Asante Capital Q2 2022 Newsletter



# **ASANTE CAPITAL SOLUTIONS**

Asante Capital is a leading independent private equity placement and advisory group focused on partnering with best-in-class managers and limited partners in both developed and emerging markets.

Energy transition, Climate Impact, Clean Tech 2.0, Sustainable Infrastructure, or simply, De-carbonization. Whatever you wish to call it, it's clear that Energy Transition (ok...for the sake of this article, we'll call it that) is front of mind for a growing contingent of the world's largest institutional investors. It is one of the major investment themes we've observed over the past few years, and with that has come an emergence of investment opportunities spanning early-stage venture capital to core infrastructure, and everything in between. Whatever your appetite, there is a flavor for just about everyone.

Much has been written about energy transition – from the pledges to achieve Net Zero carbon emissions by over 1,200 companies worldwide, ranging from Apple and Blackrock to Amazon and ExxonMobil – as well as the three largest carbon emitting economies, the US, China and the European Union, all pledging to reach net zero by 2050. And then, the challenges – we require investments in renewable energy and energy efficiency to triple by 2030 to around \$4.0 trillion per year to have a chance at achieving net zero by 2050 and staying on track for the Paris Agreement's target of 1.5 °C. By all accounts, we are well off from being on path to achieve these targets.

#### Current national plans fall short of what is required



Increase in global greenhouse gas emissions projected by 2030, compared to 2010, based on available national action plans.



Reduction in global greenhouse gas emissions needed by 2030, from 2010 levels, to keep warming to no more than 1.5 degrees Celsius.

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I believe the de-carbonizing of the global economy is going to create the greatest investment opportunity of our lifetime.

Even in the net zero by 2050 scenario, the IEA still projects the world will be consuming 75 million barrels per day of oil by 2050, down from approximately 100 million today. Conventional energy remains an important part of the equation, and we need all resources to effectuate this transition. The war in Ukraine and the recent spike in commodity prices has only shone a brighter light on the need for countries to achieve greater energy independence, brought about by a shift to renewable and alternative sources of energy.

<sup>-</sup> Larry Fink, Blackrock

When the dust settled on what is now largely referred to as the era of Clean Tech 1.0, the late, former CalPERS CIO Joe Dear, famously referred to clean tech investing as a "noble way to lose money." It was during this period of 2006-2011 that venture capital firms spent over \$25 billion on clean energy start-ups and lost over half their money (MIT Energy https://energy.mit.edu/publication/venture-capital-cleantech/). Furthermore, over 90% of companies funded after 2007 didn't even return cost.

It was also during this Clean Tech 1.0 time-frame that the conventional energy industry was booming, brought on by the US shale revolution, and investors were reaping out-sized returns. From the 10-year period ending [March 31, 2014], private equity energy investments (largely oil & gas) returned 16.71% net, compared to 13.97% net for all US private equity. (Source: Cambridge Associates Private Equity and Private Energy Indexes) making it the highest returning segment within private equity, even outpacing more traditional buyouts and venture capital over that time. This made it difficult for investors to allocate capital to more speculative and arguably riskier areas of clean energy, and the perception remained that one had to trade returns for impact and ESG, but you could not have your cake and eat it too. Returns and impact were widely seen as mutually exclusive.

While most of the investors we speak with acknowledge the need for lower-carbon fossil fuels to bridge the gap and be phased out gradually in order to ensure a smooth and successful energy transition, we have observed three primary camps of investor sentiment: 1) A small portion of investors that see attractive investment opportunities in conventional energy where capital is significantly more scarce than other areas of the market; 2) Investors that acknowledge the need for lower carbon conventional energies to bridge the gap to an energy transition that cannot happen overnight. This group, which includes institutions such as MIT's endowment, believes they can also be more influential stewards for change by engaging directly with conventional energy companies to reduce their carbon footprint and promote ESG; and 3) Investors that have completely prohibited any future investments by their institution in fossil fuels. This camp is often seen as those that have acted admirably in the name of ESG, or like many of MIT's peers, have arguably given in to social or political demands to divest and discontinue further investments in fossil fuels. However, this latter group also includes many more investors that have simply suffered such poor performance from their conventional energy investments that swearing off the asset class in the name of ESG was a relatively easy give, in exchange for no longer having to stomach the volatility of a commodity driven industry, especially when returns in areas like technology and healthcare have been so strong. Had the 10-year performance for the MSCI World Energy Index and private energy industry not been 1.2%, we may have seen a few more hold outs!



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U.S. academia is falling in line with a global movement that includes 1,337 institutions valued at more than \$14 trillion, according to the climate change campaign Fossil Free. Churches, philanthropies, pensions, and even sovereign funds such as Ireland's strategic development fund have adopted a strategy to starve greenhouse gas emitters of capital and shift investments into clean sectors.



#### Where Investors are Seeing Opportunity

While energy transition has grabbed headlines and been thrust into the limelight in recent years as a rather novel investment theme; investors and corporations had been pouring money into renewable energy, especially wind and solar, long before energy transition was a widely used term. The intense competition and abundance of cheap capital has continuously compressed investment returns, especially in wind and solar to levels that are today often only suitable for core and super core infrastructure investors. As a result, many institutions without private market infrastructure allocations and/or those with higher return targets (often endowments, foundations and family offices), are faced with the option to either not participate in the energy transition via private markets, or to invest earlier on the risk spectrum (e.g. clean tech venture capital) or in newer and adjacent areas of energy transition. In 2021, U.S. and Canadian venture capital and private equity firms poured roughly \$6.8 billion into energy transition, a 10 year high. This is why terms like de-carbonization, climate impact and sustainability have developed to justify the investable universe beyond just renewable energies, like wind and solar.

Over the past two years, we have seen rapid growth in the number of general partners raising capital to pursue strategies not just in infrastructure projects, but in higher growth and higher returning areas of energy transition. These firms are pursuing investment opportunities addressing far more than simply replacing the old guard oil & gas

New Renewable Capacity is outpacing traditional power sources 2010-20 - Increase in Power Capacity by Source



Soucres: Cambridge Associate LLC and International Renewable Energy Agency (IRENA)

companies with energy transition substitutes. Managers and investors alike are addressing a far larger opportunity set, tackling low carbon solutions for the entire global economy; areas such as smart cities, energy efficiency, sustainable construction, sustainable food and water, sustainable transport and logistics, and recycling / circular economy.

We have seen general partners investing in new technologies for decarbonizing the production of steel and cement, as well as utilizing "old" technologies such as tidal power and industrial water-cooling for water-based data centres, to keep racks cool and thereby reduce energy consumption and emissions. We have seen infrastructure managers investing in multi-billion-dollar projects alongside some of the world's largest companies, to build production capacity for renewable diesel and sustainable aviation fuels, with the goal of selling under long-term off-take contracts to major airlines. Even venture capital success stories like Impossible Foods and Bowery Farming are addressing the energy transition in a big way, through reducing GHG emissions in food and agriculture – an area of the economy that is currently responsible for approximately 26% of global greenhouse gas emissions.





### HYPE VS. REALITY

From our seat, it seems like we observe a new GP entrant raising capital for the energy transition on a nearly weekly basis. This includes many legacy oil & gas managers turned energy transition specialists, no doubt driven in large part by their investor bases who have voted with their feet – Add Energy Fundraising decline stat. Firms like Blackstone and Apollo, previously two of the largest oil & gas investors in private equity, have told investors they will no longer invest in oil & gas out of their flagship funds. Even Quantum Energy Partners, one of the largest specialist oil & gas managers, has recently given investors the option to opt out of fossil fuel investments in their next flagship fund, in favor of exposure only to investments supporting the transition away from fossil fuels.

With the energy transition, there will clearly be winners and losers and we believe we will continue to see a steady flow of managers coming into the space over the near term, to capitalize on investor interest in this space. However, if there's one thing we learned from the oil & gas shale boom of the 2010s, it's that with extreme positive sentiment and a glut of capital chasing too few opportunities, the end result being "every basin gets a rig", did not bode well for investor returns. The same may hold true for energy transition in that a lot of capital will be raised and will need to be deployed, but not every project or company will deserve funding.

Time will tell, but we think this time is different, as the energy transition and its many offshoots is not dependent on a finite and expendable commodity. Instead, GPs face a vast and ever-expanding energy transition opportunity set today, which we believe will save the industry, over the long run, from a similar fate to what took place between 2007-2011 (as for the short term, there's always going to be boom and busts).

FUND	FUND SIZE	STRATEGY
Brookfield Global Transition Fund	\$15,000	Infrastructure
TPG Rise Climate	\$7,300*	Growth
Stonepeak Global Renewables Fund	\$2,750	Infrastructure
Copenhagen Infrastructure Energy Transition Fund	\$2,250	Infrastructure
General Atlantic – Beyond Net Zero Fund	\$3,000*	Growth
Quinbrook Infrastructure Partners III -Net Zero Power Fund	\$2,000*	Infrastructure
IFM Net Zero Infrastructure Fund	\$3,000*	Infrastructure
Sandbrook Climate Infrastructure Fund	\$1,000*	Infrastructure
Vision Ridge Sustainable Asset Fund III	\$1,250	Infrastructure / Growth
Breakthrough Energy Ventures II	\$1,000	Venture
Riverstone Decarbonization Fund	\$1,000*	Growth
Fifth Wall Climate Technology Fund	\$500	Venture

\*Key: Currently Raising

The above table is just a small snippet of the energy transition manager universe, as just about every infrastructure manager is dedicating some portion of its fund to energy transition opportunities. Moreover, a simple Preqin keyword search for funds with "energy transition", "de-carbonization", or "climate" in the name, returns hundreds of results.

### EVOLUTION AND INVESTOR SENTIMENT

While energy transitions are not a new phenomenon (Dan Yergin, in his book The New Map, traces the first energy transition to 1709 when an English metal worker began using coal rather than wood to produce iron), it feels as if we are at the dawn of a new era for energy transition. This era is intensified by the complementary forces of great technological innovation, widespread political and grassroot support at a global level to address climate change, and open and supportive capital markets. While this is undoubtedly an exciting time for the global energy economy, it is also a period of confusion and new discovery for many investors and fund managers alike. Investors are faced with having to determine how they would like to participate in energy transition, to what degree, what areas they want exposure, and where along the risk/ return spectrum. With many investors, we see cautious hesitation, and a choosing to take a wait and see approach, as they take their time in deciding which areas of the market are most attractive and which fund managers will ultimately emerge as market leaders, in a market with very few proven track records outside of traditional renewables like wind and solar.

### CONCLUSION

Today, it is relatively easy to define the size of the oil & gas industry. For instance, we know that it is a 100 million barrel per day industry, and we know the players up and down the value chain. However, it is far more difficult to determine the size of the energy transition opportunity set, or the many offshoots addressing areas of de-carbonization and resource efficiency, across nearly all industries. More conservative investors will proceed with caution, investing in proven technologies with traditional infrastructure risk characteristics. Others will take a rifle shot approach, investing with a small number of perceived best in class GPs, to give them overarching exposure to energy transition as a theme; but we expect to see few investors building broad portfolios of energy transition managers. Just as investors might have their 1-2 healthcare buyout managers, many will have their 1-2 energy transition managers. Nonetheless, investors are already reportedly being inundated from a plethora of managers vying for one of those elusive portfolio spots.



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