


## CGN PLANS FOURTH FUND NEXT YEAR

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### Asia

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China's state-owned CGN Private Equity Fund Management plans to launch its CGN Fund IV with a more diversified investment portfolio by 2H18.

The new China-focused fund will eye opportunities in district heating as well as renewables, Raymond Fung, CEO and chief investment officer of CGN Fund Management Company, told *Inframation*. CGN Capital Partners Infrastructure Fund III (CGN Fund III) is solely focused on China renewables.

“We want to broaden away from just doing renewables for CGN Fund IV,” Fung said. “We also look forward to seeing more international investors.”

The PE arm of the state-owned Chinese nuclear giant aimed to deploy most of CGN Fund III's capital by the end of next year. It reached final close for CGN Fund III in June at RMB 3.69bn (USD 543.7mn). The fund has ten LPs, up from seven for CGN Fund II.

New LPs investing in CGN Fund III are Utilico Emerging Markets, China Three Gorges and China Pacific Insurance.

The team is poised to deploy RMB 600m in 4Q17 with RMB 2.1bn expected to be committed by the end of 2017, Fung said.

“We are working hard on a couple of deals - 100MW each. And if we can get these done, then we probably will be in a very good shape.”

CGN Fund III is managed by CGN Private Equity Fund Management Company and HRL Morrison-invested JIDA Capital Partners, with a particular focus on operating wind, hydro and solar power assets in China.

Wind assets remain a favourite of CGN Fund III - which targets a 80% allocation to the sector - despite decreasing government subsidies and curtailment.

“We think tariff cuts will continue but the technology change and reduction in construction costs will offset that,” explained the former infrastructure investment head of Ping An. It is possible to purchase a turbine with 40% more generation capacity than two years ago, for the same price he added.

CGN Fund III is currently looking at 6GW of projects in a bid to complete 650MW deals by this year. These projects are located in provinces which have relatively low curtailment rates, including Zhejiang and Fujian.

While offshore wind projects are “technically extremely challenging” and too big for CGN Fund III to invest in, CGN Fund IV would set its sights on the sector in a few years time.

“The right time to really do something is probably in the next 2-3 years time,” he said. “The next 2-3 years is [the time needed] probably for industrials to learn something and the construction costs will come down a lot.”

At the same time, CGN Fund III is becoming much more selective on solar projects. Fung argued that an "over construction" of solar farms -

and regulatory issues related to land use - make the solar investments in China risky.

“Unless it is projects that the state has publicly published policies to prioritise in the financial supports scheme, I wouldn’t bother looking into solar PV,” Fung said.

CGN rejected more than 300 solar PV deals over the last 12 months, and only did four successfully he said. It also turned down most hydropower plant pitches due to the high pricing.

“There are opportunities in hydro but not today ... the sellers’ expectations are too high and you just need to be a standby buyer at this time,” Fung said.

CGN Fund III’s LPs are Agricultural Bank of China, CGN, China Cinda Asset Management, China Huarong Asset Management, China Pacific Insurance, China Three Gorges, ICBC, PICC, Postal Savings Bank of China and Utilico Emerging Markets.

## Investor Profile

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CGN Infrastructure Fund III FUND

■ CHINA | Unlisted | Closed-ended | Equity fund

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People's Insurance Company of China (PICC) INST

■ CHINA | Insurance Company

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CGN Infrastructure Fund IV FUND

■ CHINA | Unlisted | Closed-ended | Equity fund

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