

Green Purposes Company

By email: trustees@greenpurposescompany.com

28 May 2021

Dear Trustees

Thank you for your letter dated 11 September 2020 for inclusion in the Green Investment Group (GIG) Progress Report 2020 and the UK Green Investment Bank Limited (UKGIB) Annual Report and Accounts for the financial year ended 31 March 2020.

GIG supports the role of the Green Purposes Company (GPC) as holders of the ‘special share’ in UKGIB. We welcome the constructive dialogue between us, including the observations you set out in your letter. We set out here our position on the areas of interest outlined in your letter, as part of our ongoing discourse.

Investment strategy

Your letter notes the leading role that GIG is playing in the reduction of carbon emissions but observes that the five green purposes in GIG’s Articles cover a wider range of potential activities. Further to this and the subsequent discussions we have had on the relationship between the five green purposes and GIG’s investment strategy, we thought it would be worthwhile to set out in detail the role of the green purposes in our business.

GIG is committed to our five green purposes, which have been part of the GIG and Green Investment Bank (GIB) constitutional documents from the very start and remain enshrined in our Articles of Association.

The green purposes are, and have always been, the definition of the company’s permitted activities – criteria that investments need to meet to be a GIG (and previously GIB) project – and not the company’s investment strategy. This is reflected by their status in the Articles of Association as part of the legal objects of the company. The green purposes are fundamentally important in assessing the green impact of every investment we make, but our investment strategy is based on our areas of expertise and where commercial projects exist. This reflects the undertakings we provided to the UK Government when we acquired GIB, where we committed that GIG would fulfil the GIB’s original purpose of driving investment in renewable energy in line with its green principles.

The Green Objective within our Articles also sets out an overriding objective for the Board of the company to focus on the reduction of global greenhouse gas emissions. This was part of GIB’s investment principles, and we undertook to uphold this in the Transaction Agreement executed at the time of the GIB acquisition.

In terms of our investment strategy, we focus our activity on investments which we believe will have the greatest impact on our mission of accelerating the green transition, and where we can bring our expertise to bear, whilst operating on a commercial basis. As such, we do not currently have active investment strategies for all five green purposes.

In the near term, therefore, we expect to continue to invest predominantly in development projects and portfolios utilising established and emerging renewables technologies including storage, CCUS, hydrogen and floating offshore wind. In the longer term, we expect to see commercially viable investment opportunities emerge to invest in wider green transition areas such as nature-based solutions and climate adaptation.

Green Impact Reporting

We welcome your comments on GIG's green investment approach and enhanced disclosures, and look forward to continuing collaboration with you on evolving our approach.

Your letter identified four areas where GIG could take steps to continue to develop our methodology, in line with best practice.

1. *Use of sensitivity analysis*

We undertake sensitive analysis on the calculation of reduction of greenhouse gas emissions for all projects where there is a risk that projects might not contribute to that green purpose.

2. *GIG's approach to assessing green purposes 3, 4 and 5*

We continue to collaborate and partner with other organisations in the development of methodologies and metrics, for example by joining the Observer Group to the development of a Taskforce for Nature-Based Financial Disclosures

However, we note that reporting on a limited set of metrics could reduce the scope of our evaluation and disclosure of contributions to these green purposes, and therefore qualitative evaluation will always form a cornerstone of our approach.

3. *Interplay between the green purpose and risk of 'double-counting'*

Our iteration of our green ratings approach further to the external review by Arup should ensure that the risk of double-counting green impact across different green purposes is eliminated.

In terms of the investment approach, GIG takes into account green ratings for all five green purposes at each stage in the approval of an investment, from initial review through to Board approval. Attention is typically drawn to significant detrimental impacts (e.g. a rating of D or E against a green purpose) for special consideration on what mitigation or compensation can be achieved.

4. *Bringing advisory services within the scope of green impact reporting arrangements*

GIG's advisory services fall into two main categories. The first is where we provide advisory services alongside our own principal investment activity, and in this case, the green impact reporting arrangements apply as these are GIG projects. The second is where GIG provides external green impact reporting services to third parties who are making their own investments without GIG being a party to the investment. As we have discussed previously, we do not consider that GIG should report green impact on projects where it has not been a party to investment, as this would result in a significant double-counting of green impact.



External green assurance

We welcome the supportive comments from the GPC on the independent review of our green investment ratings methodology and look forward to finalising with the GPC our joint clarification on the definitions of the green purposes. We are of the view that this will enhance the value of our work and set standards for other organisations to follow.

Innovation

In addition to the continued development of our UK solar and storage portfolio with Enso Energy, and the completion of our hydrogen hub feasibility study with the Port of Southampton, we anticipate making significant new announcements related to emerging technologies in the UK and Europe throughout 2021. Outside of the UK, we also continue to deliver projects spanning a wide-range of innovative technologies, including floating offshore wind, utility-scale battery storage solutions, distributed energy, CCUS, and hydrogen.

Thought leadership and influence

We welcome the GPC's recognition of our thought leadership and external engagement activity. This year we were particularly proud to host our annual Green Energy Conference on a fully virtual platform, securing record numbers of participants. We are also proud to continue our support for a range of industry and sector bodies focused on accelerating the green transition.

Investment record

We welcome the GPC's acknowledgement of GIG's track record in investment in the UK. Our total invested or arranged in the UK in the three years since the acquisition of GIB by Macquarie now reaches over £3 billion, surpassing the commitment made to the UK Government at the time of the acquisition, with the global figure totalling £6.9 billion.

GIG have previously reported these figures in order to assess our progress against meeting the commitments made to the UK government for the first three years. Now we are beyond that period, we will provide updates on our investments globally through our Progress Report.

Divestments

Asset divestments is entirely in keeping with our investment strategy. Once we have de-risked assets, for example by supporting new green projects through the riskier development phase to the lower-risk construction or operations phase, we will look to divest these de-risked projects to long term owners such as infrastructure and pension funds.

We believe this approach is fully aligned to our mission by creating investment opportunities for a broad and deep pool of investors, who typically have a lower cost of capital, thereby freeing up GIG's own capital for reinvestment into new low-carbon projects with a higher risk profile and hence higher cost of capital.

We acknowledge that other investors may report the green impact of projects where GIG continues to report lifetime green impact and have stated this in our previous reporting. We intend to make a permanent note of this point in GIG's Green Impact Reporting Criteria for reference by readers of our green impact statements.



Forward look

The Covid-19 pandemic has had significant impacts on the global economy, and we are working closely with our clients, partners, and stakeholders to continue to deliver a strong program of green investment in the UK and globally. We welcome the flexibility shown by the GPC in moving our regular engagement to a virtual platform and look forward to our continued productive working relationship.

Yours sincerely

A handwritten signature in black ink, appearing to read "M. Dooley".

Mark Dooley

Global Head – Green Investment Group