A good news: emissions halt in 2014

For the first time in history, 2014 recorded a stall in energy-related CO₂ emissions despite a growth of the global economy.
Renewables come of age, but fossil fuel investment still dominant

Investment in renewables rose from $60 billion in 2000 to a high point approaching $300 billion in 2011, stabilising at around that level since
States hold many of the cards

Ownership of worldwide power generation capacity & oil and gas reserves

- **Power plants**
  - State-owned companies
  - Private utilities
  - Industrial plants & households

- **Oil and gas reserves**
  - States & national oil companies
  - Private sector

Alongside investment by the private sector, the objectives, corporate culture & financing of state-owned companies are critical to future energy investment flows
Almost 40% of power capacity reaches its end of lifetime until 2040, mostly in OECD countries – a replacement challenge & decarbonisation opportunity at the same time.
The entire global CO₂ budget to 2100 is used up by 2040 – Paris must send a strong signal that low-carbon investment needs to increase to four-times current levels.
Conclusions

- The energy sector shows encouraging trends for both renewables and energy efficiency ahead of the Paris climate meeting.

- Energy sector investment decisions will be decisive in determining our success in decoupling emissions and economic growth.

- An increasing number of countries are putting forward decarbonisation policies, including the two largest economies and emitters (the US and China).

- On 15 June, the IEA will unveil a 10 year energy strategy to achieve a global peak in emissions while not harming any countries economic growth.
Inquiry: Emerging options to align the system.
Once General Mac Arthur was asked what could make the difference between Victory and Defeat. His answer was straightforward and short. He said 2 words “Too late”.

The sheer number of the people who gathered here today is a proof it is still possible to avoid the curse of global warming. But it’s about time….

So far we have heard speeches from businesses, from experts, from officials. Now, I would like to bring to you the perspective of an institutional investor.

ERAFP is a public pension fund allowing 4,5 million French civil servants to get on top of what the first pillar offers to them an additional retirement benefit.

We are managing 25 billion $. Because we still are at the beginning of our ramping up period, our assets under management will increase by \textit{2.2 b$ every year during the next ten years}. That might seem quite a lot of money. Actually, not so much! As ERAFP CEO, I am also a trustee of IIGCC which stands for Institutional Investors Group on Climate Change. IIGCC is composed of 106 institutional investors, mostly pension funds. Collectively, we are responsible for the management of 11 trillion US$.

\textbf{We are the real owners} of the businesses and we invest in every category of assets: goves, equities, real estate, corporate bonds,…

People who contribute to our pension funds are entrusting us with money that we must invest in a prudent but productive way. The assets we are investing in are the ultimate guarantee that we will deliver on the promise to pay them a pension. No need to say that for us the impact of global warming is a worry….

In that respect, here are the 4 points I’d like to stress.
1/ For pension funds, investing with sustainability in mind should be natural.

When it is becoming everyday more clear that “all that carbon won’t be burned”, assets owners and especially big pension funds realize that it is time to allocate their investments with:

- The aim to reduce their exposure to assets that for some of them might be already “stranded” (cf. unconventional fossil fuels),

- The understanding that the transition is offering a wealth of new investment opportunities (green tech, the economy of functionality…)

- The increasing awareness that financial analysis and ESG analysis should not be any longer discrete processes and that, contrary to what some are still arguing, there is no tradeoff between performance and ESG results. **Integrating ESG factors is the most efficient way to invest in sustainable business models.**

For those who don’t get it, they should read the Risky Business Report. When people like M Bloomberg, T Steyer, H Paulson cosign a report that clearly states that carbon is a risk, not only for polar bear (which, by the way, deserves to be protected…) but for business in the US (each region being impacted in a different way), it will be quite difficult for Pension fund CEOs to claim they did not know that carbon was a risk or that this is just “some eco loonies gobbledygook”…

So if carbon is recognized as a risk, how a pension fund CEO could from a fiduciary point of view justify not to measure it, not to mitigate it…. It is obvious that the **next step will be legal actions**. If carbon is a risk, whoever will have disregarded it will be under the threat of being accused of “gross negligence” and being sued for that.

2/ If we really want to speed up the transition towards a less carbon intense economy (i.e. a more sustainable growth) we need to harness the power of the market.

It should be made clear to anyone that the market “is not our enemy”. What we need is to put a price on the negative externality that is carbon (that is IIGCC position).

In Europe, this means it is urgent to fix the EU ETS, especially by introducing the MSR ([http://www.iigcc.org/files/press-release-files/ENVI_vote_release.pdf](http://www.iigcc.org/files/press-release-files/ENVI_vote_release.pdf)). This is the message IIGCC has delivered to the new European Commission


- on the reduction of CO2 emissions (30%)
- on the increase in efficiency (27%)
- on the renewables (27%).
3/ I can understand why it is tempting to focus on thematic investing and green bonds but the 5% should not distract us from the 95%.

For large institutional investors and especially pension funds that have to manage tens of billions of dollars, the question is how, in a no non sense approach, to take into account the risk that carbon entails for the valuation of all their assets and conversely what are the opportunities that the energy transition unleashes.

- Green bonds when they are structured in a way that makes possible to track the money and be reasonably sure that this money finances a green project can be useful. They also contribute to raise awareness by actually allowing to show something that everyone can see or watch on TV…
- Nevertheless, the real challenge is to encourage all the large institutional investors to take into account in their investment decision, the interest of reducing their emissions. In that respect, making mandatory the release of the carbon footprint of public institutional investors could be a “game changer” (Philippe Desfossés: It’s crucial that the investor momentum of the UN Climate Summit continue: ([https://www.responsible-investor.com/home/searchresults/30fdd61d1a70384be8e18010109a79d1/](https://www.responsible-investor.com/home/searchresults/30fdd61d1a70384be8e18010109a79d1/)).

This best in class approach makes sense if we agree that it is unrealistic to think that we could switch in just one night from our current model to a low carbon economy.… At ERAFP, we do not practice ab initio exclusion. Nevertheless, in each economic sector we consider that the bottom quartile is composed of businesses that are in some way “beyond repair”. In consequence, they get out of our universe of investment… The challenge is to encourage all the other businesses (especially the ones belonging to the 3rd quartile) through a constructive dialogue or engagement to better their performance. Once again collectively, we own a big chunk of most the big corporates.

4/ There is a paradox since:

- institutional investors are desperate to find returns that would make them able to deliver on their liabilities (especially pension funds and life insurers). Sovereign bonds do not anymore deliver that return, and
- financing much needed infrastructures is hampered by many technicalities, regulatory rules and the fact that most governments are not ready to stop interfering with projects (the legal instability issue) with the unfortunate result that investors shy away from that kind of investments.

This is the reason why IIGCC released the “12 fixes” a document listing 12 no non sense measures that would make much easier for large institutional investors to invest in Infrastructure ([http://www.iigcc.org/publications/publication/achieving-the-investment-plan-for-europes-315-billion-ambition12-fixes](http://www.iigcc.org/publications/publication/achieving-the-investment-plan-for-europes-315-billion-ambition12-fixes)).
There is much that can be done by institutional investors. We should not wait for the perfect agreement in December…. What we know for sure is that we own the biggest part of the capital. So let’s get together and make everyone aware of what we are aiming at and of what we will not accept anymore….

This the goal that we pursue with IIGCC, so join us….
Why Energy Efficiency Finance is key…

Source: Capturing the Multiple Benefits of Energy Efficiency. IEA 2014.
ALIGNING POLICIES FOR THE TRANSITION TO A LOW-CARBON ECONOMY
THE FINANCIAL SYSTEM AND MARKETS: ALIGNED WITH THE LOW CARBON TRANSITION?
OECD GREEN INVESTMENT FINANCING FORUM

Dr Steve Waygood
Chief Responsible Investment Officer

20 May 2015, OECD Headquarters, Paris
Private Capital Flows and the Equity Markets
Scale as an opportunity

2. Top 5 Investment Consultant (ehow, 2010)
   1. Hewitt EnnisKnupp
   2. Mercer Investment Consulting
   3. Russell Investments
   4. Towers Watson
   5. Cambridge Associates LLC

3. Top 5 UK Pension Managers (2010)
   1. Legal & General Investment Mgmt.
   2. BlackRock
   3. Insight Investment Management (Global)
   4. Standard Life Investments
   5. State Street Global Advisors

4. Asset Management Companies
   1. BlackRock Inc.
   2. UBS
   3. Allianz Group
   4. Vanguard Group Inc.
   5. State Street Global Advisors (SSGA)

1. Best Broker Overall (Extel, 2012)
   1. UBS
   2. Bank of America Securities
   3. Morgan Stanley
   4. Deutsche Bank
   5. Citi
Our Post-2015 Financial Fitness Tests

Test 1. **Getting Prices Right**: does the debate recognize the central importance of ensuring that the underlying price mechanisms promotes sustainable development?

Test 2. **Getting Pay Right**: are there measures that will change the incentives within the institutional participants in the capital supply chain (in particular, sell-side brokers, stock exchanges, fund managers, investment consultants and asset owners)?

Test 3. **Securing Capital**: are there investment instruments that will be sufficiently attractive to markets and/or does it look likely to generate a plausible capital raising plan?

Test 4. **Systemic Transparency**: does the means of implementation include measures that will promote the transparency of companies on their sustainability performance as well as all the transparency of all the investment intermediaries that connect the end investor to the companies that they own?

Test 5. **Sustainable Finance Standards**: will the means of implementation create the right kind of hard and soft standards that facilitate sustainable capital markets?

Test 6. **Sustainable Demand for Sustainable Finance**: will the SDGs promote financial literacy measures among the investing public in order to ensure that there is sufficient demand for sustainable finance and sufficient accountability of financial institutions for their actions in this area?
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THANK YOU
Alternative Investments – The PensionDanmark Way

May 20, 2015 | OECD Green Investment Financing Forum | CEO Torben Möger Pedersen
PensionDanmark’s Set Up on Alternatives

Organisation and set up

› We have a strong preference for direct investments
  › Expected return and duration of our preferred assets is not well-suited for most traditional infrastructure and real estate funds
  › Direct control is important – including control over time horizon and exit

› But we are aware of the pitfalls
  › You need significant internal resources and expertise
  › Being able to assess risk is key – don’t invest in anything you don’t understand
  › You should be prepared to walk away from a transaction after many months of hard work

› Importance of strong teams
  › Real Estate
  › Infrastructure
  › Credit
PensionDanmark will invest 10 pct. of assets in Energy Infrastructure Assets
Now owner of 2000MW of green power capacity
Direct infrastructure investments

Examples

**Anholt, 2011**
- Offshore wind, DK
- Investment: EUR 500m

**Texas/PA, 2012**
- Onshore wind, US
- Investment: Undisclosed

**NGT, 2013**
- Gas Transmission, NL
- Investment: EUR 164m

**Snetterton, 2013**
- Biomass power plant, UK
- Investment: EUR 215m

**DolWin 3, 2014**
- Offshore grid connection for North Sea wind farms, DE
- Investment: EUR 400m

**Brite, 2015**
- Biomass power plant, UK
- Investment: EUR 217m
Case: Biomass Power Plants
Joint Venture with Burmeister & Wain Scandinavian Contractor (85/15)

➢ Business rational
  ➢ Difficult for BWSC to gain orders without providing project financing
  ➢ Inspired by set up with DONG on off shore wind

➢ First two projects:
  ➢ 2 x EUR 160m biomass power plants in UK
    2 x 40-44MW

➢ Attractive and predictable return
  ➢ Limited construction risk (fixed price EPC with BWSC)
  ➢ Stable top line (PPA + qualifies for 1.5 ROCs)
  ➢ Fixed O&M contract with BWSC for lifetime of plant
  ➢ 12 year fixed price contracts with local suppliers of straw
  ➢ Capital structure provides further significant protection to PensionDanmark