Ridgewood Infrastructure

Building strategic partnerships for win-win investments in the lower-middle market

Jorge Fernandez, Institutional Real Estate, Inc.'s managing director, infrastructure, recently spoke with **Ross Posner,** managing partner of Ridgewood Infrastructure. Following is an excerpt of that conversation.

How would you describe Ridgewood's approach to investing in U.S. infrastructure?

Ridgewood Infrastructure invests in essential infrastructure in the U.S. lower-middle market, where we execute a repeatable and controllable, operationally oriented value-creation strategy. We invest in relatively smaller infrastructure assets and businesses, strategically reposition them, and then eventually exit to buyers seeking core infrastructure attributes.

How do you define the lower-middle market, and why do you focus on that segment of the market?

We typically focus on investments with enterprise values less than $500 million. Structural inefficiencies in this smaller segment of the market form the backdrop of a highly compelling investment opportunity. Approximately 40 percent of infrastructure transactions require less than $150 million of equity, and yet only 10 percent of the capital that has been raised is focused on these relatively smaller investments. The lower-middle market is also highly fragmented, with thousands of businesses — often operating under the radar — providing critical services that form the backbone of U.S. infrastructure. In this target-rich environment, we bring differentiated experience, expertise and sophistication to drive transformational growth and value creation.

Have you always had that approach?

We set up our firm to focus on driving value in the lower-middle market and have been executing this strategy from day one. We see a lot of opportunity at the smaller end of the market, not just historically and currently, but also prospectively.

How is the market evolving?

As infrastructure has become an increasingly key asset class for investors, I think about two major axes of market evolution.

For one, capital inflows have increased significantly, and many "brand-name" fund managers have grown out of the lower-middle market, with fund sizes that are sequentially larger. We have seen this time and again, with managers that were successful in prior vintages moving materially up market. To my earlier point, they have left behind a highly fertile part of the market and reduced competition in our space by focusing on larger transactions.

Second, investors and limited partners have become more sophisticated about how they utilize infrastructure within their portfolios. Investors that invested with and continue to support managers that are now investing large and mega-cap funds also see the benefits of investing with managers that can access the lower-middle market segment, where there are opportunities to have differentiated portfolio exposures, drive repeatable value creation, and exit up into more crowded and competitive segments of the market to enhance returns.

Carolina Marine Terminal

Carolina Marine Terminal [CMT] is a deepwater seaport in North Carolina, which Ridgewood acquired from two dynamic entrepreneurs who had grown the business to a scale level. When we acquired it, CMT was being managed well and was an integral part of large companies' supply and logistics chains. But often what happens for entrepreneurially owned businesses is the large corporates, who are their customers, become uncomfortable with the ability of their counterparty to continue to invest into the growth of that business — in this case, the port and the strategic, logistical element of their business.

CMT's customers have been delighted to see the partnership between Ridgewood and Savage build upon what the prior owners had established and provide enhanced operational capabilities. We've cross-trained CMT employees. We've increased throughput within the facility and the vessels docking there, to move cargo quickly into storage, and then out of storage quickly onto trains or trucks.

We have focused on sustainability, making changes to drive energy efficiency. We've also grown the business through cross-selling between our assets to better serve our customers and

create new customer relationships. And having two ports in relative close proximity can help corporates with their strategic supply-chain management.

CMT is a textbook case study. We acquired a well-managed business from a couple of entrepreneurs. We've scaled it from there, operationally and commercially, and from a sustainability standpoint. We are proud of where CMT was and where it is today with our ownership and the value our strategic partnership has driven during the past three or four years.

How do you differentiate yourselves from some of your competitors?

We create differentiated exposure to essential infrastructure in the U.S. lower-middle market, with a focus on water, energy transition, transport and regulated utilities. Our investments provide critical services and help form the backbone of America's infrastructure. The performance of assets and businesses into which we invest is underpinned either by contracted cash flows or regulated protections. These foundational essential infrastructure protections are at the core of our strategy to drive attractive risk-adjusted, inflation-protected and noncorrelated returns.

We have a very differentiated, deeply experienced and sophisticated team. My partners and I have been investing in the lower-middle market for decades, and we bring that experience to bear as we drive value in our investments.

We are a market leader. We own the first- and third-largest water public-private partnerships in the United States. We have a joint venture with the largest privately owned transport company in the United States. We own the fastest-growing regulated U.S. utility.

How do you add value during your holding period?

We have a repeatable and operationally oriented value-creation strategy, and we apply it across all the investments and all the sectors in which we invest. Most of our work is brownfield investing. We acquire operating businesses, and we grow them, either organically or inorganically. I mentioned a regulated utility. That business has more than doubled its customer base since we've owned it in the past five years, all organically. We have another regulated utility investment in the water sector where we're building a mid-sized regulated water utility. We've grown that investment through a series of 14 acquisitions in geographically concentrated clusters. Both of those are great examples of how we scale brownfield investments. And, ahead of all of that, we're working with our companies and management teams on their "lowercase i" infrastructure to ensure they can scale, whether that be people, systems or everything to do with sustainability.

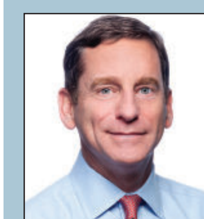
In addition to brownfield investments, we will selectively deliver large-scale construction — not development — stage projects, where we're able to bring together world-class consortiums to provide differentiated solutions for sophisticated counterparties, such as large municipalities. Our Vista Ridge and Port Lavaca investments, the first- and third-largest water public-private partnerships in U.S. history, are excellent examples of that type of investment.

How do you leverage strategic partnerships in this lower-middle market?

We have the breadth of experience and relationships to work with best-in-class partners that are appropriate for each investment and fit the respective investment strategy. One example is a partnership we created with Savage Enterprises. Based in Salt Lake City, Savage is the largest privately owned transport and logistics company in the United States. It is a multi-generational family-owned business. We created a long-term exclusive partnership with Savage to focus on lower-middle market transport infrastructure: ports, rail terminals, and other hard-asset logistics and transport infrastructure. With Savage, we've acquired three assets to date. One is a port in North Carolina called Carolina Marine Terminal [CMT]. Another is Worldwide Terminals Fernandina, the manager and operator for the Port of Fernandina, Fla. The third is an off-port warehousing and logistics company, The Dupuy Group, which we acquired together this past year. In each case, we're focused on looking at the end-use markets and ensuring there is demand inelasticity and a lack of correlation in the related financials by focusing on the underlying end-use markets, whether they be agricultural inputs, select industrial inputs or food products. As an example, Dupuy is a market leader serving the coffee and tea market. Savage, as the largest operator in the United States, is able to help provide oversight and instill best-in-class operating practices within our investments. The companies we've acquired all have their own employee base, and they've been operated quite well, but they haven't been the beneficiaries of best-in-class training that our partnership with Savage can bring to bear. Their ongoing personal growth is helpful in employee retention and building morale, while also delivering measurable operational gains that benefit our companies and our customers.

We think about this strategic partnership approach and its implementation as open architecture, where we partner with whom we think is the best partner for the investment case at hand. And our team creates these kinds of relationships and works in a very sophisticated way to get the best result for the benefit of the investment, the employees of those companies, their customers, as well as our investors. Our view is that these strategic partnerships can be win-win. That's been our experience and is an important part of our culture.

CONTRIBUTOR



Ross Posner, Managing Partner
Ridgewood Infrastructure

Ross Posner is managing partner of Ridgewood Infrastructure and has more than 25 years of experience in infrastructure, private equity and other real asset investing. Prior to Ridgewood, Posner was a senior executive at Allstate Investments, where he established, as global group head, its Infrastructure and Real Assets business. Posner's responsibilities included creating and leading Allstate's direct infrastructure and real asset private equity investing business and also running its Project Finance and Private Placement credit portfolios. In aggregate, these businesses represented more than $10 billion of capital.

CORPORATE OVERVIEW

Ridgewood Infrastructure invests in essential infrastructure in the U.S. lower-middle market. We originate investments that provide essential services to customers and employ responsible and operationally focused initiatives to enhance value. Through this strategy, Ridgewood focuses on creating beneficial outcomes for stakeholders with investments that generate long-term, high-quality, noncorrelated cash flows.

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