The Case for Defining Advisor Engagement Models in Private Infrastructure

What practices improve private infrastructure firms' partnerships with senior advisors? We explore existing models and reveal actions that have impact.

Adapting a page from the private equity playbook, many private infrastructure firms turn to advisors to augment their investment and asset management processes.

There's good reason for this: advisors provide unique insights, expertise, and networks that complement those of firm professionals and portfolio company leaders. However, for firms looking to engage this type of active advisor, there's no definitive model. And while it would be impossible to create one standard approach, given each firm's unique needs, we've observed that most existing models could benefit from additional clarity and structure.

To help private infrastructure firms attract advisors and build productive long-term relationships, Russell Reynolds Associates interviewed over 20 professionals at pure play infrastructure funds, multi-strategy private capital firms, and asset managers; as well as portfolio company CEOs and advisors globally. Our interviews revealed how firms currently work with advisors, highlighting the practices that have proven effective in different contexts.

We learned that the best partnerships:

- Define clear roles, expectations, and performance metrics.
- Promote open communication, collaboration, and knowledge sharing.
- Track performance and share constructive feedback.
- Refresh the advisor model as firm capabilities evolve.

Here's how.

Understanding the current private infrastructure landscape: How advisors are deployed

At a granular level, there are nearly as many advisor models as there are firms with advisors. In general, though, advisors play three distinct roles: deal origination, deal due diligence, and asset management.

Deal origination

Advisors who are involved in origination efforts lean heavily on their vast networks cultivated over years, often in C-suite roles. For instance, a CEO who has recently transitioned into a "plural" career can leverage their contacts to surface off-market deals or open doors. These connections are invaluable to a private infrastructure firm, offering them exclusive early access to compelling transactions in an increasingly competitive and costly deal environment.

Deal due diligence

Advisors who specialize in deal due diligence bring specific geographic, sector, thematic, or technical knowledge to the table, usually bridging knowledge gaps on investment and value creation teams. Their insights not only bolster the case for an investment, but also aid in risk mitigation. However, these advisors can feel underutilized given the ad hoc nature of their involvement. To harness their full potential, they should be integrated into the deal process, not be just a peripheral addition.

Asset management

Advisors who contribute to value creation play a part in strategic execution early in an investment's lifecycle. Usually, these advisors segue from an advisory role during the deal phase into a board role with the acquired asset. These are hands-on roles with potentially significant financial upside, given their accountability for a portfolio company's performance. These advisors can fill experience gaps on the portfolio company management team and board, and act as "CEO whisperers," particularly for less experienced CEOs.

Understanding these differences matters, as matching an advisor's background to their mandate increases the likelihood of success. While some advisors can and do fill multiple roles, rarely can they seamlessly fill all three, given the unique profile required for each. Most firms have adopted a hybrid advisor model and cultivate a separate cadre of advisors for each role. This approach allows firms the flexibility to tap into the capabilities they need while maintaining attractive economics.

Regional nuances also come into play. For example, in Asia Pacific, advisors often assist firms entering new countries and navigating local complexities. Their deep understanding of specific market dynamics and regulations, as well as their high-level public sector connections, can prove invaluable for a firm gaining its footing in an unfamiliar geography. To build momentum early, firms often seek to work with retired business leaders with on-the-ground operating experience to facilitate the critical investments that could make or break a firm's market entry.

Advisor engagement models in action

Advisors can deliver significant impact for private infrastructure firms and their portfolio companies. Understanding the factors that underpin successful partnerships–whether for a one-time need or throughout an investment and beyond–is crucial for maximizing the value that advisors bring to the table…and for bringing them back to the table for future initiatives.

The following four examples illustrate the nuanced forms that advisor engagements can take:

Cultivating long-term relationships

- One pure play infrastructure fund that prefers advisors to contribute to both deal origination and asset management has found more success working with current executives than with retired ones. In such a model, proactively building and developing relationships with relevant executives is imperative, given the precise timing required.
- Like many peers, the firm might appoint an advisor to a board role after a deal completes. Alternatively, the firm might hire an advisor into a portfolio company management role. In either case, current operating experience is essential, as advisors are expected to contribute to strategic planning and need a solid understanding of industry and market nuances.
- As finder's fee aren't part of the equation, the firm cultivates loyalty through productive advisor engagement. Via a formal advisor program, the fund and advisors convene quarterly at fund steering meetings to uncover key lessons. Importantly, advisors feel heard and valued in these sessions. In some cases, the fund arranges for advisors to mentor firm professionals, creating deep and durable relationships that last well beyond a transaction.

Getting skin in the game to drive value creation

- Borrowing heavily from its private equity advisor model, one multi-strategy private capital firm engages advisors early in the deal process. The firm will work with an advisor to frame the investment thesis for a potential deal and then involve the advisor in due diligence when the transaction process begins.
  If the advisor has performed well and can fill a gap on the portfolio company management team, then the firm invites the advisor to join the company's board when the deal completes. However, a portfolio company board appointment is not the default arrangement.
- To ensure that advisors have "skin in the game," the firm requires any advisor serving on a portfolio company board to make a meaningful co-investment in the company. There is an explicit understanding that the financial commitment will motivate the advisor to help the company achieve targets. In return, the advisor could receive a multiplier on their investment. In general, advisors appreciate the concept of co-investing and aim to get involved in several investments.

Leveraging technical experts to extend firm capabilities

- After starting with an informal advisor network, one asset manager shifted to a formal structure and approach for using advisors during deal due diligence. Relying more heavily on technical experts than on business luminaries, the firm leverages advisors to extend the knowledge and networks of its employees, thereby providing a cost-effective solution to a temporary need.
- Despite the project-based nature of its advisor engagements, the firm generates loyalty from advisors by treating them as an extension of the core team. Some advisors are engaged on an exclusive basis and integrated into the team for the duration of a project. Functioning much like full-time employees, they participate in all relevant meetings and discussions, and can contribute meaningfully to the deal process.
- Given the asset manager's preference to work with technical experts, they seldom appoint advisors to portfolio company boards. When the firm needs expertise on a technical subject, they engage advisors as consultants post-deal, instead of appointing them to the board. This approach prevents unnecessary dilution of the profit pool.

Bifurcating advisor roles for targeted results

- Another asset manager bifurcates advisors between deal due diligence advisors ("operating partners") and asset management advisors ("senior advisors"), recognizing that each role brings distinctive value.
- Operating partners can serve part-time or full-time, though the firm has found the latter to be more successful. Collaborating regularly increases alignment and improves communication–both of which are valuable in intense, high-velocity situations like a deal process. To augment its access, the firm partners with third-party firms to proactively identify experts in select thematic areas. The power to quickly gain insight from credible experts has proven valuable, as evidenced by the high degree of adoption within the firm.
- The firm has recently begun adding independent, diverse perspectives to its portfolio company boards by appointing more senior advisors vs. firm employees. As identifying senior advisors requires time, building a bench is critical. To maximize value, senior advisors should be identified before a need arises.

These examples demonstrate how each firm molds an advisor engagement model to its specific needs and resources. While no singular approach exists, common themes emerge around engaging advisors for optimal mutual benefit. As demand surges for advisors–especially in markets and segments where differentiated expertise and access lend a significant edge–becoming a firm of choice for advisors is a competitive advantage.

The way forward: Reinforcing effective advisor engagements.

Whether a firm leverages advisors for deal origination, deal due diligence, or asset management, there are tangible actions it can take to forge stronger advisor relationships and better outcomes. We discerned the following best practices from our interviews.

Clarify roles and expectations early and often

At the beginning of the relationship, this might include a detailed onboarding process, ensuring alignment with the firm's structure for working with advisors, delineating the scope of an advisor's involvement and compensation, and setting goals and deliverables. As the relationship matures, intermittently clarifying roles and expectations will prevent ambiguity, which could cause misalignment and conflict.

Match the advisor to the need

Pairing an advisor to the firm's specific needs ensures targeted insights and value. While marquee names can and do play important roles across the deal lifecycle, working with advisors who fill critical gaps will make for the most productive partnerships.

Establish regular communication

The transactional nature of some engagements can leave advisors feeling used, undermining the relationship. To encourage effective dialogue and build trust, firms can establish channels for regular communication. This also facilitates quick "activation" for advisors, as it quickly loops them into the organizational flow. Numerous advisors, particularly those who contribute to deal due diligence, spoke to the significant need for this.

Foster an advisor community

Some firms convene their advisors as a group to share strategic updates, exchange ideas, and discuss key lessons learned. For these gatherings to be productive, the firm bears the responsibility of implementing an agenda with clear objectives and moderating discussions.

Measure performance and share feedback

Effectively measuring advisor performance is essential to evaluating their performance and making informed decisions about how and whether to continue an engagement. While many firms believe that advisors will bristle at any feedback, timely and constructive advice can enhance contributions and dissolve potential tension.

These actions help to build trust between firms and advisors, strengthening their symbiotic relationship. Building effective advisor engagements is vital for private infrastructure firms to unlock deals and the full potential of their portfolio companies. By improving their engagement models, firms can yield better results, burnish their reputation, and attract best-in-class advisors.

Methodology

We interviewed over 20 private infrastructure investment and value creation leaders, portfolio company CEOs, and advisors in Asia Pacific, Europe, and North America. The interviews were conducted in Q2 and Q3 2023.

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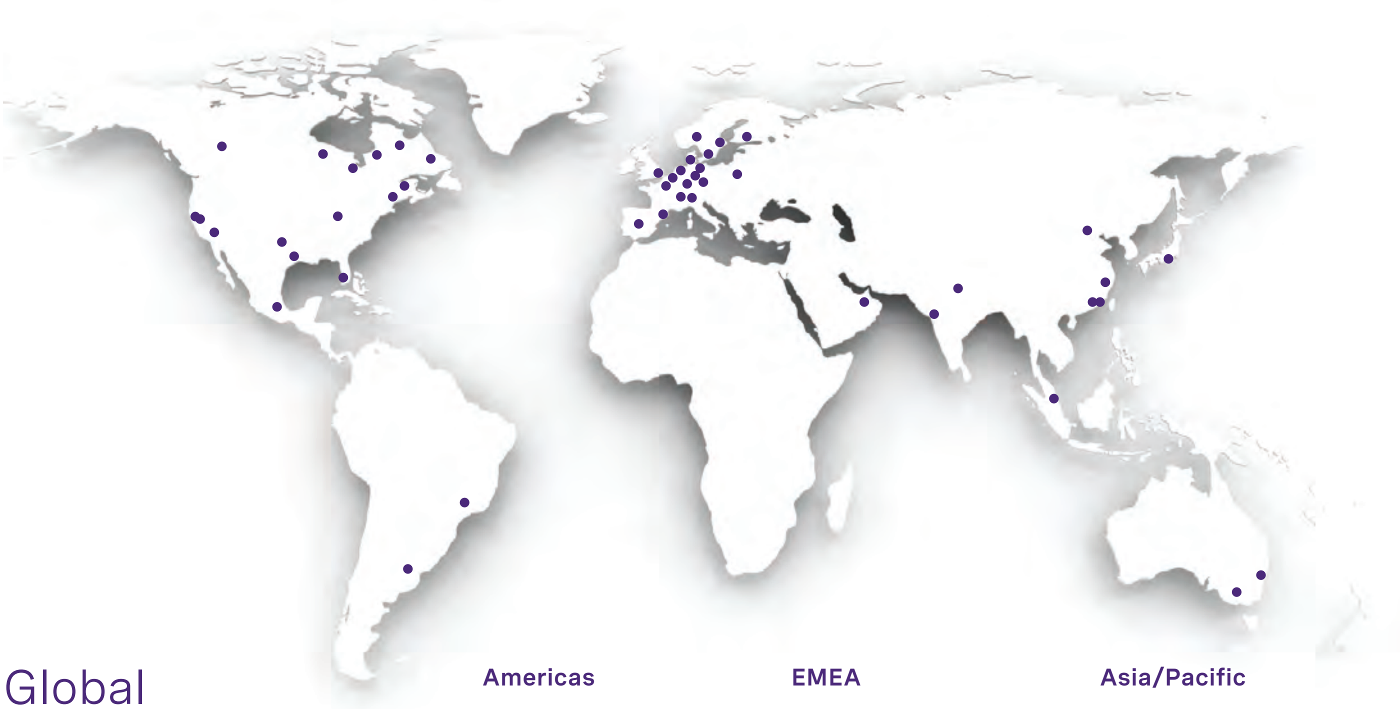

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