Fiera Axium turns south for infrastructure deals and investors

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Secondary market activity in Canadian infrastructure has picked up sharply. Institutional investors everywhere have looked for safe and predictable havens in the wake of the 2008 financial crisis, and Canada, which emerged from the crisis relatively undamaged, has been a favoured destination.

Now, one of the most conspicuous successes among financial investors in Canadian PPP is becoming increasingly active in renewables project financings, and expanding outside of its home turf.

Fiera Axium Infrastructure is an independent portfolio manager jointly controlled by Fiera Capital Corporation (50%) and Axium Infrastructure (50%). Fiera Capital is a money manager that was founded in 2003 when Desjardins Group spun out Elantis, its investment subsidiary. Axium Infrastructure was founded by Pierre Anctil, until 2008 an executive vice-president at SNC-Lavalin.

Fiera Axiums management has a long track record. Each of us has a previous life, says Stéphane Mailhot, Fiera Axiums chief operating officer. Mailhot and Anctil, Fiera Axiums chief executive officer, worked together at SNC-Lavalin. Anctil grew SNCs infrastructure portfolio to C$2.5 billion, and Fiera Axium is now looking at similar types of asset to those in SNCs hands.

Fiera Axium wants to demonstrate it has the origination, due diligence and financing abilities of the largest private equity firms, even if its investment horizon is a little longer. Were private equity investors, but were not buying with the idea of selling, says Paulo Arencibia, Fiera Axiums investment director in New York and a former project finance banker at BNP Paribas. We plan to buy and hold.

Five years after launch, Fiera Axium has emerged as one of the most prolific Canadian middle-market financial sponsors of infrastructure assets. It already has stakes in over 40 contracted assets - most of which are Canadian and expects to invest in others in 2014, including in the US. Its main funds are Fiera Axium Infrastructure Canada, Fiera Axium Infrastructure North America, Fiera Axium Infrastructure Canada II and Fiera Axium Infrastructure US.

Fiera Axium has bought assets from, or with, large and experienced power sponsors such as GE Energy Financial Services, GDF Suez and EDP Renewables. Alterra, the Vancouver-based developer and sponsor, has done multiple deals with Fiera Axium. Fiera Axium made a pretty big splash in renewables, says John Carson, chief executive officer at Alterra. Theyve come to the fore, especially in Canada.

u Steady deal flow

Since late 2012, Fiera Axium has made investments in wind and solar projects in North America, and closed on a prison PPP in Québec.

In December 2012, it made its most high-profile purchase, when Fiera Axium Infrastructure Canada, Fiera Axium Infrastructure Canada II and Régime de rentes du Mouvement Desjardins bought a 30% stake of a C$2 billion ($1.8 billion) portfolio of Canadian wind and solar projects from GDF Suez. GDF retained 40%, while Mitsui bought another

30% stake. The GDF Canada acquisition fit Fiera Axiums investment criteria, featuring deep-pocketed co-sponsors, assets with long-dated power purchase agreements with well-rated provincial utilities, and geographical diversity. The GDF Canada portfolio consists of 10 wind projects with 660MW total capacity, and two solar photovoltaic projects with a combined 20MW.

Fiera Axium won its stake of the GDF portfolio in a competitive bidding process. Arencibia estimates that about two-thirds of the company's assets derived from auctions. We dont get any favours, says Mailhot, who works in Fiera Axiums Montréal office. Most of the time, we win these projects competitively. We aggressively manage our bid costs, and we bring added value through our technical expertise.

Fiera Axium and Mitsui closed a C$795 million financing to support the GDF acquisition. Four Japanese lenders participated, including export credit agency JBIC, which committed C$477 million. BMO Capital Markets and Borden Ladner Gervais advised Fiera Axium on the deal.

In the same month that the GDF Canada acquisition signed, Fiera Axium bought stakes in two British Columbia facilities the 235MW Toba Montrose run-of-river hydro plant and the 144MW Dokie 1 wind farm from GE EFS. Alterra, at the time, owned the balance of both plants. But in December 2013, Fiera Axium increased its stake in Dokie 1, buying an additional 25.5% piece, this time from Alterra.

Ontario solar photovoltaic (PV) accounted for much of Fiera Axiums financing activity in 2013. Fiera Axium bought Alterras 10% stake in the 50MW ABW solar portfolio in the province, and then subsequently bought GE EFS 90% interest. Neither seller ran an auction for its share. We were a logical counterpart for subsequent transactions, Mailhot says. Adds Arencibia: Everyone prefers a bilateral approach.

In May 2013, Fiera Axium Infrastructure Canada II and MetLife agreed to buy the Borealis portfolio of PV projects in Ontario, for C$77 million in equity, from Recurrent Energy. Fiera Axium and MetLife will each own 50% of an 86MW cluster of projects, and the same Fiera-Axium-managed fund will buy a separate 22MW bundle. All have offtake agreements with the Ontario Power Authority (OPA), a provincial agency.

Recurrent, Fiera Axium and MetLife decided to finance the Borealis projects in a single process, but fund on the projects in clusters of four. The three agreed to a C$390 million 19-year debt package with National Bank Financial (bookrunner) and Sun Life (lead lender). The clusters feature slightly different lender groups, which required intricate intercreditor provisions.

In the middle of 2013, Fiera Axium and Starwood Energy closed a C$150 million financing for the 40MW Northern Solar portfolio of contracted greenfield solar photovoltaic projects in Ontario. Bank of Tokyo-Mitsubishi UFJ, which had helped finance the GDF Canada acquisition, returned as a Northern Solar lender. At close, Starwood sold its 50% stake in the portfolio, which also benefited from OPA offtake contracts, to Fiera Axium.

Fiera Axiums other big-ticket financing in 2013 was a greenfield PPP concession. In October, the Fiera Axium Infrastructure Canada II fund closed on a 30-year concession for the Sorel Tracy Detention Centre concession in Québec, backed by two tranches of debt underwritten by National Bank. The grantor for the availability payment-based concession is Société immobilière du Québec, while Pommerlau is construction contractor and Johnson Controls is facilities manager.

In 2013, Fiera Axium began turning its attention towards the US. The Fiera Axium Infrastructure US fund bought a 49% share of the operating 97MW Wheat Field wind farm in Oregon from EDP Renováveis (EDP-R).

The EDP transaction also sticks to Fiera Axiums investment strategy: long-term ownership alongside a large co-sponsor. EDP-R has no intention of exiting, we have no intention of exiting, Arencibia says. This is a long-term marriage. We both know that. So we looked to forge a trust first, and we did.

Fiera Axium is prepared to walk away from promising assets with risk profiles that do not match its criteria. It is understood to have turned down at least one investment opportunity from a past collaborator a wind project in Texas underpinned by a long-term energy hedge rather than a standard power purchase agreement.

u Fundraising growth

Fiera Axium has been adroit at raising commitments towards its funds, a mixture of Canada-focused, US-focused and North America-focused investment vehicles. It closed its first fund Fiera Axium Infrastructure Canada with C$460 million in commitments, and decided against seeking any more commitments. Its second fund, the Fiera Axium Infrastructure North America feeder fund, is open-ended, and reached first close in November 2012, six months after fundraising began.

Fiera Axium has raised C$511 million for the second fund, and will continue adding to it at least until it reaches C$1 billion. At that figure, we must consult our investors, says Anctil. But as far as were concerned, we want to keep that fund open. The more assets, the greater the diversity and stability.

All but one of Fiera Axiums investors are Canadian-based funds public sector pension funds, corporate pension funds, and insurance companies. Theres a common thread among these investors: theyre looking for core returns in infrastructure over the long term, Arencibia says.

Fiera Axium today is focused on roping in commitments from non-Canadian accounts. Its management is talking with a US-based placement agent about broadening its reach with US-based institutions, and wants to begin a fundraising campaign by the end of the first quarter. US funding should help it pursue US projects a priority for 2014.

Fiera Axium prefers to make investments of C$25-75 million per asset, and C$100 million at most. But if it buys into a cluster of projects, as it did with the GDF portfolio, it will consider going larger. We are able to co-invest in the context of larger transactions, and many of our limited partners are keen to do so with us, Anctil says.

Carson describes Fiera Axium as a collaborative, nimble and involved investor. He says it makes quick but informed decisions. Its management does not dither. We dont view ourselves as passive. Were hands-on, says Arencibia, pointing out that it has several engineers on staff. We believe that differentiates us from many financial investors.

Fiera Axiums recent deals have been concentrated in the renewables sector, though its portfolio also includes transport and social projects and could ultimately include transmission, distribution and biomass assets. But it got its start in PPP. Its first investment, in 2010, involved putting up 60% of the C$43.5 million equity requirement for the C$584 million Centre de Recherche Centre Hospitalier de lUniversite de Montreal (CR-CHUM) healthcare PPP in Québec. It subsequently made three commitments to Canadian roads PPPs.

We don't worry that we've been renewables-heavy of late, because weve been investing the second fund for only one year, Arencibia says. Two or three years down the road, as the market evolves, thats not likely to be the case.