

Drive for diversity steers investors to clean energy

The growth of clean energy-focused private equity funds and related investment opportunities offers a compelling case for increased portfolio diversification, according to Phillipe Roesch of asset manager Auda International.

With a history of committing capital to the global private equity industry, it was only a matter of time before asset manager Auda International took notice of global drivers, as well as an increase in shareholder interest, and set its sights on clean energy-focused funds, according to Phillipe Roesch, head of private equity.

Despite clean energy being a relatively new investment theme, Auda targets returns that are comparable to other niche asset classes, with return expectations similar to more familiar growth-style investments. Despite any wider pressures, the risk-return profile must fit, Roesch says.

What led Auda to look at clean energy-focused funds?

‘Our traditional focus is on fund-of-funds investments in the buy-out space, with a preference for small to mid-market funds. In the last three years, we have begun to look more closely to specialist funds, with a particular focus on renewable energy and clean technology funds, partly as a response to increased interest from some of our managed accounts. For the time being, our fund-of-funds programmes will stick to their focus on buy-out top performers, this strategy allowed us to outperform top quartile buy-out funds in the US and Europe on the mid- to long-term. Our managed accounts, however, might have different investment stage interests. Potentially down the line we could incorporate funds of these kinds into our more traditional offerings to provide a greater diversification to our clients.’

What is the appetite for this sector from institutional investors?

‘There is more interest due to the fact that the sector has enjoyed a very high political visibility recently. There has been a lot of focus on climate change and its related economies from the early 1990s up to the Copenhagen summit a couple of months ago, especially in Europe, which historically has been the frontrunner in terms of clean energy. Beside the potential return on investments, the sustainability aspects as well as the positive social recognition for green investments also play a more important role.’

What characterises your investments?

‘We are principally a fund investor even though we have extensive secondary and co-investment programmes. When entering a new asset class, we first target investments

Investor Profile: Asset Manager Phillipe Roesch, Auda International



in specialised funds staffed with experienced investment professionals to better understand the sector. At a later stage, we will potentially look to acquire secondary investments or co-investments.

‘Currently our interest is more on the renewable energy side, with a lesser focus on clean

technologies. Investments in the solar and wind sectors are most interesting to us, as the technologies have proven to be reliable and financially attractive in the recent past, especially with regard to wind energy, which has more or less reached grid parity.

‘We avoid investing into new technologies but tend to focus on proven equipment within the renewable energy sector. In any case, we attempt to closely monitor any technological advances, which lead us to put an emphasis on potential technology risks while making a due diligence on any potential new fund we may invest into.

‘In terms of our investment size, we always cap our investment at ten per cent of a fund’s target size for our fund of funds programmes. For our managed accounts, we look to not make single investments below €5m, as the amount of work in terms of our due diligence is very high, regardless of the amount invested.’

What kind of funds do you target?

‘With respect to investments in the renewable energy sector, we wouldn’t invest in early stage funds, where you take the additional risk of a business model being not accepted by the market and are therefore focusing more on later stage or growth funds managers. This approach is in line with our

conservative investment strategy and selection process. I wouldn't expect that many buy-outs in this sector, as most of the investments are either real assets or small and high-growth companies. In other segments such as more traditional energy production or infrastructure assets, this might be different as these companies might already be larger and profitable, thereby potentially being attractive for a buy-out.

'Due to the young age of the industry, most of the attractive opportunities for us are certainly more in the later stage and growth area where you already have some visibility in terms of the viability of the commercial business plan. On the early stage side, you certainly have a high number of investment opportunities but for us it would be very risky. As a fund manager, we try to select experienced investment teams managing their second or third fund, who are able to show a solid track record of investments and successful exits. As said before, we try to avoid technological risk. It is also important for us that the fund is large enough to finance and support subsequent equity rounds for its projects or portfolio companies.'

Do you favour specialist funds?

'We would prefer specialists as it allows us to select some specific strategies to build-up an appealing diversification through the addition of different sub-strategies within the portfolio. Diversification can be achieved on a geographic basis. When we select a renewable energy fund manager for instance, we would prefer them to invest on a pan-European basis. This is particularly important given the variance in the level of subsidies on a country-by-country basis.

'In terms of cleantech, we try to avoid technologies that are too niche. We look for teams that are at least on their second fund. This provides us with visibility with regard to a team's track record of making specific investments into that area, rather than investing in funds that are just starting out.'

How does the risk return profile in this sector compare with more established areas?

'Depending upon which niche asset class you invest in, the type of returns we would expect should be pretty similar to traditional growth investments, otherwise we would not invest. We think in terms of risk-return profile and assess the potential funds' investments on this basis. On the later stage and growth side, the leverage is more to finance a specific project and not to service the acquisition of a company. This is also a key difference with traditional buy-outs where a large portion of the returns is being generated by using acquisition debt. Broadly speaking, however, we would look at competitive returns by building a clean energy investment portfolio along the same lines as for more established technology and

energy-focused investments. What it does offer is further diversification and investments opportunities for our clients.'

How do you filter potential fund managers?

'As far as Europe is concerned, it was interesting to see that in 2009 a higher proportion of renewable energy and cleantech-related fund managers than ever before were looking to raise new funds. The main point of interest for us is information on the technologies they intend to use as well as an assessment about political developments in the countries they are looking at, especially with regard to tax and subsidies. We want to make sure that the asset class we invest in is the one that satisfies our criteria in terms of risk-return profile. We aim to conduct and subsequently present a sophisticated market and sub-segment analysis on a European specific niche market to our investment committee before making investments and committing to any specific funds.'

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Which countries are taking the lead in your opinion?

'In Europe, Germany has historically taken the lead due to a very early public awareness of ecological issues that began in the 1960s, coupled with the strength and technological innovation capacity of the German economy. There have been many successful German manufacturers in the wind and solar sectors, some of them are already stock-listed. Even larger industrial or energy groups such as Siemens, Bosch, E.ON or RWE have dedicated programmes to increase their exposure to the green economy. The Nordic countries follow the same approach, but lever

a smaller industrial basis. We have recently seen France, the UK and Italy taking positive steps in the development of their green economies over the last couple of years.'

Is Asia a potential target area for you?

'The aggressive expansion of this sector in Asia is relatively recent, at least compared to the more established industries in Europe and the US. Their big advantage, however, is that many Asian countries are at the beginning of their economic development and are already thinking about how to optimise their production capacity in terms of alternative energy sources and energy efficiency.

'They have already begun investing huge amounts of capital into these schemes, which is an advantage in comparison to more mature economies where the development of green thinking and its first technological and industrial application has happened while these economies were already in a developed stage. I believe there is a definite advantage with beginning with these processes at an earlier stage, especially when you have the advantage of having so much capital to deploy, as well as the necessary government backing.'

investor profile