



Pension Fund Sub Committee
27th September 2011

**Report from the Director of Finance and
Corporate Resources**

For Action

Wards Affected:
ALL

**Report Title: Investment in the Clean Energy and Infrastructure
Fund managed by Capital Dynamics**

1. SUMMARY

The report proposes a £10 million investment in the Clean Energy and Infrastructure Fund managed by Capital Dynamics.

2. RECOMMENDATIONS

Members are asked to agree:-

- a) To invest £10 millions in the Clean Energy and Infrastructure Fund.

3 DETAIL

Background

- 3.1 In 2003, Brent appointed Westport Private Equity (later taken over by Capital Dynamics) to establish private equity funds that would invest with other pension funds in a diversified approach across markets, managers and types of private equity. The investment programme has recently been increased, and now includes a £10m exposure to the USA Solar Fund, which invests in renewable energy in USA.
- 3.2 Capital Dynamics are launching a \$500m Clean Energy and Infrastructure Fund that invests in infrastructure assets that supply clean and renewable energy and deliver greater energy efficiency. The Fund will concentrate on wind and solar power, but there will also be exposure to other 'green' technologies such as biomass and small hydro electric projects that seek to reduce carbon emissions.
- 3.3 Members will be aware that renewable energy has become an enormous investment theme, with many governments pledged to reduce carbon emissions within tight timescales. Different approaches are being taken, some using nuclear power whilst others have become concerned about safety (following experiences in Japan) and clean-up costs. Governments are

offering tax, guaranteed prices and other incentives to encourage companies and investors to fund the huge investment required.

Detail

- 3.4 The main aspects of the Clean Energy and Infrastructure Fund are as follows:-
- a) Fund size will be \$500m (£310m).
 - b) To ensure proper diversification, the Fund will seek 10/15 direct investments in USA (40%/50%), Europe (40%/50%) and Australia (up to 20%).
 - c) The target return will be an Internal Rate of Return (IRR) of 15%/20% per annum, of which 5% - 10% will be running yield (income payments). The managers will seek contracted returns that include inflation protection from utilities.
 - d) The Fund life will be 5-12 years, but the assets will have a long operating life. The investment period will be five years.
 - e) The usual 'J' curve effect, when investments lose value for the first four to five years, will be mitigated by tax and revenue effects so that equity is repaid over a three to four year period.
 - f) Investment management fees will be 1.75% per annum, plus a 15% carried interest over an 8% hurdle rate.
- 3.5 Capital Dynamics has a strong and experienced clean energy investment team that has worked together since 1998 and produced excellent returns for investors. They have invested around £2b in a wide number of energy markets across the globe, and have a good knowledge of markets. Because they are well known in markets, the team has a strong pipeline of opportunities.
- 3.6 The Brent Fund has previously appointed Alinda as their infrastructure manager, and it is planned that Brent will join the next fund that will be launched either late in 2012 or 2013. Alinda have some exposure to 'green energy', through a biogas investment in Germany, but the investment is a limited element in a diversified fund. However, clean energy is a very specialist area, for which Capital Dynamics appear to have relevant skills and experience. Further, investing in the Clean Energy and Infrastructure Fund will accelerate exposure both in infrastructure and the 'green' energy theme. If it is agreed that the Brent Fund joins the Clean Energy Fund, it will increase the benchmark allocation to infrastructure to 6% of the Brent Fund (from 5%).
- 3.7 When joining previous funds managed by Capital Dynamics, the Brent Fund has become a limited partner in the fund, a legal status that allows specific commitments and benefits. However, the current Local Government Pension Scheme regulations impose a maximum 15% commitment to limited partnerships. Although there is inevitably a degree of 'fudge' over calculations – the value of limited partnership commitments, and the value of the overall fund change over time – Brent has currently invested around 13% of the Fund in limited partnerships, a figure that will grow as both the existing private equity funds, and the Alinda Infrastructure fund, become fully invested.

3.8 It is therefore proposed that Brent will join the Clean Energy and Infrastructure Fund (and future private equity funds) through an open-ended collective investment vehicle known as a SICAV (Spanish 'Sociedad de Inversion de Capital Variable'). This is similar to the open ended mutual fund in the USA, and entitles the investor to redeem units at their net asset value. The lawyers advising Capital Dynamics (SJ Berwin) understand that the structure will afford Brent the same rights and obligations enjoyed by limited partners. It is understood that some other local authorities have followed a similar approach to investing with Capital Dynamics.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5 DIVERSITY IMPLICATIONS

5.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

6 STAFFING IMPLICATIONS

6.1 None

7 LEGAL IMPLICATIONS

7.1 These are mentioned in paragraph 3.7 and 3.8 of the report. The Borough Solicitor does not see any problems in the proposal.

8 BACKGROUND

8.1 Pension Fund Sub Committee – 28th September 2010 - Private Equity – Revised proposals from Capital Dynamics.

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472/74 at Brent Town Hall.

CLIVE HEAPHY
Director of Finance and
Corporate Services

MARTIN SPRIGGS
Head of Exchequer and Investment