IIGCC

Institutional Investors Group on Climate Change

RETROSPECTIVE POLICY CHANGES DAMPEN APPETITE FOR LOW CARBON INVESTMENTS

Research finds that 90% of asset managers are deterred by lack of long-term policies

30th September 2010: Institutional investor appetite for low carbon investment opportunities is being significantly dampened due to retrospective policy changes at Member State level. This is the key finding of research conducted by Norton Rose on behalf of the Institutional Investors Group on Climate Change (IIGCC) to ascertain the effectiveness of the EU's policy framework in attracting private sector investment to achieve its climate goals.

According to the research , published in the IIGCC paper: *Shifting Private Capital to Low Carbon Investment: An IIGCC position paper on EU climate and energy policy*, 90% of asset managers interviewed said that changing policy and retrospective policy making in the absence of guarantees for grandfathering of existing investments is a barrier to investment in renewable energy. Other barriers to investment included permitting and planning problems (55%) and grid access and grid infrastructure issues (45%).

Ole Beier Sørensen, Chairman of IIGCC, said: *"Investments in renewable energy projects are very long-term and generally only possible if assisted by policies that support a relatively safe long-term assessment of expected risks and returns. Where the credibility of support mechanisms for existing investments is called into question, future private investment in renewable energy and other climate relevant activities will be severely curtailed or there will be the risk that the price of raising capital for these investments will increase. "*

In terms of specific investment products, the research found that the EU ETS has not yet provided investors with the strong, long-term price signals that are necessary to commit to long-term low-carbon investments at scale. Less than 10% of respondents said that the EU ETS has provided a strong enough price incentive to switch from carbon-intensive to less carbon-intensive investments. In addition, not one respondent felt that the EU ETS had provided long-term price signal certainty.

Despite this negative outlook however, 63% of respondents said that setting caps lower and sending the carbon price higher was amongst the measures that would incentivise low carbon investments, while 50% of respondents saw a long-term and detailed roadmap out to 2030, even in the absence of international action, as one of the most important drivers for incentivising a shift in investment sentiment.

Johan van der Ende, CIO of PGGM Investments, who are co-organising a conference in Brussels today to present the report, commented: *"Currently, institutional investors' demand for climate related investments outweighs supply of suitable investments. We already invest in a wide range of low carbon assets like clean energy and clean technology, but we have the ambition to do more. Long term policy and predictable mechanisms supporting low carbon investments are key to restore the balance between supply and demand and accelerate our investments."*

The research also highlighted that the apparent deadlock on whether or not to move to a more ambitious short-term emission reduction target, for example to 30% by 2020, was causing uncertainty amongst investors. While such a target is likely to lead to a higher carbon price as well as stronger incentives for investment, the survey found that most respondents were unable to articulate how they expect a move to a 30% target would affect their business or the market generally.

David Russell, Co-Head of Responsible Investment at USS comments: "*The current uncertainty surrounding the emission reduction target, including potentially raising the target, is hindering the predictability of carbon prices and therefore investment decision-making across assets affected by climate policy. Whilst a unilateral move by the EU to a more ambitious short-term emission reduction target would have positive implications for the carbon price and stronger incentives for companies and investors to shift into less carbon intensive investments, it is essential that there is a better understanding of the implication of such a move before the decision is taken."*

Rob Lake, Head of Sustainability at APG Asset Management said: "*Estimates suggest that around 85% of the capital required to put us on a low carbon growth path must come from the private sector. Only EU driven frameworks that are clear and long-term and are supported by a broad package of policies and market-based mechanisms, will be able to deliver the confidence needed to attract investment into a low carbon economy. It is essential that the EU meet this challenge head on and provide the conditions for this to flourish."*

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NOTES TO EDITORS

About the Institutional Investors Group on Climate Change (IIGCC)

The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration on climate change for European investors. IIGCC's ambition is to provide European investors with a voice on climate change and engage with companies, government and investors on addressing long-term risks and opportunities associated with climate change. The group currently has over 60 members, including many of the largest pension funds and asset managers in Europe, representing assets of over €5trillion.
In detail, the IIGCC's objectives are:

- To encourage public policy solutions that ensure an orderly and efficient move to a low carbon economy and adaptation measures which are consistent with long-term investment objectives.
- To encourage a pro-active approach on climate change amongst asset owners and asset managers in order to preserve and enhance long-term investment values.
- To improve company disclosure and performance on climate change.

The report entitled "Shifting Private Capital to Low Carbon Investment: An IIGCC position paper on EU climate and energy policy sets out a series of recommendations prepared by the Institutional Investors Group on Climate Change (IIGCC) on the additional policy steps that the EU can take to unlock the significant flows of private capital that are necessary for the transition to a low carbon economy. It can be found at www.iigcc.org .

IIGCC Membership, September 2010

Alfred Berg	Ethos Foundation	Northern Trust
Amundi	F&C Management Ltd	Osmosis Investment Management
APG Asset Management	First Swedish National Pension Fund	PGGM Investments
ATP	Fourth Swedish National Pension Fund	PKA
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BBC Pension Trust	Greater Manchester Pension Fund	Schroders
Bedfordshire Pension Fund	Grosvenor Fund Management	Second Swedish National Pension Fund
BlackRock	Henderson Global Investors	South Yorkshire Pensions Authority
BMS World Mission	Hermes	The Church of England Pensions Board
BNP Paribas Investment Partners	HgCapital	The Church in Wales
BTPS	HSBC Investments	The Roman Catholic Diocese of Plymouth
CB Richard Ellis Investors	Hudson Clean Energy	The Roman Catholic Diocese of Portsmouth
CCLA Investment Management	Impax Asset Management	The Roman Catholic Diocese of Salford
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	Invicta Capital	United Reformed Church
Church Commissioners for England	Joseph Rowntree Charitable Trust	Universities Superannuation Scheme
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Co-operative Asset Management	London Borough of Hounslow Pension Fund	
Corporation of London Pension Fund	London Borough of Islington Pension Fund	West Yorkshire Pension Fund
Earth Capital Partners	London Borough of Newham Pension Fund	William Leech Charitable Trust
Environment Agency Pension Fund	London Pensions Fund Authority	
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