KEYNOTE INTERVIEW

All in it together


The scale of the investment gap that must be bridged to meet decarbonisation goals may be daunting, but consumers, industry and governments can all lend a helping hand, say Infracapital's Andy Matthews and Priya Veerapen

Meeting decarbonisation goals is unlikely to be easy. Certainly, investors have a lot to consider. As well as which particular assets to back, they also need to think carefully about the right time to add an asset to their portfolio.

Infracapital's CIO Andy Matthews and managing director Priya Veerapen consider not only the scale of the capital required to further the transition but also the nuances that must simultaneously be taken into account, including the complexities of asset management, capital controls and government policy.

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Q How is the investment gap holding Europe back from reaching its decarbonisation goals?

Andy Matthews: Today, we spend a lot of time looking at how and where capital is needed to further the decarbonisation agenda. When we launched our greenfield strategy back in 2015 and we were looking at opportunities, the immense scale of private capital required around Europe was abundantly evident – and it only seems to be getting bigger.

We have seen a lot of decarbonisation strategies involving the deployment or construction of new assets. We have been supporting this approach for some time and have found that you need discipline on how you fund growth in these assets and how you look at capital deployment.

Building new assets is not easy and we have been talking to governments around Europe regarding how they can help encourage that. The decarbonisation agenda needs to be mutually beneficial to society and investors.

Priya Veerapen: We primarily see the decarbonisation project across three main pillars – although there are others, of course – and these are energy, transport and industry. Energy and all its related infrastructure is probably the area with the largest investment gap, with estimates such as that from the Energy Transitions Commission that $3 trillion a year is required globally for the transition.

Transport is another important field and obviously concerns the transition to electric cars, but also encompasses rail, shipping and aviation. Finally, industrial heat and the circular economy is the third pillar and this may be not only the worst offending sector but also the hardest to abate. Aside from these focus areas, agriculture and forestry clearly have a significant impact on sustainability, too.

Q How do investment stages into decarbonisation assets vary?

AM: Hydrogen, which was very much in vogue a couple of years ago, is a very good example. We all learned about different types of hydrogen and saw the development of a lot of related technology and subsequent supply chain stress, but it did not take too long for the old infrastructure mantra about investing in proven technologies to come to the fore.

Should the start-up phase of a new product really be considered infrastructure? Should it see more venture capital backing early on and then leave it to the infrastructure world to industrialise later?

It is a fine line. Where do enterprise backing and venture capital really come from and is there the depth to support industry? Many opportunities come across our desks that are at a very early stage and don't fit the infrastructure story yet, but we can see where they will once matured.

So, we have to work together with developers and first-phase investors to help assets to develop. Conversely, we have to be disciplined in our definition of infrastructure so as not to get too carried away and invest too early.

PV: Given the vast sums of money we are talking about, you don't want to be in a high-cost-of-capital environment, so it is important to consider what is the most efficient way of deploying capital.

Undoubtedly, there will be interventions needed along the way to ensure a reasonable cost of capital, otherwise the customer or taxpayer will end up bearing the brunt. Public-sector schemes, like the UK government's Contracts for Difference (CfD) scheme to support low-carbon electricity generation, can play a major role in lowering the cost of capital for a broader infrastructure rollout.

Q How can the issues created by these variations be addressed?

AM: Given the variances you see, it certainly helps to know how to assemble a project and how to make it investible, as well as what the construction industry will bear in terms of risk profile. You need to manage capital conservatively to make sure you get the right price point. I have seen too many people get involved too early on projects before ultimately deciding it is not right for them.

As well as working with a manager who has the necessary expertise, having

Q How important is asset management – not just the initial investment – to decarbonisation?

PV: Asset management is key for a number of reasons, capital control certainly being one of them. A lot of the platforms in which we invest, such as GRIDSERVE, our UK EV charging business, or Cogenio, our industrial energy solutions business in Italy and Spain, work across a pipeline of asset development, construction and operation. It is not typically a single project but an ongoing programme of projects.

As a result, the cost and risk environments are continuously evolving. Our job is to make sure that at each capital commitment stage the right decision is being made regarding risk and return.

Asset management works slightly differently when you are dealing with energy transition assets compared to traditional infrastructure. This is because, in the energy transition, there is often a technology element to the provision of a service, such as a battery storage software platform or an EV charging app. There is investment required in these elements and therefore as a portfolio it is important to consider these.

AM: Often, we are working in environments where health and safety concerns are critical, so that has to be a big consideration in terms of our asset management strategy. Across our portfolio, engaging with management teams and sharing ideas with adjacent sectors has also been hugely beneficial. Asset management is also important given that supply chains are extremely dynamic. You need to think both short-term and long-term.

the right relationships is important. We have worked closely with developers so even if they have come to us at an early stage, we have been able to help nurture them to a point where investing is the right decision.

Governments can also play an important role in educating the sector and encouraging them to accept a certain level of risk. Policy certainty is key. We have seen in the US, for example, the impact that the change in some recent policies have had on investor confidence, as well as the wider effect in Europe and on global supply chains.

PV: Sustainable aviation fuel (SAF) provides a good example of how governments can ease some of the hurdles around investing in sustainable assets. Here, you have the government strongly backing the sector in terms of providing revenue support. They are also mandating levels of SAF requirements for airlines to meet.

However, we want this SAF to come from renewable sources and the technology is not very well established here. So, how does someone become comfortable providing funding in this space?

A perfect example is that it is hard to find someone to support a power-to-X SAF plant in the UK unless they have a very deep balance sheet. All the different risk segments need to be addressed to get sustainability moving at pace.

Q How has the investment landscape around decarbonisation evolved over the past two decades?

AM: We are seeing bigger developers now and a lot of the evolution isn't necessarily being driven by private capital; utility companies have an important role, too. In the last two decades or so, balance sheets have been under a lot of pressure and some of the big oil and gas companies have moved into renewables in an attempt to shift their direction of travel, before withdrawing. We need some of these major players to help sponsor early development as they can incubate ideas due to their sizeable balance sheets.

While we have been looking at this space, we have seen it become much broader. As such, we believe having a clear focus is important to stop you from chasing all sorts of ideas and spreading yourself too thin.

Clients have changed their views as well in that time. We are going through a period of circumspection. What are the returns on offer?

Investors don't want to back sustainable assets at any cost. There is a realisation that capital control is needed. It is not just about buying a company and allowing it to operate as it always has done.

Instead, investors want to be able to bring about change. Change management can be challenging though. We have also become far more selective on what is investible and what sort of risk-return profile should be tolerated.

Q How do you see the future of investment in decarbonisation? Are you optimistic about goals being met?

AM: Despite the high levels of capital required, I do remain confident about decarbonisation goals being met. We want governments to aim for those goals and keep them at the forefront of their policy decisions. For investors, meanwhile, I think it is important to really pick their themes and focus on them.

The industrial side of things is important, too. It is too easy for the consumer to bear the burden of decarbonisation.

Focusing on industry was a big factor in our investment in EnergyNest, a thermal battery solution, a few years ago. We want more support here on the industrial side. Is the right level of pressure there from governments currently? There is still a way to go but also some interesting prospects to help us get there. ■

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> **ANDY MATTHEWS**

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