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Aggressive pricing, no bubble in infrastructure

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The current increased interest in infrastructure investments fuelled by the search for yield has driven up prices of certain assets, but a bubble it is not, according to Bastion Infrastructure Group.

"Some of the headwinds are extremely loose monetary policy, which causes people to chase yield and real assets. That is driving some of the aggressive pricing," Bastion managing partner Ron Lepin said in an interview with *theinstoreport*.

"I think people are probably buying assets at levels and projected investment returns that won't be materialised and they are assuming risk that they are not properly pricing, so I think it is aggressive pricing. I don't think it is a bubble in terms of a residential real estate bubble."

However, Lepin argued infrastructure investors did not do enough to create their own opportunities and were too dependent on auctioneers.

"[People] don't spend enough time to generate and develop ideas rather than responding to sellers who are trying to create a competitive auction," he said.

"A lot of people are buying assets like UK regulated assets. It is easy to do those trades, but not enough people are creating new opportunities and developing opportunities."

He argued there were many ways to create new opportunities in the sector and one of the ways the global infrastructure asset manager would approach the market was by partnering directly with developers.

"One of the things that is not focused on enough is the concept of partnering with industrial companies, where we are actually not competing with other infrastructure players, but competing with public equities as a form of funding of a very capital-intensive industry," he said.

"For an entity that might have billions of dollars of capital on the ground in mature infrastructure assets, we can monetise part of that – 49 per cent or 51 per cent of that.

"Let that company redeploy their capital for better value-added purposes, where management can extract more.

"We are happy to take the boring piece of that business, while they retain an operational footprint of that asset.

"They don't have to get rid of the asset; they can remain involved in that asset.

"A lot of our focus will go towards creating opportunities like that."

Lepin established the Toronto-based Bastion in 2011, after a successful career at the Ontario Teachers' Pension Plan (OTPP) and Morgan Stanley.

He started at OTPP in 2002 and established the direct infrastructure program of the Canadian fund.

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At Morgan Stanley he was responsible for an infrastructure fund that later grew out to US\$4 billion in size.

He left there in 2009 and set up Bastion two years later.

The boutique investment business of National Australia Bank, nabInvest, decided to take a minority stake in Bastion after an unsuccessful search for a more established manager.

In June, Bastion appointed Wael Elkhoully as its head of asset management and with the investment team largely in place, it is now ready to look for client commitment.

Lepin was in Australia earlier this month to speak with potential clients.

He said the group would have a relatively conservative risk profile, as it would invest only in countries that were part of the Organisation for Economic Co-operation and Development and look for what he called "boring assets".

"A company ... might have built a pipeline and they might have \$2 billion in that asset," he said.

"That asset is just a boring asset; it is just going along in its normal course of operation.

"What we are saying is ... there is \$2 billion of capital, that we would be willing to take an 11 per cent return on and the company, if they were to redeploy that capital, could earn 15 to 18 per cent on projects through their management expertise.

"We have the flexibility to own part of it, so we could be a good long-term partner.

"We don't have to own 100 per cent, so we can be a partner that is non-threatening.

"It is different than private equity; it is not trying to get a 20 per cent return from that asset. It is not intrusive management or short term."

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