Adam Reisler

Episode 232: Beyond Bridges: How Infrastructure is Reshaping Cities and Investment Portfolios

GUEST Q & A

Stewart: Welcome to another edition of the InsuranceAUM.com Podcast. My name's Stewart Foley, I'll be your host. We've got a very interesting podcast for you today and a little bit of a different intro. So all together it's going to be a good listen. Today we're joined by Adam Reisler, who is a partner at StepStone in the infrastructure and real assets team. And you are coming to us from Australia where it is the next morning for the day that I'm in. So Adam, welcome and thanks for being on.

Adam: Yeah, it's a pleasure to be here. The next morning and also the middle of winter, so doing the opposite thing over here.

Stewart: Yeah, I was going to say it is going to be a cool 100 today in Central Texas and so we're a long way from winter here, for sure. So why don't we start this one off in kind of the way we always do, which is can you tell us your hometown and where you grew up and what was your first job, not the fancy one. And then I've got a fun question for you before we get into the meat and potatoes of the conversation.

Adam: So I've been in Australia for about 10 years now, but I'm originally Canadian, born and bred in Toronto. So I came from quite a different place in the world originally. I spent most of my life in Toronto, did some school in Montreal, but basically a Canadian for the most part of my life. First job, pretty easy to say. It wasn't a pretty job, but I actually worked in the waste business, so it was a pretty dirty job and I was in the basement of a hospital where we would take everyone's, basically, confidential information and shred it all and it was right next to where they were taking out the bodies to remove them to the morgue. So it was a pretty interesting summer job, but that's what I did to make some money early on.

Stewart: Wow, that's interesting. Yeah. Well interesting on the location as well. So interesting as well. So I decided to do something different today and what I have is a trivia question on infrastructure. Will you play along with me on this? I think this is going to be a fun way to introduce.

Adam: Yeah, I'll play along. I hope I do all right.

Stewart: Well who knows. Here we go. Do you know the longest continuously operating canal in the world that is still in use today? The answer surprised me.

Adam: I'm assuming it's somewhere in Europe, I'm assuming some are maybe even Nordic, but I don't know. I don't have an answer for you.

Stewart: It is the Grand Canal in China and it was completed in the seventh century during the Sui dynasty and has been expanded and reconstructed over time. But that was, I thought, an interesting way to give a little tidbit to our audience as far as a little trivia of the topic of the day, which is infrastructure. And I want to start off by asking you about the private infrastructure landscape today and with this little bit of background in our symposium, which was completed just last month and I'm recording this July 3rd, infrastructure was one of the top 6 topics that was chosen by our attendees. And I think that it fits insurance companies particularly well, those who have long-dated liabilities, which is a big part of the market. So what can you tell us about that particular landscape right now?

Adam: Yeah, definitely, and I think your trivia question probably highlights the fact that infrastructure has really been around from the beginning of civilization. And when we think about some of the roadways and some of the irrigation work that had been done to make early civilizations productive. But as an actual investable asset class, private infrastructure has not been around for very long. It's probably one of the youngest asset classes when we compare it to other ones like private equity and real estate. But it has grown very rapidly and really become institutionalized and become a big part of a lot of a large institutions' portfolios. When we think about infrastructure back in 2009, let's say it was $100 billion asset class. That's how much the AUM was. It was a much smaller space in terms of the number of offerings, the number of sectors as well.

And fast-forward today and we're about $1.3 trillion AUM asset class. Still smaller than private equity, but certainly growing faster than the other asset classes. We've more than quadrupled in the last decade and now there's just so many more options that exist for investors and that creates obviously a lot of opportunities, but it creates a lot of challenges in terms of trying to figure out what makes most sense for your portfolio today. So I think that's what's really interesting for us is that we're seeing more and more managers creating more and more strategies, whether it be diversified strategies, investing across the globe or whether it be regionally-focused or sector-focused. There's just a lot of options that span across strategies as well as risk profiles, which is another, I think, interesting phenomenon about the space in infrastructure is that different investors can approach infrastructure for different purposes and different objectives in their portfolio.

Stewart: I used to be a municipal treasurer and I'm just thinking about this in those terms with ... So a 10X growth in the asset class at least since '09. And is part of that driven by the idea that governments don't have the capital to meet the infrastructure demands being made with the growth of population and so forth. Is that driving a bigger, is it new expansion? Or how much of it is privatizing existing assets that governments are trying to essentially raise cash by selling?

Adam: It's definitely a mix. And then there's also, there's the public component, there's also the corporate component as well, and there's a place for private infrastructure investors. We've seen a lot of these large carve outs from big telcos, for example, for non-core assets that fit better in an institutional infrastructure portfolio than they do in a corporate. So it's a combination of that. Plus yes, public balance sheets are strained and just the need for investment is staggering. The megatrends behind infrastructure around energy transition and digital infrastructure investment that are required as well as sort of more traditional infrastructure like transportation and building out and modernizing cities. It's staggering. And I think every time we do an analysis the next year, the number gets bigger and bigger. I think a few years ago we came out with some of the published analysis around sort of an expectation of maybe $4 trillion a year needing to be spent in infrastructure across all the sectors. And now you have plenty of analysis that shows that's just what's going to be needed for energy transition alone. So the need is staggering across all those verticals.

And then also there's a place for innovation and there's a place for infrastructure investors to help support building out the needs of not just sort of the community in terms of the essential services, but also in terms of some of the innovation around particularly digital and the advancements of AI and the needs for compute power and the place that infrastructure investors will need to play in building out that large and growing innovation and need for that technology. So I think that infrastructure plays a large role in a lot of those different verticals.

Stewart: I can just tell you, and I moved to Texas from Chicago. I love Chicago, I love the people in Chicago. I love it. And this is no knock on Chicago. It's just I'm using Chicago as an example because I'm familiar with it, but they have commuter trains and the L and everything else and there's a lot of bad weather in Chicago and they use a lot of salt on the roads and everything else. And the infrastructure is literally crumbling. I mean, there's chunks falling off the bridges that hold the trains up. And I would just echo your assessment that the need is great and it is here to stay, at least from my perspective as just what appears to be a boundless need for investment and infrastructure. But is that part of the reason that investors are finding this an attractive asset class? I mean, what are you hearing from investors of why they find this attractive?

Adam: Yeah. Well, I mean the thesis and infrastructure has been around for a while, but some of the conditions for it haven't. And so yes, for as long as institutional investors have been investing in this space, they've approached infrastructure because one, it has historically been uncorrelated to other asset classes in the public market. So the volatility is very low. At stable cash flows, you have these assets that are typically either essential services or have monopolistic characteristics or have contract profiles that make them very attractive in terms of predictability of cashflow. And in an environment like today, ability to pass through inflationary costs. And so all those factors have been really key when you think about, as you said, insurance companies matching their duration and liabilities. If you think about pension funds and being able to hedge their inflation risk, all that has been critical as a fundamental premise as why you invest in infrastructure.

But of course, we haven't had high inflation for a very long time and isn't only until the last couple of years that we've seen both volatile markets, drawdowns in the equity markets as well as inflation and infrastructure has played out, it's done what it is meant to do. It has been resilient, it has not had the drawdowns in values that we've seen in other asset classes. It's been consistent and we've been able to see a lot of the sectors and infrastructure pass through inflation, in some cases actually perform better in inflationary environments given their structures. So it really has delivered on what it set out to deliver. And I think that means that more and more investors are looking to allocate to the space.

Stewart: And look no further than anybody who's got long tail lines of business to find somebody who is in need of an inflation ... And effective inflation hedge, which as you know, bonds are the predominant asset class of insurers and they are the kryptonite. Inflation is the kryptonite of bonds, and yet the long tail riders in particular like a workers' comp carrier or somebody like that, they're exposed to inflation and medical inflation, which is often higher than CPI for a long period of time. So I think from that perspective, there's a lot of fundamental characteristics, seem to fit. One of the things that is always of interest to insurance investors is how can I access the asset class? And that gets into structures and so on and so forth. But if I'm a CIO looking at infrastructure with a fresh set of eyes, what are my options for gaining access to the asset class?

Adam: Yeah, definitely. I mean, simplistically, there are a handful of options. I mean, for the most part what people think about when they're investing in these spaces is probably a starting point would be sort of your traditional fund investments. Primary investments is what we call that. That obviously is a way of being ... The most passive way of investing in the space through a manager essentially in a closed end fund. We see that a lot. We certainly saw it earlier on in the market evolution when there were fewer managers and fewer funds. But now I think there's about 700 different managers and 3,000 different funds in market. In terms of what's raising today, I think there's over 250 funds being raised trying to capitalize in about $700 billion of capital. And so if you think about the amount of options in the fund space, again, it's a great opportunity for investors, but also it's very challenging to navigate. Again, that's across so many different types of strategies.

So understanding where an investor wants to play when you have a limited pool of capital and not just limited pool of capital, sometimes it's the limited resources. Some of the largest pools of capital only have a couple of investment team members in their team, and it's very difficult for them to manage meeting with managers constantly and trying to assess the different options. And so we think the fund space will always be a foundation of investing in infrastructure, but it's not without its challenges.

Investors are also becoming more sophisticated and doing what we call tactical investments. And I would categorize that in two different groups. One being co-investing. Co-investing is an area that more and more investors are becoming sophisticated in. They're hard to execute, frankly, but I think investors look to those to average down fees essentially, and to be able to tilt their portfolio. So it's a way of investing alongside a manager and then picking certain assets that are of interest for your portfolio and usually getting that in a pretty fee-efficient way. So co-investing is an interesting space.

And then secondaries are becoming more and more of an opportunity set in infrastructure. It's been a place that private equity has played for a very long time. Infrastructure has started to mature in that space and we're seeing more volume, we're seeing interesting pricing, we're seeing really good quality vintages come up. And because of some of the dynamics in the market today, secondaries has become an attractive place for infrastructure investors as well. And secondaries, I should say, just to be clear what that means is basically buying existing LP stakes and funds from other LPs, and in some cases, buying existing assets of managers to create these continuation vehicles, essentially. And they basically say there's more value to extract from this asset. We'll create a new vehicle and hold it for a longer period of time.

So those are sort of tactical investments we find interesting. And probably even more recently, which I think sort of goes to this democratization of infrastructure in private markets are we're seeing these sort of semi-liquid solutions that for investors who need a bit of liquidity or at least the option of liquidity, these instruments that allow smaller institutions, private wealth investors, different investors who cannot lock up their capital for 10 to 12 years, we're seeing them access these semi-liquid options.

Stewart: Adam, at the risk of, I don't want to be commercial here, but can you tell me exactly how StepStone works with a client in this situation? If I want to put a hundred million bucks to work in infrastructure, how do you actually work with clients?

Adam: Sure. Look, I mean, I think the answer is we work with them in terms of however they need us to help them. And I think one of the key things that's important for us is creating sort of a customized sort of solution that really solves the problem or the needs of that actual investor. And so an insurance investor might have a different need than a pension fund or sovereign wealth fund, and I think that's important to acknowledge. But ultimately what we try to do is figure out what those objectives are. And some investors, I mentioned a list of options when it comes to funds, co-investment, secondaries, some investors will do all three of those. Some investors will focus on one or two of them. So it's really helping investors create a menu of options. And in some cases, for very large investors, we have fully customized programs for them that help them build out a very long-term program to meet their allocation and liquidity needs.

And in other cases, it's plug and play and we have a set product that they can plug into and gives them automatic diversification and access to a wide group of either sponsors or assets. And I think that's viewed as pretty attractive given I guess the simplicity and the fact that they can sort of leverage our existing investment team to access the market. What we try to do is educate as much as possible, so we're doing about 1,200 meetings a year with managers, but for our clients, our clients can see all of our meeting notes. We try to be very transparent and which we want to give them as much information about the market as possible to help educate them on what's out there. That's really our job is to act as a bit of a conduit to connect them with what we think are the best investors in the world.

Stewart: That's super helpful. So what are the major opportunities in infrastructure in the years ahead and what are some of the challenges?

Adam: Yeah, definitely. I think some of the opportunities are ... What I like about infrastructure today is the opportunities are not just infrastructure opportunities. They're opportunities that everyone is reading in the newspaper day in, day out. They're things that are really essential to the success of civilization going forward. And these are these megatrends. The first one I touched on earlier is around energy transition and really just the astronomical needs around converting the power grids around the world to less carbon-intensive energy. I think that the needs remain staggering in terms of the amount of investment, what it's going to do to the grid. So people think very traditionally about wind and solar, but so much more than that in terms of new technologies that are going to be needed. All the things that need to work to allow for more intermittent renewable power around the energy grid and stability around the energy grid is critical. Energy storage and batteries, there's so many different verticals that sort of flow from the need less carbon-intensive generation.

That space is becoming significant, not just in terms of the need but also the strategies to invest in. I think it now represents over a third of the entire market. So over a third of new funds coming to market are renewables and energy transition-focused funds, which is pretty amazing considering where that didn't really exist about five years ago as a separate strategy. So that's huge as a megatrend.

Digital obviously continues to be huge. The growth in data and you can imagine every year is staggering. AI has really accelerated that and the need for compute power, these large language models. Not just compute power, but the amount of energy that's required is a multiple of what used to be required in these hyperscale data centers. And so the need continues to outpace the supply. And that's not just the need for compute power, the power that's going to be required from the grid. I think in the next few years we expect more than 10% of what's needed in terms of power is going to come from data center compute. And all that is really going to be driven by infrastructure investors, building new data centers and maintaining existing ones alongside all the services that are required to support that, including fiber and towers and small cells and all the technology associated. So huge megatrends there.

And obviously communities modernizing their cities, transportation networks. The roads of tomorrow are not going to look like the roads of today with EVs and autonomous vehicles. And so there's just a huge amount of investment needed in that space. And I think people think about infrastructure as old and boring and something that looks the same for 100 years. And I just think the disruption coming in infrastructure is real, and I think being ahead of that curve is important. And so that's another thing we focus on is innovations in the space so that we can remain ahead of the curve.

Stewart: That's super helpful. I've gotten a tremendous education about infrastructure and real assets today, and I appreciate you being on. I've got a couple of fun ones for you out the door if you're interested. I don't know if you remember when you graduated from your undergraduate degree, but did you walk at graduation?

Adam: I did, yes.

Stewart: Okay, so right at the bottom of the steps, you probably were waiting behind ... I've seen 1,000 graduations as a finance professor. So you're behind the curtain and all of a sudden they read your name and you go across and you take your diploma and you shake the president's hand and whatever else, and then you go down the steps and you're stoked because you just graduated from college. I mean, it's amazing. It's a hell of an accomplishment. And so if you could run into yourself today, run into that brand new college graduate, Adam Reisler, what advice would you give him?

Adam: Oh, that's a tough one. Not to put an age on myself, but I came out of college in about 2008, excited about a very buoyant market and a lot going on just to basically find out that we were entering the biggest financial crisis of certainly my time, at least, and if not many's. So I think probably what I would say is be patient and be willing to try new things and to accept some of the difficult times in the market as the best lessons because I think it was a pretty depressing time for a couple of years there trying to get jobs and enter the finance market in particular. But I think it was absolutely the best lesson possible. I think coming into one of the most difficult times has allowed certainly me to be successful in my career in some of the best times in the market. So I think it's staying positive in getting through those difficult times would be a good message if I could go back in time.

Stewart: That's awesome. All right, so here's the other fun one. You're going to go have lunch, it's you and up to three others. So a table of four and you've got Canadian roots, you live in Australia and you work for a company based in the US. Who would you most like to have lunch with, alive or dead? You can have three. You can do just one. One's good. Two or up to three.

Adam: Yeah, I think, look, I know this is a bit cheesy, but I'm a sucker for a sort of Warren Buffet quotes and while he's still alive and well, I would love to sit down with him because I think he's one of these people who has been remarkably successful with a ton of integrity and hasn't done some of the crazy things that we're seeing today that's making people rich and successful, whereas he's really been true and tried and steady. So I think I would love to sit down with him and in contrast, sitting down with someone like Musk, probably at the same table would be very interesting to see how someone else can be incredibly successful in a completely different way. I've watched his journey with great interest and maybe sometimes a bit of concern, but I think some of these people who have done these incredible world changing things, just be interested to have the privilege to sit down and listen to.

Stewart: I love it. That's a great table. Elon Musk and Warren Buffet and you, that'd be an amazing lunch. I've gotten a tremendous education. It's been great to get to know you today, Adam, and thanks for being on. We really appreciate it.

Adam: It's my pleasure. I appreciate it as well. And thanks everyone.

Stewart: We've been joined today by Adam Reisler, partner in the StepStone Infrastructure and Real Assets team. Thanks for listening. If you have ideas for podcasts, please shoot me a note. It's stewart@insuranceaum.com. Please rate us, like us and review us on Apple Podcasts, Spotify, Google, Amazon, or wherever you listen to your favorite shows. My name's Stewart Foley, and this is the InsuranceAUM.com Podcast. We'll see you again next time.