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2.2 INTERVIEW

Energy transition: how the pandemic crisis may energise infrastructure and where are the opportunities in next-generation energy infrastructure

Interviewer

Mathew Croft,
Content Producer,
Clear Path Analysis

Interviewee

Raphael Lance,
Head of Energy
Transition, Mirova

SUMMARY

- *Alternatives have been very interesting for investors over the past few years – particularly in the infrastructure category, due to the combination of low interest rates and the continuous growth of the sector*
- *To achieve the target of 32% share of renewable energy in the EU by 2030, as much as €1.7 trillion in investment will be required over the next 10 years*
- *The green sector has been less affected than other infrastructure*
- *We are also very interested in the development of green hydrogen, which we feel is going to be something that will be a breakthrough innovation in the future*

Mathew Croft: How would you describe the current state of the alternatives sector?

Raphael Lance: As an asset class, alternatives have been very interesting for investors over the past few years – particularly in the infrastructure category, due to the combination of low interest rates and the continuous growth of the sector. Renewable energy is one of the fastest growing segments within the infrastructure market. Whether it's clean energy production, grid connection or storage all of these technologies represent compelling investment opportunities for institutional investors as we make the transition towards a low-carbon economy.

Mathew: What proportion of investment is being channelled into the low carbon economy? And, is it enough?

Raphael: A massive change to the economy requires a massive shift in capital. To achieve the target of 32% share of renewable energy in the EU by 2030, as much as €1.7 trillion in investment will be required over the next 10 years. The decarbonization of transportation systems also needs to be properly addressed. Today, that represents only a small portion of the long-term capital that is currently channelled into the energy transition.

To achieve the goal of shifting completely from fossil fuel to a low carbon economy however, we believe the investment needs to be much larger. Indeed, the increasing the amount of capital allocated to these sectors is a core objective for Mirova. Of course, there is always room for more capital as it will allow us to accelerate towards the energy efficiency targets and shift the energy mix in favour of renewable energy.

Mathew: What impact has the Covid-19 pandemic had on the green sector?

Raphael: The green sector has been less affected than other infrastructure. This is mainly driven by the fact that energy is a priority in most countries yet there hasn't been as much impact in the overall energy space, even if lower demand has had an impact on the level of power prices. Also, from a social perspective, urban populations in particular have had the opportunity to take advantage of a few weeks or months with cleaner air, which has been a shock to their senses.

> TO ACHIEVE THE GOAL OF SHIFTING COMPLETELY FROM FOSSIL FUEL TO A LOW CARBON ECONOMY HOWEVER, WE BELIEVE THE INVESTMENT NEEDS TO BE MUCH LARGER

Now more than ever, city dwellers have realised the importance of not continuing in the same way that they have been.

Mathew: Will this trend last or will people revert to pre-pandemic norms?

Raphael: The mentality has certainly changed. We will go back to some form of business as usual and some of the bad habits will return. But you can see, particularly with the younger demographic, that they don't want to travel or eat in the same way. This is all driven by a willingness to have a cleaner and more sustainable planet. They are going to put pressure on the rest of the population to move towards a new, greener economy.

Mathew: What predictions do you have for the future of the green investment sector?

Raphael: The whole area of 'energy transition' has grown significantly. When we first started talking about the energy transition, it was mostly within renewable energy, expanding into the changing dynamics of what was renewable. Today, this sector has widened to include, low carbon mobility, hydrogen production, energy efficiency and the revamping of district heating networks.

Also, from a geographical perspective, for a long time the key drivers for renewable energy have been western Europe and the US. But there are now many other countries where the carbon intensity of the energy mix is much worse. In Poland, for instance, there is a huge need to shift from coal to cleaner energy. China and South East Asia also have huge populations and a carbon intensive energy mix. So there are new frontiers where there is now more capital required to help these countries move towards cleaner, greener economies.

There is also a link between energy production and increased competitiveness of storage, which allows for more decentralisation of clean energy production. Electric vehicles are mobile storage tools, so there is going to be significantly more indirect production combined with storage capabilities. The digital economy is driving all of this.

Mathew: How do you factor all of this in to your overall investment strategy?

Raphael: At Mirova, we have been pioneers of investing in the energy transition. We started with a wind farm dedicated fund in 2002 and we have had investments in energy storage since 2015. So we have always tried to look at the new technologies with a view to being competitive in the future, as well as seeing them as just a good investment case. We are now expanding into a wider energy transition opportunity that includes low carbon mobility and all of what we are currently seeing in terms of the shift in the transportation sector, whether it be electrical vehicles, buses, trains or ships.

We are also very interested in the development of green hydrogen, which we feel is going to be something that will be a breakthrough innovation in the future.

There are many spaces that we want to explore and bring to bear the expertise of a committed and passionate team of 19 investment professionals with diverse backgrounds that bring knowledge of key industrial sectors, engineering and project finance. This allows us to be more creative and continue to develop the partnership that we have established with many industrial companies, who are also shifting towards these new business models. We will continue to leverage on these good relationships to co-invest with them – not only in energy production, but also in storage, mobility and so on.

> WE HAVE ALWAYS TRIED TO LOOK AT THE NEW TECHNOLOGIES WITH A VIEW TO BEING COMPETITIVE IN THE FUTURE, AS WELL AS SEEING THEM AS JUST A GOOD INVESTMENT CASE

We have gained the capability to be quite flexible in our approach so we can bring different financial solutions to our partners, whether it is equity, mezzanine finance or short-term debt brought to project companies or straight acquisition of a stake into the project developer's capital. This allows us to be able to fulfil their requirements.

Our strategy has always been to have a wide approach through which we encompass many different subcategories of investments like biogas, clean mobility and hydrogen. We can propose to investors a combination of these different assets by providing a diversified portfolio, which answers the overall need of energy transition. All of this is done with our industrial partners and within one single strategy.

The specificity of how we invest into assets or corporate infrastructure provides investors with access to the clean energy economy, which answers their needs to have more sustainable investments. But it also generates yield over the long term. This means value creation with profitability in an industry where you can still generate good income.

Mathew: Thank you for sharing your thoughts on this topic.

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