KEYNOTE INTERVIEW

'A good vintage for infrastructure credit'

Glennmont Partners' Scott Lawrence and Claudio Vescovo say 2023 will be a compelling year to invest in green energy credit

Scott Lawrence, partner at Glennmont Partners, believes 2023 will be a very good year for infrastructure credit investment. His firm describes itself as one of Europe's largest fund managers dedicated to clean energy investing and has big plans to exploit a major investment theme in clean energy infrastructure. As Lawrence observes: "The entire world is going electric."

Glennmont was acquired in 2021 by Nuveen. Last September, it launched its second energy transition credit strategy, which invests in senior loans in clean energy projects across Europe.

Claudio Vescovo, head of the energy transition credit strategy, agrees. "This is a very good time for those who invest the way we do," he says.

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Q How do you view infrastructure credit markets at present? Are you concerned about a recession?

CV: This is a very good time for investors in the infrastructure credit space. We lend in mainly floating rate debt, so investors in our strategies can benefit from a rising interest rate environment. The widening of the credit spread – an increasing credit risk premium – is also a significant positive factor for our investment strategy.

Our job is pricing risk and modelling the dynamics of the market. We are not taking macro views, but rather focused on protecting our clients against downside risk.

In terms of a recession, covid showed us what happens when you have a significant retraction in GDP demand; however, the effects in the renewables sector were negligible, and we did not see a significant surge in credit events.

SL: In designing a credit strategy, we approach infrastructure as an owner-operator, aiming to achieve equity-like returns but with a risk level driven by primary and secondary senior loans.. We are investing in fundamentally robust underlying assets, which can reduce the risk of default. In general,

Q How do you see the outlook for infrastructure debt?

SL: The defensive qualities of the sector can protect it from short-term recessionary considerations. Our assets tend also to have a hedge against inflation, and power price increases can increase our operators' cashflow.

Beyond that, the energy transition will be one of the great macro themes for the next decade.

We think that this year will prove a very good vintage for infrastructure credit.

renewable loans have lower default rates, for example, as compared to corporate loans.

Q Is the geopolitical background favourable for the launch of a renewable energy infrastructure strategy at present?

CV: With over 50 percent of Europe's primary energy being imported, we have always known that energy security would one day become an issue. Even before the Russian invasion of Ukraine, Europe was dependent on energy from outside providers with issues – not just Russia but also Qatar, Algeria and Libya.

The Russian invasion of Ukraine caused many in Europe to realise that renewables are not so much a "nice-to-have" as a "must-have" – and this has had two big effects.

Firstly, it has clarified the importance of energy security and it is now European countries' number one issue. There has also been a major switch to liquefied natural gas as an energy source, with significant infrastructure being rapidly built. However, this is not something our strategy has been involved in, nor is it something that will ultimately solve the dependency issue.

> *"The entire world is going electric, and this requires significant grid upgrades and growing battery storage"*
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> **SCOTT LAWRENCE**

Secondly, the war has led to an increase in renewables equity investment, and we can support this new equity with credit investment as the capital structure of a renewables project can be made up of 60-70 percent of credit.

Q Is there a danger that the short-term urgency for base load power may favour fossil fuels rather than renewables?

CV: No, I don't think so. Of course, renewables will not provide 100 percent of the energy needs in the short term, but they are certainly the most important part in changing the energy mix. And I believe that is true for the long term and the short term.

If you want to build new capacity on the grid, you have to consider the quickest ways to do so. For example, there has been a lot of talk of making nuclear power a more important contributor to energy needs, but this is a very long-term project that would not lead to any significant changes in the next or 10 or even 15 years.

If you want to see fast results, in the next six to nine months, nothing compares to renewables in that timeframe.

We are also seeing government action to support the switch to renewables. Getting authorisation for construction of a new solar or wind plant used to be a lengthy process, but we have seen a concerted effort by the authorities across Europe to improve this.

Q With so much focus on renewables, is there a risk of 'crowding' in the market?

SL: Renewables are indeed a major focus for investors. But given the market size we are talking about, we do not see investment volumes as an issue.

CV: If you look at the total market size for green infrastructure in the next seven to eight years, it could be as much as €5 trillion in Europe alone according to the G20.

What is also important in this environment is to approach infrastructure credit in an innovative way, which is something we have been focused on as we were one of the first to be involved in green energy securitisation.

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>
> **CLAUDIO VESCOVO**

Q How important are the traditional sectors, such as solar and wind, going forward?

SL: Solar energy continues to have a central role principally because of the massive reduction in costs which has occurred in the industry. In terms of power plant generation, since 2008 we have seen a solar panel fall from an average cost of around €3 million per unit down to less than €300,000, producing the same volume of electricity.

This 90 percent reduction in cost means that solar-generated energy is now just about the lowest cost form of energy production. The requirement for government subsidies to make solar energy viable is gone; it is now the cheap alternative.

There have been similar decreases in the cost curve in wind which has led to significant growth in the offshore wind market. In levelised cost of energy terms, this has led to the individual offshore wind units becoming much bigger. We are seeing 11MW turbines now in the North Sea as we move along the cost curve.

Q Are you intending to invest in grid network upgrades and energy storage as well?

SL: Yes, this is an important part to achieve energy security and ensuring there is sufficient base load power available, with better ways to store renewable energy and to tap into it when the demand is there.

We need to appreciate the scale of the energy transition. The entire world is going electric, and this requires significant grid upgrades and growing battery storage to extend the hours when you can use renewables.

The increasing adoption of electric vehicles, which is likely to happen in the coming decade, is just one aspect of the growth in demand for electricity which we anticipate. We are therefore seeing operators increasingly focus on battery storage to improve that capacity.

This is a very important component in their operating models. They are looking at lithium-ion batteries across Europe.

Q What other renewable sectors are you interested in?

SL: As investors, we focus on onshore and offshore wind, solar PV, energy efficiency and battery storage. Hydropower is a very well exploited energy source in Europe with more than 50 years of history. As a consequence, the opportunities are more limited.

Otherwise, we have invested in biomass on the equity side of the business, but local sourcing can restrict the market, as does the current cost of energy production.

The same is true of geothermal. We don't see that being exploited in Europe on the scale that one might see for example in the Rift Valley in East Africa.

Q What are your geographical preferences for investment?

CV: This is a pan-European strategy, and within Europe we have a preference for the larger western economies such as the UK, Nordics, Germany, France, Spain and Italy. This means we are overwhelmingly euro-focused. We don't anticipate investing in Eastern Europe in the near term.

Europe is where our network, market expertise and track record are established. It is where, as a team, we have 18 years of track record and a competitive advantage in the credit markets. ■