KEYNOTE INTERVIEW

# Investing into the European transport transition


*Reichmuth Infrastructure's Stefan Hasenböhler and Roland Kaufmann share their insights on investing in European transport*

Swiss-based infrastructure investor Reichmuth Infrastructure was established in 2012 as a part of the wider Reichmuth Group, specialising in energy, transport and circular economy. It was an early investor in rolling stock assets and launched a dedicated transport fund last year, with a European focus.

CEO Stefan Hasenböhler and senior investment manager Roland Kaufmann say the key to success, particularly in the mid-market space in which they prefer to play, is to seek essential assets favoured by regulatory and macro-economic tailwinds.

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### Q What are the macro trends affecting transport investors?

**Roland Kaufmann:** There are four major trends affecting the transportation landscape, with two trends mainly affecting the demand side for transportation infrastructure and two trends with an impact on the supply side of the segment.

On the demand side, the first and foremost trend is population growth, which is obviously one of the general drivers of the demand for – and hence wise investment in – infrastructure. This translates also into the transport segment, as we see that more people will demand more goods and travel arrangements, which will effectively result in higher transport performance over time, both in terms of tonne kilometres in the cargo segments as well as passenger kilometres travelled. As the European transport infrastructure capacity is currently already heavily utilised, we do see this as an important factor.

The second major trend is the modal shift, meaning the shift towards greener means of transport for the flow of goods and people throughout Europe. This has a strong tailwind from the political side, encouraging the shift from road to rail. The EU has a clear focus on reducing greenhouse gas emissions by 90 percent by 2050 and this includes a smart, sustainable mobility strategy.

On the demand side for transport

infrastructure, we see two major megatrends, being the trend to renew/replace increasing parts of outdated infrastructure, as well as the type of replacements with newer technology to effectively foster the decarbonisation of the sector.

**Stefan Hasenböhler:** Taking into consideration the regulatory and political environment in the assessment of the segment is likewise important. Whilst the European Green Deal is indeed driving the decarbonisation of the key polluting sectors in Europe, many investors focus on energy generation and distribution, with large investments going into the renewables space, yet it also has a lot of impact in the transport sector.

Customers in the transportation sector will increasingly demand clean transportation solutions themselves, not least because they will also have to report their greenhouse gas emissions and will also be prepared to pay for these clean solutions.

Transport is responsible for 25 percent of greenhouse gas emissions in the EU, whereof roughly 70 percent comes from roads. A lot of Europe's old transport infrastructure will have to be rebuilt and we are seeing this going on at the moment, with the intended large-scale renewal programme of the rail network going down in Germany, for example.

Moreover, when it comes to upgrading the transport infrastructure and considering the amounts required to do so, the question will arise whether governments will have the required funds to do so in the future. As we see quite stringent government spending at the moment, we see opportunities for private capital to fill the gap and provide the investments needed.

## Q Which sectors are providing opportunities?

**RK:** In the transport sector you have essentially four main verticals: rail, road transport, waterways and aviation. We are focusing mainly on the rail space and waterways, and we are looking at certain subsectors within the roads and social aviation space.

Whilst maintaining our focus on central Europe as our core geography, we are also extending our reach more towards Eastern European countries, where we see attractive fundamentals for the renewal of the currently installed transport asset base, such as for example rolling stock investments and leased equipment for new freight routes towards the Red Sea and Baltic Sea regions, as well as a general long-term increase in demand due to the economic growth in the region.

> *"Many investors face an increasing exposure towards renewable investments and see transportation as an attractive diversifier"*
>
> **STEFAN HASENBÖHLER**

Despite the broader definition of the assets in scope, we have a very strict selection mechanism for our investments, to ensure the core-plus characteristics of our investments with the majority of the portfolio being composed of essential assets, generating visible and secured long-term cashflows.

This filter mechanism, for example, is at the moment the reason why we are not investing in a sector like EV charging, which normally carries larger proportions of merchant risks with reduced visibility on stable residual cash value which we would like to see. Additionally, we are always thinking about the risk of obsolescence for assets in the longer term given the evolution of ESG-related regulations in the fight against climate change. That means we currently stay away from investments into new-build wagons for oil and gas transport as those are deemed unlikely to have the remaining economic life matching the technical obsolescence age, which would be around 40 years.

**SH:** We are very keen to play clean transport in rail and water, given the economic resistance of those sectors as well as the environmental attribution of lower GHG emissions by shifting to those modes of transport.

We are also looking at opportunities where there is a sustainable or social angle in aviation as we see advances in green fuel technology. This is an area where we have to educate investors to some extent to explain to them that transport has to have a broader definition given its consumption of energy and, even with state-of-the-art technology, its emission profile.

## Q How enthusiastic are investors about playing these macro trends in the transport sector?

**SH:** Usually, there are three different aspects to investors' reactions.

The first thing I would say is that these kinds of investment are seen as an interesting way for investors to invest into the major shift towards decarbonisation that is happening mainly in the EU. This said, there is of course a plenitude of opportunities available to do so by investing into renewable energy generation assets, yet many investors face an increasing exposure towards renewable investments and see transportation as an attractive diversifier with a large need for capital expenditures over the decades to come.

Secondly, we always have to outline to investors the way we handle and hedge GDP-related risks when investing into transport infrastructure. This is a core part of our investment process, as we are usually not envisaging an overproportionate merchant or GDP exposure, but are looking for

## How do you cope with the sustainability challenge in transport investment?

**SH:** The problem is that a lot of transport is still dependent on legacy assets operating on outdated technology or infrastructure. As an example, non-electrified rail tracks at the last mile require dual locomotives that carry diesel-based modules. Of course, such assets are still very beneficial from an ecological and socio-economical point of view, which is exactly why we want to drive transition in the sector. Our new fund under SFDR Article 8 is doing exactly that by decarbonising and innovating our rail and water assets, making them fit for future ways of transportation.

investment opportunities with long-term contractual or concession-like offtake agreements.

And then thirdly, a major attraction to investors is that they are often underallocated towards the transport sector. Historically, many have been over focused on energy. Many investors say to us that they have a lot of renewables and are looking for more of a satellite approach to broaden their infrastructure exposure and play the decarbonisation trend at the same time.

## What are the challenges for investors in the transport sector?

**RK:** There is always a challenge for every investor in transport in understanding exactly what you are investing in. Investing in a road is quite straightforward as you often have a general contractor and you know that at the end of the day "a road is a road".

But when, for example, you are investing in rolling stock assets there is a huge variety of different options you can choose from. You can invest in leasing locomotives with certain country packages, with different propulsion systems and varying last-mile modules and having a GDP-risk involved or not.

This said, and bearing in mind that we are investing into assets with a useful life of 30 years or more, investors really need to understand the technology of the assets we are buying, how this will impact demand in the long term and where the pitfalls are. It is important not to be amazed by whatever the latest new technology is such as a new hydrogen propulsion train or locomotive. It would be very easy to go bust just playing exciting technologies in the transport sector.

This is why it is particularly important for mid-market investors to ensure that they have very good knowledge of the asset that they are buying, and to stay on top of the growth path of the companies they are investing in; to take a thorough, but 'softly, softly' approach.

It is also important to keep close to the technical developments in the market, which is also the reason why we go to pretty much every transport conference in Europe.

**SH:** I agree, understanding the assets you invest in is key and transport investors don't want to invest in new technologies in the way venture capitalists do. Yet, equally important is knowing the management teams of your operating companies and ensuring a shared vision for the longterm.

As an infrastructure investor, investing into long-lived assets, we have to share a common understanding that we are in for the long-run, not mid-term interests like private equity players focused on growing and flipping assets. We should be interested in operating them.

## How do you see the future of transport investment?

**RK:** To understand the potential, you can compare the transport sector to the energy sector. In many ways it is at the same stage of development that energy was several years ago. Even though officially in place for many years already, the level of liberalisation is quite new, and there are far too many unprofitable and uncompetitive state-owned companies with declining market shares.

We saw something similar in the energy sector and it was only through the involvement of private capital that it changed. I think the same thing is going to happen in the transport sector.

**SH:** We are going to see a big transformation, or better to say transition, in the transport sector in the future and, given the scarcity of government funds, private capital will play a very important part in that. It will be driven in part by regulators, but it will also be driven hugely by public demand as individuals are more and more focused on clean transport. ■