Panel 3) Financing Transactions with Emerging Markets: Identifying Factors for Effective Investment

Abstract

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Macquarie pioneered infrastructure as an investment asset class almost 20 years ago. Today the funds group is the world’s largest manager of infrastructure and also has a growing portfolio in real estate, agriculture and energy investments, with funds structured as listed and unlisted vehicles in locales across the world. Its client base is primarily institutional investors, including global pension and superannuation funds, other institutions and governments. Specific to emerging markets, we are present in Korea, Russia, India, China, South Africa, Mexico, and Eastern Europe.

Infrastructure investments follow a general fund life-cycle: fundraising and identifying investment opportunities; evaluating those opportunities and deploying capital; and managing those investment opportunities through the life of the fund. Portfolio businesses are sourced in many ways, including exclusive negotiations, government-run processes, and partnering with industry leaders. Acquisitions are subject to due diligence and must meet stated investment criteria of the fund. Asset management is driven by senior executives with industry experience developed prior to joining Macquarie working alongside the management team at each business.

Throughout this process, investment managers need to manage risks appropriately. A lot of things can go right in emerging markets, but just as much can go wrong. There are several additional risks that investors need to understand, complicating an already lengthy process of educating investors—pension funds, labor unions, sovereign wealth funds—about their new infrastructure portfolio. For example, funds in the developed world often limit the number or size of investments that can be made in ‘greenfield’ or newbuild infrastructure; such limitation is more rare in an emerging market fund. Investors need to be more comfortable with those types of risks. In emerging markets offices, Macquarie emphasizes local knowledge and developing ‘on-the-ground’ relationships. For several funds, MIRA has partnered with local leading institutions in order to develop regional expertise. Both for identifying opportunities and asset management, stakeholder management is crucial, even more so in a market where the typical primary institutions may not be as reliable.