

Infrastructure: a direct route to impact investing

Interview with Gilles Lengaigne, Head of Origination & Corporate Development at Generali Global Infrastructure – part of the Generali Investments' platform



As long-term essential assets with regular cash flows, investors have always valued infrastructure for its resilient, counter-cyclical features. However, being essential is no longer enough – to be truly future proof, infrastructure assets must be both essential and sustainable in order to meet the needs of rapidly transforming societies and remain viable.

Foundations for recovery

Decarbonisation and digitalisation are two key structural trends that have vastly accelerated in order to respond to the needs for a faster and more comprehensive energy transition and wider coverage of telecommunication services.

The infrastructure sector is one of the main beneficiaries of the EU's €1.8 trillion 'Recovery Plan for Europe'. Our review suggests that, depending on the individual country deployment plan, between 25-50% of the amount will be allocated to digitalisation (fibre, 5G), the green transition (renewables, energy efficiency, electricity network upgrades) and public transportation (green mobility, rail and mass transit). While a substantial proportion may come in the form of direct government investment, there will also surely be allocations towards new support schemes for private sector investments.

Decarbonising and digitalising Europe

To illustrate the speed of change, the energy transition and the telecommunications sectors each represents around 30-35% of our investment pipeline today, whereas they have historically represented much less.

Our strategies focus on supporting the energy transition through investments in renewable energy and energy efficiency, sustainable mobility, accelerating digitalisation notably through the financing of fibre optic networks, and last but not least, social infrastructure in the health and education sectors.

We offer three ways for investors to access these opportunities. Senior infrastructure debt, for investors seeking highly secured exposure but with higher yield pickup than corporate credit coupled with a favourable solvency 2 treatment; and enhanced return debt and equity strategies that

focus on contributing to a sustainable economic recovery via two investment themes a) the energy transition i.e. green mobility, the environmental transition, water or waste treatment; and b) social and digital infrastructure.

Bridging social exclusion

Through infrastructure investments we can target clear social and environmental objectives, reflected by the Article 9 status under SFDR regulation of these enhanced return strategies. To take one example from the digitalisation theme, we invest in projects that are not only offer high speed internet connection throughout Europe, but also include more remote, rural regions. To us, this is a practical example of building a more inclusive economy that bridges the digital gap between the less connected regions and the more affluent cities.

Innovative climate impact methodology

We have a proprietary ESG methodology¹ designed to select assets with a positive impact that is wholly integrated into our investment process, so we can choose investments for sustainability as well as returns. Our selection favours investments that make a positive contribution to the United Nations Sustainable Development Goals, and our strategies are built to be compatible with the Paris Agreement and the commitment to limit global warming to below 2°C.

In terms of measuring climate impact, we have adopted an innovative methodology developed with climate-expert firm Carbone4. We not only assess the carbon footprint and carbon intensity of our investments, but we measure the degree of alignment of our portfolios with the Paris Agreement's below 2°C trajectory. Carbon footprint can be hard to put into perspective and is often reported on after the investment is made, whereas this measurement allows us to actively manage our climate impact and Paris Agreement alignment in real time.

Risk and adaptation

We're very selective about the type of technology we invest in, particularly in the telecoms sector where obsolescence is a key risk as well as its rapidly increasing energy consumption. We believe that the fibre networks within our strategies are set to remain viable for decades because they have the ability to keep evolving to address increasing data transmission, while being energy efficient, consuming less than the older copper network.

In terms of climate risk, evaluating and managing physical risk has always been crucial to infrastructure investing. The rise of extreme climate events has added extra layers to our analysis.

Climate risk also presents opportunities to transform existing infrastructure to adapt to new

needs – sustainable infrastructure is far from just being about greenfield investing only. We need motorways, but how can they be upgraded with more sustainable materials, capable of withstanding periods of extreme heat and lasting longer? How can the existing infrastructure be adapted to facilitate green mobility, with more electric vehicle recharging stations? Another example are district heating networks, where we've financed the 'greening' of these assets, shifting from fossil fuels to renewable sources like geothermal energy.

Conclusion

Investors want to invest with purpose and generate sustainable long-term performance. Fortunately, infrastructure can be accessed through a wide variety of investment strategies and respond to these needs in different economic and financial contexts. For example, in a potentially rising rate environment, floating rate infrastructure debt should benefit, while as a whole, infrastructure assets continue to act as a powerful hedge against rising inflation with revenues typically directly or indirectly indexed on inflation.

About Generali Global Infrastructure

Generali Global Infrastructure is a European asset management company dedicated to investing in sustainable and resilient infrastructure assets and businesses. We are united by a simple vision: to develop and positively impact the economic growth and social welfare of the countries we invest in, while delivering stable, long-term value for our clients.

Founded by Philippe Benaroya, Alban de La Selle and Gilles Lengaigne together with the Generali Group as part of the Generali Investments' ecosystem of asset management firms. Generali Global Infrastructure operates around a disciplined and impact-conscious model, focused on infrastructure debt and equity investments that generate sustainable, stable and long term financial and nonfinancial returns.

Generali Global Infrastructure is the strategic partner of the Generali Group for infrastructure investments and its launch has been the first cornerstone of the Generali Investments' platform back in 2018.



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