Q&A – Emmanuel Gillet-Lagarde,

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NATIXIS' INFRASTRUCTURE DAY 2017: WHAT TO EXPECT

Q: When Infra Day was launched in 2012, the objective was to promote infrastructure debt with institutional investors. What progress has been made with respect to this?

A: We have seen a dramatic change in the infrastructure debt market since our first event in 2012. Initially, the aim of the event was to raise awareness and educate investors on why infrastructure debt is a viable long-term and low-risk asset class. Indeed, at this point, investors knew very little about this asset class, yet were looking for yield diversification.

Five years on, we will not only focus on debt infrastructure investment, but also examine equity and M&A. We will shed light on the regulatory factors to consider in relation to infrastructure assets, as well as the work we are doing with *EDHECinfra* to ensure infrastructure debt is recognised. In turn, *EDHECinfra* will present an "Infra Index" at the event, showcasing the merits of this now well-recognised asset class. Lastly, we will explore emerging segments within infrastructure that investors should look to tap into.

There are abundant opportunities in both equity and debt, as the liquidity within the market is both substantial and growing. Certainly, since Infra Day's beginning we can confidently say that infrastructure is a key asset class for institutional investors.

Q: Sustainability has become one of the key areas of focus for infrastructure – how has interest grown in recent years?

A: In the past, most renewable energy projects required government subsidies due to an initial lack of price competitiveness. However, due to the economies of scale and a significant learning curve regarding the benefits of such projects, this industry is now able to compete against other sources of energy. For example, we recently saw a request for tender for an offshore wind project in Germany, which was won – subsidy free. Certainly, renewables are expected to become a major source of electricity generation in most countries.

This is not only the case across Europe – emerging countries are going green. Take India, for instance – with poor transmission infrastructure, it is now more cost-effective to produce energy locally and sustainably. Another example is the Gulf – where most states are pursuing strong renewable development plans. At Natixis, we are very active in the Middle East – such as Saudi Arabia and the UAE – where solar photovoltaic (PV) has become the most competitive source of electricity generation and proven to be cheaper than oil or gas-fired generation. Growing awareness among emerging economies – and of course the existing appetite in developed markets – has meant banks and investors are keen on sustainable investments.

Renewable energy has formed a significant part of the market and is one of our key areas of focus – especially as many institutional investors are becoming more interested in this sector, while becoming more concerned about the environmental impact of the projects they back. For example, we are no longer financing coal projects and – for renewable projects in 2016 – *Infrastructure Journal* rates Natixis as number one for mandated lead arranger (MLA) activity in Europe and number five worldwide.

Q: Why is it important to have standards for sustainable and resilient infrastructure – such as Natixis and The Global Infrastructure Basel Foundation's SuRe global voluntary standard? What was the thinking behind SuRe?

A: As mentioned, many investors are increasingly concerned with the socio-environmental impact of their investments. And there is considerable pressure on institutional investors to show corporate responsibility from their financial investments.

As there was previously little criteria to discern what constituted a green, sustainable and resilient investment, we saw an opportunity to create a standard that will be attributed to the project through an independent certification process. After discussing this with different stakeholders there was a general consensus that banks need to respect certain principles on environmental laws and regulations to make sure there is not a negative environmental impact. However, there was no way to assess the positive impact of projects and we wanted to certify this both for investors and for the debt through a transparent assessment method.

This is precisely what we have been working on, and we should soon be in a position to publish the first version of the standard, with the aim of having projects certified that can demonstrate on how certain investments can positively impact the environment.

Q: How has the trend towards digitalisation influenced the infrastructure market in recent years, and what are the main challenges?

A: This year's Infra Day programme assesses the opportunity offered by digitalisation for the industry. Due to the volume of data exchange, the digital economy puts considerable stress on infrastructure. In fact, the volume of data transferred daily is growing 20-30% a year. So, in order to improve connectivity we need to invest lots in different types of infrastructure. For Natixis, this is a key segment in our strategy.

In terms of the Internet, telephones, and mobile devices, the volume of data is now so large that in order to transport this over long distances, we need to improve or duplicate cables and fibre optics everywhere. And, as we see increasing streams at home – with demand for video streaming, smartphones, iPads, and use of multiple devices – we need greater speed and improvements in fibre to the home (FTTH). Here, a higher density of towers need to be developed in order to support this demand. Plus there is the growing "cloud services" and data storage to consider, which requires additional investment in data centres.

Clearly, this presents a big investment opportunity. But the challenge lies in altering market perceptions of the risks. Indeed, we have seen a significant lack of investment over the past decade – the last wave of investment occurring at the end of the 1990s and beginning of 2000, where there was an oversupply. As a result, for many years there was limited interest in telecoms infrastructure.

So the challenge for Natixis this year, as it was in 2012, is to promote awareness – this time focusing on specific segments within the market, rather than infrastructure as a broad asset class. We want to educate investors on these opportunities and convince them that this is a low risk sector to invest in. Furthermore, we will reiterate the fact that infrastructure is about long-term investments. The networks we use today were likely built 50 years ago – and while technology is rapidly changing, the infrastructure aspect of this moves much slower.

Q: Looking ahead to 2018, what do you forecast for the infrastructure debt market?

A: Next year, we largely expect to see an extension of the current market trends, with a very active market driven by M&A and a focus on renewables, due to the energy transitions gaining traction in new markets. There will also be prospects in telecoms and the refinancing of existing assets, as market conditions are favourable to borrowers.

I have little doubt that there will be a continuation of sufficient liquidity in the market, and even some oversupply in certain sectors. That said, not all players will be aware of infrastructure debt and the opportunities that lie within this sector, so we intend to communicate the fact that telecoms and renewables are now thriving sectors. Of course, Natixis will be there to show investors how to tap into these opportunities, aligning to our client-centric, innovative approach.