

The billion-dollar debt hit

Infrastructure debt funds have been a talking point for a while, but with little in the way of tangible achievement on the fundraising trail. And then along came Westbourne Capital. David Ridley, Westbourne's managing director, tells Bruno Alves how the firm has gained traction

INFRASTRUCTURE DEBT FUNDRAISING

has been a hot topic, but few fund managers have been able to claim concrete success up to now. Australia's Westbourne Capital is an exception to the rule, with over A\$1 billion raised from institutional investors including Future Fund and Mercer Investments ahead of its planned September closing date. Bruno Alves gets insights from Westbourne's David Ridley about the firm's strategy and ambitions.

How long have you been fundraising for your debt fund?

DR: Westbourne Capital was established in 2008. We started fundraising in the second half of 2009, with initial commitments finalised in September 2010.

What is your target size and hard cap?

DR: The initial level of commitments of over A\$1 billion (€738 million; \$1.04 billion) has exceeded our expectations. Westbourne intends to raise further capital from existing and new investors consistent with the opportunity to complete attractive investments. We continue to forecast a solid pipeline of infrastructure debt investment opportunities and are confident of selectively investing our client's commitments in a timely manner.

You have had notable success in a sector – debt funds – that may be a good idea in theory but have proved hard to raise for many other firms. What makes Westbourne different?

DR: The Westbourne team has been investing in infrastructure debt on behalf of institutional investors since 1999. The asset class is still developing, but it has become increasingly attractive following the global financial crisis and we expect more managers to be active in this sector over time.



Ridley: sees a senior debt opportunity post-crisis

We believe Westbourne is different from other debt fund players in a number of ways. We have a long-term investment track record in infrastructure debt funds management; our core investment team has worked together since 2004; we are independently owned with a sole focus on debt; and we offer innovative investment structures that can provide bespoke solutions to meet our clients' specific portfolio requirements.

In addition, our investment capacity is significant, which is providing excellent access to primary market opportunities.

What do you believe institutional investors are looking for in an infrastructure debt fund?

DR: I think institutional investors are interested in gaining exposure to infrastructure debt because of its underlying characteristics. For example, infrastructure debt offers improved returns amid more conservative capital structures, given the more constrained credit market environment post-financial crisis.

Lending to infrastructure companies which are typically less exposed to economic conditions provides investors with enhanced capital protection. Infrastructure debt's floating rate/short duration protects capital value in a rising interest rate environment.

Finally, infrastructure debt funds offer diversification benefits to institutional investors' overall infrastructure or alternatives programmes and can be very complementary to an infrastructure equity investment programme.

How do you think debt funds compare to traditional equity vehicles? Are they riskier, for example, or less so?

DR: *Prima facie*, infrastructure debt should provide reduced risk and consequently lower

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returns than infrastructure equity, although investors need to assess this on a risk-adjusted basis. We are certainly not suggesting one structure over the other, but rather a complementary approach to achieve a more diversified infrastructure exposure.

When you invest in a debt fund, the predominant composition of the return will be delivered in the form of regular income as opposed to being more reliant on realising a gain on disposal, which is more prevalent for infrastructure equity vehicles. Also, the fixed repayment profile of debt provides increased transparency around realisation of the investment portfolio, minimising exit risk.

The way infrastructure debt funds exert influence over a company [you lend to] is also markedly different. In our case, influence over a company is controlled by robust credit documentation which outlines key parameters that the borrower must work within as opposed to day-to-day influence through ownership and board representation, which is how equity funds exert influence.

Can you discuss some of the terms you are offering to your LPs?

DR: We offer a closed-end pooled fund for which a final close will be completed by September 2011 and a separate account arrangement to larger clients. Our independence, investment team ownership and fee structure create a strong alignment of interests with our clients.

You already have A\$400m invested in seven debt instruments. Can you tell me a bit more about these investments and your investment policy in general (for

example, do you invest in greenfields)?

DR: We have recently completed an eighth investment, which brings our total invested capital to A\$450 million. Our investment strategy focuses on lending to core infrastructure assets, including transport, utilities and telecommunications infrastructure. And while we are not restricted to brownfield assets, all our investments completed to date have been brownfields, including investments undergoing capital expansion.

Regarding our investment policy, Westbourne can invest in all the countries that form part of the OECD [Organisation for Economic Cooperation and Development, the economic policy group for the world's developed countries]. Our focus is on Western Europe, North America and Australia.

You stated you would provide senior and subordinated debt. It's fairly common for debt funds to provide subordinated debt, but not senior debt. Are you able to provide senior debt on competitive terms with banks?

DR: Historically, our focus has been on subordinated debt, but in the post-crisis environment, we consider certain senior debt opportunities to be attractive. In the current

environment of constrained bank lending – and given the volatility experienced in public bond markets – our involvement has been well received by borrowers seeking to diversify their funding sources.

Our participation in these deals is often alongside banks on a club basis and our take-and-hold approach is indeed valued by banks as well as borrowers.

How do you keep pricing down for senior debt and are you able to provide for the long term? Is there a ratio of senior versus subordinated debt that you, as a fund, are comfortable providing?

DR: We determine pricing based on our risk assessment and it is ultimately up to each borrower to determine how this compares to alternative funding sources. Our current client interest is to lend for a term of up to 10 years. We consider there will be a significant opportunity over time for institutions to provide longer term financing, as banks become less competitive in longer-term markets in the aftermath of Basel III.

The proportion of senior versus subordinated debt in a client's portfolio is driven by each client's risk-return objective.

What role do you believe debt funds will play in infrastructure financing going forward?

DR: We believe institutional investors will play an increasing role in the debt funding of infrastructure in the private and public debt markets, as borrowers seek to diversify the nature and sources of funding. Also, the requirement for private sector debt and equity funding will be underpinned by the significant ongoing need for new and upgrading of existing infrastructure globally. ■

WESTBOURNE CAPITAL AT A GLANCE

Melbourne-based Westbourne Capital was established in 2008 as an independent investment manager. The firm was founded by several veterans from Australian fund manager Hastings Fund Management, including David Ridley, non-executive chairman Tim Poole, and investment directors Li-Yu Loh and Nathan Taylor.

Over the last year, Westbourne's investment team has expanded, hiring Joel Ickiewicz from JP Morgan, Annabelle Helps from Macquarie, and most recently, George Batsakis, Hastings Funds Management's former head of debt.

Sources: www.westbourncapital.com.au, Reuters