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In pursuit of overlapping opportunities

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Aquamarine's Joel Moser talks about his firm's investment strategy, the price of oil and the appeal of airports.

"We're a real asset fund, which for many people would include mining, raw land, agriculture. But we're focusing on three very specific buckets within real assets: infrastructure, energy and real estate," Aquamarine's co-founder and chief executive Joel Moser stated upfront, willing to make his point clear early on in an interview with Infrastructure Investor.

The fund he was referring to is the North American Real Asset Fund I, a 10-year vehicle which Aquamarine launched the same day it was founded, on July 1, 2014. By December, Aquamarine had reached a first close on $250 million from an anchor investor and had already deployed $50 million into a $1 billion real estate development in Manhattan.

"Our focus since then has been on refining our strategy as we look for a wider group of investors," he said.

That meant looking at specific types of opportunities that "are probably not sexy enough for private equity guys and probably outside the characteristics that are being sought by pure infrastructure investors.” This is probably the reason why, according to Moser, many of the assets his firm looks at do not neatly fit in any one category.

Compared to other infrastructure funds, Aquamarine is not looking for entirely de-risked returns. Instead it targets an internal rate of return (IRR) that sits somewhere between private equity’s 20 percent-plus target and infrastructure’s "almost bond-like" returns. One of the places where it finds that is at the nexus of real estate, infrastructure and energy.

“What we like in particular is the overlap of these asset classes,” Moser said.

An example is airports which provide a range of business strategies, including reliable use agreements with the airlines, highly predictable parking and a variety of other steady revenue streams that are consistent with the risk parameters of an infrastructure fund.

“But also in an airport you see some businesses which are infrastructure-linked but which do not necessarily fit in an infrastructure basket and those are some of the retail opportunities,” Moser explained.

Unlike retail space in a shopping mall or in a city’s shopping district, retail businesses in airports have predictable and reliable foot traffic, according to Moser. “But there is a component of real estate risk analysis which needs to go into that. That’s a business model that we would be very interested in looking at.”

As for the energy sector, Aquamarine’s strategy is more focused on midstream assets but leaves open the possibility of investing downstream. The firm, however, is highly unlikely to invest directly in exploration and production.

Asked how he views the falling price of hydrocarbons, Moser stated his belief that oil had bottomed out. “It could still precipitously drop but it would be for the short term. The reason the current price reflects the bottom longer term is because that’s about as low as it’s going to reasonably go and keep unconventional resources flowing.”

Consequently, Aquamarine’s view is that unconventional energy is not under threat and is here to stay. “You might not see lots of new developments at these prices but it is the point at which the industry continues at its current level on a sustainable basis. So, we’re comfortable investing in, for example, transportation resources in support of unconventional,” he commented.

“Because of what happened we get to look at these assets at a much more rational price point than may have been the case a year ago when this was looking like it was a huge growth industry.” He also thinks recent developments in the sector have also led to a saner investment environment.

What Moser did find unreasonable, in relation to the falling price of oil, was the decision by some investors to unload alternative energy and renewables stocks in the US. “That made no sense because US alternative energy competes with coal and gas, not oil. It was an irrational response.”

Aquamarine is also interested in renewables – the rise of which Moser describes as the second energy revolution, on par with the current transformation of the industry's unconventional side. “We’re seeing significant strides in renewable energy as a growing share of the US power mix and it’s happening on increasingly commercial terms. We've reached a 'tilt' point where this is really going to take off," he said.

While the fund manager is interested in the broad sector of renewables, it is particularly focusing on distributed solar, an area in which it is seeing greater deal flow for the time being.

As for real estate investments, Aquamarine believes some of the best opportunities can be found very close to home. "We're very much looking at the metropolitan New York City area," Moser said, which Aquamarine considers a unique market. "The dynamics that form and shape that market are in a way almost distinct from the overall national economics because of the role New York plays as a global city."

There are other developments at Aquamarine that Moser was unable to discuss, such as exclusive negotiations the firm is engaged in for two projects. "We hope to be able to talk about them very soon. Even as we're raising capital, we're in the process of sourcing and even negotiating capital deployments."