

First-mover advantage

Partners Group's **Benjamin Haan**, head of private infrastructure Asia-Pacific, and **Andrew Kwok**, senior vice-president, private infrastructure, Asia explain why half the firm's renewables portfolio is based in the region

Q What do Asian renewables mean for Partners Group?

BH: To start with a broader view, we see the transformation of the world's power mix from fossil fuels to renewable generation as one of the most compelling and largest investment opportunities now and into the future, so we have been very active in this area. Renewables investments make up approximately one-third of our overall infrastructure portfolio.

In Asia-Pacific, we have invested into wind and solar across Japan, Taiwan, the Philippines, Thailand and Australia, so Asian renewables are certainly in our sweet spot and half of the capital we have deployed in the renewables sector has been here in our region.

Q How do you compare renewables opportunities in Asia-Pacific with other markets, such as Europe and the US?

AK: We are global investors and we look at opportunities and investing on a global basis. If you look at Asia-Pacific, where we have invested around half of our renewables portfolio, the region presents lots of demand for renewables, with several themes driving the momentum. The first one is nuclear replacement – particularly in Japan and Taiwan – where you can see real policy drivers supporting renewables. The second theme is decarbonisation, which is happening in Australia and Korea. And the third is a better risk/return relationship, relative to other regimes around the globe, for our clients.

BH: The latter point is important, because, while there are plenty of

positive developments and investment opportunities in renewables in Europe and the US, we often see superior risk-adjusted returns in Asia on a relative-value basis.

Q With half of your renewables portfolio already in Asia-Pacific, how do you ensure balance?

AK: We are careful that we are not overweight on certain jurisdictions, regimes or feed-in tariff schemes. Considering that renewables in some countries still rely on government policies and subsidies, we try not to be concentrated in any single country. Also, we are fairly diversified across technologies, being active in solar, onshore and offshore wind.

BH: I would add that, as part of our relative-value approach, we have an allocation range rather than a set target of how much we want to deploy in a region or a sector to give us flexibility. Our infrastructure programmes typically have a 10 percent to 40 percent allocation range for investments in the Asia-Pacific region and in the past few years, as we deployed capital, we have certainly got closer to the higher end of that range.

However, one thing to remember is that while we have deployed a lot of capital [in renewables], we have also exited several investments. By nature, renewables investments can be ramped up very quickly, with the construction period being much shorter than other types of infrastructure such as roads, rail and large-scale thermal power assets. We actively manage our concentration in this regard.



“The key to success is really to have the flexibility to tap the opportunity early. Go with the right partner and the right local management team as well” Haan

Q Speaking of exits, Partners Group sold Japan Solar earlier this year. What drove that investment and was it a good exit for you?

BH: We identified that Japan's renewables market was going to be a very interesting place to be when the government's policies started to change post the Fukushima incident. When the feed-in tariff scheme was introduced in 2012, we saw that opportunity and ended up making a sizeable investment in the country.

We stepped in early, which I think is crucial to being successful, forming a partnership with Equis, the Singapore-based fund manager, to invest in the market through the Japan Solar platform. We started the platform with four projects and when we exited as the largest shareholder this January it had 27 projects in its portfolio, with 600MW of projects in total secured and 200MW in operation.

It was a fantastic outcome. It outperformed our original expectation with a blended gross return of 3.2 times on our original investment. Other exits in the region were also above the underwriting and those investments we haven't exited yet are performing according to plan.

The key to success is really to have the flexibility to tap the opportunity early. Go with the right partner and the right local management team as well, because investing in renewables has to be local. We also leverage a set of trusted industry advisors for origination and on the asset management side and we broaden our network with developers to complete more projects.

AK: When it comes to the exit decision, it's really a relative-value exercise. When you look at the assets or platforms we have exited, you'll see they have been significantly de-risked and thus have become more like core assets. In the current market, we believe core, stable infrastructure assets can attract higher valuations, even though they are delivering a lower yield. We exit because we have created

the value and see a good market for sale. That's what happened in Japan.

Q How about Taiwan, where you started investing in the solar sector two years ago?

AK: Taiwan presents similar dynamics to Japan. We were quite fortunate to invest in solar back in 2016. This is very consistent with our strategy – we spot a policy trend and we get in quickly.

We were attracted by the feed-in tariff and the strong policy push, which have remained consistent after two-and-a-half years of progress. The reverse auction of government land tranches is also supporting the industry, in line with the top-down support from the government.

We have secured a pipeline of projects for more than 450MW and over the next

two months, we are planning to increase our original commitment.

Q What do your investors make of all your exposure to Asian renewables? Are they happy with it?

BH: In general, our clients are very attracted to that exposure. We have deployed around \$800 million into renewables in the region since 2011 and have successfully delivered results. I would highlight that, while we are certainly investing in Asia-Pacific, a majority of that has been in developed Asia rather than emerging markets. The former offers the most attractive risk-adjusted returns and our investors have been supportive of the investments we have made and the results achieved.

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Q You stressed developed Asia. Which markets in Asia would you stay away from, then?

AK: One of the markets we are not spending much time in at the moment is China. It's really a shame, given China has installed half of the world's renewables capacity in the past five years. But it's due to a combination of factors, including poor grid planning, which led to significant capacity curtailment; long delays in paying generators, a tough situation for investors, especially when they are after stable yields; and finally, strong domestic competition. With competitive state-owned enterprises, which are supported by low cost of capital, China is a very tough market to operate in for foreign investors like us.

I am not saying infrastructure inves-

tors can't do well in China, but it's relatively hard for us and an example of a market that we don't have on our priority list.

Q What about your targeted markets, what would you say are the main challenges in those?

AK: It's never easy to deploy when you're as selective as we are. But one of the key challenges is that we try to get in early when the policy is strong and formative. If we are not among the first movers within 12 to 18 months after a policy is established, we may get priced out. Jumping in quickly is a challenge, but also an advantage for us.

BH: Also, we have seen returns being pressured in some of our core markets, like Japan for example. As markets mature

and become more competitive, returns for investing in operating wind and solar assets become lower and no longer reflect risks accurately. We cannot be competitive with cheaper sources of capital in these countries.

Q What about other energy and renewables-related opportunities? Do you see opportunities such as energy storage emerging in the region?

BH: We definitely see that coming as renewables become a bigger part of the energy mix. We have seen the impact of renewable energy sources, which are intermittent, on grid stability. And there is an opportunity for energy technologies that can complement renewables to provide stability, such as energy storage and grid optimisation. But at the moment, government support mechanisms haven't been put in place in our key target markets and, on a purely economic basis, the sector does not yet make sense.

We are, however, currently working on a hybrid solution, which combines power generation from solar and wind and battery, in Australia's Sapphire wind farm. I think this type of structure will become prevalent in the coming years.

Q Looking forward, what trends do you expect to see in the next three years?

AK: Offshore wind is definitely coming to this region, with Taiwan, Korea and Japan making real commitments to make this a reality, and we are seeing the first offshore projects in the pipeline in Australia. Asia is going to be the next hub for offshore wind on the back of many European developers setting up shop here.

However, it will take some time. The good news is that it is just a matter of cost at the moment to get the equipment and infrastructure over here. The current project cost in Taiwanese offshore wind is still high by European standards, but it will decrease as technologies improve. ■



Taiwan solar: Similar dynamics to the Japanese market, where Partners Group also invested early