SEMI-DIRECT MAY BE BEST APPROACH FOR LARGE INSTITUTIONAL INVESTORS SEEKING TO TAP EUROPEAN RENEWABLES MID-MARKET

Institutional investors have steadily increased allocations to European renewables over the past decade, driven by the long duration, stable, uncorrelated cash flows and supportive policy regimes unique to the asset class. For investors with large minimum tickets ("Large LPs"), the traditional route has been primary commitments to mega funds and direct strategies that have relied on platform acquisitions.

Today's market reality – a more complex environment where value is driven by hybridization of renewables with BESS and more sophisticated offtake structures - favors deep industry expertise combined with bespoke structures to efficiently tap the mid-market where the most attractive opportunities in European renewables are found.

A "semi-direct" approach — SMAs managed by a specialist GP with deep technical expertise — offers a compelling alternative allowing Large LPs to capture mid-market value at scale without undue fee drag, buildout of internal capabilities and the sacrifice of coveted infrastructure qualities.

Mid-Market Opportunity

The energy transition in Europe is driven in large part by medium-sized assets (50-150MW) due to the region's geography, topography and fragmented energy markets. This market segment has several advantages:

- **Lower entry valuations** because of ability to leverage bilateral negotiations and developer networks resulting in reduced competition and auction pressure for assets
- **Superior project economics with faster execution** as projects are large enough to capture scale and absorb fixed costs, while avoiding mega-project issues such as equipment bottlenecks, complex interconnections, permitting friction and NIMBY-driven delays
- **Increased offtake optionality** due to larger and more diverse pool of potential PPA counterparties (corporates, utilities, municipalities, energy marketers, etc.)
- **Multiple exit pathways** as projects have a broader set of potential buyers

Current Approach

Historically it has been challenging for Large LPs to access the mid-market due to their need for scale, so many have opted to invest in renewables development platforms/IPPs directly or indirectly through allocations to mega funds.

This approach became popular in Europe when fierce competition for mature assets drove up valuations and pushed investors to assume more development risk. However, in the current environment, there are some potential pitfalls to these strategies:

- Technical know-how is difficult and expensive to build in-house and learning curves can be long and steep
- Rising interest rates and the increased cost of capital have driven down asset valuations, complicating exit strategies and reducing the premium once afforded to platforms with pipeline visibility
- Platforms introduce a fundamentally different risk profile (one closer to private equity than infrastructure), diluting the benefits of stable cash flows, downside and inflation protection of the underlying assets with corporate and development risk
- Value in today's market is driven by hybridization of mature assets with batteries and optimization of offtake structures, favoring a strategy of cherry picking ready-to-build or operating assets over greenfield development
- Mega funds are structurally constrained in accessing the mid-market and often deploy capital into large projects with concentrated risk, multi-gigawatt portfolios of mixed maturity or overhead-heavy and inflexible platforms such as IPPs and developers

Semi-Direct Thesis

Partnering with specialist GPs in semi-direct structures such as SMA's offers Large LPs an efficient way to access the mid-market at scale while retaining control through additional governance rights and transparency. They can benefit from:

- **Asset-level investments rather than platform acquisitions**, with direct linkage to asset-level cashflows, and reduced exposure to corporate overhead and execution risk - maintaining the coveted infrastructure-like qualities
- **Battle-tested and proven technical expertise** to successfully identify high-quality projects, avoid hidden risks, optimize design and offtake structuring to increase value and preserve downside protection

- **Strong alignment** driven by tailored fee structures that incentivize yield, capital appreciation or both depending on the goals of the Large LPs
- **Flexibility** to move between markets to adjust for regulatory changes, invest where risk is appropriately compensated and ability to capitalize on mispricing created by forced sellers or over-leveraged platforms
- **Flatten the J-Curve** by taking advantage of current market environment by going after mature or operational assets

Conclusion

The European renewables market has entered a new phase—one defined by increased complexity. Strategies that once worked in a low interest-rate, high valuation environment are being tested. This new environment, which presents an enormous opportunity for savvy buyers, requires deep technical expertise and a new approach.

For Large LPs seeking to tap attractive returns in the mid-market without taking on unintended private equity or operational risk, semi-direct investing with a technically sophisticated GP offers a compelling path forward.

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Balduin oversees the management of the firm and its current value add strategy focused on buying, building and operating mid-market renewables 2.0 projects across Europe. He has 17+ years experience in the renewable energy industry, having successfully developed, sold and operated projects both in the U.S. and Europe.

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