

RGreen Invest's InfraGreen III fund

Alexandra Dockreay

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French alternative energy fund manager RGreen Invest is approaching a February (2019) final close on its latest mezzanine debt and equity fund – InfraGreen III – above target and approaching an extended hard cap. It is the fourth fund vehicle under management for RGreen Invest, which partners with developers at the ready-to-build stage.

While mezzanine debt investments have been the mainstay for its fund suite to date, RGreen Invest will allocate a significant portion of the capital to equity investments. The manager is also increasingly branching out to renewable energy technologies beyond wind and solar, such as biomass, biogas, geothermal and energy storage.

InfraGreen III has raised €307 million (\$352 million) as of December (2018), and is around 75% deployed. With the final close due within the next two weeks, the manager is preparing for a fourth generation fundraising as soon as mid-2019.

The manager

The founders of RGreen Invest are Nicolas Rochon and Cédric Lacaze. They were partners in a former venture – Financière de Champlain – an asset management company which invested in listed companies with a focus on sustainable development including environmental issues. Rochon and Lacaze sold Financière de Champlain to Crédit Coopératif in 2009.

RGreen Invest was born in 2010, to raise capital from institutional investors to finance energy transition projects across Europe.

The RGreen Invest team is around 16-strong, with an investment team of around eight. The employees have joined from companies such as French energy developers, EDF, Total, Crédit Agricole and EY.

Paris-based RGreen Invest now has over 1.5GW of assets and four funds under management:

- InfraGreen I – a €62 million mezzanine debt fund that reached final close in December 2014
- InfraGreen II – a €162 million mezzanine debt fund that reached final close in July 2017
- Nouvelles Energies – a €124 million short-term bridging financing debt fund that reached final close in January (2019)
- InfraGreen III – approaching final close in February

InfraGreen I is already around 70% divested. Gross return is at around 11% and the manager is expecting to be able to reach 8% net return for investors, and 6% yield above the 5% target.

InfraGreen III

Fundraising for InfraGreen III, a France-domiciled FCPI fund, launched in December 2017.

The final close for InfraGreen III is due to take place on 15 February (2019). There was an interim close at €307 million in December (2018). This well exceeds the €250 million target set, and even just edged past the original hard cap of €300 million.

One of the key investors in the fund, the European Investment Bank (EIB), agreed it could extend the hard cap to €330 million.

InfraGreen III is a mezzanine debt and equity fund, targeting European renewable energy generation assets.

The fund's LP-base is largely French insurance and pension investors, around 95%, with the exception of one Luxembourg-based insurance company, which committed €15 million, and the EIB, which committed €50 million. Other known LPs are:

- BNP Paribas Cardif Life Insurance France
- Fonds de réserve pour les retraites (FRR) – a French public pension reserve fund

- Neulize Vie – the life insurance arm of ABN AMRO

The vehicle is structured as a closed-ended, private fund. It has a 10-year primary term, with two extension options of one year. The expected average duration for junior debt deals is five to seven years, and for equity between five to 10 years.

The target net IRR is 8% and the target yield 5% after the investment period has ended.

RGreen Invest has adjusted the strategy of this fund compared to its successors.

For InfraGreen III, there is now a much more significant allocation to equity investments (30-40%) whereas predecessor funds were purely focused on mezzanine debt.

Nicolas Rochon, founder and president of RGreen Invest, told *IJGlobal*: “The main reason is that around five years ago there tended to be a strong visibility on cash flows for projects as they generally had 20-year government contracts, say in France and Germany. At that time we were not investing in France or Spain in fact, as we were not comfortable with the equity returns. So we provided mezzanine debt in France and Italy, where we could achieve a 40% discount on the market value of assets and one could negotiate junior debt at 10% interest while taking on very low risk.

“There has been an evolution and the new markets are Spain, Italy, and Poland. If one understands the market well in these countries and has great solar and wind assets, one can reach a 10% equity return, with energy sold at the market price and/or through private PPAs. We will continue to lend mezzanine debt in the mature countries: France, Germany, Belgium, Netherlands and Scandinavia.”



Geographical targets for this latest fund have shifted too. For the third fund, Italy and France are expected to account for the majority (around 65% of assets), Eastern Europe – especially Poland and Croatia – around 10-15%, and then the rest of Europe, including Spain, Germany and Portugal.

“Two years ago in Spain solar and wind markets started to grow strongly again due to the steep decrease of the levelized cost of renewable electricity. We see now the same trend in Italy and we are already part of that evolution. The trend there will be to develop solar and wind projects at market price and/or with private PPAs. We have already set-up three partnerships with developers in Italy,” Rochon said.

The manager’s primary assets to date have been onshore wind farms and solar plants. Wind and solar assets are expected to combined take up around 70-75% for this fund, but also biomass, biogas, geothermal and energy storage are in scope.

Relationships with developers are key to RGreen Invest, which seeks to form partnerships with developers as co-shareholder. Typically they would invest in mezzanine debt or equity at the ready-to-build stage when permits are in place and the EPC contract. Around 10% of fund can be deployed in assets that have yet to sign an offtake agreement, and RGreen can enjoy the higher returns in the cases where it works to obtain a PPA. RGreen would join projects or portfolios ahead of senior debt financing and work on structuring that.

Rochon said: “The main difference for RGreen Invest is that we aim to provide long term partnership solutions for IPPs and developers and we are very open to sharing the value of projects. Contrary to other fund managers that seek to own 100% of an asset and taking them over, our strategy is to discuss the needs of the developers for the next two to three years and tailor relevant financing solutions either through equity, junior debt or a mix of both. Another big difference is that 90-95% of our asset sourcing comes from our own team of investment professionals, not from brokers. We are really close to the market.”

Typically, RGreen Invest takes 50% in an investment, or an equity split such as 70:30.

Already InfraGreen III is around 75% deployed, since its launch in December 2017 . The expected investment period is up to three years. The fund has made 15 investments and could make as many as 30. Typical transaction size is around €15-20 million.

The assets of the fund so far include:

- a quasi-equity investment in French geothermal with developer Kyotherm

- an equity investment in the Goya wind farm cluster in Zaragoza, Spain
- a quasi-equity investment in Italian wind, solar and biomass in Belenergia
- a quasi-equity investment in solar in France with Arkolia

The next generation

With InfraGreen III now around 75% deployed, the fundraising for the successor InfraGreen IV could start in mid-2019. The fundraising process is due to expand outward and to target LPs outside of France, maybe as much as 30% of the investor base, according to Rochon.

As RGreen Invest plans also to broaden the different types of renewable technologies in the fund, Rochon told *IJGlobal*: “Biomass and biogas could form a larger part of InfraGreen IV, maybe around 20% to 25%. Biomass/biogas is a strategic technology for governments all over Europe as it is a baseload energy source. Solar and wind would account for more like 40%-50% of investments and mobility and storage around 20%.”

Advisers

Advisers for the InfraGreen III fund are:

- Simmons & Simmons – legal adviser
- RBC Investor & Treasury Services – fund administrator
- PwC – fund auditor

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