

What's on the menu for private equity funds, sovereign wealth funds, and investment managers

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In this hoganlovells.com interview, Hogan Lovells partner Michael Szlamkowicz talks about what types of transactions private equity funds, sovereign wealth funds, and investment managers are considering and why life sciences and infrastructure deals are so attractive to private investors right now.

How is the current political and economic climate affecting the appetite for deals?

Szlamkowicz: Uncertainty is always a problem for clients — nobody likes to invest in an uncertain environment. It is more pronounced now than it has been in a long time. Political and economic uncertainty are combining at a time when the pressure of wanting to do deals is also very high. It's an interesting time in that regard. People just don't know where things stand right now. Will there or won't there be tax reform? Will CFIUS be applied more or less stringently?

What we are seeing is that private equity funds, sovereign wealth funds, and investment managers are looking at a lot of transactions, but do not necessarily pull the trigger on those deals. This is at least in part due to high multiples plus high degrees of uncertainty.

What sectors of the economy do you expect to sizzle up in the U.S. and globally?

Szlamkowicz: Infrastructure investing is becoming increasingly more popular. Politically, people have acknowledged that in the U.S. our infrastructure is in need of a critical upgrade. Internationally, there are lots of countries — including many in the emerging markets — that recognize that they have infrastructure needs as well. Those assets represent solid, physical things that people can invest in. They are long-term projects that return revenue over a long period of time — characteristics that are of interest to sovereign wealth fund and private equity investors.

Investing in emerging markets is attractive, but you need to be aware of the local customs and politics. One of the ways of making sure that you are aware of it is by having a quality, reputable

partner involved in your project. It's important to make sure that you've done appropriate background checks on that partner. In the best case of those bad scenarios — by not doing an appropriate background check, you are at risk of missing a component to put into your financial model that significantly alters your potential return. In the middle of the pack of the risk, your project could take substantially longer to get off the ground or stymie because you haven't been able to appropriately address these local issues. The worst case scenario in any deal is that you lose your investment and possibly your reputation.

Right now there are a lot of people interested in life sciences and pharma royalties — things of that nature. While there is interest in the exploration and development side, there seems to be greater interest in investing money in what will provide a steady stream of return over time. These are highly regulated areas, so having people with the right regulatory expertise looking out for you is mission critical to achieving those returns.

What are the biggest barriers for investors looking at infrastructure projects globally?

Szlamkowicz: The biggest issue that I think people really need to be aware of is that — not withstanding what the U.S. federal government has to say — there are lots of local state and municipal rules and regulations that you need to comply with and, in many cases, make it very difficult for private investors to actually invest in and work on infrastructure projects. On a jurisdiction-by-jurisdiction basis, you have to know what the individual rules are around private ownership of infrastructure and utilities. Some places are more open to it, but most in the U.S. right now are pretty difficult to penetrate.

If people in the U.S. were prepared to privatize airports, there would be investors interested in buying them. But again, regulations don't currently make that easy in the U.S. It has happened all over Europe; there are good returns and it's a long-term, high-quality investment that's in a developed economy. One of the big issues that investors face is that a lot of the interesting projects on the infrastructure side are in emerging markets. And then there is the uncertainty of going into a place that's perhaps politically less stable than the developed economies.

About Michael Szlamkowicz

A partner at Hogan Lovells, Michael Szlamkowicz takes a business-oriented approach to his work, helping his clients anticipate and solve a wide range of commercial and legal challenges. He focuses his practice on complex corporate and transactional matters and primarily represents private equity and pension fund sponsors and their portfolio companies, especially in connection with leveraged acquisitions, divestitures, joint ventures, minority investments, financings, restructurings, and general corporate matters.

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