

KEYNOTE INTERVIEW

Making the modern infrastructure investor



*Learning from experience and being resilient are key characteristics of a successful infrastructure investor, says **Tara Davies**, global head of core infrastructure and co-head of European infrastructure at KKR*

Q What is driving demand for infrastructure as an asset class?

Historically, a lot of pension funds and insurance companies that invested in alternative assets have been underallocated to infrastructure. At the same time, the infrastructure market has proven itself to be highly resilient over the past 20 years. Institutions are typically accessing infrastructure to boost resilience to down cycles, and so I think that is driving most of the capital flow we see today. Clearly, there is also strong structural demand growth for infrastructure, as governments and companies seek capital and partners to

build infrastructure that supports critical policy priorities and meets global challenges such as decarbonisation.

Meanwhile, current market conditions are interesting, to say the least. I have been investing in infrastructure for 23 years and this is the first time I have seen a high-inflation environment like this in my career. In a high-inflation environment, investors want to be allocated to asset classes and sectors that are price-makers, not price-takers, and so real assets should be net

beneficiaries. Infrastructure, of course, plays a large role in most real asset portfolios.

Q What are the core themes creating infrastructure opportunities today?

Infrastructure themes evolve as people's wants and needs evolve over time. Infrastructure is often viewed as staid or boring, but that is far from the truth. The two dominant themes today – decarbonisation and digitalisation – are driving the need for infrastructure that didn't even exist a decade ago. We're investing significantly behind both themes at KKR.

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Q Decarbonisation and digitalisation are both clearly hot sectors. How would you describe competitive dynamics and how do you avoid the most heated situations?

There tends to be a lot of growth in those sectors. When coupled with security of supply concerns, particularly in Europe, that has led to high pricing in certain subsectors relating to these themes. I think it is our job as investors to lean in and out of situations and to try to find differentiated value, however hard that may be at a certain point in time.

So yes, it does feel competitive. But then, I have never known a year in my career when it hasn't. Even in a competitive environment, it is possible to find interesting dealflow, and that dealflow typically comes with more complex execution, which our firm can deliver. For example, over the past two years, KKR has completed six public-to-private deals across our infrastructure platform.

Q What is your approach to ESG as a firm?

When we approach a new investment, we take ESG into account early in our due diligence. We look to identify risks and how those can be mitigated. But

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more importantly, we look at the upside. What value could be generated by having a strong ESG framework?

There is no one-size-fits-all approach when it comes to ESG, so we tend to take a materiality view on things. Nonetheless, there are a number of areas that we routinely focus on, such as the culture of an organisation, including its approach to DE&I. That tends to give us a view on its risk-taking and decision-making abilities, which are the key to commercial success.

We also consider climate implications and form decarbonisation plans for the investments we make. Indeed, a number of our most recent investments have been focused around converting brown infrastructure into green over a period of time. For example, we are invested in energy businesses that incorporate both coal and renewables, with a thesis of converting coal into more environmentally friendly technologies such as biomass. That will also drive differentiated returns for our investors. It's an exciting part of the market to be playing in.

Q Why did KKR decide to launch a core infrastructure programme?

We launched the core infrastructure platform in 2020. The great thing



Q What does diversity mean to you as an individual and as a firm?

It definitely goes further than gender to encompass diversity of background and thought. I am a diverse candidate because I am female, but I am also an Australian working in Europe who doesn't speak another language, which probably makes me a weak link in a team where almost everyone else does. So, I always ask myself if I am more diverse because I am a woman or because I am Australian. And I would say that my personal style is probably more diverse because of my nationality than my gender. Diversity comes in many different forms, and we have to remember that.

about the infrastructure sector is that as people have become more educated in the space, and have come to understand the different risk profiles available, investment strategies have become more nuanced. At KKR, we recognised a need to genuinely match long-term liabilities with long-term assets, primarily for our pension fund clients, while providing them with liquidity, which has historically been a challenge for investors in private markets infrastructure.

While some investors in infrastructure are looking for higher returns and therefore tend to pivot towards core-plus strategies, we are seeing a great deal of demand for the downside protection offered by core investing. These investors see infrastructure as akin to a fixed-income product in their portfolio, and it is these investors that view our core strategy as a really interesting opportunity.

Q Has there been a shift in demand, overall, when it comes to those different risk profiles?

I think it really does just depend on the objectives of the individual investor. Some are naturally more risk-averse, while others are looking for double-digit returns. The good news is that there are now different products to fit with those varying risk appetites, which certainly was not the case 20 years ago.

Q What investments have you made from the core programme that you are particularly proud of?

We made an investment in John Laing, which was a UK public-to-private transaction. John Laing is a public-private partnership business with a portfolio of around 30 PPPs globally, which are low-risk assets. The counterparties tend to be government authorities and the revenue streams are directly inflation linked, with low volatility.

But not only is the risk profile spot on for the core offering, John Laing is also a platform that provides plenty of

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room for future growth. It comes with a team who have public-private procurement alongside governments and contractors in their DNA, and we will use this team to do more in the space going forward. In a post-covid era, when governments are really trying to push the energy transition, I think there will be more opportunities to partner with them to deliver social infrastructure with a low-risk profile for investors. That is one of the most exciting investments we have made within the core strategy.

Q What progress have you seen throughout your career regarding diversity and inclusion in the infrastructure asset class?

I think we have come a long way in terms of diversity. If I look at my team at KKR, over 40 percent are diverse in some way, which certainly wouldn't have been the case when I started my career in the late 1990s. Progress has been slower than we'd like, although greater gender diversity is a priority for our firm and 2022 is the first year where I have had a team on a deal that is fully female. The other big challenge, of course, is how to retain diverse talent and to offer them exciting career paths.

Q What do you consider to be most effective when it comes to diverse recruitment and retention?

My personal motto is that your job is

only as good as the people you work with. Our business is highly relationship driven and when I look at the recruitment we have carried out, particularly with lateral hires at a senior level, most of the candidates we have brought on board – both diverse and non-diverse – have come from within our own networks. That relationship aspect is super-important when it comes to recruitment. But it is also super-important for retention. If people have very strong bonds, then they are more likely to stick with the firm for the duration.

Q What advice would you give to women looking at a career in the industry?

I would point to two things: the learning aspect of the job, and resilience. In the first 10 to 15 years of your career, I think it is really important to get breadth and depth of experience in infrastructure, rather than trying to specialise, even though people may encourage you to do so. I learned everything I know technically from a sector, geography and risk perspective during that time. If you can be a sponge and soak up as much as possible during that first part of your career, you will be far more effective in later years.

Part of that also involves working with a wide range of people. Some of those people you will like and others you will dislike. Use all those experiences to create your own authentic style. If you have been doing the same things with the same people during that period of time, you just won't get the full spectrum of what is required to be a successful infrastructure investor.

With regard to resiliency, any job in finance can be tough at times. It is high pressure. You will win some and lose some. Those that can take on feedback without taking it to heart – those that can spring back from the lows – have been the most successful in their careers, in my experience. That advice is not specific to diverse candidates, of course: it applies equally to men and women. ■