ROGER LLOYD, PALISADE INVESTMENT PARTNERS

Staying ahead

Relentless competition for Australian assets is trickling down to the mid-market. Palisade's **Roger Lloyd** explains how to stay ahead of the crowd

Palisade: swimming against the current

A branch of mathematics called chaos theory has created the concept of the butterfly effect, according to which a local change in the initial state of a system can have big repercussions far from the epicentre of the original phenomenon. The idea seems applicable to the realm of infrastructure and regulation and generally not for the best of reasons. Take renewables in Spain, where a tariff cut in 2013 cast both an immediate and lasting chill on the clean energy industry worldwide.

But sometimes butterflies carry a more positive baggage. COP21, the climate change conference that took place last December in Paris, was hailed a success because it delivered a broad road map on how to lead the fight against global warming. The shared intent was, admittedly, expressed in pretty loose terms, with a lot of promising pledges but little in the way of binding commitments. Still, it may have started a wave that is having very concrete implications for infrastructure development around the planet.

That is one of the themes Roger Lloyd is especially enthusiastic about as he settles in for a late night call with *Infrastructure Investor*. The managing director and chief executive of Sydney-based Palisade Investment Partners thinks his homeland – long a climate change contrarian – could be on the verge of a clean energy boom. "Australia is very late in extensively adopting renewables. So it's very exciting to see a government that wants to fully embrace them," Lloyd says.

> "We're probably number one in the world for residential solar. But when it comes to utility scale there's a lot more we can do"

The opening comes at a particularly welcome time for Palisade. The fund manager has remained steadfastly loyal to its initial mandate, which can be neatly encapsulated in two concepts: "Australia-focused" and "mid-market". The latter was seen by the firm as especially attractive at the time of its 2007 founding, when the segment offered a broader array of opportunities Down Under than the big privatisations that have now captured investors' attention. "It's been our unrelenting target and focus," Lloyd says.

This strategic clarity seems to have served Palisade well. While Palisade's investor base continues to favour Australian pension funds, Lloyd explains that overseas sovereigns and pensions have recently entrusted the manager with some of their money. Geographies now in the crosshairs include Southeast and North Asia. "We haven't gone offshore in any concerted manner. Instead offshore has found us," Lloyd says. "Korean investors, for instance, see the need to partner locally."

Palisade needs to maintain its first mover advantage. "Coming out of the financial crisis, fund managers either didn't have the capital to invest or were focused on big privatisations. We've always seen a lot of capital chasing the big assets. And some of it is now coming down to the mid-market."

JUMPING THE FENCE

Fortunately, Palisade is working hard on building up its defences. While it expects more of its capital to be earmarked for renewables soon, it hasn't been standing idle. "We've been monitoring the renewable energy sector for a very long time. But now government regulation is being sorted out and there is a recognition that a lot more investment is required in this area." Utility-scale wind remains the most cost-efficient technology out there, Lloyd reckons, and indeed the company already owns two wind farms.

However, Lloyd also sees great promise in solar and Palisade is already investing in the sector through improvements to existing assets. For example, the firm is investing in a project to provide Darwin Airport, an asset it owns, with 25 percent of its energy from solar. This is something it has already achieved at Alice Springs Airport, which is now mostly powered by the sun.

Utility-scale solar, however, could soon shine much brighter in Australia. "We have a wonderful solar resource, like no other country, yet even the UK has embraced solar on a greater scale than us," Lloyd observes. "We're probably number one in the world for residential solar. But when it comes to utility-scale, there's a lot more we can do." Palisade's 5.5 megawatt Darwin Airport solar facility is a case in point, emerging as the largest solar plant to be 100 percent privately financed in Australia.

Pinning down other promising sectors seems a more difficult exercise. In a crowded market, "being smart" makes the difference. That starts with using one's own expertise of a particular segment to convince would-be sellers of one's capabilities, Lloyd says. "People who are selling in the mid-market don't want protracted sale processes like we see during privatisations. They want to deal with somebody they trust and have the capital and execution capability."

Being smart is also about doing more with one's existing portfolio. "We see quite a lot of opportunities to grow the assets we already own. Currently, for example, we have or are progressing a few add-ons in the airport, pipeline, fuel and gas storage sectors."

ALL HANDS ON DECK

For Palisade that is not a new theme, Lloyd admits. More novel is its company-wide focus on operational excellence, encapsulated in last year's launch of Palisade Asset Management (PAM). "In the past, infrastructure was often seen as a passive asset class. We recognise significant benefit from active management and have now established a dedicated asset management company, with sector specialist operational personnel, that will work at the asset level."

> "We haven't gone offshore in any concerted manner. Instead, offshore has found us"

Outsourcing asset management comes with a danger, he reckons, in the form of a potential non-alignment of interests between owner and manager. Building an in-house team is Palisade's answer to the problem. Lloyd expects to bring assets where it has majority control and has built sector expertise under PAM management.

A tailored, flexible approach is also what Palisade aims to deliver to its clients, Lloyd remarks. "We're targeting mid-market Australian infrastructure and ultimately we don't care how investors access that segment. So we have a pooled fund that invests across the whole spectrum of infrastructure assets and one that focuses only on public-private partnerships. And we also offer separately managed accounts and direct investment mandates, which give our clients greater control."

The firm manages about A$2.2 billion (€1.4 billion; $1.5 billion), A$1.4 billion of which is already invested and A$750 million "seeking a home", Lloyd says. And despite rising competition, he is eager to underline that Palisade continues to target returns slightly higher than the market average. "A lot of players in the market are buying assets on business cases that do not appear sustainable."

What his firm is particularly cognisant of, he argues, is that interest rates will not stay as low as they are forever. That implies basing one's target premium on the long-term risk-free rate, which he places at 4 percent plus, rather than the current one, which stands at around 2.75 percent. It also means being especially cautious on the leverage front in a market that still doesn't have easy access to long-term lending.

"We're seeing a return to the 2007 mentality, with people thinking the market will continue forever. We don't think it will be the case." Which is why the company has refinanced most of its portfolio over the last two years, with a view to having debt locked in over staggered maturity periods. Prudent forecasting and proactive management: two other concepts that seem to capture Palisade's take on investment well. ■

Renewable energy: about to take Australia by storm?