As often happens, there was a bit of serendipity at work when we headed into our inaugural Nordics roundtable. At the time of writing, the largest fund raised in 2019 thus far – EQT’s €9 billion fourth vehicle – was born in Sweden. One of infrastructure’s largest deals of last year was Macquarie’s tie-up with a trio of Danish pension funds to buy local telecoms group TDC for $6.7 billion.

The TDC case was a combination of Nordic infrastructure being able to attract some of the asset class’s largest players, in addition to displaying the deep and sophisticated pockets of the local investor base.

This capital base also makes the region a great place to fundraise. As if to underline that point, just days before our roundtable, Danish manager Copenhagen Infrastructure Partners announced a $700 million first close for a new greenfield, emerging markets-focused renewables fund. Commitments came from Danish pensions Lægernes Pension, ATP and PensionDanmark, as well as Norwegian scheme KLP.

The Nordic countries are arguably Europe’s best investment opportunity but they require considerable local nous. Five industry experts tell Zak Bentley how to navigate the region’s idiosyncrasies

Stability first
To start with, they have a macroeconomic background that several other European countries arguably lack – even if some in infrastructure still bear the scars of Norway’s Gassled debacle in the earlier half of the decade, which was only recently resolved in the courts to the benefit of the Norwegian state.

“We have stable jurisdictions, stable regulatory frameworks and stable macroeconomic environments,” says Christian Doglia, founding partner of Infranode. “I think that is what has been driving investors and dealflow. This has been coupled with a strong liquidity in the energy sector, both on the renewable energy side and the energy network side, such as district heating and distribution system operators. In addition, there is a rather deep market for social infrastructure assets which historically have been done within real estate strategies.”

“Infrastructure is political by its very nature,” says Kai Rintala, managing director at Finnish renewables group Taaleri Energia. “There is always uncertainty. However, if you look back, it is notable that the policies facilitating the build-up of renewables have been comparatively stable in the Nordics.”

However, Rintala argues that this is not the only thing that’s driving investment. “Wind power is the most competitive form of new power-generation capacity in the Nordics and [power trading platform] Nord Pool is the most liquid,” he says. “With the recent emergence of industrials and
Mathias Bimberg
Head of infrastructure, Prime Capital

Bimberg initially joined Prime Capital as an investment manager in 2015 and became a managing director in the infrastructure team in March 2018. He was appointed head of infrastructure in December. He previously spent four-and-a-half years in Frankfurt as a manager in EY’s transaction advisory services team, where he focused on private equity clients and served in the company’s renewable energy transaction advisory unit.

Anna Sundell
Managing director, EQT Infrastructure

Sundell has worked at EQT in Stockholm since joining the company in October 2010. She previously worked in the city at Nordea Corporate Finance and HSH Nordbank. Sundell holds an MSc degree in Business Administration from the Stockholm School of Economics and a law degree from Stockholm University.

Kai Rintala
Managing director, Taaleri Energia

Rintala has more than 15 years’ experience in infrastructure. Before joining Taaleri Energia, he spent 10 years at KPMG in Helsinki and in London, advising public and private sector clients on strategy and transactions across energy, transport and social infrastructure. He built and led the infrastructure business at KPMG Finland with clients ranging from utilities and infrastructure funds to ministries and construction firms.

Oskar Backman
Investment manager, Polhem Infrastructure

Backman has been a portfolio manager at AP1, one of Sweden’s four national pension funds, since December 2014. This year he was appointed investment manager of Polhem Infrastructure, a joint venture set up by AP1, AP3 and AP4 to invest in Swedish infrastructure. He has significant experience in PPPs following a role as director at PwC and as a partner at advisory firm Bois & Partners. He was also a transaction manager on PPPs for Swedish bank SEB.

Christian Doglia
Founding partner, Infranode

Doglia formed Infranode alongside fellow partner Philip Ajina in 2013. He is involved in all aspects of deal origination and execution, fundraising, business development and asset management. In 2009, he founded Arcadium Infrastructure, where he led the establishment of an infrastructure debt fund. He previously spent seven years as vice-president of the infrastructure team at Financial Security Assurance in London.
corporates buying electricity on long-term contracts within a stable legal framework, there is a perfect storm where considerable new wind power investment can take place.”

Mathias Bimberg, head of infrastructure at German asset manager Prime Capital, the only non-Nordic voice at our table, agrees. “Scandinavia has one of the best wind resources in Europe, maybe together with Ireland,” he says. “You can really do large-scale projects and increase profitability. If you look at the risk-return profile, coming from Central Europe, where we’re doing smaller transactions and government subsidies are winding down, I think this is, in our view, one of the most attractive markets.”

But the shift from local investors and the increased interest from foreign players is also down to external factors. “Some of the larger institutions that have been active for some time already have quite a bit of exposure to the UK market and other European countries,” argues Oskar Backman, portfolio manager at Swedish pension AP1 and investment manager at Polhem Infrastructure, the platform recently set up by AP1, AP3 and AP4. “So, they see Scandinavia as [geographic] diversification and reducing the risk [of exposure] to the UK, Brexit and a couple of European markets.”

Although transparency, diversification and a stable political environment have been key, for Anna Sundell, managing director at EQT Infrastructure, landmark deals have been just as important. “To some extent, international funds have, as seen in the recent transactions in electricity and district heating networks, increased their focus and presence in the Nordics,” she says.

**Unique selling point**

The make-up of the Nordic countries makes the completion of some of these deals a task that is easier said than done. Although many core infrastructure assets have historically been owned and managed by municipalities, their capital expenditure requirements may be nudging them towards the private sector.

“Privatisation is perhaps not the easiest word here in the Nordics,” says Doglia. “Historically, the local and central governments have had healthy balance sheets, from which most of the investments into infrastructure companies have been made,
“Wind power and data centres combine very well in the Nordics and will continue to attract significant investments”

KAI RINTALA
Taaleri Energia

“Fibre investments will continue to be a key theme following the growing demand for fibre connectivity, and the investment need for fibre infrastructure cannot be seen in isolation”

ANNA SUNDELL
EQT Infrastructure

and privatisations have therefore not been needed. But the situation is changing. Energy companies, which for many years have been cash cows delivering healthy dividends to their owners, are now in need of large investments, and governments need to put money back in. So, governments need to make a choice here and, naturally, become a bit more open to privatisation or to partially selling down holdings and recycling that capital for other investments.

“In Sweden, Finland and Norway, we have a very similar situation with 150-plus municipal-owned energy and other infrastructure companies, where people have been talking about consolidation for a long time. We’re starting to see things happen and Infranode has been able to successfully close a few transactions of this type recently. We believe this is the beginning of a trend which will provide local players with important dealflow in the coming years.”

It is also, perhaps, the types of investors around our table, with significant experience in decarbonisation, who could fit the bill for municipalities. “There is a need for private capital and competence to support the municipality-owned energy companies in the energy transition,” says Sundell.

However, as some past buyers have found, the identity of the investor is also key. There is suspicion among some in the public sector about how the ‘family silver’ will be treated. Unlike some of the more established European markets, this suspicion transcends political stripes in the Nordics.

“I think when it comes to assets leaving the public sector and going over to a new stewardship in the private sector, it is really important [for the sellers] to understand who may become the ultimate owner,” says Backman. “This has not only to do with ideology. Decision makers may be on the conservative or left-wing scale of politics. They may be of the opinion that infrastructure should continue to be owned and funded by the public sector.

“Therefore it can sometimes feel like it is an uphill journey for private capital to manoeuvre itself, especially in Sweden. In Finland, however, they have been more successful in using private capital for large infrastructure projects and seem to continue to be doing so. Even if the first road PPPs were not perfectly structured, they have used their experience to improve the structures.”

Several large and small transactions over recent years have included foreign-based
One area where I think we will see a lot of [dealflow] is fibre broadband and 5G, as long as it’s allowed from the political side

OSKAR BACKMAN
Polhem Infrastructure

In Norway, what we have experienced is that it is really important to have local support in transactions because, as an international investor, trying to invest in northern Norway it is difficult to get acceptance from local stakeholders,” he says. “This is exactly the reason why we want to get local money for local projects. There are many conflicts in Norway surrounding renewable energy and about concerns that large profits will be exploited and transferred out of Scandinavia. That is why we want to do co-investments with local utilities and we want to leave as much value creation within Scandinavia as possible.”

Taaleri has had a slightly different experience with renewables, according to Rintala. “Private ownership of wind-generation assets is uncontroversial across the Nordics,” he says. “It has been a great success story in terms of bringing in international competition and driving down costs, helping us to build an industry that is at or even below grid parity.” Dealing with local people, however, has become more of a sticking point in Norway.

“There has recently been resistance from communities against large-scale renewable energy projects in Norway,” says Bimberg. “In my view, as an international investor in Norway, it is even more difficult than in Sweden or Finland. You need to show to the local communities that you incorporate ESG principles. Therefore, we start consultation of local stakeholders in greenfield projects six to 12 months before financial close in order to take their interests into consideration.”

“Especially when it comes to Norway, it is my experience that it is important to know your history, culture and geography, otherwise it is hard to be successful in business,” says Backman. “Sometimes it may feel easier to jump on a plane from Paris to New York and do business than it is from Oslo to Tromso.”

In addition to involving Nordic co-investors, Doglia says managers need to display a serious local presence if they are to be successful.

“The Nordics can sometimes be viewed as one regional market with a lot of commonalities,” he says. “However, we still recognise some differences between the countries and believe that a key to success is to be local in each of them, with separate teams, offices and sources of capital. Ultimately, with the stakeholders being the municipalities and wanting to see transparency both today and in the long run, you may be able to do a deal at the start, but you need to work in long-term partnerships with them. Once a transaction is completed, the real work starts with the asset management phase. You will be able to do this much better if you approach it with the right local angle.”

Networking strength

“The key is really finding the right people to work with,” adds Sundell. “Since 1994, EQT has built and developed a strong network of industrial advisors supporting us with sector expertise and local knowledge. Today we have a team of 13 investment professionals focusing on the Nordic infrastructure market. We combine the local presence of our investment team with expertise from our global network, sector teams and industrial advisors.”

Although engaging with local stakeholders is key to many projects, engaging with the Nordics’ investor communities also requires a more tailored approach. “All investors are very sophisticated, but the Nordics...
tend to focus more in-depth on sustainability,” says Sundell. “They go very in-depth on the matter and this is aligned with a central part of our investment process. This benefits both our investors and society as a whole.”

Sustainability is also critical for Infranode. The firm’s first fund was made up entirely of local investors, bar the European Investment Bank. “Does it have to be 100 percent local money? Perhaps, perhaps not,” says Doglia. “But it has to be the right type of capital for what the Nordic environment expects. It has to be sustainable, which is at the very top of the agenda, it has to be long-term and it has to have a considerable local flavour.”

So, what do domestic and international LPs want from their managers? “For renewables, I think the game changer was you’re not really reliant on government subsidies,” says Rintala. “The Finnish pension funds have shied away from renewables, largely because it was a government-supported activity. We see that changing. Clearly, the Danes have been a decade ahead of everyone with the setting-up of Copenhagen Infrastructure Partners, but now everyone is going into the sector in a big way.” His comment brings a nod of agreement from Backman, who acknowledges that Swedish investors have had similar attitudes because of a constantly changing energy policy.

“Our investor base is conservative German money, which has relatively low cost of capital,” adds Bimberg. “They come from a very low interest rate environment needing to deploy capital.”

Beyond energy
With renewables a formidable if crowded part of the Nordic market, the challenge for some participants remains to deploy in other sub-sectors.

“We recently made our first transport deal, and that was after quite some time trying to find the right opportunity in this sector,” says Doglia. “We are investing in a key Swedish port and we believe there’s a large amount of capital needed both in Nordic ports as well as in the wider transport sector. So far, the Swedish central government, which is in charge of national transport, has not been as open to privatising transport assets as they have been in the energy sector. But hopefully that will change in the coming years.”

However, there remain rich opportunities in digital infrastructure. “One area where I think we will see a lot of [dealflow] is fibre broadband and 5G,” says Backman, “as long as it’s allowed from the political side.”

“Fibre investments will continue to be a key theme following the growing demand for fibre connectivity, and the investment need for fibre infrastructure cannot be seen in isolation,” says Sundell. “It will also enable the secular trends in data centres, cloud migration and energy transition.”

Indeed, tech giants such as Google have invested in data centres across the Nordics, and interconnectivity across sectors will make that more important. “Wind power and data centres combine very well in the Nordics and will continue to attract significant investments,” says Rintala. “We have low-cost, clean electricity available on long-term contracts, natural cooling due to our geographical location, and excellent connectivity through existing infrastructure.”

Everyone wants a slice of the Nordics, but success will come to those able to navigate the region’s unique environment.

“Scandinavia has one of the best wind resources in Europe, maybe together with Ireland. You can really do large-scale projects and increase profitability”

MATHIAS BIMBERG
Prime Capital