

## Solar scheme turning heads of UHNWIs

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A tax-efficient solar energy project is capturing the attention of affluent investors, resulting in the company behind the structure aiming to roll out extended domestic and international versions in the next year.

Clean Energy Advisors, a fund which aggregates small solar facilities and sells the power on to utility outlets, offers investors an 8% return for the first seven years, which is delivered essentially federal tax free, due to its qualification under the government's investment tax credit program. The tax credit is offered to renewable energy investments, like the fund's solar deal, in a bid to encourage activity in the space.

"The tax credit is matched against the income of 8%, or an investor can accelerate the credit and take the full 30% credit in one year," Carol Pepper, founder of multifamily office Pepper International and a member of the Clean Energy Advisors board, told PAM.

When the fund invests in a facility, it is able to calculate how much revenue will be generated for the next 20 years through fixed contracts; producing substantial, predictable and steady cash flow throughout the investment's duration.

"It's a low-risk, illiquid alternative asset class to be invested in," said Clean Energy Advisor's CEO, Chris Warren. "The returns are difficult to get elsewhere in this market, and are attractive when compared to bond rates of around 3% currently."

Pepper added that the structure might appeal especially to investors who might be looking to offset a large tax bill, having experienced a liquidity event such as a business sale in the last financial year. "If the investor puts in \$10m, for example, that is a \$3m tax credit," she explained. "This makes great sense for someone selling a business and then needing higher passive income- they get the credit in year one and then an 8% return, very hard to achieve these days."

The tradeoff is that the fund is an illiquid investment, and the investor must remain fully invested for at least seven years in order to receive the benefit of the tax credit. However, many investors don't mind this caveat, given their need for higher income over the long term.

The fund's inaugural project is located in North Carolina. It is a closed-end fund with a maximum capacity of \$250m fund on the equity side, leveraged against the same amount of debt. However, Warren says that interest from family offices and affluent investors has been so strong, they have a second fund in the pipeline and a further project planned in Latin America which is set to launch in 2017.

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“There are also a lot of commercial opportunities in the US – whereby we would sell to commercial entities rather than utility companies – and in the final quarter of this year we will launch a project portfolio for this market, before our Latin America launch.”

Warren said the fund is targeting family offices and accredited investors for the fund, but says it is accessible to many, with a minimum investment level of \$100k.

“It’s a very attractive opportunity for those looking for impact investments; solar panel is good for carbon footprint. There are a lot of supposed impact investments out there, but they’re often difficult to quantify – this fund structure offers measurable impact and attractive financial returns,” added Pepper.

Warren said there is currently a lack of awareness surrounding investments such as the fund offered by Clean Energy Advisors; that, combined with a lack of deal flow for those keen to access renewables, has resulted in a smaller amount of investor interest in the space than might be expected given the strong returns.

“We are looking to create more opportunities in the space; awareness is growing and millennials in particular are actively engaging,” said Warren. “Five years ago, there were much higher costs to install solar plants; the economics are much more attractive now due to advances in technology, and will take time for information and opportunities to reach a broader audience. As deal flow and interest grows, renewable energy investments will become part of many wealthy investors’ portfolios.”