



# UKSIF

*the sustainable investment  
and finance association*

# **The Future of Investment: Sustainable Investment Boutiques**

**June 2010**

# The Future of Investment: Sustainable Investment Boutiques

UKSIF

## Introduction

Penny Shepherd MBE  
Chief Executive, UKSIF



Exciting new trends are emerging within investment. Unlike some innovation of the recent past, these are firmly grounded in delivering wealth by creating value for wider society. Arguably, they are the future of investment.

UKSIF's "Future of Investment" Reports seek to highlight the activities and views of those driving this new flowering of successful long-term investment. As the UK's hub for sustainable and responsible investment, we are privileged to have many of these leading-edge investment practitioners among our members.

We hope that these reports will be of value to significant institutional and private investors and their advisers. While nothing in them should be regarded as investment advice or product recommendations, they should give insight into the growing sophistication of sustainable investment and the breadth and depth of sustainable investment opportunities becoming available.

This first report covers the exciting range of offerings now available from sustainable investment boutiques. In recent years, talented investment professionals have come together in these new small investment firms specifically or mainly to invest in the growing opportunities from the transition to a more sustainable economy. They share a desire to develop strong investment products that deliver excellent returns for investors by tackling sustainability challenges.

The report brings together practitioners from a range of these investment houses in a conversation that highlights the range of asset classes, geographical opportunities and sustainability themes that are becoming available.

Their dialogue demonstrates:

- Sustainable investment boutiques offer an exciting and diverse range of opportunities for the sophisticated investor.
- Rigorous approaches to assessing both financial and social and environmental value sit at the heart of many of these approaches.
- Firms are responding both to changing client needs and new drivers of investment ideas.
- Many investment advisers require a deeper understanding of sustainability challenges to help clients to benefit fully from these new opportunities.

We welcome your feedback on "*The Future of Investment: Sustainable Investment Boutiques*", including themes you would like to see covered in future reports. Contact us at [info@uksif.org](mailto:info@uksif.org).

### The Panel



**Paul Freer**  
**CEO, Alquity**

Paul has over twenty year's experience in financial services across EMEA and North America, working with major banking groups including Barclays, Lloyds TSB and the National Commercial Bank (NCB) of Saudi Arabia. His roles have included Managing Director of a subsidiary bank of Barclays.

**Bex Hewetson**  
**Head of Sales, Invicta Capital**

Bex is a founder member of Invicta Capital and has been Head of Sales since 2007. Bex has raised finance from IFAs and wealth managers for Invicta's asset based investments over the last 9 years and before that at Matrix Securities.



**Daron Sheehan**  
**Managing Director, Active Earth Investment**

Daron is one of the founders of Active Earth Investment Management and has over 20 years experience in the finance industry. Before setting up Active Earth, he co-founded Metage Capital in 1998 and was involved in a number of sustainability focused businesses and the Active Earth Foundation.



**James Stacey**  
**Head of Sustainable Finance, Earth Capital Partners**

James is responsible for ECP's sustainable finance strategy and integration of ESG issues into investment analysis, portfolio management and reporting. Prior to ECP, James was Head of Sustainable Business at Standard Chartered plc and Head of KPMG's sustainability consulting practice.



**Christian Yates**  
**Partner, Hazel Capital**

Christian joined Hazel Capital in 2009 to focus on business development as well as oversee the private equity activities of the firm. Christian is also a Director of and shareholder in W4B, a developer of utility scale biomass power plants in the UK as well as an advisor to the Renewable Energy Foundation.

### 1. What are the sustainable investment opportunities you are focusing on? Are they built around specific themes or markets?

**Daron Sheehan:** At Active Earth Investment, we have developed a unique methodology, which integrates sustainability into the valuation of equities. Our model systematically screens the sustainability metrics for all companies in all sectors. The key sustainability metrics we analyse are a company's environmental, social and governance (ESG) data, which we source from four of the leading global ESG data providers.

We will initially focus on the European market with the launch of a European long-only product. We will be extending our investment methodology into other global markets over the next year with the launch of a global fund in early 2011.

The Active Earth European Select Fund will allow our clients to invest in a region which is at the forefront of developing an environmental and social regulatory framework which integrates sustainability thinking. This framework has led the way for European companies to become global leaders in the delivery of products and services that will hasten the shift to a more sustainable economy. We believe the fact that these companies have integrated sustainability has not yet been factored in their valuations.

**Paul Freer:** At Alquity Investment Management, we believe that ESG issues have the potential to create or destroy long term shareholder value. As a result, understanding and dealing with these ESG-related risks and opportunities is a key element of our fund management philosophy. We therefore believe that ESG related investment analysis should be done across all sectors and should not be restricted to specific areas such as renewable energy.

Our initial focus is in Africa, a continent where the consideration of ESG related issues is as relevant as anywhere in the world. Today, the scale of the environmental, social and governance issues facing Africa is now reshaping the economic landscape and is creating both new challenges and opportunities for companies operating in the region.

Like a growing number of leading institutional investors, we are signatories to the United Nations Principles for Responsible Investment and are convinced of the benefits to our investors and society at large of incorporating ESG analysis into the investment process. This view is supported by a growing body of academic and industry evidence which shows a strong positive correlation between high ESG standards and strong financial performance.

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**James Stacey:** Earth Capital Partner's (ECP) first two investment products are built around the sustainable asset/infrastructure theme and comprise:

- The ECP Renewable Energy Fund One LP, which invests in solar and biomass-to-energy infrastructure using mature technologies in the European Union and, as opportunities arise, in other European countries, the Middle East and North Africa; and
- The ECP Forestry Fund One LP, which will invest in plantation timberland managed in accordance with sustainable forest management practices in Latin America, predominantly in Brazil.

Energy security and climate change present major challenges to global society. The EU has responded by setting mandatory targets for renewable energy that require investment of over €1 trillion by 2020 creating a significant investment opportunity. The renewable energy fund responds to this investment opportunity. The fund also benefits from its relationship with E.ON's Climate & Renewables subsidiary, a positive correlation with inflation associated with many of the EU country tariff regimes and low correlation with other asset classes.

The forestry fund will seek to generate an attractive return and take advantage of three key market conditions: the structural need for new sustainable timberland assets to satisfy continued demand in the face of limited sustainable supply; the comparative cost advantage of operations in certain regions of Latin America; and timberland asset class characteristics of strong absolute returns, positive correlation with inflation and low correlation with other asset classes.

**Christian Yates:** Hazel Capital is focused on three investment areas: Public Equities, Venture Capital and Renewable Energy Projects.

Hazel Capital invests exclusively in those cleantech sectors which help overcome global resource constraints and achieve a sustainable environment. Cleantech represents a diverse range of products, services and processes all intended to provide superior performance at lower costs, while greatly reducing or eliminating negative ecological impact, at the same time as improving the productive and responsible use of natural resources.

The major drivers behind this long term growth opportunity are the threat of climate change; energy supply security as a result of an over dependency on imported fossil fuels; the increasingly volatile price of fossil fuels; technological advances that make alternative energy sources competitive; increasing global energy demand notably from the emerging markets and BRIC countries; economic competitiveness arising from being more resource efficient and taking a lead in new technologies and; the response of Governments around the world who have to date pledged over €420bn to renewable energy initiatives alone.

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Key investment themes across our portfolios are: clean energy; clean transport; energy efficiency; energy storage; waste management and recycling; and water.

Cleantech represents a global investment opportunity split regionally as: 40% Asia; 40% North America and; 20% Europe.

**Bex Hewetson:** Invicta Capital have recently launched an investment opportunity in renewable energy, specialising in biomass plants. The Fund focuses on the construction and operation of biomass plants across Scotland.

There are four main issues with investing in renewable energy: planning, grid connection, long-term fuel supply and long-term power purchase agreements. Scotland was chosen as a location for the plants as it has a strong supply of sustainable timber and a Government commitment to renewable energy supporting smaller scale, local renewable energy generators. The Scottish Government have been looking into renewable energy alternatives for nuclear power for many years, which has resulted in some of our team members working with them on research over the past 4 years.

Investors benefit from investing in a portfolio of small to medium sized plants which are located near to their fuel source, supply local electricity demand and can rely on local engineering expertise. All 9 sites have already been identified as suitable locations for building the plants, ensuring ease of planning and local support. This translates to investors as swift deployment of capital, stable cash flows and managed risks.

## 2. Can you explain your approach to sustainable investment and how you are measuring impact?

**James Stacey:** To quote Stanley Fink, ECP's Chairman, "sustainable development is at the heart of ECP's model, reinforced by our commitment to generating a dual return from our investment products - first the financial return and second the Earth Dividend™ Environment, Social and Governance (ESG) return".

Firstly, ECP invests in sustainable assets, in themes such as renewable energy, energy efficiency and sustainable forestry which offer a risk adjusted commercial rate of return.

Secondly, all ECP funds invest in accordance with the ECP Sustainable Development Investment Guidelines (SDIG) - a set of 'no-goes' and minimum standards which all investments must meet. They must also report on their ESG impact, using ECP's proprietary Earth Dividend™.

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The Earth Dividend™ reports the ESG impact (positive and negative) of ECP investments annually, for five separate categories of ESG issues. Each category comprises six ESG indicators, addressing the asset's operation, its supply chain or the product/ output produced by the asset. Each asset agrees an annual Earth Dividend™ performance improvement plan with ECP. The plan targets improvements in the asset's ESG impacts, focused towards those where improvement could also enhance commercial performance of the asset. The Earth Dividend™ is governed by ECP's internal controls and is also subject to an annual independent audit.

**Bex Hewetson:** We ensure that all our investments are 100% sustainable, it is a cornerstone to our philosophy. We ensure that feedstock is locally sourced which helps support the local forestry industry by creating jobs and keeping the carbon footprint to a minimum. All feedstock must also be accredited as sustainable by independent bodies such as the Rain Forest Alliance. Finally, the technology that will be used in the plants is a 'closed loop' system, ensuring any by-products (heat & ash) are re-used within this environmentally friendly process. There are negligible harmful emissions from the plants and emission readings are taken regularly to ensure that this is the case. The plant's buildings have a low environmental impact given their size and the process used. The Fund has selected only existing brownfield or industrially zoned sites on which to build.

**Christian Yates:** Our first priority is always to deliver strong and differentiated returns to our investors. Our Investment Philosophy drives our investment process and based around three core principles which are as follows:

- Return on Equity is the key driver of value creation; companies that can sustain a high ROE and that can redeploy cash flow at a similar or higher ROE will create value for shareholders for as long as this remains achievable.
- Valuations must always be justified; we strive to never overpay for a security therefore we look for stocks whose prospects are significantly more attractive than what is implied in the current valuation.
- A long term investment horizon is best; the investment time horizon at a stock level is 3-5 years.

With regard to our investment universe we follow c.1000 environmental technology and services companies listed around the globe that derive at least 30% of their revenues or sales from cleantech. This is the key metric we establish before we undertake deeper analysis.

The breadth of industries that make up our investment universe encompass renewable energy; energy efficiency; renewable utilities; alternative transportation; energy storage; water; environmental sustainability and; advanced materials.

**Daron Sheehan:** We are taking existing investment logic and looking at sustainability as a way of enhancing and protecting investment returns. Our conviction is that sustainably-managed companies will be more responsive to increasing government regulations and wider stakeholders' demands.

We have developed powerful tools that integrate sustainability metrics and allow our team to better forecast future returns and incorporate proprietary risk measures which, in turn, take into account all relevant material drivers of fundamental risk. Incorporating ESG into investment valuations requires quantifying the financial impact of this data as we do for all other inputs in the investment decision making process.

We incorporate the environmental and social costs that we expect will affect a company's returns over a longer-term investment horizon. To do this we identify what we believe the market has already priced in and compare this to our models. Our back-testing indicates that we can tilt our portfolio towards more sustainably-managed companies resulting in a positive impact on performance in a number of sectors and with neutral impact in other sectors. Looking forward we expect that the positive impact on performance will rise as government regulations increase.

### **3. Where is demand for sustainable investment opportunities coming from? Are there types of clients that are particularly interested?**

**Bex Hewetson:** We are seeing interest for our Fund from a wide selection of investors. Many institutions are looking to sustainable investments, like forestry and renewable energy, as they are "real assets" that are cash generating and offer inflation protection with capital appreciation. Pension companies in particular can liability match with these cash flows and use the capital appreciation for deficits. Also many family offices and HNWI specifically want to include within their portfolios green sustainable investments understanding that such investments can be profitable and tax efficient if structured correctly.

Investors in general are still very sceptical of all investments and where they may favour sustainable or green investments they still require such investments to be based on sound underlying investment principles. Additional built in structural efficiencies including tax benefits, inflation protection, control of the underlying assets and downside protection will aid investors with their investment decisions thus making the investment proposition more favourable. There are still very few investors who have sustainable or green preferences within their portfolios and institutions look to portfolios of sustainable equities to minimise their carbon footprint. Very few investors seem to understand the benefits of investing in sustainable infrastructure projects with their associated low risks and this has resulted in only 0.7% of UK pension companies currently

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investing in such projects. Such investments are however one of the fastest growing asset classes.

**James Stacey:** The past few years have seen increased questioning of appropriate asset allocations for long term investors, such as pension funds.

A recognition has emerged that real assets have a critical and more significant role to play in investment portfolio construction. Infrastructure funds are evolving to reflect reduced investor appetite for leverage (debt) and the reduced availability of bank debt. This has led to a re-focusing of attention on their bond-like characteristics, rather than the super-equity-like target returns of highly leveraged infrastructure funds of the recent past.

The traditional approach to investing in these assets, which sought to exit assets once operational for capital gain, is no longer the only option. With double digit steady-state annual income generation, a longer term build/operate approach is also possible, if not preferable in some circumstances. This offers the ability to operate a longer investment term than has been of vogue in recent years without running significant additional risk or costs and is particularly relevant for sustainable asset/ infrastructure investment such as renewable energy infrastructure (with 20-25 year feed-in-tariff type revenue structures) and sustainable forestry.

These characteristics are attractive to a range of long term investors including pension funds, sovereign wealth, wealth management and corporate investors and are a key factor behind the growth in demand for investment vehicles in long term sustainable assets/ infrastructure.

**Paul Freer:** Demand for sustainable investment opportunities continues to increase across a wide range of investors. Within this overall increase, there is some variation between client groups in what investors are looking for from their sustainable investments.

High net worth individuals, family offices and to some extent sovereign wealth funds are seeking more innovative strategies that can generate an attractive risk/return profile and have a more explicit and measurable development impact. Areas being focused on by this group of investors include frontier markets as well as sustainable energy, water and poverty alleviation.

For pension funds, sustainable investment has historically been focused in the developed market equities arena. However, pension funds are now looking to diversify their sustainable investment allocation to include emerging markets equities as well as sustainable investment products in other asset classes. For example, corporate debt, sustainable forestry and climate bonds, where finance is raised explicitly for a specific environmental project.

#### 4. What do you perceive as the barriers to further growth in sustainable investment?

**Christian Yates:** There are several barriers slowing the growth of the sector. Two examples are as follows:

The first is the relatively small size in terms of monies required/sought by PE/VC companies within the cleantech sector in Europe as against the US. Large institutional investors such as Infrastructure Funds and Sovereign Wealth Funds need to put substantial amounts of money to work and are therefore prohibited from considering many such opportunities notwithstanding the more attractive valuations generally found in PE/VC in Europe as against the US. The lack of sector expertise as well as the more limited appetite for venture investing in Europe, especially since the financial crisis, also contributes to these circumstances.

The second relates to the public markets where intermediaries are still not fully equipped to advise clients on the huge growth potential offered by the cleantech sector over the next decade. Cleantech is still viewed as a small niche sector subject to hype and high valuations. This will change over time as awareness by both private investors and intermediaries grows.

More broadly, while governments have shown enormous support for the cleantech sector, occasional rumours of cancellation of support where support once seemed stable in certain countries does affect sentiment and one's confidence to put money to work.

**Daron Sheehan:** The primary barrier is a lack of education as to the real underlying issues of sustainability and how these are interlinked. This is aggravated by the short-term mindset of the financial markets and their failure to historically penalise environmentally and socially-damaging economic activity. There is also a strong cultural barrier to overcome after decades of promotion of individual reward over collective responsibility, which has often portrayed corporate social responsibility as bad for business.

One main barrier for us to raise funds from our investors would be if we had to pay a premium to invest in high-quality sustainably-managed companies. Our research and investment models show that investors are not currently being asked to pay a premium for the portfolio risk protection that our funds offer.

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**Paul Freer:** Within the fund management industry, our research indicates that the rationale for ESG analysis will increasingly become accepted and sustainable investment will gradually become conventional wisdom. In the developing markets, this is reflected in the increased amount of money invested on a sustainable investment mandate; less than US\$12bn in 2003 to over US\$50bn in 2008.

With the intellectual argument won, our experience suggests that the main challenge to further growth in this area, particularly in developing markets, will be the difficulty of accessing relevant information. However, part of the rationale for investing in regions such as Africa is that the information environment for all issues, not only ESG, is relatively inefficient. Understanding these inefficiencies and being effective at gathering what information is available is one of the requirements of being a successful emerging markets fund manager.

Having said this, as part of our broader advocacy role to promote sustainable investment practices in Africa, we at Alquity are working in partnership with a leading international corporate governance specialist to increase the quantity and quality of available information on sustainable investment throughout the continent.

**James Stacey:** Earth Capital Partners anticipates continued growth in sustainable investment and in particular in those sustainable asset classes which offer attractive risk return characteristics and predictable double digit yielding returns.

This will be driven partly by the ongoing review of allocations to different asset classes, including the strengthening of infrastructure exposure within many portfolios and by the continued expansion of the investment opportunities and related products targeting this sector, underpinned by market and regulatory drivers for sustainable and low carbon enterprise and infrastructure.

Investors and advisers are increasingly strengthening their understanding and capability to invest in this sector, whilst their requirements for ESG integration in investment process and portfolio measurement, monitoring and reporting also continue to rise. ECP anticipates this trend to continue as more and more investors seek both greater exposure to sustainable assets and increased integration of ESG factors.

### 5. What motivated the decision to form your firm and to focus on sustainable investing?

**Paul Freer:** Through our constant search for innovative funds together with our work with The One Foundation, we became aware of the investment as well as the development potential of Africa. The African continent is the last emerging markets region where investors do not have access to a highly regulated, highly liquid investment vehicle; the main investment opportunities being through private equity opportunities. We therefore set about researching the investment potential and an ideal investment structure and created our UCITS III, Luxembourg regulated, daily-dealing, open-ended fund that is currently available to high net worth and professional investors in Europe and Asia through leading life insurance bond platforms, as well as to institutional investors.

The addition of the sustainable investment process was made because research shows that additional investment analysis can protect an investment from risks relating to investment in historically volatile regions, such as Africa.

Our research shows that issues such as environmental, social and governmental factors directly affect long term business profitability and therefore an investment approach which addresses these issues is crucial to effective stock selection. Today, the scale of the ESG issues facing Africa is reshaping the economic landscape and is creating both new challenges and opportunities for companies operating in the region.

**Bex Hewetson:** Founded in 2001, Invicta has raised over £1.6 billion in asset based structures. The business focus was initially in the film and media sector taking advantage of government tax breaks to encourage investment into the British Film Industry, however as the business grew the founders started to review other asset based investments. Invicta have a large network for sourcing new opportunities and it was via this network and also personal interest from the founders that the team started to review renewable investments. Invicta looks for opportunities that have a solid investment base, but also have a strong ethical philosophy.

Invicta took the view that the renewable energy sector has significant growth potential, particularly in the UK where investment in the energy sector has been neglected over the last decade which has resulted in an aging infrastructure and supply issues going forward. The opportunity was then enhanced due to the banking crisis which resulted in a growing number of projects being offered to the private equity market that in the past had been financed by bank debt.

The next step was to find a suitable investment that was scaleable, had proved technology and had overcome the barriers to entry within the power sector, and consider how we could manage

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and mitigate the risk for the client, producing an attractive stable cash flow and capital appreciation.

**Daron Sheehan:** The firm has brought together a collection of investment professionals who were all motivated by the desire to create a forward-looking investment company that could help to lead the shift towards a more sustainable economy. This team grew out of the earlier activities of Active Earth Group, which has backed enterprises focused on sustainability training for business students and a charitable foundation involved in educational and environmental restoration projects. The financial collapse in 2008 exposed a number of unsustainable economic practices and this opened up peoples' minds to questioning established dogma. The timing was perfect to launch a new form of sustainable investment company that could bridge the gap between traditional and sustainable investment. The strength of our conviction led some of our founders to walk away from senior positions in very well established international finance companies to found Active Earth Investment Management.

It seemed to us that the governments' response to the crisis was to keep a dead system on a life-support system of bail-outs and quantitative easing rather than tackling the roots of the problem. We believe that this will only buy time for an inevitable industrial 'evolution' that will better align economic activity with natural systems to minimise expensive resource inefficiency, costly pollution and wastage. This is why we believe that sustainability can create opportunities as well as risks.

**James Stacey:** "Sustainable asset management" is a new sector with significant growth and risk adjusted investment return opportunities.

Whilst there is clear demand from large pension funds, corporates, sovereign wealth funds and high net worth individuals for investment exposure to sustainable assets, there are few organisations equipped with the right blend of skills and experience to service their requirements, particularly where investors require institutional scale investment vehicles to participate.

ECP was established to service this growing need, offering products which address three key areas of growing investor demand:

- Commercial rate risk adjusted returns from sustainable assets with low correlation to conventional asset classes, delivered through informed investment criteria based on a deep understanding of sustainable assets and their commercial drivers.
- Scalable and institutionally credible asset management infrastructure underpinned by a strong governance framework, management experience and sector expertise.

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- An investment model, which fully integrates ESG, delivered through best practice sustainability standards and measured and reported to investors, in ECP's case, using ECP's proprietary Earth Dividend™ ESG scorecard.

A critical factor in responding to the growing demand for sustainable assets was to combine the traditional skills needed to create robust investment products with the new skills needed to assemble and maintain portfolios in the sustainable asset sector.

**Christian Yates:** Rising and shifting energy demand: The energy market is an \$8trn sector today. Of that only c.20% of all energy (in kJ) is in the form of electricity and that is mostly generated from the fossil fuels and nuclear sources. There is no doubt that demand for electricity will grow sharply:

- As economies grow.
- As the world 'electrifies'. Electrification includes the shift from petrol/diesel engines to electric motors and the shift from gas ovens and hobs to electric equivalents.
- As c.40% of all OECD electricity generating capacity will reach end of life and renewables will benefit from this trend as the cost of new fossil fuel based plants are far more expensive today.

Cleantech today affords investors a similar opportunity to that last seen in the early days of the Tech sector in the 1980s. Many of the key drivers then are similar to those behind the clean energy value chain today. Hazel's founders have been investing in Tech since the 1990s and have a track record of delivering outstanding returns. Given the similarities between the sectors, the founders wanted to capitalise and profit from their unique experience and insight.

A passion for identifying nascent technologies that offer the potential of producing high returns to investors whilst adhering to the principle of sustainability.

### 6. What is your firm aiming to achieve and for you what does success look like? Are you concerned that sustainable investment could be a ‘bubble’ or a ‘gold rush’?

**Christian Yates:** To build on the excellent investment track record we are creating across different product areas in order to become the leading cleantech investment manager in Europe. To achieve this we will continue to focus on those strategies with significant capacity, that offer the potential of delivering differentiated positive returns to investors and that adhere to the core principle of sustainability.

By way of example we see that our initiatives in PE/VC and renewable energy infrastructure funds are well timed as across the EU there is a substantial need to fund the construction of renewable power plants. These investments offer investors stable, long term, inflation protected returns. Just what investors with a long investment horizon with an appetite for seek.

Cleantech is not a bubble. The size of the opportunity is enormous. For example it is worth noting that of the dozen largest companies in the world, six are oil and gas companies and a further four are automotive companies. As energy demand outstrips the fossil fuel generating capacity the opportunity for renewable energy technologies and the potential for the electric car market in turn is huge.

**Bex Hewetson:** Through the construction and operation of 9 biomass plants across Scotland Invicta is trying to provide support to the local economy by the creation of local employment and through supporting the local sustainable timber industry whilst also offering a solid investment proposition.

There is a lot of worry in the market currently about sustainable investments being a bubble, however if one looks at the definition of a bubble it is when prices are too high to justify the fundamentals. Probably the best way of describing this market currently is that it is high growth with lots of investment potential. We are in the middle of a perfect storm where there is demand for sustainable investments due to depleting fossil fuels and climate change concerns. For the first time in the UK there is Government support and incentives in place that make it commercially viable to invest in these sectors. Investors want cash generating, tangible investments that offer inflation protection; renewables is an asset class that can offer an array of opportunities that have been presented to the private market due to banks’ funding constraints and the public need for infrastructure. This is not a bubble; it’s an asset class that is fast growing due to the potential high returns it can offer investors and inherent low risks that can be inbuilt to the investment structures from the real assets being offered.

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**James Stacey:** ECP was established to respond to this market growth and evolution. ECP's five year vision is to deliver:

- A market leading position in sustainable asset management advising on US\$5bn of assets under management.
- Offer multiple closed end investment funds of US\$250m to US\$1bn value;
- Predominantly infrastructure and expansion capital investment products targeting 10-20% annual rates of return.
- ECP's proprietary Earth Dividend™ ESG impact measurement and reporting tool established as the practical value adding measure for sustainable development in the investment industry.

**Daron Sheehan:** Sustainability should by definition not be seen as a gold rush. We are hoping to achieve success on many fronts:

- Create a profitable and sizeable sustainable investment management business that can help to support the shift towards a sustainable economy through the provision of capital to sustainably-managed companies.
- Help to achieve a transition towards businesses being run in the long-term interests of all stakeholders.
- Educate people that a sustainable economy is a positive development that will bring many benefits to investors and wider stakeholders.
- Develop an integrated group which brings together investment management, research and education.

The underlying drivers for sustainable assets, such as energy, food and fibre security, climate change and water scarcity and related regulatory interventions and market responses mean that the coming decades will see a significant and increasing proportion of investment in sustainable assets and sustainable enterprise models.

Investment projections by organisations such as the International Energy Agency, EU and World Economic Forum suggest this could be several trillion US dollars over the next two decades.

**Paul Freer:** Alquity's main aim is to deliver attractive double-digit returns to our investors on an annual basis over the long term. However, we are interested in more than making money and our core principles include the promotion of sustainable investment practices and transforming lives through job creation.

The challenges faced by parts of Africa, such as wars, droughts and famines are well known. In many areas of the continent there is also sub-standard infrastructure and some countries are still

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plagued by extreme poverty. However, what is much less appreciated are the opportunities presented by the African continent as an investment destination. Our goal is to invest in growing businesses in Africa that offer outstanding value whilst also addressing the challenges of sustainability.

To help transform lives in the areas in which we invest, a minimum of 25% of Alquity's net fund management revenues will be donated to microfinance projects in Africa via The One Foundation. This donation comes from the fund management company and will therefore not affect fund returns. By the end of 2012, Alquity aims to have created some 100,000 jobs in Africa, thereby bolstering local economic growth and positively transforming lives, with an additional 100,000 jobs being created annually thereafter.

### **7. What are your expectations for the future of sustainable investment and how are you working towards it?**

**Daron Sheehan:** The future of investment must be sustainable investing as climate change and natural resource shortages will be just two of the many drivers that force society to move towards a more sustainable economy. It is estimated that the use of fossil fuels has boosted the global population the planet can support by over two billion people. The burning of fossil fuels is resulting in an estimated 25 million tons of carbon dioxide being absorbed by the sea every day! This is starting to have a negative effect on the sea food chain, which provides one sixth of the world's protein. Humanity therefore must find solutions to burning less fossil fuels or burning them more cleanly. A key way to start is resource and energy efficiency.

Certain regions are acting more quickly than others. The United States is lagging behind Europe and China. The US with its aging infrastructure and spread-out towns has the largest environmental footprint by a long margin. Their slower realisation of the need for energy and resource efficiency will put it at a competitive disadvantage.

We expect to see European companies realise their advantage gained from years of tighter regulations and restricted access to hydrocarbons and export their solutions and best practices into the United States and Asia as environmental constraints start to tighten. This is why we are launching with a European fund.

**Paul Freer:** Our research shows that the trend for sustainability to become a crucial component of the investment criteria will continue and that good practice in the areas of environmental, social

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and governance will increasingly be integrated into the regulatory frameworks applicable to listed companies across the globe.

For the financial sector in particular, we predict growing pressure on fund managers and asset owners in terms of the disclosure of investment policies and voting. We also foresee an increasing demand for transparency and evidence that sustainable/responsible investment products are making a positive difference to sustainable development.

As part of the demand for further information in the sustainable investment field generally, pressure may also grow from new mechanisms that enable better ESG comparison between the competing products on offer to investors. Within developing markets an example could be the emergence of a global sustainability index of some kind.

**Christian Yates:** Innovations in the sector will continue to push the cost of renewable energy down. We are now not far from grid parity, the point at which government subsidies are no longer needed due to the cost of a new renewable energy installation being more economical than the construction of a fossil-fuelled based plant. We believe that the technology with the greatest potential is solar and in particular solar photovoltaic panels. We believe this industry will grow from c.\$25bn last year to over \$1,000bn with 15 years as it becomes the de facto most convenient source of power. The leading economies in cleantech manufacturing are most likely to be Asian while higher end technologies (e.g. manufacturing equipment) will be made in the US, Japan, Germany, Switzerland and perhaps also China.

We do believe that CO<sub>2</sub> emissions could be mostly eradicated by 2050. In addition to mass deployment of solar and other renewable technologies, huge strides will be made in efficiencies that reduce energy consumption. Heat, Lighting and Motors are the biggest energy consumers and there is a lot of visibility on how all three will become far more efficient.

**Bex Hewetson:** As mentioned before sustainable investments encompass many types of opportunities, through equity investments, infrastructure investments and philanthropy therefore the shape of the future for each kind of investment will vary; no one has a crystal ball unfortunately.

What do we need to get the UK to meet its 2020 EU targets? The private sector needs to start investing in projects, by understanding the exciting opportunities available to them and getting them comfortable with the risks involved and how such risks are mitigated. Investment consultants need to realise that their clients would be interested in this kind of investment if they were aware of the opportunities available to them and how such investments can be a fantastic core investment for any portfolio.

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## Sustainable Investment Boutiques

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For all investments it has been a tough 24 months and sustainable investments is certainly no different with potentially some types of sustainable investments having been hit harder than most other asset classes. A lack of understanding into the kinds of investments offered under the sustainable banner has hindered progress of some very attractive investment propositions. One thing I do hope for in the future is that with a growing awareness of climate change and with investors becoming more responsible/accountable for the investments they hold I hope to see allocations to sustainable investments increase and a realisation by investors that these investments can offer a very attractive return with mitigated risks.

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# The Future of Investment: Sustainable Investment Boutiques

UKSIF

## About the participating institutions

### Active Earth Investment

Active Earth is an independent and privately owned fund management company which was established in 2009 by a team of investment professionals who have on average over 20 years experience.

[www.activeearthinvestment.com](http://www.activeearthinvestment.com)



### Alquity Investment Management

Alquity Investment Management is a client-focused fund management company, specialising in innovative investment management with the aim of generating attractive, long-term, absolute returns.

[www.alquity.com](http://www.alquity.com)

ALQUITY

### Earth Capital Partners

ECP is an investment management business offering a platform of sustainable investment products. Each ECP product is launched with a specific focus on a sustainable asset investment theme, geography and investment style.

[www.earthcp.com](http://www.earthcp.com)



### Hazel Capital

Established in 2007, Hazel is an independent London-based specialist investment manager investing exclusively in cleantech sectors which help overcome global resource constraints and achieve a sustainable environment.

[www.hazelcapital.com](http://www.hazelcapital.com)



### Invicta Capital

Invicta was established in 2001 and has since raised over £1.4 billion of investment capital. Invicta have recently launched a renewable energy investment into biomass in Scotland, open to private and institutional investors.

[www.invictacapital.co.uk](http://www.invictacapital.co.uk)

