

THE AMUNDI AND ELECTRICITÉ DE FRANCE PARTNERSHIP

- Matthieu Poisson, Amundi



The popularity of infrastructure has increased rapidly in recent years, as the low-yield environment has created strong incentives for investors to give up liquidity in order to secure regular, reliable cash flows.

The amount of dry powder now available to this asset class has reached unprecedented levels. That has provided the impetus for an increasing number of institutional investors to ramp up their in-house capacity to execute infrastructure deals directly. This in turn has generated unprecedented competition, especially for trophy assets.

Demand for this asset class now outstrips supply in OECD countries, making it hard to find well-priced assets with the right investment characteristics. This makes it difficult for investors to secure high-quality assets at fair value.

The strong demand and lack of supply has made many 'infrastructure' funds expand their investment scope well beyond traditional assets such as electrical grids, motorways or airports. Some funds have resorted to investing in assets which did

not used to be considered as infrastructure – such as retirement homes.

LEVERAGE A STRONG POLITICAL MOMENTUM

The Amundi Transition Énergétique (ATE) fund aims to give investors unique access to this now hard-to-access core infrastructure market. This joint venture between Amundi and Electricité de France (EDF) allows investors to participate in France's transition away from carbon-backed energy and towards green suppliers.

There is a robust political momentum driving this change, which has been shaped by the COP21 Paris agreement. New legislation passed in August 2015 set ambitious targets for the reduction of energy consumption, greenhouse gas emissions and the diversification of energy supply sources.

There is a strong impetus to increase the energy efficiency of the country – the French state has increased the budget to achieve this goal by 50% in 2017.

Renewable energy currently costs an average 16€/MWh in France, which is

about a fifth of the amount charged in Germany. While increasing utility costs is unpopular with voters, the size of the gap between France and Germany indicates costs could be increased by some margin before consumers would start to complain. That would enable the state to provide attractive tariffs for suppliers of these new sources of renewable energy.

As EDF is 85.6% owned by the French State, it is highly incentivized to play a key role in this radical change in the energy mix. Today the company produces around 29 GW of renewable energy and it aims to increase this to 50 GW by 2030.

ACCESS TO CORE INFRASTRUCTURE ASSETS

EDF needs access to specialist financing to achieve this ambitious green energy target. That source of financing needs to be significant as EDF's operation and maintenance capabilities cover a much broader scope of renewable energy engineering disciplines than just solar and wind. For example, EDF is a leader in heating networks, street lighting, biogas and converting waste to energy. These projects fit well with Amundi's ambition to

COGESTAR PROJECT

The EDF subsidiary Dalkia specializes in 'co-generation' energy. This is the simultaneous production of thermal and mechanical energy. The thermal energy is used for heating while the mechanical energy is converted into electrical energy.

Co-generation plants – or combined heat and power plants (CHP) – can operate on either more traditional forms of fuel like gas or greener alternatives like municipal waste and biomass. While these plants are highly efficient, they need to be located near to the buildings they supply because of the heat loss during transportation.

The French regulatory framework has incentivized the construction of these plants as it has provided a favourable fixed premium for the electricity produced by these plants. This tariff covers the cost of the initial capital expenditure as well as providing a variable premium to cover the cost of energy supply.

Dalkia has sold a majority stake in a large portfolio of its co-generation units to ATE grouped together in two companies – Cogestar and Cogestar 2. In addition, ATE has an option to purchase the assets of Cogestar 3, which are scheduled to come onstream in 2017 and 2018.

The 35 Main Assets in the Portfolio



give investors access to renewable energy infrastructure projects.

One of the key difficulties in accessing these assets for investors is that many of the projects involved in the transition from carbon-based to green energy are small, localized units. These require high levels of local expertise and a very broad network of local development teams, which can be found in large industrial groups such as EDF.

This network of employees has a deep knowledge and experience of the needs of each local authority responsible for overseeing the various Public-Private Partnership (PPP) projects. It would not make economic sense for a large infrastructure fund to build such a vast network of local expertise for a small part of its portfolio.

As the traditional infrastructure funds cannot provide equity for these small projects, EDF needed another solution to its financing needs, and needed a financing partner that is happy to keep EDF as its sole asset operator.

ATE was created to give investors privileged access to EDF's existing pipeline of fully permitted specialized infrastructure projects. EDF has an in-depth understanding of local planning laws, knows how to accurately cost individual projects and can meet the individual engineering challenges. This allows ATE to minimize development costs and avoid additional expense.

CAREFUL ALIGNMENT OF INTERESTS

But ATE is not forced to fund every deal. The joint venture is a conditional relationship – the fund has full access to the existing and future pipeline but it can choose which projects it wants to finance. As ATE is a separate organization, there is no way to influence its decisions. There is a broad choice of projects, as EDF has more ongoing plans than Amundi has the capacity to finance.

Considerable thought has been given to the alignment of interests between ATE and EDF. Along with the freedom to choose which projects to finance, the fund is also free to work with any other asset supplier. The profits from the joint venture, including carried interest, are split 50-50 between EDF and Amundi.

RISK MITIGATION THROUGH DIVERSIFICATION

Renewable infrastructure funds tend to concentrate on a single type of asset, usually wind, which exposes them to a significant level of regulatory and industrial risk concentration. As these funds are often a tenth of the size of a global group like EDF, they have relationships with only a limited number of suppliers, with whom their bargaining power is constrained.

ATE's partnership with EDF not only gives investors access to EDF's economies of scale, but also allows diversification across multiple renewable energy projects, such as heating networks and converting waste to energy.

EDF's commitment to R&D spend, its in-depth supplier qualification process and its large O&M workforce – it has 3,000 employees in wind alone – make it difficult to replicate the company's ability to manage as efficiently as possible the long-term risks associated with operating and maintaining specific assets.

DIFFERENT PHILOSOPHY TO COMPETITORS

It is not only the way ATE carries out investment which differentiates it from its competitors – its philosophy is also different. Many infrastructure funds behave like private equity firms. After acquiring an infrastructure asset, like an airport, they make radical operational and financial changes then crystallize profits by selling the asset after five years.

In contrast, the ATE fund operates a buy and hold strategy. It will hold these assets until they have to be mothballed. In exchange, it aims to receive regulated tariffs for up to 20 years. In that sense, ATE promotes a 'pure play' infrastructure fund without any risk such as those experienced by private equity-style infrastructure funds, which are exposed to the uncertainty of the exit.

ATE's 'buy and hold' strategy makes this fund a good fit for investors with similar long-term investment horizons that want cash yields. In particular, this fund should appeal to insurance companies because its risk profile is designed to meet their Solvency II requirements for qualifying as 'eligible infrastructure'.

AMUNDI ENERGY TRANSITION

Amundi Energy Transition (ATE) is the company created by Amundi (the European leader in asset management with assets of more than €1tn worldwide*) and EDF (the world's largest electrical company and the leading producer of green energy). ATE aims at managing funds raised among institutional investors designed to finance energy transition projects. Publicly traded since November 2015, Amundi is headquartered in Paris, France, and is the trusted partner of 100 million retail clients, 1,000 institutional clients and 1,000 distributors in more than 30 countries, served by more than 4,000 employees. Amundi designs innovative, high-performing products and services for these types of clients tailored specifically to their needs and risk profile.

MATTHIEU POISSON

Matthieu Poisson is the CEO of the newly created joint venture between Electricité de France (EDF) and Amundi in energy transition financing. Previously, Matthieu was working for EDF, where he first acted as Head of International Operations under the CFO, and in that capacity, was the group's representative in a number of foreign operations, such as the Taishan Nuclear project (TNPJVC) and Constellation Energy Nuclear Group. He was then appointed in 2012 CEO of EDEV, the holding company of EDF for renewable operations and corporate venture. Among his assignments, he was in charge of the group investment committee for mid-sized energy assets. Before joining EDF, Matthieu had spent 10 years at Lazard in equity capital markets and merger & acquisitions. Matthieu graduated from the Institut d'Etudes Politiques (Paris) and holds a Master in Corporate Finance.

www.amundi.com

*Data at 30 September 2016. No. 1 in total assets under management of management companies with their main headquarters in Europe - Source: IPE "Top 400 asset managers" published in June 2016, based on assets under management at 31 December 2015.