Fulfilling a Necessary Need in the Market

By Craig Houston – Evli's new global infrastructure fund aims to offer clients a defensive investment opportunity with reliable cashflows and good return potential, while diversifying and lowering the overall risk of a portfolio. As global markets have entered a period of uncertainty and volatility, Evli's infrastructure fund is designed to offer strong return potential throughout the economic cycle.

"Infrastructure in previous downturns have proven to be very defensive investments," says Richard Wanamo *(pictured)*, Investment Director, Private Assets at Evli Fund Management. "You don't have pricing, which is driven by market sentiment, like you do with equity markets. Although they are capital-intensive, infrastructure investments are very real, tangible assets that have strong downside protection," he explains.

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While investors broadly expect lower returns from equities over the next decade, compared with the previous ten-year period, cash flows from infrastructure investments continue to deliver from quarter-to-quarter. "They're often regulated assets on long-term contracts with very creditworthy counterparties, so you get paid reliable cashflows every quarter, no matter the economic cycle or how the stock market behaves," says Wanamo.

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Evli's new fund offers investors access to a well-diversified and balanced global infrastructure portfolio, consisting of 7-10 carefully selected top-tier infrastructure funds. "We invest predominantly in Europe, but we want to get the benefits of investing in other developed markets like the US and other OECD countries as well. Infrastructure funds typically raise capital in their first year, and then they gradually invest over an investment period. You then get the time diversification element as well and exposure to different parts of the economic cycle," adds Wanamo.

Bridging the Investment Gap with Private Capital

A recent study commissioned by the European Parliament's Committee on Industry, Research and Energy (ITRE) estimates that, in Europe alone, up to 600 GWe (GigaWatt electrical) of net additional power capacity would be needed per decade up to 2050, while investment during the last decade added around 300 GWe. However, governments are struggling to raise the needed capital.

"Many governments and municipalities are over-indebted, and they need more and more private capital to bridge the investment gap in infrastructure. There's been privatizations and divestments of different types of infrastructure assets in Europe as well," Wanamo points out.

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However, Wanamo and his team at Evli spotted a problem in bringing private capital to infrastructure. "Infrastructure has become one of the main alternative asset classes for the world's largest investors, like sovereign wealth funds and large pension funds. Finnish investors have woken-up to the benefits of investing in infrastructure, but there haven't been good ways for them to access the asset class. We saw that a lot of our institutional and private banking clients were very interested in investing in infrastructure – so the need was there."

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The timing was fortuitous, as Evli was investing in growing its capabilities in alternative investments and gearing up to offer its clients access to infrastructure funds. “So, this new fund is both demand-driven from the market and something that we ourselves concluded needed to be done now. Infrastructure is a strongly growing asset class globally, and institutional investors in Europe and elsewhere intend to further increase their infrastructure allocations according to several institutional investor surveys. We’ve seen this play out in our own fundraising – our infrastructure fund has already exceeded its minimum target size of €100 million and we have very strong momentum into 2021,” Wanamo says.

Returns that are Realistic and Achievable

Evli has a clear ‘fund-of-funds strategy,’ wanting to select the best funds globally within the infrastructure space.

Historically, the unlisted infrastructure funds have offered very competitive returns versus other alternative asset classes. The median annual returns in diversified unlisted infrastructure funds have been on average around 10 percent p.a. However, Wanamo believes that the low-yield environment over the last decade has helped to achieve these figures and a similar upward pricing momentum cannot be presumed for the next decade. “We need to be more conservative in our return targets going forward and we believe that 7 to 9 percent annual returns are something that’s realistic and achievable,” says Wanamo.

This candid and direct approach can add soft power to the company’s hard investment expertise, as it continues to venture across the globe. “Nordic investors and fund managers are seen in the market as being very trustworthy. We typically say what we think, we have very low corruption and there’s a lot of long-term capital in our markets. So that attracts funds that are raising money. And having the backing of a trusted and well-established name such as Evli makes us a very reliable counterparty in the market,” Wanamo says.

Not Venturing Out is Risky

Venturing outside the Nordic countries is nothing new for Evli. According to Wanamo, restricting the fund's scope to local markets may, in fact, present a greater risk than having a global approach and wider diversification.

"We're lowering the overall risk of the portfolio by diversifying outside of Europe and the Eurozone countries," he says. He backs his own experience and that of Evli's, to succeed with the new fund internationally. "I have invested globally and within global managers previously, both with private equity and infrastructure. And, of course, Evli's private equity portfolios have global and US exposure," he says.

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The need for infrastructure investments is pressing. McKinsey has estimated that to sustain projected economic growth around the world, more than USD 69 trillion of investment in economic infrastructure is needed between 2017-2035, both building new infrastructure and upgrading existing assets. Wanamo and his team are primed to provide the advantages of this massive asset class to their customers.

"By adding asset classes like infrastructure, which don't correlate highly with traditional asset classes, you can have higher returns on your portfolio as a whole, even though you don't increase the overall risk," Wanamo concludes.