

## KEYNOTE INTERVIEW

# Building on resilience pays off



*Winning investments possess a certain scale, flexibility and growth potential that fosters resilience in adversity, according to CVC DIF's **Tom Goossens***

With increased cost of capital across the board, there is today a renewed appreciation for stable and resilient investments, as well as a more prudent approach to leverage. Winning investments typically have operational flexibility, further growth potential and can adapt when faced with adverse conditions, says Tom Goossens, partner and co-head of CVC DIF's infrastructure funds.

Indeed, traditional infrastructure is evolving to match the challenge of higher interest rates, strong competition and the redrawn political landscape.

**Q What defines the investments that have proven most resilient in this changed interest rate environment?**

Before looking at assets, we have to

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look at the owners behind them. After all, even the strongest ship depends on the skill of its captain. When higher rates make borrowing more expensive, the consequences of past investment decisions surface much sooner. For some, higher rates have been a painful reminder that infrastructure investing, at its heart, is about building resilience.

In these situations, sponsors tend to go back to basics – focusing on prudent capital structures and investments with a solid asset base that support organic growth. They rediscover the importance of attracting best-in-class management and depart from growth models too reliant on future development

pipelines and external financing to generate returns. With the right approach in place, the next test of resilience lies in the quality of the assets themselves. Ideally, value should already be embedded in the company's existing asset base, with clear pathways to further enhancement.

Whether it's winning new concessions or setting up adjacent business lines, these strategies provide the flexibility needed to strengthen downside protection. Should something happen with one concession – an operational incident or tariff changes – there's optionality to recover by driving upside elsewhere.

Take district heating: it's a mature, slower-growing market in most jurisdictions. And yet, investors like the assets for their yield, stability and

stickiness. The best operators enhance these platforms into multi-product operations, for instance by layering in energy-as-a-service models for more diversified revenues.

In our own portfolios, we hold a number of district heating companies, including Loimua, a Finnish business which has expanded into developing, constructing and maintaining industrial heating systems under long-term contracts. The revenue is contracted, availability-based and inflation-linked. And it's a new business line generating additional value on top of an already stable business. This further accelerates the company's growth.

Not surprisingly, integrated utilities, like district heating and energy-as-a-service providers, have performed very well in the higher rate environment. We see strong interest when we bring these assets to market. The same applies to our transportation investments. That's testament to the quality of the assets, but also the application of fundamental investment principles, which are especially important today and clearly distinguish the winners upon exit.

There will always be a point in the cycle – and we're at it now – where investors refocus on yield, stability and operational performance. That's undoubtedly positive, but we must remember that true resilience is built over time, not only in response to market changes.

### **Q How has the changing geopolitical climate impacted the industry?**

CVC has 30 office locations globally, and at CVC DIF specifically we operate out of approximately half of these. We're therefore experienced in navigating regional complexities and have always approached country risk with caution, an attitude that's served us well.

The geopolitical environment has undeniably changed, which will of course shape investor behaviour and preferences. In Europe, for instance, Italian investments once commanded



### **Q Has the approach to leverage changed?**

It's fair to say that the approach to leverage has changed, including within CVC DIF. To understand how, it's worth looking back to before the current rate-hiking cycle started in 2022. Liquidity was abundant, banks were bullish and financing terms were much looser. As a result, discipline had to come from sponsors rather than lenders.

Borrowers who weren't mindful of the risks then are acutely attuned to them now. From a capital-structuring standpoint, this often translates into lower gearing in deals, longer debt tenors and interest-rate hedging to reduce refinancing and rate exposures. These are sensible steps, but a prudent approach can, and should, go further.

At CVC DIF, we prioritise building operational strength first and then layer in financial efficiency. In practice, this means starting with lower leverage, particularly for company-style investments and especially in the early years of ownership. That gives us time to understand the business in depth, strengthen operations and establish a stable performance track record. Once that foundation is in place, we can move to optimise the capital structure more fully.

We find that this sequence reinforces asset quality, ensuring leverage enhances performance rather than dictating it. And it's paying off. Today, we see strong lender interest in our portfolio, with a series of successful refinancings over recent months. With the rate cycle now turning somewhat, we expect the benefits of lower borrowing costs to accrue more fully to operationally fit, well-structured assets.

higher returns than comparable opportunities in France, but their risk premiums have converged, signalling that those days are probably over.

In the US, risk perceptions have edged higher over the past year. Tariffs, inflation and changing policy priorities

are more closely scrutinised than ever before – they certainly feature more prominently in our investment committee discussions.

Across North America more broadly, which represents around 30 per cent of our mandate, we continue to

see strong dealflow in Canada. While currency risk is a consideration there, regulatory predictability is higher than in the US.

We recently acquired SBA Canada, a telecoms tower portfolio. Normally, tower assets are highly competitive and priced for single-digit returns. In this case, the portfolio was a carve-out from the seller's non-core business and had extra scope for operational improvement. With the right enhancements, we expect to achieve returns closer to mid-teens IRR.

More broadly, we're exploring new geographies and adjacent sectors where we can apply our operational expertise. We recently did a transaction in Abu Dhabi along these lines. Building on our experience in district heating, we expanded into district cooling with this deal. That positions us well in a sector that we expect will become increasingly relevant in the coming decades, both within the Middle East and beyond.

In terms of the impact on clients, at the moment we see more investor appetite for European assets from LPs and more appetite for diversification following the heightened policy uncertainty over the past year. We think this will be a longer-term structural change, rather than something that's short-lived.

### **Q How does an adverse market impact the ability to evolve and innovate?**

We've touched upon this question indirectly – discussing how adversity can prompt sponsors to focus on fundamentals, use leverage prudently and explore geographical diversification. But adversity isn't always about macro headwinds. Sometimes, it comes from the opposite direction – markets that are too competitive.

At one point, we found the Nordic district heating market became overly competitive. We still liked the assets, but aggressive pricing left little room for value creation. Rather than step back entirely, we took a different approach.

We acquired a UK-based district heating developer, which we then used to build a Nordic-style platform in the UK. Competition pushed us to become more creative, applying our existing expertise – just in a new context.

But whatever the form of adversity – macro headwinds, higher rates or more intense competition – flexibility is always critical. Companies with an operational model built around a base of infrastructure assets can offer more manoeuvrability. By contrast, a single-asset PPP can become problematic if a government dispute, delay or cost overrun occurs – there's less scope to pivot. A more flexible platform, however, allows for creativity in the business model and can still outperform its base case even under pressure.

This flexibility is especially powerful in the mid-market, CVC DIF's main investment area. Mid-sized operators pivot faster than larger incumbents, unburdened by organisational drag. While this agility is essential for confronting adversity, its equally important for seizing opportunity and driving resilient value creation and differentiation, which is what really makes investments stand out in the mid-market.

*“The principles we’ve discussed will always endure: discipline in approach, creativity in execution and the critical importance of operational excellence to create value”*

### **Q How do you see the balance between traditional infra and newer operational models evolving?**

Today's infra market has developed a deeper understanding of how to operate and price more diversified, multi-purpose companies. Waste management is a good example of this transformation. The sector has moved beyond the traditional PPP-style, single-asset energy-from-waste projects that once defined it. Investors are now comfortable with fully integrated waste management businesses that handle the flow from collection through to recovery.

In many ways, waste-to-energy represents a more expansive investment opportunity. It's still the same sector, but the business model has matured and the market's ability to assess and price that complexity has matured with it. Across the industry, we're seeing investors become more confident in evaluating diversified platforms and taking a more nuanced view.

Fundamentally, this reflects a broader evolution of the asset class. What we used to call “core” infrastructure increasingly looks like “core-plus”. Investments in this part of the market now have operational depth, optionality and scope for growth. When managed with discipline, the added complexity doesn't necessarily translate into higher risk. Instead, it draws on a wider range of value creation levers that support more diversified and durable assets to hold in investment portfolios and deliver successful exits in the end.

As the one constant in infrastructure investing, change must be embraced. Business models evolve, interest rates fluctuate and geopolitics will shift. But the principles we've discussed will always endure: discipline in approach, creativity in execution and the critical importance of operational excellence to create value. Rooted in these principles, investors will be well placed to pilot their capital just as adept captains do their ships, with resilience and forward momentum. ■