

Exchanges at Goldman Sachs: Great Investors

Investing with KKR's Tara Davies

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Allison Nathan: Investors are facing one of the most challenging backdrops in recent years amidst slowing economic growth, rising inflation, and geopolitical conflicts. I'm Allison Nathan and this is Exchanges at Goldman Sachs, Great Investors.

Tara Davies, Partner, Global Head of Core Infrastructure, and Co-Head of European Infrastructure at KKR has a unique approach to investing in today's markets. But don't take it from me. Hear it from Alison Mass who spoke with Tara as part of our Exchanges at Goldman Sachs, Great Investors series.

Alison, you had the chance to talk with Tara, who is one of the most senior deal makers in KKR's European business.

What stood out to you from your conversation with her?

Alison Mass: Well, you know, it was really fun for me to talk to Tara because not only is she one of the most senior private equity investors in Europe, she's literally one of the very few women running really important and large private equity businesses in Europe. So, it was particularly fun for me.

And I would say there were a couple things that jumped off the page after that discussion. One is the transparency that she encourages of her team to call her out on her blind spots and her biases. And I thought that was really honest and very genuine.

And the reason that she thinks her team works so well and that they invest so well is because she encourages that kind of constructive contentiousness. And they have open debate about things. So, that was one of the things that really struck me.

And the other thing in the context of the uncertainty that we're seeing in the markets today, and this relates to what she does for a living. You know? She runs KKR's

infrastructure business in Europe. And what she said was that a lot of infrastructure assets, genuinely, have an inflation pass through mechanic in the revenue line. And they tend to catch up with inflationary conditions over time.

So, she's seen like a real pivot to real assets from the investors at KKR for the consequence of the current market conditions. And she's right in the center of that. And it was interesting because we recorded this many weeks ago. And obviously, inflation was on everyone's minds. But as the weeks have progressed in 2022 and it's become more and more and more important and more in the center of discussion, it just hit me that she is in a fantastic seat, and KKR is in a fantastic seat, with all of their focus on the infrastructure world.

Allison Nathan: I loved that in listening to the podcast that you really just talk about her expertise and her insights on the market and not so much that she's a woman in that seat. But that she's just doing an amazing job in that seat.

I know our listeners are going to love this one. Here's Tara

and Alison's conversation now.

Alison Mass: Welcome to another special edition of Exchanges at Goldman Sachs, Great Investors, where we are talking with some of the world's most respected investors about their investing philosophies and strategies that are helping them navigate and succeed in today's investment landscape. I'm Alison Mass, Chairman of the Investment Banking Division at Goldman Sachs.

Today, I'm delighted to be speaking with Tara Davies, who is a Partner and the Global Head of Core Infrastructure and the Co-Head of European Infrastructure at KKR. We're going to talk with Tara about her career trajectory, some of the mega trends shaping the infrastructure sector and private equity, as well as her investment outlook. So, Tara, welcome to the program.

Tara Davies: Thanks very much, Alison.

Alison Mass: So, Tara, you're one of KKR's most senior deal makers in Europe. Can you start by giving us a sense of your investment focus in the region and more broadly?

Tara Davies: Sure. Just by way of background, as you can probably tell from my accent, I'm not European. I started investing in Australia back in the late '90s. Having started actually my career as a chartered accountant, I pivoted to investing at quite an early stage and then moved opportunistically to London in 2004 where I've continued my investing career.

Before joining KKR, I spent 17 years at Macquarie, and I worked both on the investing side and on the advisory side. And I think that was really helpful in shaping my view on deal doing, but also on the underlying LPs of someone like KKR.

And then in 2016, I joined KKR within the infrastructure team, and today I co-head that team and helped develop their new product in infrastructure, which is a core product globally.

From an infrastructure perspective, we take a sector agnostic approach to infrastructure, so invest in a wide range of assets from utilities to transportation, energy transition, as well as telecom infrastructure.

As Co-Head of the European infrastructure team, we tend to focus on Western Europe, but I am a member of the global infrastructure investment committee, so I see a lot of the infrastructure deal flow on a global basis. And certainly, in different markets you can find different areas of sector maturity as well as value differentiation, which is interesting to see on a day-to-day basis.

Alison Mass: And what is your approach to making investments in this space? How do you think about the investment process? And what are the key things you consider in investment committee?

Tara Davies: I think most infrastructure investors tend to have a very specialized approach by way of sector. We're somewhat different insofar as we do have sector specialization within the firm, but the way we look at infrastructure investments is via risk. So, depending on the complexity of a particular business -- and that could be things around growth, it could be higher operating leverage, it could be our thesis in what we want to do with the business. If it's complex, we classify that as a core-plus risk profile, so higher risk, higher returning. And then other infrastructure is simple. It's stable. It's operating. It's

yielding. There's not so much to do in and around the business. And that would be core infrastructure for us.

And in terms of returns, you'll probably see about 500 basis points in terms of an equity ROI difference between those two risk profiles.

Alison Mass: So, can we talk a little bit about M&A opportunities? And I'd love to hear your perspective of how those have changed in the sector in recent years.

Tara Davies: This is a really great question as it pertains to infrastructure because I think, if you look back 25 years ago, there was very little private capital invested in infrastructure. So, we've seen a big source of private capital come into the space over a period of 20 years. And the market is getting, one, a bit more competitive, but it's also getting broader and deeper. So, we're seeing, by default, more opportunities as infrastructure gets broader in terms of definition.

And so, with that context, at KKR we tend to focus on two particular areas in order to source our transactions and do M&A. The first is corporate partnerships. In terms of the

infrastructure landscape, today there's probably still about 50 percent of infrastructure that still sits in corporate hands despite that flow of private capital into the market. And so, this is a really good way for us to leverage our firm relationships, create our own ideas, and try and satisfy the objectives of corporates as they look to roll out and build new infrastructure over a period of time.

And then I think the second area is where certain businesses within the infrastructure space have the wrong type of capital for the objectives they're trying to achieve. And we see that a lot actually in the listed market. And public to privates have been a very big theme within the infrastructure space during the past year. Indeed, across KKR, we've done four in the past 12 months, which is a lot.

Alison Mass: Yeah, I know you've done a lot of very interesting investments in this environment. And that's really what I wanted to talk about now, just to take a step back and talk about what it's like to invest in these unprecedented times. I mean, markets are so volatile. Geopolitical tensions are high. Supply chains are a complete mess. Inflation is surging. So, what kinds of opportunities do those headwinds unlock? And where are

you focused now?

Tara Davies: In the past six months, we've definitely seen a change in the way we look at deals and the way I think the rest of the market is also looking at deals. Growth businesses are much more tricky in current market conditions. And businesses without real pricing power will get squeezed. And I think across the portfolio at KKR, we can see supply chain issues, tight employment markets, rising costs in the underlying OpEx spaces. So, if you don't have that real pricing power at the top line, your margins are going to get squeezed. So, it's a real area of focus in terms of due diligence when we look at new deals.

I feel very privileged because I sit in infrastructure, and a lot of infrastructure assets do genuinely have an inflation pass-through mechanic in the revenue line, and they tend to catch up with inflationary conditions over time. So, a pivot to real assets is what we're seeing from a lot of our investors just as a consequence of current market conditions. The world is so uncertain today, and I think many a time when there is uncertainty and dislocation your assumption is “do nothing.” And I think I'd probably say it's important to be aware of the environment around

you but not be paralyzed from it, because I do think with dislocation sometimes comes interesting investing opportunities as well.

Alison Mass: And how is the focus on ESG affecting opportunities you're seeing in the infrastructure area?

Tara Davies: So, ESG is at the top of our LPs' minds and the top of KKR's mind. From an infrastructure perspective, I think the S and the G are slightly overlooked for the E, given there's so much energy infrastructure which is by default climate related.

As fiduciaries, it is our objective and our responsibility to deliver carbon-neutrality, without a doubt, and the bar is getting higher. And I think mere asset allocation where you sell brown to buy green is just not enough to actually ensure that you do have that genuine energy transition over time. So, we are focused on trying to develop our toolkit of operational know-how, ideas in engineering to change our assets from brown to green over time.

And a really good example of that is we own an energy from waste business, which, quite frankly, is a carbon emitter,

but it is also very important in creating a circular economy because it is displacing landfill, which is a good thing. And we're trialing at an operational level to try and extract plastics from that waste stream. This is quite granular. It's operating by nature. It's kind of grass-roots stuff. But if we were to kind of roll that out across the portfolio, we would halve our carbon emissions over time. And I think it's that type of granular operational work that everyone in the infrastructure space needs to be focused on to achieve these types of objectives.

Alison Mass: So, another structural force that's reshaping every sector of the economy is, of course, digital disruption. So how has your investment strategy evolved to reflect tech innovation? And where is digital disruption unlocking new opportunities for you?

Tara Davies: I do always amuse myself on digital infrastructure because, when I started in infrastructure, there was no such thing as an asset class that was digital infrastructure. And I know everybody always talks about infrastructure being boring, but what people forget is that people's needs actually change over time. And therefore, infrastructure actually has to adapt to the needs of people

and service them in different ways.

And so, coming from an asset class that was nonexistent 25 years ago, interestingly, in KKR's flagship fund, it's our biggest asset class today. So, we invest in data centers, towers, cable, fiber to the home, backhaul, and it's such a big part of delivering on the needs of people over time.

Alison Mass: So, let's switch gears a little bit and talk about your own success as an investor. What I really want to know is who do you turn to for advice? And how have those people shaped your perspective and helped you succeed?

Tara Davies: I think advice is best received from those who know you very well. And the reason I say that is they need to know your blind spots when you're investing, and they need to know where your kind of weaknesses are. But they also need to understand what you're doing and have a point of view and be very happy to provide that point of view.

And so, I tend to kind of leverage off the KKR partners within the infrastructure team because they know what my

biases are in the space. They're very happy to tell me when they don't like something. And as a group, we're actually very aligned because we are so heavily invested in the funds. So, you tend to get the most transparent and raw kind of advice from them relative to other people.

Alison Mass: It sounds like a great partnership. Speaking truth to power. And related to that, what's the best piece of investment advice that you can give to our listeners that you wish someone had told you when you were starting out earlier in your career?

Tara Davies: When you start out in finance or investing, most people come from a financial analytical background. And what is good at an analyst level is someone who gets their model correct and gets their PowerPoint presentation precise. And everyone thinks they're a great analyst. But actually, spreadsheets help without a doubt, but investing is about people. And I don't think people say that to you when you're an analyst. And it's your ability to negotiate, your ability to build relationships, your ability to empower management teams, your ability to sell that makes you a good investor over time. And actually, all of those skills are people skills and soft skills. And so, it's a really great

career because you have to develop a whole toolkit of experience in order to really excel in the space, and everything's different, which is why it's so exciting to be an investor.

Alison Mass: So how do you identify a good investor when you're recruiting people, whether it's laterally, out of college? And then once they're in KKR, how does mentorship factor into successful investing careers?

Tara Davies: If I look back over my career, I think, when we buy infrastructure assets, I can't imagine a time when I've said, "I've bought this asset and it's cheap." And so, in that guise, you do need to be kind of hungry and aggressive when you lean into doing deals in the infrastructure space. And I think the best investors are those who have that hunger, have that aggression, but can, at the same time, balance that with the blood, sweat, and tears of the levers and the business plan they need to pull in an asset management setting. That is a really hard trait to diligence and find in an interview process.

But those people in interviews who are curious, who are self-starting tend to be the right type of people to be great

investors.

And then I think, from a mentorship perspective, it's great if people can remind you of your areas for development, remind you of what you're not so good at and your blind spots. But also, on the flip side, give you courage to do great things. And I always find the latter most important to me in terms of doing more in my career.

Alison Mass: So finally, I want to close with a little bit of a lightning round and ask you a few straightforward questions. What was your very first investment?

Tara Davies: My first successful deal was Sydney Airport, which anecdotally just got taken out over a big take-over, so it's come full circle.

Alison Mass: What is the biggest lesson you've learned from an investment, either one that went well or sometimes we learn the best investments from things that didn't go as well as we would have liked?

Tara Davies: I think in every investment, take a view on the management team, follow your gut, and get the best

possible team in place quickly.

Alison Mass: So, what deal do you wish that you had been part of that you did not invest in?

Tara Davies: I wish I leant into the 2008 credit crunch and bought more infrastructure assets then. Any of them would have been great.

Alison Mass: And which investor, living or dead, do you admire most?

Tara Davies: So, I will take a personal view on this one, and I've had the privilege of being mentored by George Roberts, who is the founder of KKR. And he's a great entrepreneur, a fantastic investor, but what's most inspiring about George is his humility and the ability to infiltrate that through the culture of KKR. And I find him a very truly inspiring investor. He always says people do business with those they like and trust, and I think I couldn't think of a better way to work.

Alison Mass: And objectively speaking, I agree with you because he's been a career mentor to me as well. Actually,

my husband and I were just talking about that last week.

So, Tara, thank you so much for joining us today. It was great having you on the program.

Tara Davies: Thanks very much, Alison.

Alison Mass: That concludes this episode of Exchanges at Goldman Sachs, Great Investors. Thanks so much for listening. And if you enjoyed this show, we hope you subscribe on Apple Podcasts, Spotify, or Google Podcasts, and leave us a rating and a comment. And be sure to join us for another episode next week. This podcast was recorded on March 17th, 2022.

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