Infrastructure Investor

By: Tharshini Ashokan
PUBLISHED: 17 May, 2023

NEWS & ANALYSIS

How OTPP is investing in APAC

APAC infra chief Bruce Crane talks about remaining core-focused while adopting an agile approach between regional markets.

Ontario Teachers' Pension Plan ensured it saw out 2022 with a bang when it announced it had reached an agreement to acquire New Zealand's 2degrees Mobile's passive mobile telecommunications tower portfolio – consisting of 1,124 mobile towers across the country – for NZ$1.1 billion ($671 million; €611 million). Snapping up the portfolio from Macquarie Asset Management and Aware Super, the Canadian pension's announcement closely followed the acquisition of its 70 percent stake in Spark New Zealand's passive mobile tower infrastructure assets, a deal that closed in October.

According to Bruce Crane, OTPP's senior managing director of infrastructure and natural resources in APAC, towers – and Australia and New Zealand's tower sector in particular – have become more of a priority for the pension fund in recent years.

"It wasn't a sector that we had invested in within the infrastructure class previously," says Crane. "We had done data centres out of different asset classes but nothing within the infrastructure space. As this asset class has progressed towards a more typical infrastructure-like risk-return, it became something that was more and more attractive to the infrastructure group.

"Of the broader telecom infrastructure sector, towers were the area that was deemed most attractive to us as investors and, as part of that, two geographies stood out. One was Australia and New Zealand, given the contract structuring, and the other region was the Americas."

The pension fund's increased interest in Australia and New Zealand's tower sector proved to be a timely one, coinciding with the reorganisation of Australia's tower sector, which saw a number of major telco companies sell off stakes in their tower portfolios.

In 2021, Australia's sovereign wealth fund, Future Fund, led a consortium – which comprised Queensland-based Sunsuper (now Australian Retirement Trust) and the Commonwealth Superannuation Corporation – to acquire 49 percent of Telstra's InfraCo Towers portfolio of 8,000 tower assets for A$2.8 billion ($1.9 billion; €1.7 billion).

This was followed by a deal for which OTPP had initially been in the running – the sale of a 70 percent stake in Australia Tower Network by Optus's parent company Singtel to AustralianSuper for A$1.9 billion. That deal included 2,312 mobile network towers and rooftop sites and valued ATN at roughly A$2.3 billion.

Most recently, in May 2022, the market saw TPG Telecom sell its entire tower assets portfolio to Toronto-based asset manager OMERS Infrastructure for A$950 million.

"In essence, the acquisition of Spark's towers and subsequent agreement to purchase 2degrees' towers gave us New Zealand exposure, an entry into the tower sector and also nicely rounded out our overall Asia portfolio from an infrastructure perspective," Crane says.

The deal is the latest step in OTPP's move to build a stronger presence in the Asia-Pacific region, which began with the opening of its Singapore office in 2020. Prior to establishing that office, OTPP's only asset in the region was the Sydney Desalination Plant, in Australia. OTPP acquired 50 percent of the water infrastructure asset in 2012, in a deal that valued the project at roughly $2.3 billion. The pension fund increased its stake to 60 percent in 2020 after the state government of New South Wales moved to privatise it.

"One of the reasons the Singapore office was opened was to set up an infrastructure group in the region with the idea that we would have a team based in Singapore that would be APAC-focused – not only focusing on Australia and New Zealand, but also India, Southeast Asia and North Asia," Crane says.

"Australia is a market that we can somewhat cover effectively from our Toronto and APAC offices and is one that, as Canadians, we're comfortable in – many of our peers have invested there from afar. It's very different from the rest of Asia, where having people on the ground and building relationships locally is pretty critical."

Remaining core-focused

In its quest to strengthen its presence in Asia-Pacific, OTPP has opted to focus on regulated utilities, roads, renewables and telecommunications.

"OTPP, in general, has a very core-focused infrastructure approach… We already have an adequate airport exposure in Europe, so airports aren't an area that we're overly focused on here in the region," Crane explains.

"Overlaying these four sectors over that broader APAC region, what's clear is you're going to like some of those sectors more in some geographies and you're going to like them less in other geographies. They're going to be more available in some geographies, and less available in other geographies."

Taking this into account has helped pinpoint OTPP's focus within markets across the region, namely: roads and renewables in India, regulated utilities and telecoms in Australia and New Zealand, and a consideration of all four sectors in Southeast Asia. In North Asia, OTPP focuses on renewables at the development stage, taking on more development and construction risk.

To that end, the last three years have seen the pension fund make a number of major investments in those markets. Its commitment to roads in India, for example, has seen OTPP invest in the National Highways Authority of India's infrastructure investment trust, the National Highway Infrastructure Trust. It acquired a 25 percent stake in NHIT – which was established with a portfolio of five operating toll roads under a concession period of 30 years and spanning 390km across the Indian states of Gujarat, Karnataka, Rajasthan and Telangana – for 15 billion rupees ($183 million; €167 million).

It has also made inroads in the country's burgeoning renewable energy sector, launching a strategic partnership with Indian conglomerate Mahindra Group with the acquisition of a 30 percent stake in the group's renewable energy platform, Mahindra Susten. The deal, announced last September, also aims to set up an infrastructure investment trust (InvIT) and will see the pension fund deploy $450 million into the platform and InvIT over the next seven years.

"While Australia and New Zealand are about large one-off investments, India's all about platforms that can continue to grow," Crane says. "That will continue to be a strategy that we will focus on in India."

In line with its approach to one-off investments in Australia and New Zealand, it made a splash in 2021 when it led a consortium alongside KKR to take over Sydney-based electricity infrastructure owner Spark Infrastructure for A$5.2 billion.

"That gave us a great, regulated, stable, large exposure in Australia. You combine that with the acquisition of Spark towers and subsequent signing for 2degrees towers in New Zealand, and that was our developed market – a very stable piece of the overall infrastructure portfolio," Crane says.

The pension fund also acquired a roughly 50 percent stake in Equis Development, the Singapore-based infrastructure firm that focuses on developing renewables projects in the region. Giving OTPP an opportunity to invest in Australia's renewables sector, the transaction was also notable for providing the pension fund an entry point into the renewable energy market in Japan and South Korea.

"It gives us exposure in Japan and Korea, where buying operating assets is very difficult for investors like ourselves, given the rate of return," says Crane.

"But getting in early and developing the infrastructure, developing the renewable asset, is a much more plausible way to invest in the country, given the risk tolerance of those local pools of capital. Combine that with the ability to back a strong developer like Equis, and that gives us our North Asia exposure."

One size doesn't fit all

Ultimately, key to the pension fund's APAC infrastructure strategy is recognising the differences between markets and having a flexible approach. "It's recognising that one size doesn't fit all, with different sectors for different countries, and slightly different entry points or platform strategies as well," Crane says.

"Where we are now, three years after expanding our focus in APAC, I'm very happy with the progress made as compared to that initial focus."

As OTPP continues to build its presence in the region, Crane believes the resilience of infrastructure as an asset class will continue to prove true despite the volatility of the current macroeconomic and geopolitical environment.

"We're not naive to the global challenges that are going on, but there are always challenges and the current set of challenges are ones that, if anything, highlight the importance of infrastructure versus other asset classes," Crane says.

He notes the importance of owning renewable assets in particular, especially as countries increasingly understand the need to have balanced energy policies and not be overly dependent on any one country or source of energy. "Renewables will continue to be a sector that benefits from this but also continues to be the recipient of large amounts of capital on a global basis.

"Clearly, as returns increase, as interest rates go up, as cost of borrowing goes up, as equity returns go up, that impacts all asset classes to some degree and we are, of course, not immune to that. But as long as we maintain discipline and a long-term view, I don't see any major disruptions in the infrastructure side of things as one could see in other asset classes when you go through volatile times like these."