LEO
THE FINANCIAL CENTRE'S MAG

TONY COVENEY,
MANAGING DIRECTOR, HEAD OF INFRASTRUCTURE ASSET MANAGEMENT AND CEO OF AMERICAS, THOMASLLOYD

FINANCING A SUSTAINABLE FUTURE

WITH CLIMATE CHANGE AT THE TOP OF THE GLOBAL AGENDA, ESG FUNDS ARE SHIFTING FROM A 'NICE TO HAVE' TO A MAINSTREAM PRODUCT. IN THIS SERIES OF ARTICLES 'FINANCING A SUSTAINABLE FUTURE' LFF TALKS TO COMPANIES THAT WANT TO MAKE A DIFFERENCE BY PUTTING ESG FUNDS TO THE FOREFRONT.

THOMASLLOYD GROUP'S *SUSTAINABLE INFRASTRUCTURE INCOME FUND* IS ONE OF THE WORLD'S FIRST FULLY REGULATED OPEN-ENDED PUBLIC INFRASTRUCTURE FUNDS. THE FUND IS BASED IN LUXEMBOURG AND LISTED ON THE LUXEMBOURG STOCK EXCHANGE, SO LFF SAT DOWN WITH TONY COVENEY, MANAGING DIRECTOR, HEAD OF INFRASTRUCTURE ASSET MANAGEMENT AND CEO OF AMERICAS AT THOMASLLOYD TO LEARN MORE ABOUT THEIR ROLE IN ESG.

"We don't look for individual opportunities and individual investments, but instead focus on securing platforms, which offer scaleable opportunities."

TONY COVENEY

ThomasLloyd is a global investment and advisory firm, managing around USD 1.2 billion capital in infrastructure assets. Headquartered in Zurich, the company is a pioneer in private sector infrastructure investment in emerging and developing markets, with a particularly strong footprint in Asian infrastructure projects. They invest in long-term real assets, such as solar parks and biomass plants, mainly in the Philippines and India. For 10 years they have exclusively advised and invested in renewable energy and sustainable real assets.

LFF: WHAT IS THOMASLLOYD'S INVESTMENT THESIS AND ITS ROLE WITHIN THE SUSTAINABLE INVESTMENT UNIVERSE?

TC: Originally, ThomasLloyd entered the renewable energy market in 2006 as an investment banking advisor, leading transactions in Europe and North America. Following the Global Financial Crisis, we focused all of our business on this sector, launching in 2011 our first renewable energy investment fund in Germany. Since then, we have been exclusively raising funds in Europe in order to invest in sustainable and renewable energy infrastructure.

From day one, we've had three core rules of investment. Firstly, we only invest where our money makes a difference. This is about both impact and risk. The scale of our first fund meant that we were deploying capital in smaller blocks than we do today. We wanted to make sure that our money went to the heart of the solution, rather than being lost in external transaction costs. In 2013, we started to measure the impact that our investments were having on things such as job creation and the growth of local tax return. We now have an eight-year database showing the impact of our investment. Secondly, we invest into local communities far away from our home countries. We recognised the importance of our local partners. They are the interface to the communities, in which we invest. Therefore, as we say, we are only 'as a good as the local boots on the ground'. So, we don't look for individual opportunities and individual investments, but instead focus on securing platforms, which offer scaleable opportunities. We have worked very hard with teams in India and the Philippines, to have multiple opportunities overseen by the same set of local management. If you're going to go and build a biomass plant or a solar plant in somebody's back yard, you have to have the local community buy-in.

The third area of our investment process is around finding areas where there was a strong and local demand for the infrastructure, which we finance and build. In the Philippines, for instance, energy security is very important, especially as they move away from reliance on coal, and therefore there is demand for as much clean energy as we can create.

If you think about it, economic growth in fast-growing economies, such as the Philippines, can only happen if you have enough reliable, sustainable electricity. You can't build more factories if you haven't got the power to run them. You can't educate people if you don't have the power to run their schools and computers.

So, the natural growth of the local economy created a very powerful upward dynamic on demand for the energy capacity that we were creating. A virtuous circle, if you like.

"Economic growth in fast-growing economies, such as the Philippines, can only happen if you have enough reliable, sustainable electricity."

LFF: THOMASLLOYD IS AN ALTERNATIVE ASSET MANAGER. HOW DOES YOUR APPROACH TO ESG DIFFER FROM A TRADITIONAL ASSET MANAGER?

TC: I think we do two things differently. Our job is to create the asset in the first place. We are an enabling investor. So, we will go in at the development stage of a project and commit capital to develop and construct the real asset. One of the challenges for ESG investors in particular, is that there aren't enough real assets out there. We are helping to plug this crucial gap.

The second key difference is that while a lot of asset managers are in highly liquid stock, equities or bonds, we are in illiquid assets, which take time to complete and which require direct hands-on management and oversight.

Somebody buying and selling a share, because they think it adds value from an ESG perspective, makes no difference to what's happening in the real world. All they do, essentially, is move the deck chairs round on the boat.

LFF: CONSIDERING THE COMPLEXITIES THAT UNDERLIE INFRASTRUCTURE INVESTMENTS, WHAT KEY FACTORS COME INTO PLAY WHEN MEASURING AND ASSESSING ESG FACTORS?

TC: I think measurement is a big challenge for everyone, especially in ESG and impact. We're all working together to try and find out how best to create uniform standards. For

LEO
THE FINANCIAL CENTRE'S MAG

"Spending a dollar in Berlin or London to clean the air in Berlin or London doesn't move the dial, but spending this dollar in Manila or Delhi does. We have to clean the air up out there in order to improve our air back here."

TONY COVENEY

example, if I spend a dollar in the Philippines, I have a different impact and a different outcome to spending a dollar in India, which has a different impact to spending the same dollar in Germany. A dollar spent in Europe hardly moves the dial on climate change, whereas every dollar in our target markets makes a big difference.

ThomasLloyd measures key metrics including job creation and wealth creation. We measure the impact of any carbon emisions avoided. Wherever it's possible to measure an E, an S or a G standard, we do so. We are continually reviewing our procedures and working with our service providers to make this better. As one of the early signatories to the UN Principles of Responsible Investment initiative, we adhere to the highest recognised standards, and ensure our investee companies do too.

LFF: ESG INVESTMENTS ARE ASSESSED ON THEIR FINANCIAL RETURN AND THEIR ESG CRITERIA. WHAT APPROACH DO YOU USE WHEN ASSESSING YOUR RETURNS AND WHAT SORT OF RETURNS HAVE YOU SEEN?

TC: We have the ThomasLloyd Triple Return. Our in-house research team monitors, amongst other things, the local data on carbon emissions avoided, and local employment in the communities we have suppoted. In short, this gives you transparency on your financial return, your environmental return and your social return.

To an investor, I can say: "You've made X percent this year and here is your dividend, that's your financial return. These investments have reduced carbon emissions in their local communities by Y, so that would be your environmental return. Last but not least, we've created Z thousand jobs, that's your social return."

But even measuring those is actually not as easy as it sounds. Take job creation for example. Not only do we create direct jobs but also secondary jobs, for people in the support and service sector, as well as tiertiary jobs, for companies who benefit from the supply of local, reliable energy. We have invested in excess of US Dollars 500 million in one of the Philippines islands. Our investment has taken that region from a farming-based island, to probably one of the fastest growing parts of the Philippines, in under 10 years. With that comes new hotels, shops, businesses, such as call centres, and even a Starbucks!

LFF: WHAT IS THE STORY BEHIND THE SUSTAINABLE INFRASTRUCTURE INCOME FUND?

TC: All of our investments have been and are in sustainable infrastructure. This listed open-ended fund is aimed at investors who want a long-term, stable income stream. In accordance with the Principles for Responsible Investment (PRI), the fund invests in infrastructure assets in the areas of renewable energy, utilities, transport and social infrastructure, with a geographic focus on developing and emerging markets. It is the most stable part of the portfolio of products.

We allow ourselves to look at infrastructure projects that meet the sustainability goal, the environmental goal and the social-impact goal. We would only ever consider something that meets all of those criteria. So far, the most reliable have been renewable energy power generation, where we can secure long term government and quasi-government contracts, in order to provide the service.

LFF: DO YOU HAVE SOME ON-THE-GROUND EXAMPLES OF SUSTAINABLE SUCCESS RESULTING FROM ESG INVESTMENTS?

TC: The biomass plants on the island of Negros in the Philippines are something we are very proud of.

We invested in a process which mechanised the collection of the trash left over after the sugarcane harvest, leaves, stalks etc. These really big trucks drive onto a field, and suck up all of the trash, like a giant vacuum cleaner. This trash is stored in bales ready for use in one of our three biomass plants, where the waste is turned into renewable and sustainable electricity.

We buy the trash from the farmers, giving them a new and much-needed additional income stream from something that they used either to leave to rot or burn in the field.

Because we collect the trash from the field ourselves and save the farmer the cost of labour for instance to burn the trash, the farmer not only has the additional income, but a reduction in his costs, thus increasing his overall margin. This is an historically poor agriculturally dependent area, where this new income makes a profound difference.

Finally,our investments help clean the air, by giving farmers an alternative to the environmentally damaging act of burning the trash. As we see annually, at the end of the harvest season, when farmers in Indonesia burn their residual agricultural trash in the field, Singapore is in a fog for weeks.

Our investments generate local electricity on the island, improves the environment, and brings jobs and wealth. Real assets are making a real difference.

Spending a dollar in Berlin or London to clean the air in Berlin or London doesn't move the dial, but spending this dollar in Manila or Delhi does. We have to clean the air up out there in order to improve our air back here.

LFF: CAN YOU TELL US WHY YOU CHOSE LUXEMBOURG TO SET-UP THE SUSTAINABLE INFRASTRUCTURE INCOME FUND?

TC: In 2013 and 2014, we were looking for the right place to domicile our fund. We wanted to expand our investor base across Europe, and Luxembourg was the most logical place for us.

We made the right judgment call. Not only is the Grand Duchy located at the heart of Europe, it's the most appropriate place to passport our fund into other EU jurisdictions. Our investor base continues to diversify, becoming pan-European.

Luxembourg started as a route to extend our distribution throughout Europe, now it's become our sole base, because of the value-add that Luxembourg has committed with initiatives, such as LuxFLAG and the Luxembourg Green Exchange.

LFF: THE SUSTAINABLE INFRASTRUCTURE INCOME FUND IS ONE OF THE WORLD'S FIRST FULLY REGULATED OPEN-ENDED PUBLIC INFRASTRUCTURE FUND. CAN YOU TELL US WHY THOMASLLOYD DECIDED TO SET UP THIS FUND IN THIS MANNER, RATHER THAN AS A TRADITIONAL CLOSED-ENDED FUND?

TC: Infrastructure will continue to grow as a significant asset class in its own right. If you want to build sustainable infrastructure, you need a range of investment solutions to make it happen.

What we're doing here is establishing a first in terms of opportunity for investors. Instead of a traditional closed-end infrastructure approach, we provide the opportunity to have infrastructure asset exposure in an open-ended fund structure. We think in 5- or 10-years' time, others will have followed, and this will be perfectly normal.

This is not dissimilar to where real estate was maybe back 30 to 40 years ago. When people started looking at REITs, it was unusual. Today, they are commonplace.

LFF: HOW DO YOU SEE SUSTAINABLE INFRASTRUCTURE IN EMERGING COUNTRIES IN THE COMING YEARS?

TC: When I make presentations to institutional investors, they all ask about who our competitors are. But we don't really have a competitor. I hope this is changing, as the scale of the challenge and opportunity and scale of the very large amount of capital required is far greater than any one company can handle.

So, while we don't have any competitors, we do have many possible partners out there. We'll work with anybody in order to meet the challenge in the markets that we're focused on.

I think there's a recognition in Europe that we need to spend more, and that we need to defer more capital to support these fast-growing economies in building sustainable infrastructure.

I think it's in all our interest. It's not my air or your air. It's not your planet or my planet. It's about shared responsibility and that shared ownership. These will drive even more investors into our trading market.

MvH

> "I think there's a recognition in Europe that we need to spend more, and that we need to defer more capital to support these fast-growing economies in building sustainable infrastructure."
>
> TONY COVENEY