

GREEN PURPOSES COMPANY: ANNUAL LETTER 2020

Introduction

This is our third annual letter in which we comment on GIG's performance against its five green purposes. The letter addresses GIG activities in the UK and Europe and is for the financial year 2019/20. We enjoy a constructive relationship with GIG and have been encouraged by actions taken and commitments given in response to concerns raised in our 2019 letter. This year we draw attention to areas where we believe GIG can further strengthen its performance. We confirm that no request to change the green purposes has been received since our last letter.

Investment Strategy

GIG is now a leading investor globally in projects that are driving carbon emission reductions. This is strong and important progress. However, GIG has five green purposes, of which we are the guardians. Together those five purposes cover a wide environmental spectrum beyond climate change mitigation. GIG, through its expertise and the resources of Macquarie, has a unique opportunity to drive forward the development of green finance products in areas such as nature-based solutions, the reversal of bio-diversity decline, and the wider provision of eco-system services. We accept that these are still frontier areas but in five or ten years they will become mainstream. GIG has the potential to bring these timescales forward and in doing so lead the market. We believe this is entirely consistent with GIG's mission to 'accelerate the green transition', and with global efforts to tackle the climate and environmental crises.

Green Impact Reporting

GIG operates a Green Governance Framework to ensure compliance with, and to measure impact against, the green purposes. This governance framework remains one of the most comprehensive available in the market and we are pleased that GIG applies it to all global activity undertaken using the GIG brand, something that goes beyond the special share arrangement which applies to the UK and Europe only. Furthermore, it is encouraging that GIG has improved the transparency of its green impact reporting, for example the clear presentation of all five green purposes on page 34 of this report, and that it commissioned an independent review of its approach.

Nevertheless, best practice in green impact reporting continues to evolve across all markets. As such, it is important that GIG continues to develop and strengthen its methodology to ensure it is robust, deserves the confidence of the market and demonstrates leadership. To this end, we encourage GIG to take steps in four areas:

1. GIG has a robust methodology with quantified metrics for green purpose no.1, the reduction of greenhouse gas emissions, and we welcome the use of updated IFI (International Financial Institution) data since our last letter. However, in order to provide greater confidence in emissions savings estimates, we would continue to

encourage sensitivity analysis using more up-to-date national data sets where these exist.

2. We are concerned that for green purposes 3, 4 and 5, GIG's assessments are largely qualitative and we would encourage the development of robust methodologies and metrics for these, drawing on best practice and standards that are already in use elsewhere. In doing so it will be important to ensure transparency of the methodology and data sets used such that the impact of an investment on any of the green purposes is readily verifiable, something that is not currently possible.
3. We encourage further consideration of the inter-play between the green purposes. This includes the risk of double counting impacts, and the process and criteria for determining whether an investment which contributes to one or more green purpose should go ahead, despite it having a detrimental impact on one or more of the other green purposes. In such circumstances we would like GIG to seek to improve overall project outcomes through proactive interventions that require project developers to go beyond regulatory-driven compliance to deliver clear net benefits.
4. We are pleased to note the success of GIG's advisory services. As these mature we believe they should be brought fully within the scope of the green impact reporting arrangements such that their contribution to the green purposes can be readily understood.

External green assurance

As noted above, we commend GIG for undertaking an independent review of their Green Investment Ratings methodology and for sharing this with the GPC. Many of the observations made in this review chime with our own, and we encourage GIG to take forward the key recommendations. To this end we would be pleased to work with GIG to further clarify the meaning of those green purposes that are currently open to wide interpretation.

Innovation

While investments over the year were restricted to a limited range of established technologies, there is welcome evidence that GIG is broadening its approach, bringing in expertise in new technologies together with innovation in project design and financing structures. Again, we would encourage innovation in some of the more challenging areas of green investment such as in nature-based solutions as noted earlier in this letter.

Thought leadership and influence

We are pleased to note GIG's continued thought leadership and influence through engagement with governments, private sector and other organisations. Examples include supporting the development of green finance in developing countries, and the launch of the GIG Carbon Score tool in partnership with BloombergNEF. The Macquarie GIG Green

Energy Conference has become a key event on the green finance calendar and GIG's advisory services have influenced thinking in those organisations with which it has engaged. Significantly, this includes the wider Macquarie Group which is now more actively engaged in the green agenda and this also helps strengthen the integrity of the GIG brand.

Investment record

There was a significant uplift in investments over the reporting period, with 12 investments totalling £2,302m of which £2,034m was in UK and £268m in the rest of Europe. The increased level of investment is welcomed, and it is noted that GIG will exceed its first three years commitment for £3bn of new investment, either directly or by arranging capital from other investors, in the UK or Europe.

Divestments

We welcome the further clarification that was provided subsequent to our 2019 letter on the accounting treatment of divestments and the commitment to re-examine the green impact for all investments, including ones from which GIG has divested, should GIG become aware that the estimated green impact is likely to have materially changed. There nonetheless remains a risk of double-counting of the green impact of an investment should a new investor(s) claim the same project benefits after GIG has divested, and GIG may wish to draw attention to this point when reporting.

Forward look

The COVID-19 pandemic was just taking hold at the end of the reporting period covered by this letter and we commend the efforts of GIG to minimise the impact of this on its activities and on green finance more generally. We look forward to working with GIG over the year ahead, including providing our input and support in the areas of attention we have highlighted in this letter. In acting on these points we believe GIG should be able to strengthen its market-leading position in the provision of green finance.



Trevor Hutchings
Chair, for and on behalf of the
Trustees of the Green Purposes Company

11 September 2020