BlackRock

Investing in the future of energy infrastructure

Recently, **Chase McWhorter,** Institutional Real Estate, Inc.'s managing director, *Institutional Investing in Infrastructure,* spoke with **David Giordano,** managing director and global head of renewable power at BlackRock, about the firm's renewable platform. Following is an excerpt of that conversation.

How have things gone the past seven months, as the pandemic has unfolded?

The past months have really been an interesting challenge for our team. For us, it very quickly became important to focus on our existing physical assets in our portfolio. As we looked out over that portfolio, obviously the construction of assets needed immediate attention, as different levels of quarantine and lockdown were being implemented, jurisdiction by jurisdiction. We were very fortunate in our sector, in that electricity is considered a critical resource, especially in a health crisis like the one that the globe is facing right now. We were able to bring in and quarantine workers and equipment coming in through international ports, including for a Norwegian wind project that we have under construction. Similarly, our portfolio in Japan is considered an essential service and, therefore, we have been able to stay very much on schedule there.

The next layer for us was to look at the off-take arrangements for each of our assets. By selling what is an essential service, our ability to distribute cash and capital back to our investors remained extremely resilient over the course of this entire lockdown. In terms of the credit quality of those off-takers, which is much more granular, we have been very fortunate, even in our behind-the-meter portfolio in the United States, that credit quality has stayed quite high. While recognizing that this is an unprecedented circumstance, we continue to try to see where problems could exist down the road instead of waiting for them to happen.

Finally, these last few months have given us an opportunity to increase our partnership with the strategic players in the industry. At the beginning of COVID-19, I probably would not have been as optimistic as the actual results have played out. We have been able to divest of a portfolio of assets in the United Kingdom, close on investments that we had started diligence on pre-pandemic, facilitate re-contracting long-term O&M contracts for our portfolio of wind projects in the United States, and facilitate new financings for assets at a global scale. In general, the last six months have obviously been very intense, but the renewable power has proven to be incredibly resilient — our team has been able to grow, and the industry has been able to continue to expand, despite the global lockdown.

Has your view of the opportunities in renewables changed in the past half year?

It has not fundamentally changed, but we have had to think about our strategy a little bit differently going forward to meet the shift in the way electricity is ultimately utilized.

This year, renewables has continued to be the largest stand-alone subsector of private infrastructure investing, in terms of deal flow. Of the trends that have accelerated in the lockdown and the pandemic, the energy transition is very close to the front of the line, alongside brick-and-mortar retail. We have now had multiple periods of time in the United States where more kilowatt hours of renewable power have been generated in a day than coal-fired electricity. We have had days in the United Kingdom and Germany where 100 percent of the power going into the grid has come from renewable-power assets. The market dynamic is shifting further and further away from subsidies and more to low-cost, flexible, more dynamic energy generation, and that is going to increase the opportunity set for investing in renewables.

In the Asia Pacific region, we see attractive opportunities and enthusiasm from investors, particularly in countries like Taiwan, South Korea and Japan, where the lockdown has reinforced the government's sense of urgency and commitment to the energy transition.

How do you think it is best to build a portfolio in today's environment?

It starts to sound a little bit trite, but the ability to build a globally diversified portfolio is, first and foremost, the key to success, especially in this asset class. Being able to look for investment opportunities and find the right relative value mix of low risk and solid return on a global basis is a real strategic advantage, versus maybe a regionally focused strategy. Finally, I really believe that the underwriting of these assets is about managing the downside risk. The total return matters, but it is the discipline of deploying capital into assets under a very realistic management case — really taking a realistic long-term, buy-and-hold view of the underwriting.

Within this subsector of infrastructure investing, there are a lot of people who have renewables as part of a broader infrastructure strategy, whereas we look at renewables as a stand-alone strategy, and we build our diversification within a renewables strategy. So that really means that we dig deeper into the industry and act as partners for the long term, not just investors. It also means being much more granular in our approach — to look at portfolios of smaller projects and then aggregate them into investments that allow us to deploy capital at scale, but also give us diversification within each individual investment.

Why should an investor allocate to renewables?

Renewables have consistently demonstrated resiliency in two key ways: (1) delivering real-time cashflows from selling electricity into the grid and, (2) the consistency of demand for renewable-power projects, even through COVID-19. We have seen this second dynamic primarily through the exit that we were able to facilitate over this time, to lower-cost capital investors looking to own these assets once they have some operating history. For an investor, when you think about a portfolio and about volatility — both at a micro scale, but certainly at a global geopolitical scale — renewables are right now fitting into a nice sweet spot of one of the areas where there is growth, almost regardless of some of those pressures happening at the macro level.

What are some market sectors in which you expect to see significant growth?

Distribution-level solar, especially in the United States and, increasingly, in Europe, is going to present really attractive risk-adjusted returns for investors, and I think you will see deployment at scale, albeit just in a much more granular set of projects. You will see aggregations of projects, which is going to continue to be a really important part of the market.

In the more mature markets, such as Europe — the United Kingdom, specifically — and the United States, the re-powering of older wind technology is going to present a number of opportunities, going forward. As you can imagine, the best resource sites got the projects first and so, in parts of the world where we saw early adoption of wind power, we now have better technology. We can get more electricity from the same site with fewer towers.

We've already touched on the Asia Pacific region, where you have real fortitude at the policy level to facilitate and attract international capital into the energy transition plans of those governments, and so we have remained extremely interested, and we see that as an important part of our portfolio, going forward.

Then, lastly, there are the other infrastructure investments around the energy transition that I think are going to play an increasingly prominent role. As you see a higher penetration of electric vehicles, those will drive down the cost of batteries, and I expect battery storage will become a bigger part of the overall renewable-power energy-transmission story. There may be a more dynamic grid — sort of smart grid, if you will — and there will be opportunities also at the transmission level, where we are very interested. Resource-rich areas will need infrastructure to move the power into load centers, which will generate opportunities. And, while Europe is obviously further advanced, we are going to continue to see growth in the offshore wind market globally, particularly in the United States and Asia. There is a very consistent resource, and there are some real benefits from an infrastructure perspective to those offshore projects. Now as that market has matured, we will see higher penetration in other parts of the world for offshore wind.

Beyond financial metrics, what returns does your fund deliver to investors?

First and foremost, we are giving investors a pure play into the carbon-free infrastructure-investing universe. If you just look at it in terms of long-term infrastructure investing and sustainability, you always run the risk that a project becomes a stranded asset as the energy transition gets implemented. In our strategy, we are delivering something that has real resiliency and sustainability into the future of what electricity infrastructure — generation, transmission and distribution — will look like as the sector continues to transition to a more dynamic and renewable grid. We focus on tangible, measurable, agreed-to metrics across all areas of ESG. And we track that against specific U.N. Sustainable Development Goals, incorporating ESG aspects at the very beginning of our investment-screening process and then tracking that all the way through. We work very closely with local resources that we have at BlackRock, but we also work with the outside experts and the outside rating agencies.

How do you think the role that renewables play over the long term in the client portfolio will evolve over time?

We look at these assets as long-term investments that deliver uncorrelated, real-time yields, but that also have a total-return upside to them. Renewables are part of the future of energy transmission, so they should be a part of investors' private infrastructure portfolio. They offer investors an opportunity to invest in an earlier stage of the growth development and build out of what, by all accounts, will ultimately be where the majority of our electricity generation and usage comes from.

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CORPORATE OVERVIEW

BlackRock's purpose is to help more and more people experience financial well-being. As a fiduciary to investors and a leading provider of financial technology, our clients turn to us for the solutions they need when planning for their most important goals. As of June 30, 2020, the firm managed approximately $7.32 trillion in assets on behalf of investors worldwide. BlackRock's Renewable Power Platform, part of our Real Assets business, has invested more than $6 billion of capital into the renewable energy transition since 2011.