

London calling: LSE's new green opportunities

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The good financial weather on the London Stock Exchange continues to entice managers of prospective listed renewables funds.

Its appeal has drawn two in recent months which share an intriguing set of features – both are denominated in non-sterling currencies, both are headquartered abroad, and neither buys assets in the UK.

Hamburg-based [Aquila launched its maiden listed vehicle](#) targeting renewables earlier in the month (May 2019). The [Aquila European Renewables Income Fund](#) is aiming to raise up to €300 million (\$335 million) through the exercise, with 30 May the final date for placing commitments. The eagerly anticipated results of the IPO will be made public the following day, offering new insight into investor appetite for green products.

Meanwhile, the straightforwardly-named [US Solar Fund](#) (USF), managed by New Energy Solar Management, [announced in February](#) its intention to launch. It raised a respectable \$200 million of a \$250 million target.

This begs the question why London is the destination for would-be renewables funds, despite concerns around Brexit and increased competition. The answer, it seems, is borne out by a well-educated investor base, an historically solid history financially, and broader trends in investor appetite.

The current renewable funds

New entrants Aquila and US Solar Fund join an established list of managers in the space:

- [Greencoat UK Wind](#) – March 2013 IPO
- [Bluefield Solar Income Fund](#) – July 2013 IPO
- [The Renewables Infrastructure Group](#) (TRIG) – July 2013 IPO
- [Foresight Solar Fund](#) – October 2013 IPO
- [John Laing Environmental Assets Group](#) (JLEN) – March 2014 IPO
- [NextEnergy Solar Fund](#) – April 2014 IPO

One listed renewables manager *IJInvestor* spoke to said that the two latest managers (Aquila and US Solar) were taking advantage of the positive momentum for renewables in the UK, whilst recognising the difficulty of launching a UK-focused product, and instead looking to less crowded geographies.

This may also be why other London-listed vehicles launched in the past year have used more exotic technologies and strategies as a differentiating feature. Examples include [Gresham House Energy Storage Fund](#) and [SDCL Energy Efficiency Income Trust](#).

Investors

Of several fund managers *IJInvestor* spoke to, one consistent refrain in response to why London is a go-to destination for listing these vehicles was the sophistication, and high level of education of investors here.

Reinforcing this, a manager said: “By virtue of the market being first established in the UK, a lot of people have followed its evolution and benefitted throughout the years to become more savvy.”

Another manager echoed this: “These products are extremely well understood by UK investors, and that’s why you will continue to see London as the clear option for a firm, irrespective of where they come from, to try to raise capital here.”

Beyond that, a third manager spoke of the London market having the deepest pool of equity capital available – in particular compared with the US – at least as far as renewables are concerned – in part explaining the US Solar Fund’s decision to list in London.

Aquila is understood to be targeting institutional investors, multi-asset funds, and private wealth. Other listed vehicles have a summer complexion. One manager said: “If you compare the register across the various listed funds in the UK you will see a lot of common names.” Many of these London-based investors also have global businesses; they have the ability to fund in various currencies, and the ability to hedge this internally from a currency perspective.

Aquila has ample experience raising private, closed-ended renewables funds, but different investor profiles are comfortable with different time periods of illiquidity. Aquila’s [European Hydropower Fund](#) is a 20-year opportunity. For an investor to sell out entails going to the secondary market to find a counterparty to sell the holding.

One advantage for listed investors is the greater liquidity afforded to investors (although the largest investors have difficulty taking advantage of this). One manager spoke of the larger pool of investors attracted to this feature. But pointed also to the other side of this coin: the strong focus on short-term performance.

However, many managers spoke of the strength of the transparent model of communicating with clients and the wider market afforded by listed vehicles – an advantage which instills consistency and potentially excellent advertisement.

Financial Opportunity

All of the established renewables funds trade share price at a healthy premium to NAV, with the majority at or just above 10%. At the time of publishing, Bluefield was trading at a premium of 17%.

These premiums indicate the desirability of these shares, particularly considering the funds are paying predictable returns in the low-risk renewables sector.

Aquila is offering investors a dividend yield of 5% from 2021, with a total return of between 6-7.5%. According to FT markets data, most of the funds offer a dividend yield of 5.85% at the most. Foresight is targeting a 7% dividend. One broker suggested that the return was very healthy considering levels around and below 5% in some geographies and technologies.

Funds have launched in the past with targets of 6%. A listed renewables manager said of Aquila’s offering: “The biggest question remains ‘is level of return high enough to attract investors?’ Return expectation has decreased, evidence that if you want to raise new money to invest in operational subsidised assets you have to be prepared to accept lower returns than you could expect a few years ago.”

A source close to the Aquila fundraise responded by saying: “Yield level is different in the UK compared to Europe which sets us apart. We have given ourselves a dividend target based on what we can deliver. In the end, the ability to cover the dividends is of vital importance to the market.”

Whatever the case, established funds approaching the market are typically oversubscribed: one [recent TRIG raise](#) was three times oversubscribed, again illustrating the demand for these shares, their yields, and premium prices.

Macro trends and strategies

Beyond the naked appeal of consistently yielding funds is the asset class underpinning their yields. Infrastructure is a currently 'sexy product' in the words of one player in the space.

They continued: "There is significant interest from investors on renewable generation, ESG, and sustainability targets. The number of investors asking about sustainability has increased significantly over the last few months. Investors are now very aware they need to add an element of sustainability to their portfolio."

The prospect of fitting that bill – renewables – that have performed well and paying dividends since IPO presents investors with an excellent marriage of their dual goals.

The decision for investors then comes down to investment strategy exemplified by the US Solar Fund's single-technology focus, or Aquila's wider gambit incorporating solar, wind, and hydropower.

Two schools of thought diverge on the issue: one extols the security of broad mandates in securing attractive returns and flexibility of investment, the other favours the deep understanding inherent in specialist strategies and a more streamlined cash flow profile.

Aquila says theirs is a diversified offering whilst not compromising on the degree of specialisation. "Aquila benefits from specialised hydro, wind, and solar teams – likewise on the asset management side there are dedicated teams for each technology. The combination of the three is beneficial from a portfolio because you are mixing generation profiles not just on a daily basis, but also on a seasonal basis."

As for competition, none of the managers *IJInvestor* spoke to were phased by the prospect: "The entirety of Europe's energy transition with its build-out targets for 2030 to 2040 are giving a lot of gaps those markets to be investing in."

Giving the new entrants hope that their products will enjoy the same success as their predecessors one player stated: "For any new product that gives investors exposure, even if not UK opportunity, if investors are comfortable with the investment proposition and they understand the market there is clearly a high chance of success."

Another spoke of the great validation of investment manager's capabilities to launch a listed product, but greater still is to maintain the performance of the fund as an exposed, regularly reporting entity and pay dividends in a timely fashion.

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