TRULY INVESTED.

The European transition to renewables – Investing smartly

Over the past few years, the transitioning European renewables market has become an increasingly exciting space. Climate change concerns and increased sustainable targets have highlighted the need for renewables, yet, the recent pandemic has now also shone a light on the asset class' resilience in times of public market turmoil.

Removal of subsidies

Historically, Europe has had the highest penetration rate of renewables in the world, driven by decades of subsidies. Prior to the last 24 months+, onshore wind and solar were subsidized, so money piled into the sector over a long period. That money was fairly agnostic regarding technologies, geographies and natural resources as the predominant focus was on yield. With solar and wind costs declining significantly, the subsidies for onshore wind and solar have been largely withdrawn and the dynamic has changed. With the market now largely unsubsidized, identifying the correct location and technologies have become increasingly important, requiring more specific expertise and deep experience in the space.

Demand for renewables

In total, it is estimated that renewables will supply 87% of electricity in Europe by 2050, largely constituting wind and solar power. Declining costs have meant that renewables make more economic sense, and significant cost reductions in battery packs mean Electric vehicles are likely to make up over half of passenger vehicles by 2032. During Q2 2020, the UK went for two months, the longest period to date, without coal generation since the start of lockdown and there is a legislative target to have zero coal generation from 2024. Furthermore, old nuclear plants are being closed down and plans to build new nuclear generation capacity have stalled. Therefore, from the perspective of system requirements only, the future looks extremely attractive for renewables. Where the real added value comes in, however, is in gaining access to quality assets with the right risk/return profile for our investors that others are not seeing. Specialized investors achieve this through direct relationships with developers who provide access to an exclusive pipeline.

With corporates announcing increased renewable targets and membership to the Climate Group's RE100, committing to source 100% of their power needs from renewable energy, increasing by a third in one year alone, it is evident the corporate demand for renewables is not likely to dwindle any time soon. The key is to contract directly with corporates themselves who want to buy power from us directly through long-term contracts. Real value can be generated by matching these off-take contracts of large corporates with the deals accessed from developers. Such contracts also provide a guaranteed contracted price, cushioning against times of market turmoil and providing long-term de-risked cash flows for the entire contracted period.

Sustainable policies

Generally, European policies have been supportive of renewable energy, with binding decarbonisation targets quadrupling from 2010-2017. In addition, there is an impetus in areas such as electric vehicles and the electrification of households because targets will not be met by renewable installation alone. Savvy investors recognize it is important to find more complex situations in new unsubsidized markets and to find ways of de-risking the assets. Dedicated renewables investors, with an in-house asset management capability, stand apart from a lot of the money that is going after the de-risked operating assets, which are changing hands at relatively high valuations.

The impact of COVID-19

The pandemic has only strengthened the case for renewable generation. Investor appetite has increased, and we have seen calls for a green recovery at both societal and political levels. Capital Dynamics signed a letter drafted by the IIGCC in conjunction with PRI and CDP to EU leaders requesting a sustainable recovery and outcomes such as the European Green Deal are strong steps in the right direction. Research from BNEF has shown that in recent months, record volumes of corporate renewable energy PPAs have been signed, and TCFD supporters have increased by 22% during lockdown compared to the same period last year. Our trademarked R-Eye™ rating system based on the UN SDGs and community funding has proved pivotal in ensuring our projects have a positive impact, particularly during the pandemic. Data has also shown that investment into sustainable funds hit a high of $5.1 billion in April, and the performance of such funds has exceeded that of the wider market in recent months.

Renewable investments have demonstrated their worth as an asset class for investors, backed by research, because they have remained resilient through the crisis – they have not seen the corrections and volatility witnessed by public markets, and have shown little correlation with the wider macro-economic or geopolitical environments. The huge volatility in oil and gas prices throughout the crisis, coupled with the reduction in electricity demand, has generally not resulted in any de-valuing of Capital Dynamics' renewable assets. This further enhances the reputation of renewables as a stable and resilient asset class.

Outlook

When investing in such uncertain times, it is important to consider the existential changes that are likely to take place in the long-term, post COVID-19. Whilst GDP-linked asset sectors are likely to be further affected as government stimulus packages are removed in the near term, certain sectors could be changed forever. In the case of renewables, the outlook is a positive one. Today's approach is about providing energy solutions, not just building wind or solar farms. The last five years have been exciting, but with support mounting from governments, corporates, utilities and private markets, things will only get better. For long-term, specialized renewables investors like Capital Dynamics, this is a pivotal period where value can be prudently extracted for our investors whilst building a greener, more sustainable future.

CAPITAL DYNAMICS – CLEAN ENERGY INFRASTRUCTURE (CEI)

Capital Dynamics' Clean Energy Infrastructure is one of the largest renewable energy investment managers in the world with USD 6.5 billion AUM[1], and has one of the longest track records in the industry.

The CEI strategy was established to capture attractive investment opportunities in the largest and fastest growing sector of global infrastructure – proven renewable energy technologies, with a focus on utility-scale and distributed generation, solar, wind, and storage. The CEI platform's dedicated asset management business provides highly-specialized services to ensure optimal performance and value from projects. The CEI strategy currently manages 7.9 GWdc of contracted gross power generation across more than 150 projects in the United States and Europe[2], and is one of the top 3 global solar PV owners[3].

Since the CEI platform's inception in 2010, over 17 million metric tons of greenhouse gas emissions have been avoided as a result of the firm's renewable investments[4]. This is equivalent to the power needed to supply more than 3 million homes or passenger vehicles for one year[5]. In 2019, the CEI strategy received top rankings from GRESB (the ESG benchmark for real assets) for commitment to sustainability, and was awarded Global PE Energy Firm of the Year by Private Equity International. For more information, please visit: www.capdyn.com

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[1] Capital Dynamics, as of September 30, 2020. Includes assets in renewable energy projects managed by Capital Dynamics, including USD 4.1 billion assets under discretionary management and USD 2.4 billion tax equity assets. Tax equity is a financing solution for renewable energy projects.

[2] Capital Dynamics, as of September 30, 2020. Includes operational assets, partially commissioned assets and contracted assets with PPAs secured.

[3] Renewable Assets (Owners) League Tables. Bloomberg New Energy Finance as of September 30, 2020. Includes (i) assets with financing secured / under construction, (ii) partially commissioned assets, and (iii) commissioned assets projects globally, excluding China.

[4] Environmental benefits are based on US Environmental Protection Agency Greenhouse Gas Equivalencies Calculator.

[5] Environmental benefits are based on US Environmental Protection Agency Greenhouse Gas Equivalencies Calculator.

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