KEYNOTE INTERVIEW

Full steam ahead

Geopolitical uncertainty is unlikely to derail Europe's energy transition or undermine the appeal of infrastructure debt, says Edmond de Rothschild's Jean-Francis Dusch

European governments are prioritising defence spending as decision makers navigate a new world order. Momentum behind Europe's energy transition is unlikely to be impacted, however, given the role of renewable power in providing energy independence and energy security.

Even President Donald Trump's policy on tariffs might not necessarily be overly concerning for this asset class. However, infrastructure has consistently proven its resilience through multiple cycles, and experienced infrastructure debt managers are well positioned to mitigate risks through conservative structuring, says Jean-Francis Dusch, CEO of Edmond de Rothschild Asset Management UK, and the firm's global head of infrastructure and structured finance.

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Q Infra debt has fared well through back-to-back macro shocks in recent years. Unpredictable policy around tariffs is the latest. What impact will this have on the asset class and what steps are you taking to address it?

I would absolutely agree that infrastructure debt has proven itself to be resilient. It isn't that infrastructure is necessarily entirely immune from geopolitical or economic risk, but we are in a position to mitigate such risks. That's our job. When it comes to tariffs specifically, it is too early to reach any firm conclusions, particularly as the policy coming out of the White House is changing so fast.

What we are doing, in these circumstances, is exactly what we did following the outbreak of covid and when Russia attacked Ukraine. Every time there is a major macro event, we analyse our existing portfolio, asset by asset, in co-ordination with our risk management team, and we assess what impact that event is likely to have. It is important for us to gain that understanding as quickly as possible so that we can keep our investors informed.

While it is too early to come to any firm conclusions, especially while the nature of the tariffs themselves remains so uncertain, our initial analysis suggests there might be limited impact on existing portfolios. Most of these

Q A knock-on effect of geopolitical events is that Europe is prioritising defence spending. Can the energy transition maintain momentum against this backdrop?

This is not something that overly concerns me. The energy transition in Europe continues to receive strong support precisely because it is not only driven by the need to decarbonise but also by the need to secure energy independence and energy security, which is more important than ever in a volatile geopolitical environment. I don't believe that current geopolitical events are contradictory to Europe's continued push towards net zero, despite some shift in strategic priorities.

I would add that the energy transition is across all sectors. Digitalisation is part of the energy transition. The decarbonisation of utilities, green mobility, energy efficiencies in social infrastructure are as well. It is not about renewable energy and all the subsectors linked to it (such as battery storage). It remains to be seen whether the supply of raw materials required for batteries, for example, could be impacted by changes in international trade norms, but overall I don't believe the current geopolitical situation will affect the momentum that exists behind the energy transition in Europe.

assets are already in operation, which removes an element of risk around construction cost and there are structural protections against rises in costs we always embed in the debt structure. We typically have pass through provisions, so that if there are cost increases, the impact is limited for us as lenders. It may affect the equity investor or the operator of the asset.

I also believe the impact on new projects shall be limited because again there will be protections in place around cost. In short, I am optimistic, but as always, I am also cautious. We don't currently see a major threat, but it is important that we thoroughly analyse all eventualities before coming to any firm conclusions.

Q How do you decide when the time is right and which sectors are attracting your attention right now?

As a debt asset manager, whenever we go into a new sector or subsector, we do so in the knowledge that we are working within a specific risk profile that we have agreed with our investors.

Each element of our threefold debt offering – senior, junior and growth – has its own risk profile that needs to be met. We don't operate within the core, core-plus, value-add framework that exists for equity, because even when an underlying asset is value add, we will mitigate the risk so that it fits within our allocated risk parameters.

Having said that, I believe we have consistently been a first mover since the inception of our BRIDGE infrastructure debt strategy. We did the first financing of a wind farm in Germany through a Eurobond issue. We were the first to finance biomass and we financed the first biogas operations in Europe. We were also among the first to lend to digital assets before digital was really considered part of infrastructure. We went there because we were able to look at the risk metrics and make them work within the risk boundaries that we have.

Most recently – around 18 months ago – we began financing battery energy storage systems. These are plants that store the intermittent energy produced by renewables. We have backed one of these assets in Belgium, for example, which has been critical to allowing the region to switch from fossil fuels to renewables, thus contributing to the country's energy security and energy independence.

Finally, we are gearing up to make our first investment in green hydrogen. This is something we have been looking at for seven or eight years, and we are now ready to complete our first deal in the sector.

Q How would you describe investor appetite for infrastructure debt amid current uncertainty?

I can't talk on behalf of investors. They all have their own asset allocations, return targets and risk profile and so they will make their own assessment regarding what is going on in the world. What I will say is that we are constantly fundraising with BRIDGE, which means we are sitting in front of investors on a weekly basis and appetite for infrastructure is clearly still there. Despite all the turbulence that exists right now, we still have investors going to investment committee to validate tickets for our debt platform.

It will help when we have more certainty around US policy decisions and when we have been able to conduct the analysis that demonstrates infrastructure's resilience to any tariff regime. These are complex assets and this takes time. But what is already clear is that infrastructure has demonstrated resilience and the ability to maintain objectives, without any increase in defaults (we have experienced none since the inception of our platform in 2014), despite numerous macro shocks.

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"Despite the recurrent shocks we have seen over the past decade, very few assets have stumbled"

Q What should investors look for in a manager, particularly considering current volatility?

Again, infrastructure debt has continued to perform well on a relative basis throughout everything that has happened over the past five years. This has been made possible by asset managers that can analyse and mitigate risks. It all comes down to the quality and the experience of the team.

It is vital to have structures that are truly resilient. We saw with recent energy price spikes, that some managers had either been too inexperienced or not cautious enough in their structuring. You need to have a team that analyses every deal as if it were the first, trying to anticipate and mitigate as many risks as possible. You also need to have a team that understands how these assets are operated. We are talking about real assets here and that requires individuals with technical and industrial backgrounds. The other area of expertise that is paramount is regulatory knowledge.

I would add that if there is a shock, as a debt asset manager you need to be able to sit at the table and negotiate with the sponsor. That comes down to the quality and depth of the relationships you have with equity holders and therefore your ability to find a compromise. Infrastructure is rarely based around public private partnerships these days. Equity is now typically held by private equity funds, and a growing element of the debt is in the hands of asset manages like us and institutions with their own teams.

Both these equity funds and debt funds are backed by the same types of institutional investor for whom the sustainability of the asset that is bought, financed and operated is crucial. This is why we believe that despite the recurrent shocks we have seen over the past decade, very few assets have stumbled. When they have, this has typically been either because regulation has changed or because the asset didn't fit within the true definition of infrastructure or was technically flawed. We are well equipped at Edmond de Rothschild Asset Management to manage this. ■