

Big-money funds go green

INVESTMENT Renewable energy is entering the money mainstream as institutional investors are increasingly attracted to low-carbon profits. Geoff Nairn reports

Where there's muck there's brass. That may explain why the oil-rich emirate of Abu Dhabi is investing in a small US company that gets energy from sewage sludge.

Abu Dhabi is not the only deep-pocketed investor eyeing renewable energy. Pension funds, sovereign wealth funds and institutional investors are rushing to put money into renewables. What was once a niche area reserved for small specialist funds is rapidly entering the mainstream.

As well as investing in waste-to-energy, the US\$250 million Masdar Clean Tech Fund, in which the Abu Dhabi government has \$100 million, owns stakes in photovoltaic firms and cleantech start-ups.

"We want to make Abu Dhabi a hub for renewables," says Alex O'Connell, an Irish venture capitalist who was lured to the Emirate in 2007 to manage the ven-

ture fund. In February, Masdar launched a second "green" fund which raised \$265 million.

Many of the technologies it is backing will be used in Masdar City, a Norman Foster-designed "Sun City" which is being built in the desert. Masdar also owns 20 per cent of the London Array offshore wind project.

Masdar is not just backed by oil money, however. The pension fund of German industrial giant Siemens has put \$25 million into its two funds.

Renewable energy start-ups may seem an unusual investment for pension funds, which have a fiduciary duty to invest prudently. But times change and pension funds and other mainstream investors are more inclined to put money into this fast-growing sector.

"We have seen significant growth of interest in renewables," says Adam Ognall, deputy chief executive of UK Sustainable Investment

and Finance, whose members include four of the biggest pension funds in the UK.

"Pension funds see the way the regulated energy markets are going and growing consumer interest in low-carbon markets," he says. "But they will only invest in renewables if it makes sense financially."

David Russell, co-head for responsible investment at the Universities Superannuation Scheme (USS), the UK's second largest pension fund, argues fiduciary duty and green investment are compatible.

"The fund cannot make ethical or moral decisions, but there is a growing realisation that environmental, social and governance issues can impact the value of the fund and, if managed well, they can add value," he says.

USS made its first renewable energy investment in 2000 when it bought a stake in BlackRock New Energy, the renewables-focused investment trust. It has since invested in other renewable energy funds including two private equity vehicles. At the end of last year, it had about £150 million invested in clean technology and renewable energy.

"It is very small compared to our overall portfolio but significant

Masdar City, Abu Dhabi where investors are backing renewable technologies



when compared to other pension funds and the size of the sector compared to others," says Mr Russell.

For non-specialist investors, one way to get exposure to the renewables sector is by buying equities or buying a fund that does.

But the universe of quoted renewable energy companies is limited and performance can be volatile.

Private equity funds let deep-pocketed green investors access a much broader universe of companies, such as biogas firms, which are a particular favourite of Masdar's Mr O'Connell. "We like waste-to-energy because it deals with a difficult environmental issue," he says.

Another alternative to equity investment is to invest directly in renewable energy schemes.

"The problem with investing in equities is that the companies become prey to investor sentiment. We think physical assets are the way to go," says Ben Cotton, partner with Earth Capital Partners (ECP).

ECP's latest fund targets solar and biogas projects and was launched last November with seed capital from a pension fund. It aims to raise €750 million, which gives an idea of how much institutional money is now chasing the renewables sector.

"Ten years ago there were very few people investing in the renewables area," says Mr Russell of USS. Not any more.

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