

A Guide for LGPS Schemes: Developing Options to Boost Renewable Energy Investment

A Step-by-Step IEEFA Guide

Executive Summary

The global energy transition will require not only that capital be shifted out of fossil fuels, but also re-invested in clean energy. Most institutional investors do not have experience or track records in renewable energy infrastructure investment, which has been viewed as a risky and/or an illiquid asset category.

The over-arching goal of this project was to work with a small group of motivated U.K. local government pension schemes (LGPS) to help them make their first investments in renewable energy infrastructure. This was a joint project between IEEFA and Platform. The project was built on previous engagement with LGPS members and pools by IEEFA, and took discussion into a more targeted phase, working closely with a group of London-based LGPS funds poised to take their first step into green energy infrastructure investment. In total, there are 90 LGPS in England and Wales, with £270 billion assets under management.

Throughout this project, we recorded steps taken. This report summarises those outputs. In addition, we identified key repeatable steps that LGPS and other financial institutions can take based on the experience of this project:

- **Repeatable Step 1:** Use the latest published LGPS annual reports as a data resource for individual LGPS financial and strategic positions.¹
- **Repeatable Step 2:** Establish a relationship with key stakeholders from the start, in this case the individual LGPS members driving change, plus the London Collective Investment Vehicle (CIV) and its appointed infrastructure asset manager, StepStone.
- **Repeatable Step 3:** Facilitate strategic problem-solving by convening the main stakeholders in an invitation-only workshop with strictly limited attendance. Ensure that leaders are present in the room to discuss potential problems and offer solutions.
- **Repeatable Step 4:** Undertake follow-up research, based on the identified barriers, to provide the target stakeholders with the information they need to engage further and to achieve the outcome they want.

¹ All LGPS annual reports are published here: <https://www.lgpsboard.org/index.php/fund-annual-reports-2018>

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The Process of Selecting LGPS Targets and Leaders

The first step in this project was to identify LGPS that were interested in taking their first steps into renewable energy infrastructure investing, which we refer to as “targets”. We were exclusively interested in London LGPS, because the City of London is such an international hub for the global asset management industry, and because it made sense to target pension schemes in the same pool, since they would be making the same journey together.

We also sought to identify the pension schemes across England and Wales that had the most expertise in renewables infrastructure investing, and therefore were in a position to act as leaders. Our underlying thesis was that the groups interested in taking the next step in renewable energy investing would already have completed some exploratory research around the renewable energy infrastructure asset class and market, and were now looking at “next step” questions around investment process and performance. We considered that at this stage they would most trust and would be most interested in hearing from their peers, especially those with more experience in this particular field.

To identify these LGPS targets and leaders, IEEFA analysed the 2017/18 reports of all 90 schemes in England and Wales. We identified targets according to the introduction of new policies, such as new infrastructure investment mandates, new targets to invest in renewable energy infrastructure, or, where such mandates already existed, a big gap to their fulfilment. We were also interested in statements in their annual report setting out new interest in renewable energy infrastructure. We identified leaders according to actual and targeted allocation to renewables infrastructure, engagement of specialist renewables asset managers, and the level of disclosure according to the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). Table 1 summarises our findings.

Repeatable Step 1: Use the latest published LGPS annual reports as a data resource for individual LGPS financial and strategic positions.²

² All LGPS annual reports are published here: <https://www.lgpsboard.org/index.php/fund-annual-reports-2018>

Table 1: Selection of LGPS Targets and Leaders

	Rank	LGPS	LGPS Pool	Why target?
TARGETS	1	Lewisham	London	Introduced a new infrastructure mandate, including a target to allocate 2% of AuM to renewable energy infrastructure
	2	Southwark	London	Introduced a 5% mandate for "sustainable infrastructure"
	3	Hackney	London	Plan to reinvest in a low-carbon economy, following a significant divestment commitment
	4	Camden	London	Introduced a new 5% infrastructure mandate
	5	Havering	London	Has just introduced a 5% infrastructure mandate
	6	Islington	London	Introduced a new infrastructure mandate, and tendering for relevant asset managers
	7	Lambeth	London	Introduced a 3% infrastructure mandate
	8	Wandsworth	London	Introduced new infrastructure mandate; zero allocation to date
	9	Enfield	London	Long way below existing infrastructure target
	10	Haringey	London	A long way behind existing target to invest 5% in renewable infrastructure
				Why leader?
LEADERS	1	Environment Agency	Brunel	Reports in great detail in line with the Task Force on Climate-related Financial Disclosure (TCFD) recommendations
	2	Greater Manchester	Northern	Has a detailed section on climate risk, under TCFD
	3	West Midlands	Central	Invested in multiple clean energy funds; big infrastructure allocation. Made a detailed TCFD submission
	4	South Yorks	BCPP	Made a TCFD statement
	5	London Borough of Barking and Dagenham	London	Has a big infrastructure target, and has a specific allocation to renewables
	6	Croydon	London	Has big renewables investments (onshore & offshore wind via Temporis and GIB), and a big infrastructure allocation
	7	Merseyside	Northern	Active target to increase renewables investments
	8	Lancashire	LPP	Multiple renewables investments, and largest allocation to infrastructure @ 13%
	9	West Yorks	Northern	Substantial renewables investments. Member GLIL.
	10	London Pensions Fund Authority	LPP	Actively invested in renewables via GLIL

Outreach to Relevant Stakeholders

We identified three main stakeholder groups involved in the process of renewable energy investing by LGPS. These were:

- The individual underlying LGPS;
- The LGPS pools, presently aggregating LGPS investment activities under a new UK government initiative. In this effort, the 90 underlying LGPS in England and Wales have been aggregated into eight collective investment vehicles, or pools. The goals of this initiative include enabling the underlying schemes to benefit from economies of scale, for example by negotiating lower management fees, and acquiring the skills to execute complex deals, especially in infrastructure. In the case of London, the relevant pool is the London CIV.
- The asset managers and other financial experts and intermediaries that facilitate investments.

To launch this project, it was critical to reach out to these three groups. We summarise briefly this outreach, some key facts that emerged, and how these guided the subsequent project.

LGPS Schemes: Establishing a Relationship with a Key Actor

IEEFA had previously identified Lewisham pension investment committee as a potentially key actor in this space, given its commitment to make its first investments in infrastructure, including renewable energy. IEEFA had already established a connection with the Lewisham LGPS after inviting the pension investment committee to a previous workshop, at London's Guildhall in June 2018. That workshop's goal was to provide an informal opportunity for asset owners, including LGPS, to discuss the investment opportunities in renewable energy infrastructure, with leading specialist fund managers. Lewisham attended in force, with four pension committee members.

IEEFA extended this Lewisham connection with its project partner, Platform. In January 2019, IEEFA established from Lewisham pension investment committee chair, Mark Ingleby, that a group of six or seven chairs of pension investment committees at Labour-led councils were planning to make new or first investments in infrastructure, including in renewables, whether via the London CIV or independently. Lewisham, in particular, had met with Blackrock infrastructure fund managers to discuss a possible allocation to their fund and had already made infrastructure investments with JP Morgan. These six or seven London LGPS were dissatisfied by the level of renewable energy investment proposed by the London CIV. We established that an important goal of this project would therefore be to discover whether the London CIV could improve its infrastructure offering to give interested schemes the opportunity to invest more in renewables.

IEEFA further cemented its relationship with Lewisham through a presentation to its pension committee in February. The presentation detailed opportunities for direct infrastructure investment in renewable energy infrastructure, and quantified the present UK renewables project pipeline, and corresponding project pipelines in emerging markets, focusing on India. We also updated Lewisham on global renewable energy market trends, and data on renewables investment returns.

LGPS Pools – the London CIV

In January, the chair of the Lewisham pension investment committee, Mark Ingleby, facilitated a meeting between Lewisham and Hackney pension committees and IEEFA and the London CIV. The member schemes and the pool both favoured investing in renewables, but disagreed over how much choice to give LGPS members on how much they could invest in renewables, and how fast.

Specialist Infrastructure Asset Manager

The London CIV is in discussions with asset manager StepStone on infrastructure investments. At the time of writing, the proposed infrastructure offering would aim for a minimum of 25% exposure to renewables via a unit trust. StepStone is therefore clearly an important stakeholder in this project. Through informal discussions with StepStone, IEEFA better established the context for renewables infrastructure investments by London LGPS, and gained a better understanding of the London CIV position, including the financial strategy for infrastructure investments and options for alternative approaches.

Repeatable Step 2: Establish a relationship with key stakeholders from the start, in this case the individual LGPS driving change, plus the London CIV and its appointed asset manager.

Workshop: Bringing It All Together

The main event of this project was to organise a workshop that convened our target and leader LGPS, as well as the London CIV's selected infrastructure asset manager, StepStone.

The official goal of the workshop was to provide an informal opportunity for pre-investment consensus-building on renewable energy infrastructure, including peer-to-peer discussion on issues including establishing a mandate, investment strategies and expected returns. Additional, unofficial goals included:

- to identify LGPS that were really motivated to increase their allocation to renewables infrastructure, for example through their attendance.
- to identify actual roadblocks to increasing renewables allocations, by convening the London LGPS and StepStone.
- to identify solutions, by convening LGPS leaders in renewables investing.

Of our 10 target LGPS, four attended: Lewisham, Hackney, Enfield and Haringey. And we invited representatives of two of the leading LGPS for climate leadership and renewables investing, GLIL (on behalf of the Northern and LPP pools) and West Midlands Pension Fund, both of whom attended. Participation was completed by attendance of two senior executives from StepStone.

The main discussion points are summarised below. Copies of the agenda and invitations are listed in the Appendix.

- Further dialogue with the London CIV
 - StepStone's client was the London CIV, not the underlying LGPS schemes, and as a result, follow-up questions should be directed to the CIV;
 - Specific questions for the CIV included the options for different allocations to renewables, and allocation to emerging markets.
- Giving LGPS members choice
 - The representative from West Midlands Pension Fund stated that as CIV members, the underlying LGPS merited choice over their investments.
 - One way of achieving this would be through a GP/LP fund structure, whereby the individual schemes (as LPs) would choose between different "sleeves" for investing; for example whether to invest direct or indirect, and in renewables or not. West Midlands Pension Fund is proposing such a structure for its private equity funds (choosing between investing in assets directly or via funds of funds).
- A question of scale

- The question emerged whether, if four LGPS went alone, outside the CIV for now, would they have the required scale to invest directly in infrastructure assets? GLIL stated that an average investment size for direct infrastructure investments was around £150m.
 - Back of the envelope math indicates that might imply a £1.5 billion allocation, to achieve 10 investments and some measure of diversity. The average LGPS fund size is c. £1 billion, or £4 billion for four funds, indicating a required 40% allocation to infrastructure, which is clearly too great. Such simple math indicates why a pooled approach may make the most sense.
- Propitious timing for investment decisions
 - Lewisham stated that the LGPS triennial valuation started in March 2019 and was a window of opportunity. Typically, such valuations trigger a strategic re-think, and are an opportunity to shift capital to new asset classes. Hackney stated that it would be able to invest in infrastructure around 2020 or 2021, after its triennial valuation, and after devising a new investment strategy

Repeatable Step 3: Facilitate strategic problem-solving by convening the main stakeholders in an invitation-only workshop with strictly limited attendance. Ensure that leaders are present in the room to discuss problems and offer solutions.

Strategic Follow-up

For this project, we had identified the key problem of achieving choice in infrastructure investment for the 33 LGPS members of the London CIV. We note at least two barriers to achieving such choice:

- The number of LGPS members, at 33, is three times more than any other pool (Border to Coast Pension Partnership has 13 members). It is therefore more costly for London CIV to canvass the views of its members, and even more complex to derive a resulting consensus.
- The London CIV appears to have elected an infrastructure fund vehicle, as a unit trust, which cannot offer choice of investments, unlike an LP-GP type vehicle.

As a result, IEEFA identified the key barrier emerging from the project as how to give LGPS members choice, including to invest more in renewable energy. IEEFA therefore undertook research to understand better how much choice each pool gave their members to invest in renewables. IEEFA published the resulting note, after allowing an extensive review period for key stakeholders, including StepStone and the London CIV. We encouraged the LGPS members interested in investing more in renewables to use the document to engage with the London CIV, and StepStone and encourage them to offer the choice they wanted in renewables investing.

Repeatable Step 4: Undertake follow-up research, based on the identified barriers, to provide the target stakeholders with the information they need to engage further and to achieve the outcome they want.

Appendix

Relevant Literature

- **GFI, HSBC and IEEFA, 2017.** *The Renewable Energy Infrastructure Investment Opportunity for UK Pension Funds.* City of London Corporation Research Report.
- **IEEFA and GFI, 2018.** *The Renewable Energy Infrastructure Investment Opportunity for UK Pension Funds: Proceedings of a Workshop Held at the Guildhall, London.* Institute for Energy Economics and Financial Analysis and the Green Finance Initiative.
- **IEEFA and Platform, 2019.** *The Renewable Energy Infrastructure Opportunity for Local Government Pension Schemes (LGPS): A Review of Approaches Across England and Wales.* IEEFA.

Workshop Invitation

**You Are Invited to a Workshop for
London LGPS Pension Fund Committees:
Renewable Energy Infrastructure Investing
Central London, Early February 2019**

The Institute for Energy Economics and Financial Analysis (IEEFA), a sustainable energy think-tank, and Platform, a climate initiatives group, would like to invite you to attend an informal workshop to discuss the investment opportunities in renewable energy infrastructure, in early February.

We are inviting the chairs and deputy chairs from 10 LGPS pension funds that have indicated readiness to increase their allocation to unlisted renewables. Please do extend this invitation to other suitable members of your investment committee. The workshop follows a report published by IEEFA and the City of London's Green Finance Initiative, detailing how the characteristics of renewable energy infrastructure suit defined benefit pension schemes, and follows an IEEFA workshop at the Guildhall in June 2018, that convened LGPS pools and leading renewable energy asset managers.^{3,4}

This follow-up workshop will comprise presentations by LGPS pension funds already leading in the renewable energy infrastructure space. We aim to highlight the range of opportunities that can help pension fund managers meet their fiduciary and ESG requirements and detail the next steps towards achieving investments. We would very much appreciate your participation, and invite you to select from the following possible dates/times:

Feb 5 or 6, 1 - 4 PM (Including a working lunch, 1 - 1.30 PM)

Feb 8, 6.30 - 8.30 PM

The venue will be in Central London.

**Please RSVP to Gerard Wynn, IEEFA Financial Consultant
(gerard.f.wynn@gmail.com)**

³ GFI, HSBC and IEEFA, 2017. [The Renewable Energy Infrastructure Investment Opportunity for UK Pension Funds](#). City of London Corporation Research Report.

⁴ IEEFA and GFI, 2018. [The Renewable Energy Infrastructure Investment Opportunity for UK Pension Funds: Proceedings of a Workshop Held at the Guildhall, London](#). Institute for Energy Economics and Financial Analysis and the Green Finance Initiative.

Workshop Agenda



A Workshop for London LGPS Pension Fund Committees: Renewable Energy Infrastructure Investing

*Chatham House, 10 St James's Square, London. SW1Y 4LE
Feb 8th 2019, 18.15 – 20.30*

Meeting Objective

- To provide an informal opportunity for pre-investment consensus-building on renewable energy infrastructure, including peer-to-peer discussion on issues including establishing a mandate, investment strategies and expected returns.

18.15 – 18.30 Teas and coffees

Introduction (30 minutes)

18.30 – 18.35 Welcome by Gerard Wynn, IEEFA, and Sakina Sheikh, Platform

18.35 – 18.45 David Beamish, StepStone Group – The infrastructure investment market

18.45 – 19.00 Roundtable introductions: organisation; place on journey to renewables investing; key issues; what hope to achieve from workshop

Presentations: Strategies for renewables investing (20 minutes)

19.00 – 19.10 Daniel Hobson, Greater Manchester Pension Fund – direct investing

19.10 – 19.20 Jill Davys, West Midlands Pension Fund – a diversified approach

Discussion (55 minutes)

19.20 – 19.40 Tour of table response to presentations; Q&A

19.40 – 20.15 Facilitated discussion: Renewables investing: logistics, process and performance

Wrap up/Close (15 minutes)

20.15 – 20.30 Agreement on next steps

Workshop Attendee List

David Austin	Pensions Committee member	Lewisham Council
Chris Best	Pensions Committee member	Lewisham Council
John Bevan	Deputy Chair, Pensions Committee	Haringey Council
Robert Browning	Pensions Committee member	Lewisham Council
Alex Feis-Bryce	Pensions Committee member	Lewisham Council
Robert Chapman	Chair, Pensions Committee	Hackney Council
Patrick Codd	Pensions Committee member	Lewisham Council
Mark Ingleby	Pensions Committee chair	Lewisham Council
Paul Maslin	Pensions Committee member	Lewisham Council
Doug Taylor	Chair, Pensions Committee	Enfield Council
Matt White	Chair, Pensions Committee	Haringey Council
Robert Evans	Director	StepStone Group
Presenters		
David Beamish	Principal	StepStone Group
Jill Davys	Assistant Director, Investments and Finance	West Midlands Pension Fund
Daniel Hobson	Senior Investments Manager	GMPF
Organisers		
Kirsty Hamilton	Associate Fellow	Chatham House
Sakina Sheikh	Pensions Committee member	Lewisham & Platform
Gerard Wynn	Energy Finance Consultant	IEEFA

About IEEFA

The Institute for Energy Economics and Financial Analysis conducts research and analyses on financial and economic issues related to energy and the environment. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy. www.ieefa.org

About the Author

Gerard Wynn

Gerard Wynn is an energy finance consultant at IEEFA with two decades of experience as an analyst, editor and writer working in the fields of energy and the environment. For a decade, Gerard worked as a reporter and columnist covering energy and climate change at *Reuters* News Agency. More recently, he has authored research papers on topics including the economics of solar power in Britain, shale gas in the United States and coal power in Europe, China and India. Gerard has worked alongside a range of think-tanks, NGOs and corporate clients. He started his career in land use economics, graduating with a PhD in agricultural economics from Aberdeen University. He blogs at EnergyandCarbon.com.

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