Head of Private Debt with QIC in Sydney. Matt David has also joined QIC as Principal, Global Infrastructure. He has prior experience as Associate Director with Capella Capital, additionally joining the Global Infrastructure team are Mayen Takakura (ex RBCCM) & Rachel Ye (ex UBS) as Associates.
- Dennis Freedman has been appointed as Head of Investments & Development with Octopus Investments. Dennis has prior experience with AusNet Services most recently as Head of Infrastructure Development.
- Northern Australia Infrastructure Facility (NAIF) has added to its team with the hires of Kala Jiang as Associate Director, Ella Drake & Hasantha Uswatta as Senior Associates & Calwin Tang as an Associate.
- Patricia Llopis previously Vice President with Macquarie's Infrastructure & Energy Group has joined AustralianSuper's infrastructure team.
- James Turner has joined CSC as an Investment Manager, James has prior experience with New Energy Solar & Deutsche Bank.
- Steve Ingham (ex Wren House Infrastructure Management in London) & Giorgio Spagnolo (ex Grant Samuel) have both joined Infrastructure Capital Group's Sydney team. Simon Spurr has joined the team in Melbourne as a Manager, he was previously with CEFC as a Senior Investment Associate.
- Jonathan Yeung has joined Palisade Investment Partners as an Investment Associate, he was previously with Macquarie's Infrastructure & Real Assets team.
- Harin Tennakoon has joined Capella Capital in Melbourne as an Analyst from PwC.

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- Uma Mishra has joined AMP Capital as an Infrastructure Investment Analyst.
- Jane Xu, ex KPMG, has joined ATLAS Infrastructure as an Investment Analyst.
- Michelle Castro previously with EY as a Senior Consultant, Infrastructure Advisory, has joined Aware Super as Investment Analyst, Infrastructure & Real Assets.

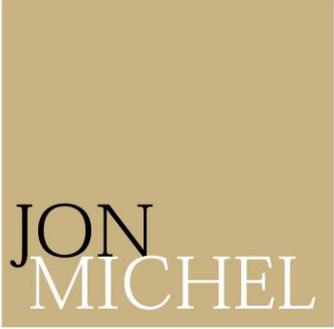
International

- Vaughan Wallace has been appointed as Head of Asia Pacific with Amber Infrastructure. He was previously with Capella Capital as Head of Origination. Tristan Evans & Kieran Maroon has also joined the team as Investment Director & Manager respectively. Tristan has prior experience with Morgan Stanley & Kieran was previously with Capella Capital.
- Darren Keogh has been appointed as Head of Australia with Stonepeak Infrastructure Partners. He was previously Head of Global TMET with Macquarie Capital.
- First Sentier announced the following leadership appointments: John Ma has been appointed Partner & Head of North American Infrastructure, Marcus Ayre has been appointed as Head of Europe, he is based in London. Danny Latham & Chris McArthur remain as Co-Heads of Australia & New Zealand.
- Yasuhiro Ono who was Head of Infrastructure Investments at Japan Post Bank has joined US based Stonepeak Infrastructure Partners to focus on Asia Pacific investments.
- Nicolas Robles Monsalve has joined DIF Capital Partners as an Associate Director. He has prior experience with Citi most recently as Vice President, Resources & Infrastructure Finance.
- Sean Nunan has joined John Laing as an Investment Director based in Melbourne, Sean was previously Managing Director with Macquarie Group in New York. Dasha Shigapova has joined John Laing in Sydney as an Investment Manager. She was previously with JP Morgan as an Investment Banking Associate. Manbir Miglani has joined the team as an Investment Associate, he was previously with Capella Capital as an Analyst, Origination.
- Lu Yan, ex QIC Associate, Global Infrastructure has joined KKR's infrastructure team.
- Isabella Skinner, previously Investment Analyst with IFC in the US, has joined CPPIB's Asia Pacific infrastructure team.
- Mercer Quach has joined DIF Capital Partners in Toronto as an Associate, he was previously with AMP Capital's infrastructure origination team in Sydney.
- Aislinn Bakker has joined Whitehelm Capital in London, she was previously with Citi as a Senior Associate, Infrastructure, Power & Utilities.
- Rebecca Zhang has joined Global Infrastructure Partners as an Associate, she was previously with Morgan Stanley as an Investment Banking Associate.
- Grace Ahn has joined EQT Partners as an Investment Associate, Grace joins from First State Super, where she focussed on infrastructure & real assets.
- Dominic Leahy will join Brookfield as Associate Investments, Infrastructure. He was most recently with RBCCM's technology & sponsors team.
- Alice Joe previously an Associate with QIC, has joined Quadrant Private Equity as an Investment Analyst.

Banking/Advisory/Project Finance/PPP Advisory

- Jarrod Key, Managing Director, Power, Utilities & Infrastructure at UBS will join Barrenjoey Capital Partners, Darren Tan his Executive Director will also join the team. In Melbourne, Barrenjoey has hired Sam Kyprianou as a Founding Partner for the local team.

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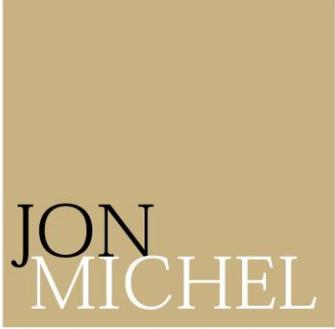
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- Katie Barnett previously CEO of Powering Australian Renewables Fund (PARF), has been appointed as Partner, Energy and Environmental Infrastructure (Waste & Water) with PwC. Geoff Dutailis has been appointed as Interim CEO at PARF, Geoff has prior experience as Group Head of Sustainability with Lendlease.
- Daniel Kleijn most recently with Lazard as Managing Director and Head of M&A, has been appointed as CEO of LawFinance
- Andrew Smith has been appointed as General Manager with Tribe Infrastructure Group, Andrew has prior experience with REMONDIS Australia & Australian Waste to Energy.
- Sammy Isreb previously Division Director & Head of PPPs and Projects with Macquarie Capital, is now Executive Director & Co-Owner of Acton Advisory in Melbourne.
- Rodney Wallis has joined NAB as Executive, Resources, Infrastructure & Government. He was most recently with MUFG as Managing Director Asia & Oceania and Head of Utilities, Infrastructure & Transport, Coverage & Acquisition Finance.
- Joel Chalhoub previously of Lazard, has joined Jefferies as Senior Vice President, Infrastructure & Utilities.
- Simon Gaudin has joined Pacific Partnerships as Project Finance Director, Simon was previously with Macquarie Capital as Vice President, Infrastructure, PPP Development.
- Jeremy Power has joined UBS as an Associate Director, he was previously with ICA Partners as an Associate covering Infrastructure & Energy.
- Alisia Fabry has joined Plenary Group in Melbourne in an origination role. She was previously with Brookfield as Vice President.
- David Fair has joined RBCCM as Vice President, Power, Utilities & Infrastructure. He was previously Director at Fair Capital Advisory. Karthigan Chandradas (ex Whitehelm Capital) & Ann Yee Lim (ex Commonwealth Bank) have joined RBCCM as Investment Banking Associate & Investment Banking Analyst respectively.
- Huwin Li has joined Macquarie's MIRA team as an Analyst. She was previously with JP Morgan.
- Brandon Tang joined Rothschild & Co's Utilities, Transport & Infrastructure team as an Analyst. Previously Brandon was with Luminis Partners.
- Sharon Ho has joined JP Morgan's Energy, Renewables & Infrastructure team as an Investment Banking Analyst.
- Cameron Forsyth has joined Credit Suisse's resources & infrastructure team as an Analyst from HSBC.
- Samantha Woo previously with the Commonwealth Bank as a Real Estate & Infrastructure Associate, has joined Citi as an Investment Banking Analyst.

Corporate

- Justin Negrin has been appointed as Group Manager, Mergers & Acquisitions with Origin Energy. He has prior experience with Deutsche Bank, most recently as Managing Director & Head of Mergers & Acquisitions.
- David Ranken has joined Atlas Arteria in Melbourne as a Corporate Finance Manager, he was previously with Capella Capital as a Manager.
- Louise Beer previously Head of Motorway, Asset Manager at Transurban, has been appointed as Head of Infrastructure Investment & Asset Performance with Sydney Water. Lillian Fung has also joined Sydney Water as a Senior Commercial Manager, Business Development from Capella Capital. William Toe (previously with Enwave Australia & AGL Energy) has also joined the team as a Commercial Manager.



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Government

- Ken Lee has joined TCorp as Senior Manager, Real Assets & Private Markets, he was previously with Transport for NSW as Director, Infrastructure & Project Finance.

**We are keen to hear your feedback or should you require further information,
please contact Rory Callow on 02 9235 9430 or rcallow@jmichel.com.au;
or Jon Michel on 02 9235 9410 or jmichel@jmichel.com.au**

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