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Infra funds – the value chain gang…

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Ever since the start of the global financial crisis, the infrastructure community – the entire industry from infra funds through to lenders and advisers – has lived by the mantra "evolve or die"… a mind-set that stands true to this day.

Having recently published our IJInvestor Funds & Investors Report where we logged a distinct slump in Q3 fundraising activity – but with a positive outlook and a busy final quarter on the cards – it feels right to focus on this space, identifying an emerging trend.

Many funds, like pit ponies wearing a path into the mine floor, seem to be stuck in fundraising mode as they obsess about raising more and more cash to target equity and debt across the increasingly blurry-defined sector.

Maybe they have the right idea. Given that a market correction is on the way, if you have overflowing coffers and funds crammed with assets, infra fund originators will be assured of a job once the music stops… as someone will have to manage the assets.

Granted, it's not such a sexy job for originators (apologies to asset managers), but it's better than being flung on to the scrapheap once the acquisition feeding frenzy grinds to a halt.

And every single one of them will have the same proposition to hold on to their jobs – who better to run these assets than the person who acquired them?

So, it's refreshing when something a little bit different is being done… but that always leaves one wondering whether it's a good idea or not.

Something a little different

This new thing is for funds active in the energy space setting themselves a goal of capturing as much of the value chain as possible – taking a coordinated approach to investments that are plugged in to each other.

An example of this would be buying renewable energy assets together with storage. Nothing new there, we've seen quite a lot of that already (or at least there's been a lot of talk about it). Take it further and you hear speak of the likes of electric vehicle charging in a supermarket car park, partly fuelled by solar carports.

This approach is being touted by some funds as making more sense than snapping up a mishmash of assets that fit their infra profile (or come close enough to sucker the LPs) and can be as unrelated as a wind farm to the other extremes of a hospital PPP equity stake, or an airport.

This started to crop up on the *IJGlobal* radar earlier this year when we reported that SUSI Partners was aiming later in 2019 to hit first close on its €1 billion SUSI Global Energy Transition Fund.

This vehicle is to have an evergreen structure, aiming to invest in a diversified portfolio of around 20 construction- and

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development-stage assets with a focus on infrastructure relevant for the energy transition.

Then this week we learned that Italian alternative asset manager Green Arrow Capital was also in preparations for a novel energy fund to invest across the value chain.

This vehicle is yet to be named, but is expected to launch at the start of next year (2020) and will invest in three strategic areas: greenfield and brownfield grid-parity PV and onshore wind renewable assets; large-scale storage capacity; and EV charging, including car parking.

The Green Arrow vehicle is thought to be targeting €500-700 million and will target assets in France, Italy, Portugal and Spain.

This is the latest development for Green Arrow which last week bought a heck of a lot of Quercus Investment Partners, snapping up 100% of management company Quercus Assets Selection, which includes:

- Quercus European Renewables
- Quercus Italian Solar Fund
- Quercus Italian Wind Fund
- Quercus Renewable Energy
- Quercus Renewable Energy II

Market rumour has it the Quercus sale was forced after a tiff with one of its key LPs. *IJGlobal*, however, refuses to believe such scurrilous gossip.

Better on the value chain gang?

Well now, there's an argument each way, with the above two funds falling quite convincingly in the camp that it's a jolly good idea and makes complete sense.

And, in a way, it really rather does.

What better wheeze could there be than for the one manager to own a spread of assets that are directly associated with another… motivating the fund to deliver and – you know – value chain it up.

Speaking to folk in the market this week about fund managers targeting value chain, the response was pretty much marmite… if almost everyone hates marmite.

The consensus of opinion was that an unlisted fund set up to invest in, say, solar panels will not necessarily be able to take the risks involved in energy storage .

However, it could work if said unlisted (and one source in particular was keen to point out it would never work for a listed vehicle) fund had an incredibly wide remit… which is the one thing that the vast majority of LPs cannot stand.

"Where we are hearing this kind of chat," says one well-placed source, "is where there are big corporates using their own money and trying to do exactly this. But they are not doing it as a fund manager, they are doing it for their own book… and that obviously makes sense."

And of course it does, they are in an ideal place to embed efficiencies across the value chain as they operate inter-connected assets – it's a business, not an infrastructure investment.

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