

# Sustainable investing

*The market in capital for clean tech has grown well beyond the pioneer stage, says **Penny Shepherd** MBE, Chief Executive UKSIF – the sustainable investment and finance association.*

We are on the brink of a new industrial revolution. Governments and communities worldwide are looking for ways to live successfully within environmental limits. Sustainable investors have been backing the best options for over 20 years, but now the pace and scale have accelerated. In the last few years, a new generation of investors has emerged. They want to back smart innovations that will make them money. But that isn't the whole story. Many also want to create a new economy that supports healthy societies and protects the environment. They reckon that will not only grow their wealth but protect it too – and leave a safer world for their children.

## Plentiful rewards

The opportunity is clear. The threat of climate change and its repercussions across the world is driving changes not only to public policy, but also to business and consumer behaviour. The UK government, like others across the world, has national targets and international obligations to meet and, in terms of climate change solutions, by no means all the answers. Major businesses also recognize the need to invest in making their operations more sustainable. So the door's wide open for today's new generation of innovators, investors and entrepreneurs to come up with winning solutions – and, for those who are successful, the rewards should be plentiful.

The chance to reap those rewards was first spotted by far-sighted people in the City more than two decades ago. As far back as 1988, for example, the Jupiter Ecology Fund

became the first UK green fund available to the public, while Impax Asset Management was created as a specialist environmental investment manager in 1998 and so has been ‘investing for a cleaner future’ for a dozen years. But now, as governments the world over have woken to the fact that sustainable development is an urgent necessity rather than a vague long-term aspiration, the opportunities and returns are there for the taking.

## So who is investing?

Wealthy private investors have become a substantive force in the sustainable investment market. Indeed, the European Sustainable Investment Forum (Eurosif) has forecast that by 2012 sustainable investments will represent 12 per cent of the portfolios of wealthy European private investors, surpassing a trillion euros in total – unimaginable 20 years ago. According to Eurosif, this reflects both interest from successful entrepreneurs and inherited wealth that has moved to a younger generation.

Needless to say, leading wealth managers have responded. Indeed, some of the longest established have been among the earliest movers. Cazenove Capital Management traces its origins back to 1823. It has been identifying key sustainability themes for client investment since 2004. Rathbone Brothers, established in 1742, set up Rathbone Greenbank Investments to manage only ethical and responsible investments. Their team’s sustainable investment track record dates back to 1992.

Meanwhile, a growing number of major pension funds are asking their fund managers to deliver clean technology investment portfolios. One such fund is the Universities Superannuation Scheme (USS), the pension fund for UK universities and other higher education institutions and one of the largest pension schemes in the UK. By November 2009, it had invested about £150 million<sup>1</sup> in clean technology and renewable energy. And a worldwide group of pension funds, including the UK Environment Agency’s pension scheme, have commissioned Mercer, the investment consultancy, to study the implications of climate change for the types of investments they should hold in the future.

## Introducing opportunities

So, today, clean technology investing has moved beyond the pioneers. A wide range of specialists are now matching clean tech business opportunities with investors. What are the areas of interest? They include renewable energy, water, waste and pollution control. The FTSE Environmental Markets Index series describes one classification. Although used specifically for stock market listed companies, it gives a good insight into the technologies seeking investment. Its classification is given in Table 3.2.1.

Different investment advisers and managers often specialize in different points in the investment chain. Some focus on early-stage investment, while others concentrate on larger or listed businesses further down the line. So an investor or entrepreneur seeking early-stage investment shouldn’t expect this from a manager specializing only in stock market listed companies, or vice versa. But, at each stage, the service is essentially the same – interested investors need to be linked with the best opportunities.

**Table 3.2.1** FTSE Environmental Markets Classification System

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E1.0	RENEWABLE & ALTERNATIVE ENERGY
E1.1	Wind power generation equipment
E1.2	Solar energy generation equipment
E1.3	Other renewable equipment
E1.4	Renewable energy developers and independent power producers (IPPs)
E1.5	Biofuels
E1.6	Diversified renewable and alternative energy
E2.0	ENERGY EFFICIENCY
E2.1	Power network efficiency
E2.2	Industrial energy efficiency
E2.3	Buildings energy efficiency
E2.4	Transport energy efficiency
E2.5	Diversified energy efficiency
E3.0	WATER INFRASTRUCTURE & TECHNOLOGIES
E3.1	Water infrastructure
E3.2	Water treatment equipment
E3.3	Water utilities
E3.4	Diversified water infrastructure and technology
E4.0	POLLUTION CONTROL
E4.1	Pollution control solutions
E4.2	Environmental testing and gas sensing
E5.0	WASTE MANAGEMENT & TECHNOLOGIES
E5.1	Waste technology equipment
E5.2	Recycling and value added waste processing
E5.3	Hazardous waste management
E6.0	ENVIRONMENTAL SUPPORT SERVICES
E6.1	Carbon and other environmental assets trading
E6.2	Environmental Consultancies
E6.3	Diversified environmental

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*Source:* FTSE Group, [http://www.ftse.com/Indices/FTSE\\_Environmental\\_Markets\\_Index\\_Series/Downloads/FTSE\\_Environmental\\_Markets\\_Classification\\_System.pdf](http://www.ftse.com/Indices/FTSE_Environmental_Markets_Index_Series/Downloads/FTSE_Environmental_Markets_Classification_System.pdf).

One specialist that matches business opportunities with providers of early start-up capital is ClearlySo, an online marketplace that arranges regular ‘speed dating’ events throughout the UK. At a typical gathering, each entrepreneur has to convince each investor that his or her venture is worthwhile, exciting and sound, and usually has five minutes in which to make the pitch. ecoConnect, a clean technology network, is another organization that supports this early stage.

For subsequent stages of investment, there are investment funds available for knowledgeable individuals. These may invest in very specific areas or be more broadly

based. For example, the Triodos EIS Green Funds invest in a portfolio of sustainable UK companies in renewable energy generation and technology, energy efficiency, sustainable living, low carbon products and technology or waste recycling and reduction. The funds target companies with high growth potential that Triodos believes can deliver high returns to investors. A more focused option is Foresight Group's £22.5 million Foresight Sustainable UK Investment Fund. It is one of the largest EIS funds ever raised. It invests in clean tech infrastructure in the UK such as recycling, waste to energy and renewable energy. Invicta Capital's Invicta Biomass Fund is an even more specific choice. It invests directly into the development and operation of medium-sized biomass plants in Scotland.

The Five Fund Forum, organized by Sustainable World Capital and VB/Research, supports larger investment organizations. It helps them to select from well-established clean tech and renewable energy investment funds rather than investing directly in individual clean tech companies. The Forum holds its 'by invitation only' events in London, Amsterdam, Copenhagen and Zurich and covers a range of investment stages.

For those seeking to invest in companies listed on stock markets, the range of funds available has grown over time. Sustainable solutions funds may use a blend of environmental and social themes to select investments. The first sustainable water fund was launched in 2000, with the first clean energy fund available from 2001. Several climate change funds arrived in 2007. Some climate change funds invest in clean technology solutions, while others target companies that are leaders in managing their environmental impacts. The various approaches will tend to result in funds with different financial characteristics. As with any investment, it is important to look behind the label and understand the approach being offered by a specific fund.

Index tracking through unit trusts and exchange traded funds (ETFs) is also available, with a range of clean technology indexes launched over the last few years. The Osmosis Climate Solutions ETF, launched in February 2010, is just one instance of this trend.

Some investment managers offer investment strategies that go beyond stocks and shares. For example, Generation Investment Management (co-founded by Nobel laureate Al Gore) offers a Climate Solutions strategy that combines private investment in clean tech businesses with exposure to listed clean tech stocks; and the Cheviot Climate Assets Fund, from Cheviot Asset Management, invests in a global basket of bonds, commodities and equities across the themes of energy, food, health, resources and water.

More generally, the range of investment opportunities is growing. With food insecurity becoming a rising threat, agriculture funds are rising in importance. And sustainable forestry is of increasing interest as policy makers debate the role of forests in capturing carbon.

Today, sustainable investment boutiques are becoming particularly prominent. These small investment managers are being set up by City experts to focus specifically on the opportunities from clean technologies and other sustainable investments.

As the perils of climate change and resource scarcity become increasingly acknowledged by governments of all hues around the world, the signs are clear that low

carbon and resource efficient innovation is the way forward. Today's public policies to reduce carbon and waste will be joined by tough measures to protect water and other natural resources. These will all drive the growing demand for winning technologies. The future of clean tech investment is by no means a California-style gold rush – but it is a sustained and sustainable opportunity to benefit financially from what are likely to be the most compelling investment opportunities in the coming decades. The bonus is that it should also help to build a better world.

## Note

<sup>1</sup> \$250 million (<http://www.usshq.co.uk/UssInvestments/Responsibleinvestment/MarketWideInitiativesPublicPolicy/ClimateChange/Pages/default.aspx>).

This information offers a general overview and should not be taken as financial advice or seen as an endorsement of any particular company, organization or individual. While we have sought to ensure this information is correct at time of print, the author and UKSIF do not accept liability for any errors.

*Penny Shepherd MBE is Chief Executive of UKSIF – the sustainable investment and finance association. She has over 30 years of experience in working with the finance sector, including over 15 years on sustainability and corporate responsibility issues. She has been a member of the Mayor of London's Sustainable Development Commission and spent 20 years in the computer industry assisting financial services and other companies. UKSIF, the sustainable investment and finance association, is a non-profit membership network with over 200 members. It promotes responsible investment and other forms of finance that support sustainable economic development, enhance quality of life and safeguard the environment. It organizes the annual National Ethical Investment Week to raise awareness of today's green and ethical investing options. Contact Penny Shepherd at UKSIF – the sustainable investment and finance association, Holywell Centre, 1 Phipp Street, London EC2A 4PS (tel: +44 (0)20 7749 9950; e-mail: [info@uksif.org](mailto:info@uksif.org); websites: [www.uksif.org](http://www.uksif.org), [www.neiw.org](http://www.neiw.org)).*