

## Green Purposes Company Trustees' Letter

### 1. Background

This letter, also to be included in the relevant GIG annual report, sets out GPC's assessment of how GIG has performed against the five green purposes. It covers investments in the UK and Europe for the financial year 2018/19.

The GPC has reached its views informed by regular meetings with GIG's senior management, reviewing substantive information provided by GIG, individual work by the Trustees, and specialist consultancy research and support. Our areas of particular interest are set out below.

### 2. Green Assessments

The principal assessment of GIG's investment performance against the five green purposes is made with reference to the information provided to us by GIG and this Progress Report, including GIG's Green Impact Statements.

We commend the published commitments behind GIG's assessment methodologies as set out in their Green Investment Policy, Green Investment Principles and Green Impact Reporting Criteria. The positive attributes of this approach as highlighted in our letter last year endure, and we have no doubt that the GIG assessment methodology remains one of the most comprehensive available in the market.

Our attention this year is whether the outputs meet reasonable expectations from GIG's comprehensive approach and allow GPC to fulfil its role in confirming investments made are consistent with the green purposes. Three areas give us cause for concern and we look forward to encouraging GIG to find ways of addressing these:

**Transparency** – GIG state under their principle of transparency in their Green Investment Policy “*We expect specific exclusions or inclusions of information to be clearly identified and assumptions explained, and appropriate references to be provided for both data and assumptions*”. We would like the same transparency objectives to be applied to their own reporting, including by utilising independent assurance to ensure that green impacts claimed are robust and deserve the confidence of the market. Published green impact reporting on all investments at the time they are announced would also be welcomed.

**Using the latest available data** – Last year GPC highlighted the opportunity to use more refined forecasting of estimates of carbon savings where data permit. GPC recognises the balance between GIG's principles of consistency and accuracy, but the divergence between GIG's adopted data set and the latest UK and European country data for calculating carbon savings is widening. GPC believes the continued use of these criteria risks over-estimating the actual green impacts. If not addressed in the future this has the potential to make investments in some technologies (such as electricity only Waste to Energy plants) become incompatible with GIG's own green investment policy and principles.

**Reporting against all 5 Green Purposes** – GIG’s published green impact reporting, including in this report, focuses only on the first two purposes, greenhouse gas emissions and natural resource efficiency. The statements made regarding the remaining three purposes are limited and opaque. We welcome GIG’s active interest in future investment to deliver all five green purposes, but believe now is the time to review the methods to address all five purposes in readiness of a broader investment portfolio in the future. There is also an opportunity to remove the risk of perceived double counting with the current set of metrics.

### **3. External Green Assurance**

This report contains the statement from GIB’s independent Green Assurers who have verified that the assessment of green impacts from GIG’s investments have been made consistent with GIG’s published approach, based on good quality data. However as noted above, where confidentiality constraints prevent publishing explanation of the sources and assumptions in the data, GPC feels that independent assurance processes should seek to plug that gap.

### **4. Investment Strategy**

GPC has welcomed public statements in this report and elsewhere of GIG’s new emphasis on development and helping create investible projects. This could also help broaden the types of green investment made. Whilst major capital investments reflecting this approach are in the future, GPC believes GIG’s commitment to development is substantial, sustained and across a range of technology types.

### **5. Thought Leadership**

We commend the GIG for remaining committed to thought leadership through its input to several public activities, to the investment community, and a wider influence through its parent Macquarie; supporting Shemara Wikramanayake’s new roles on the Global Commission on Adaptation and the Climate Finance Leadership Initiative being an example.

### **6. Innovation**

In terms of technology innovation, GIG’s UK and European portfolio remained disappointingly narrow, consisting of on-shore wind and energy-from-waste. Globally, including through UK Climate Investments, a wider range of technologies have been involved such as solar and battery storage. GPC hopes that the development focus will see a similar broadening of opportunities, ideally across all 5 green purposes.

In terms of financial innovation the expansion of power purchase agreements to leverage new developments and to purchase and revitalise ailing investments is demonstrating market leadership. We would encourage GIG to consider how it can further support earlier stage and innovative projects which might not otherwise attract investment from more traditional providers.

### **7. Investment Record**

We are pleased that GIG has published its assessment method to measure against the £3 billion commitment made in April 2017. Using this methodology GIG has invested in UK and Europe, during its first full financial year (to 31 March 2019), just under £1bn (over 50% in the UK, nearly 25% in the rest of Europe and the balance in the rest of the world, including UK Climate Investments). It is clear that the £3bn commitment equates more with the former disclosure of investment + co-investments (by GIB) and includes both direct and arranged investment by GIG.

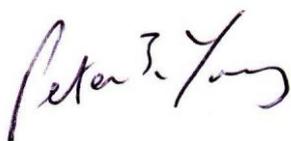
## 8. Divestments

GPC is interested in the treatment of divestments in green impact reporting. We welcome the clarity on how these are dealt with in this report and GIG's Green Impact Reporting Criteria. GIG recognises the precedent set in allowing lifetime claiming of green impacts from sold assets risks double counting, if others adopt the same methodology. GPC wishes to see greater clarity between contributions from investments when held and after sale in the aggregated figures presented here and elsewhere. GPC also have concerns that current lifetime impact calculations discussed in 2. above could lead to permanent and material over-estimates remaining in the green impact reports, if green impact estimates for recent projects were not re-evaluated. We look forward to working with GIG in their development of these emerging reporting methods further. Our aim would be to achieve the same surety as for financial statements, noting that retention of value on the company balance sheet is not allowed after sale of assets.

## 9. Forward Look

We have indicated areas of focus for GPC going forward. We hope the new advisory services being operated by GIG in the UK and Europe and the broadening of technology types will become more evident, and that GIG's commitment to green impact reporting will allow continued improvement. Further enhancement of green impact reporting will build investor and market confidence in the value of such reporting, and in ensuring green investments deliver on all their promises.

Peter J Young

A handwritten signature in black ink, appearing to read 'Peter J. Young', written in a cursive style.

Chair, for and on behalf of the Trustees  
Green Purposes Company  
25th September 2019