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MAKE A DIFFERENCE FOR TOMORROW

Q: Why should investors consider global infrastructure when it comes to sustainability?
A: Infrastructure is critical to sustainable community development, our future wellbeing and day-to-day lives. We have seen a huge growth in demand for ESG exchange-traded funds (ETFs) but, while these types of investment may make investors feel good, in reality this is just the buying and selling of pieces of paper with little going into creating new assets.

To make a real difference, investors need to invest in real assets that will transform lives and communities, which is where the case for sustainable infrastructure comes into play. Increasingly, global investors are looking for stable, yield-generating assets that have little correlation to other assets. Global infrastructure offers this, but the asset class has traditionally been considered the preserve of just institutional investors or asset owners.

What differentiates ThomasLloyd is not only are we enabling investors to invest in real assets, but we are also delivering a platform for retail investors to access these opportunities, in the knowledge that you are making a difference in a way an ESG ETF never could.

Q: Where are the best opportunities?
A: Both Boris Johnson and Angela Merkel commented last year that investing in renewable infrastructure in Europe does not move the dial when it comes to climate change. Any investment into renewable energy in, for example the UK or Germany, is effectively only replacing existing capacity. In contrast, if you have an economy growing in Asia at 6% year on year, its ability to grow is linked by its ability to generate electricity. Therefore, the need to generate new and affordable electricity capacity is the key driver to that economic growth.

Demographic change and rapid urbanisation are driving the demand for this electricity, with India, for instance, growing at a rate of one million people per month. As a result, our focus is on real assets in high-growth and emerging markets where the demand for electricity is growing exponentially and therefore our ability to expand and grow, while still delivering an economic return for our investors, is there.

I often make the analogy that investing in renewables in Europe is like moving the deckchairs on the Titanic; you are not making the difference you think you are. As a developer and financier of sustainable real infrastructure assets, we play a significant role in economic transformation: producing renewable energy to serve the needs of a rapidly growing population across the region.

Q: How can investors access this space?
A: Our Sustainable Infrastructure Income Fund is one of the world's first fully regulated open-ended public infrastructure funds. It invests in construction and the early stage operation of renewable energy facilities in fast-growing, emerging market economies, all in the private equity space.

The fund is listed on the Luxembourg Stock Exchange, the Lux Bourse, and also on the country's Green Exchange, which is a dedicated platform for green, social and sustainable securities. What we are offering is a compelling investment proposition.

The fund meets the highest sustainability category, article 9, under the new Sustainable Finance Disclosure Regulation, which came into effect on 10 March, with aims to provide investors with greater transparency on the level of sustainability of financial products. This demonstrates we have a multi-year track record of successfully creating a commercial return, while at the same time making a genuine difference to the environment and society.

Q: Which emerging markets do you invest in?
A: At present, we have five approved countries in the portfolio and within these we are invested in about a dozen assets. Since launch, we have seen the best opportunities in the Philippines and India, as both countries have strong demand for the new power generation and strong supporting regulatory regimes.

We began investing into renewable energy in the Philippines more than a decade ago, specifically on the island of Negros. In this time our investment has led the island through a period of rapid economic growth. Our investments alone have generated about 12,000 direct new jobs, as well as driving significant job creation in support industries, such as hotels and construction. Able now to rely on locally generated stable and reliable electricity also allowed the island to add more than 20,000 call centre jobs in 2018 alone. Our first power plant connected in May 2014 and by May 2018, the island's economy had fundamentally changed. We are doing the same in India, changing the local economy by giving them secure, stable, locally generated and reliable electricity.

What makes ThomasLloyd different is we take assets through from development to construction. Everybody looks to governments, supranational or government-funded organisations like the World Bank to plug the capital hole in the development and construction phase. ThomasLloyd funds and manages the development and construction risk, and then partners with these organisations in the long-term operational phase. We invest in strong, fast-growing markets that can demonstrate independent legal processes in our core renewable technologies, where the investment can be seen to generate local jobs, local economic growth and local wealth.

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Q: How do you select assets?
A: Fundamentally, we are stewards of our clients' capital and before we deploy any capital there are a number of core tests any investment we make has to go through. The first is that we only invest where our money makes a difference. This test is about not only the overall outcome, but also about how we actively manage and measure risk.

This brings us to the second part of our philosophy, namely we are only as good as the local boots on the ground. We build long-term, mutually beneficial and lasting relationships with local partners. We look to those that share our values and can demonstrate an ability to execute projects successfully in their local markets. We work with partners who have deep roots in their local communities, investing in proven core technologies and in projects that develop and enhance local communities.

Finally, any investment we make needs to ensure we are developing capacity to meet new demand, rather than replacing demand. We discussed the impact of rapid population growth earlier, with India as one example. These countries need new electricity both to match their current needs and meet future demand. Meanwhile, many parts of the Philippines still rely on diesel generators, using expensive imported fuel, giving the country one of the highest energy costs in Asia. In both countries, we can build renewable energy power-generating capacity more cheaply and efficiently than building coal plants.

Overall we are long-term investors, with holding periods of up to 10 years. We would only seek an exit in an exceptional circumstance, and where the asset would benefit from another owner. That said, as the wider market matures and especially in this year of COP26, we believe there may be the potential to widen the investor base through further listing on major stock markets.

Q: Where do you see the opportunities in renewable energy at present?
A: Our fund is focused on two areas: solar and biomass. Solar provides cheap, peak power, whereas biomass gives baseload 24/7 energy. Biomass also allows us to extend within the local community through agribusiness, waste management and water treatment. So our biomass is an umbrella for a multi-disciplined approach.

TONY COVENEY, head of infrastructure asset management, ThomasLloyd

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In the Philippines, our biomass portfolio creates a virtuous economic cycle. We buy the trash left in the field from the farmers, giving them an income stream. We collect it from the field, saving costs and therefore increasing margins. The mechanised collection process starts with mechanical raking, which part tills the land, improving the crop yield. Equally importantly, by collecting the trash, we remove the need to burn it in the field, thus improving their, and ultimately our, air quality. Finally, the community can now rely on locally generated reliable power. It's a five-fold win for the community.

Q: What role is private equity playing in helping to transition to a low-carbon economy?
A: Throughout 2020, and against the backdrop of Covid, there has been an increased focus from both institutional and retail investors alike on how their money is invested. Now more than ever the financial sector has a critical role to facilitate a transition to a low-carbon economy. The allocation of capital is a powerful lever for change. Therefore, the primary role of private equity is directly to allocate capital to the sector, to influence and encourage investee companies to adopt climate-friendly policies.

Post-Covid, governments will need to reboot their economies. Infrastructure investment will be encouraged through fiscal stimulus and regulatory incentives. This, combined with historic low interest rates, is driving investor demand for income-generating real assets. Private equity will both lead and benefit from this focus.

Additionally, large capital investments are crucial to meeting the targets detailed under the Paris Agreement and the UN Sustainability Development Goals (SDGs). Investments that target specific environmental or social objectives in addition to achieving financial returns are in high demand. Impact investing can be seen as a natural answer to some of the challenges specified by the SDGs.

Q: Do you expect that high demand for ESG funds will widen to strategies like this?
A: We have only ever invested in sustainable infrastructure in fast-growing emerging markets where our capital creates the most impact, and we have a demonstrated track record as an impact investor. We are now seeing a surge of interest in this, with investors wanting to invest their money while trying to address the global challenges of climate change and social injustice. The challenge for investors will be trying to see through all of the current enthusiastic coverage to find the funds that actually deliver verifiable ESG returns. ThomasLloyd delivers a 'triple return' of a commercial return on investment, measurable climate mitigation and demonstrable social gain. You can earn today and make a difference for your children tomorrow. ■