KEYNOTE INTERVIEW

Green credit can finance Europe's energy transition

With energy security top of mind across Europe, Scott Lawrence and Claudio Vescovo of Glennmont Partners – a Nuveen company – discuss how they are supporting the energy transition in the region

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Q How do you define green energy credit?

Claudio Vescovo: Green credit for us is all about the energy transition. It relates to power generation from green sources – wind, solar, biomass and hydro – and also services to the grid, storage and any other enabler of the transition in Europe. It is also about consuming less and, therefore, energy efficiency. Achieving sustainability targets in Europe means decarbonising the power sector and also consuming less power and heating.

Q How is your team set up and how do different parts of the organisation help in the sourcing and execution of deals?

Scott Lawrence: We have a collaborative approach, and the model is that of an owner/operator, which is our mindset for all investments, including credit. It starts with a dedicated energy transition credit team, but we also have the rest of the platform, including our equity investment and asset management colleagues, comprised of engineers and investment specialists. We think this is a good lens through which to view our credit strategy. We also work with the broader Nuveen team, a much larger platform that has expertise not only in credit but also in, for example, ESG.

Q What are investors seeing as the pros and cons of the energy transition, and how do they view it as part of their portfolio construction efforts?

SL: We have been investing for 15 years in renewable energy and were one of the first fund managers to invest institutional money into the space in Europe. Claudio and I have also been working in green credit since 2016.

Investor perception has changed and is becoming more sophisticated and focused on sustainability. There is always the risk of greenwashing and calling things green that aren't really green, so for us it's about being very clear and specific about what it is that we are doing, and not doing. That transparency has been appreciated by investors and hopefully the market will become more transparent in general as we get new taxonomy guidance.

In terms of where we sit in the investable universe, we have found over the last five or six years that we can fit into different buckets. We have some investors who want to invest for ESG purposes, and we fit into the ESG and impact part of their portfolio. We have others that are pure credit investors and are agnostic about the nature of the underlying investment. And then you have a spectrum in between where people may be putting us in an infrastructure portfolio that is branching out from equity into debt. Or they have made their first foray into energy and now want to expand into the greater energy transition beyond that.

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SCOTT LAWRENCE
Glennmont Partners

Q How do you view the green energy credit opportunity set in Europe and what types of transactions do you target?

CV: According to the G20, there is a €5 trillion infrastructure investment need over the next seven years. Our strategy invests in primary and secondary loans, which are needed to achieve Europe's energy transition targets. The EU target is to achieve 32 percent of primary energy generation from green sources, and today that number is approximately 20 percent, so material growth is needed. Importantly, the energy transition targets are supported by policy and the international political agenda. This support is due to climate change and energy security, which has become more important, and there is even talk about increasing the level of targets in Europe. Moreover, there is a secondary loan opportunity set of €500 billion and growing, which supports our strategy of investing in both primary and secondary project finance loans within the energy transition.

Q What returns are available, and what different risk/return profiles can be found in your approach?

SL: Within our strategy we look to achieve equity-like returns but with a risk level driven by primary and secondary senior loan investments. Further, a predominant piece of the return stream is stable, recurring income. Ultimately the strategy is about delivering absolute return within an investors' credit portfolio.

Q What impact is the current macroeconomic and political environment having on green energy credit investing?

CV: There are three main areas that are impacting the market: energy security, inflation, and interest rate increases. Energy security is becoming more of a necessity, and it means there will be a greater need for financing in the green economy and more opportunities to invest. Our strategy also has an inflation hedge due to the inelastic demand involved with infrastructure projects and cashflows being linked to end user power prices. In this rising interest rate environment we can potentially benefit from an increase in rates since our lending strategy is floating rate. As interest rates increase, we should be able to increase our cashflow.

Q How do you take into account the differences between European markets in your investment process?

CV: Every country has its own cultural dynamic when it comes to making investments. We are London-based and, thanks to being part of Nuveen, we have a strong local presence across Europe. We also have experience investing across market cycles and building some of the largest renewable platforms in Europe, including the third-largest platform for wind in Italy; one of the three largest in France for rooftop solar; one of the top five in Portugal for solar; and one of the top three in the UK in biomass. Additionally, it's a matter of language and culture; we speak more than 12 languages across the team and this allows us to have a very local approach to doing business. ■

Scott Lawrence is a partner and Claudio Vescovo is head of credit funds at Glennmont Partners – a Nuveen company