

Opportunities in responsible real assets investing

Richard Anthony, Head of Real Assets - Jersey, recently spoke to Unquote about responsible investing in the real estate and infrastructure sectors, and the expertise being developed among those administering funds on a daily basis

Has there been a shift in attitudes to impact investing across real estate and infrastructure in recent years?

Undeniably. Those institutions that invest into the funds and entities we administer are clearly highly engaged when it comes to ESG. Investors are actively looking for assets that not only offer consistent and resilient long-term returns, but also have a demonstrably positive impact on the wellbeing of society. Many 'real assets' across both real estate and infrastructure meet these criteria.

The UK residential real estate sector has a structural supply and demand imbalance. Despite a market size several multiples larger than the commercial sector, residential investment has traditionally been hampered by a lack of market access and the deregulation of the private rented market, which led to a surge in buy to let investors since the late 1980s. But over the last decade, following the success of multi-family investments in the US and elsewhere, institutional capital has been deployed across all residential segments, including the private rented market, build to rent, affordable housing, social housing, care homes and student accommodation, all at a scale that makes investment economically viable while solving fundamental societal problems in providing a "roof over ones' head".

Moreover, the way we build residential assets has shifted dramatically with respect to energy efficiency, materials and technology, in ways that benefit the environment. Similarly, when we look at our infrastructure and renewable energy clients, many of the funds and assets are built around an impact investment thesis. The focus on climate change has only strengthened among institutional

investors and we have seen a rise in the number of assets we administer in the renewables sector, including solar and wind, that are aiding the transition from fossil fuels to clean energy.

What are some of the key administrative considerations?

For real assets, we often administer the entire structure, including asset holding companies and property companies. As well as administrative support we provide specialised accounting and reporting and governance services – including board of director services. An administrator with asset class expertise can add significant value when navigating the various operational aspects of managing residential or renewable energy assets.

Further, assets with a societal impact frequently have a number of other stakeholders involved. These range from specialist property managers, care home operators, local councils for social housing, government agencies such as Homes England, the Infrastructure and Projects Authority or even HM Treasury. Understanding the network of interconnections, accessing all necessary information – including financial data – and having the tools and technology to provide specialised reporting to shareholders is therefore essential.

Within infrastructure in particular, impact funds often have either very long fund tenures (in excess of 30 years) or evergreen structures (into perpetuity) to accommodate the long-term investment strategy or allow for the recycling of capital and investors. Such structures have unique complexities around equitable treatment of investors, calculation of specific distribution waterfalls and the payment of performance-related fees, including clawback provisions.

Gathering all required reporting information takes thought and considerable effort. But it's our job to combine asset class expertise with a flexible, bespoke service that helps the investment manager fulfil reporting obligations while clearly demonstrating good governance and the positive impact of the investment.

What's the long-term outlook?

The appetite is there to make impact investment much bigger in the institutional landscape than it is today. Many large-scale investors are committed to placing

sustainability at the centre of their investment approach, and believe real assets can help them achieve their objectives. We are seeing this with several institutions already, but soon we may reach a point when it's no longer called impact investing. Instead, combining profit with purpose will be the approach applied to all investments.