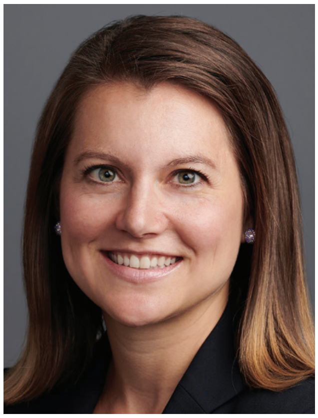
KEYNOTE INTERVIEW

Creative capital for unique needs



Building long-term partnerships is essential to support infrastructure, says Stonepeak's Hillary Higgins

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Hillary Higgins is a managing director at infrastructure and real assets investment firm Stonepeak. Based in Houston, Higgins leads Stonepeak's co-investment team and is a strong contributor to the firm's broader capital formation activities. "I've been in infrastructure now for almost two decades and have really grown up in the space, starting first as an investor, with a focus on midstream, moving into utilities, energy transition and then transport," she says.

Now, Higgins brings together partners to support unique and opportunistic transactions in what she calls "a really exciting time to be in infrastructure". She discusses the large and evolving opportunity set globally, and the increasing requirements for creative capital to get deals done.

Q What does today's macro environment mean for strategic capital formation?

Infrastructure investing has grown over the last two to three decades, with immense amounts of capital required for building, maintaining and transforming these assets into what we need for our everyday lives. They are really the backbone of moving goods, people and increasingly data where it needs to go. So, we believe there is a tremendous opportunity, particularly in the private capital space, to support the growth that is needed in all of these different sectors.

At Stonepeak, we generally focus on three key sectors: transport and logistics, communications and digital infrastructure, as well as energy and energy transition. We really home in on those critical assets that are growing in all the different regions that we look at – North America, Asia-Pacific and increasingly Europe. Because of the size and scale of the capital that is required, private investors have to be very thoughtful in how they come to market, in either acquiring an asset and owning it, or providing the capital to transform it.

To give an example, in the digital infrastructure space we are seeing a monumental opportunity to upgrade the traditional ways of moving and storing data, to support the vastness of digital needs that we have as a society. Private capital can often be the conduit to support that transformation. And it requires a lot of capital because of the velocity and the necessary growth.

We were able to be a part of a transaction to acquire a North American data centre and interconnection business, with a very large capital cheque to support that. Sellers of these businesses typically want to deal with one buyer, but since the capital needs are often so great, we have been able to bring along partners with us. My role is to make sure that these partners are aligned, that they appreciate and understand how we are going to bring the capital to bear, and that we can move quickly to amass that capital and to create one solution for the seller.

We were able to consummate that deal very quickly, within six weeks, because of the capital behind us. But bringing that capital together can be quite complex. It takes time, it takes relationships, and it takes a lot of creative thinking.

Q How is the capital raising environment shifting? Are we in more of a buyer's market now?

Where there is a large need for capital in the market, we are seeing a matching proliferation of opportunities to put capital to work. Investors can invest directly in funds, they can co-invest, or they can even look to take on secondary processes. That means investors can be particularly thoughtful about the constructions of their portfolios. They can really be selective about the exposures that they are looking for, whether that is by sector, geography or risk-return profile.

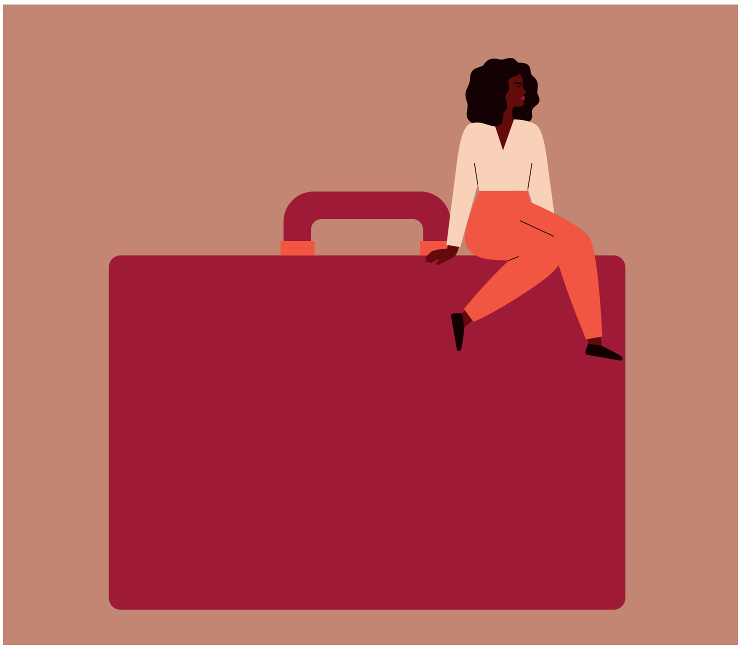
We try to look for the right types of investment opportunities that fit the specific needs of our LP partners. Energy and the energy transition is an example of a sector that investors are being very thoughtful about today, in terms of where they want to play and how they want to manage that exposure along a full supply chain of opportunities. They can invest in traditional midstream oil and gas assets; they can invest in a dirty-to-clean story, such as retrofitting coal-fired plants to make

Q What advice do you have for women starting out in alternative asset management?

I have had the opportunity to be very mobile in my career. That has meant moving to offices in different geographical locations, but mobility could also be trying new things or different areas within a business or a company. Because of that mobility, I have been able to find the right fit within the industry that really aligns with my skills and allows me to apply those for best and highest use.

I know that not every little girl dreams of being an infrastructure investor, but I think infrastructure is extremely interesting because at the base level, it's something we use every single day. It is the roads we drive on, the broadband connectivity that supports our computers and phones, the natural gas that comes to our stove. When you break it down, infrastructure is an integral component of everyday life.

Equally interesting to me, I recognised very early in my career that the private capital we were investing was often from public pension plans. I have teachers in my family and I recognise that I am directly involved in investing part of their retirement funds. That has created a deep sense of alignment, fiduciary duty, and stewardship of capital, to invest it wisely and thoughtfully, which makes me feel very empowered and committed to my everyday work.



them cleaner and more competitive; or they can go to the other end of the spectrum and look at renewable fuels, or even the traditional renewables market for wind, solar and hydro.

We had an opportunity in the midstream space to invest in a natural gas asset and were able to pull the capital together with a handful of investors who we knew were looking specifically for that type of risk-return profile and sector exposure. And we did that, again, in an accelerated time frame, to support the sellers' need to move quickly. The market is complex, and you have to be sophisticated about not just the types of available transactions, but also how to match those opportunities with the investors who want that exposure in their portfolios.

Q What are some important elements of managing relationships with partners?

We are regularly in conversation with our partners because their portfolios and investment requirements are dynamic, and it is important to have a real-time understanding of their priorities and focus areas. They of course have their own stakeholders, so they are responsible to a board or an underlying set of constituents as with large pensions. We stay very closely connected with them to understand where they are focusing and where they are shifting.

They are also taking in a lot of the larger macro trends in our broader environment. We share our views and perspectives and help them think about where they want to have exposure and focus, whether that is yield, or potentially earning a high-octane return from a value-add asset. Or, if they are trying to move into different geographies – perhaps emerging markets or just regions where they do not typically invest – we can work to support that portfolio construction.

Many of our investors have come along for the journey from when we launched our first flagship infrastructure fund and have continued to grow with us as we have launched additional investment strategies. And as they look for different exposures, whether it is renewables or an Asia-Pacific geographical focus, we have responded. We have also been able to help them specifically allocate to deals through co-investments, raising over $12 billion in co-invest across all of our sectors and geographies since the firm's inception.

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Q How do you approach co-invest?

A lot of our investors are in both funds and co-invest. We typically have investors who come into funds, and then we find different co-invest opportunities for them. The co-investment can also help strengthen their understanding of and conviction in our funds as well – in that investors who partner with us on a co-invest get a chance to see how we underwrite, how we think about risks and mitigants, our focus on downside protection, or upside value add levers. This gives investors a real in-depth look beyond what they accomplish in regular-way diligence on a fund alone.

Investors love having the opportunity to co-invest because it provides a front row seat to the investment. We spend a lot of time sharing investor updates and information about how the asset is performing over the course of the co-invest. They are part of that story over the five to seven years that we typically hold an asset. And these investors often bring specialised skills, insights and expertise to the table that support being an active manager in these assets.

Having those long-term relationships allows us to be extremely nimble and move through the due diligence process quickly, so that we keep pace with our deal teams and what the seller needs to come to a final agreement. We have templates or frameworks for what our partners need for their respective committees and approval processes, but we also know what is important to them with respect to asset management and responsible stewardship. ■