

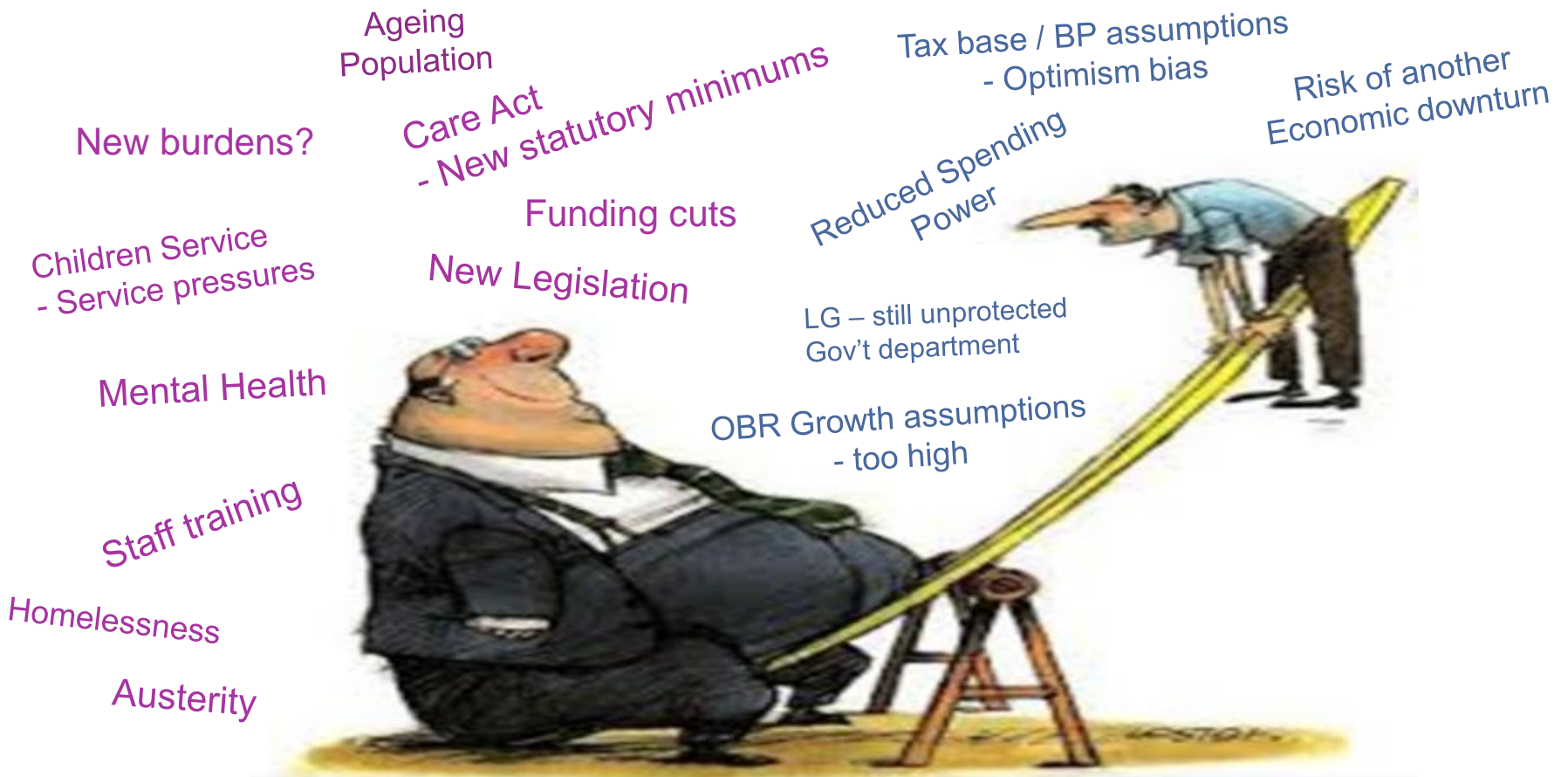
Why Make Investments in Energy and Renewables?

15 March 2019

Energising Local Government

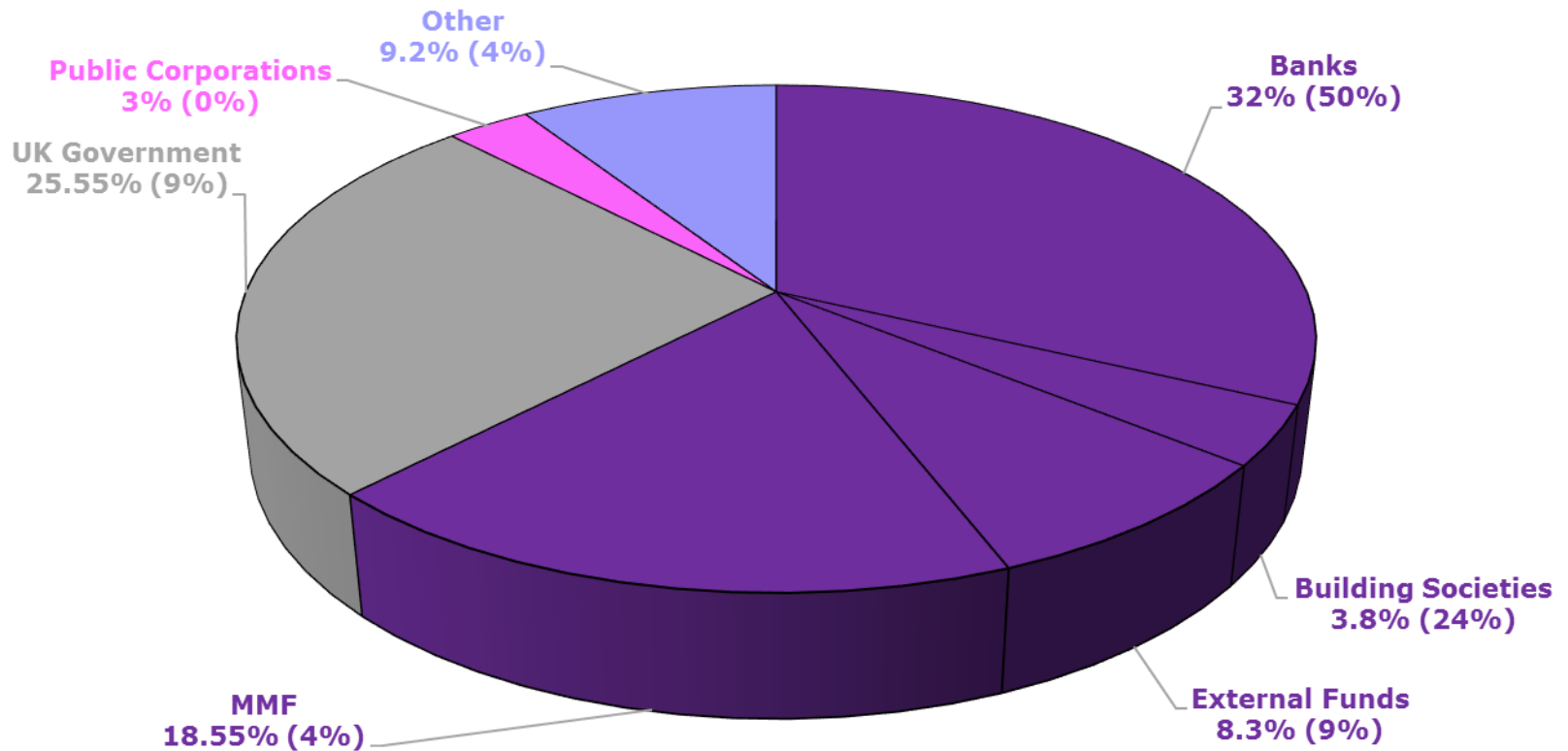
- Investment Opportunities for Local Authorities
- Benefits of Green Investments
- Convincing the decision Makers

Balancing the Budget

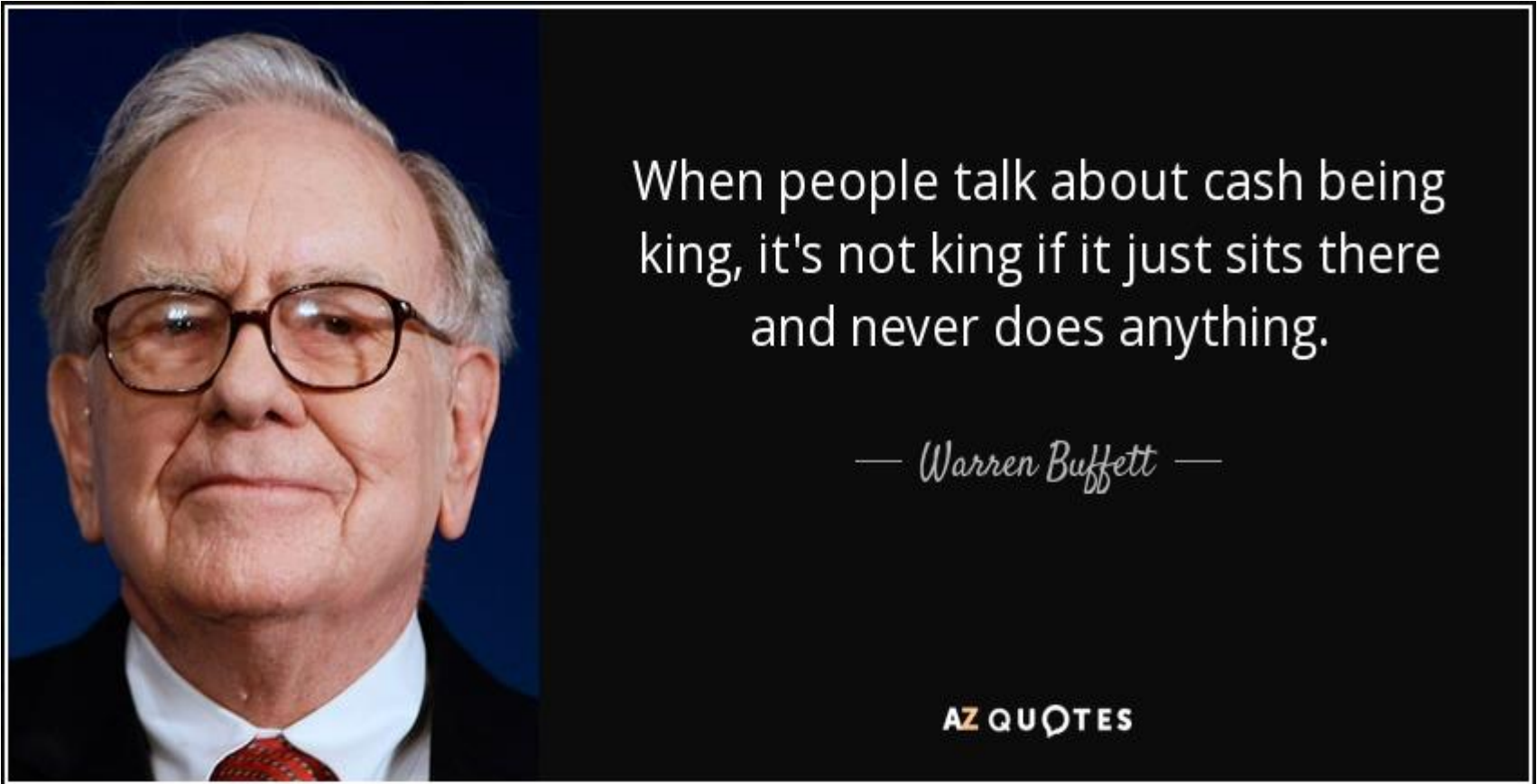


YOUR INTEREST
IS OUR BUSINESS

Local Authority Investments at end of 2018 - £41.5bn

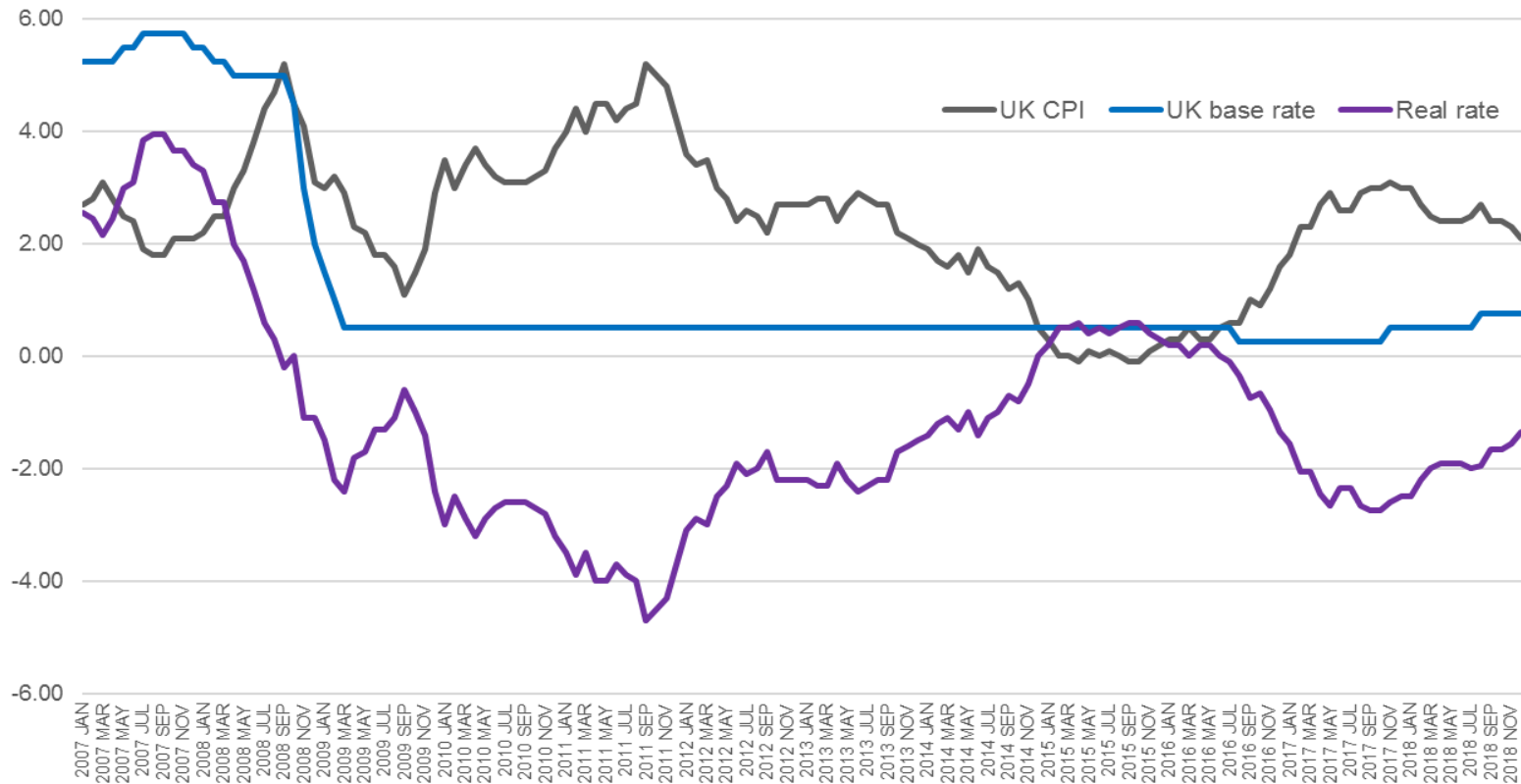


Financial Markets exposure: 62.65% (at 31/03/09: 87%)



Spending power erosion:

Base rate, CPI and real rates since Jan 2006



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The Carbon Clock is Ticking



- World Bank urges spending on 'climate-friendly' infrastructure (Public Finance International 22/2/19)
- Greta Thunberg tells EU: your climate targets need doubling.
- Swede, 16, says EU cannot just 'wait for us to grow up and become the ones in charge'

Just how ethical is ethical investment?

Supposedly environmental stock market indices used to help investors allocate hundreds of billions of pounds in investments include some of the world's biggest contributors to fossil fuel pollution

House of Commons

**MPs debate climate after school strike –
but only a handful turn up**

**Government benches mostly empty for debate inspired by
schoolchildren's climate strike**



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Climate protesters halt Gloucestershire County Council meeting

13 February 2019

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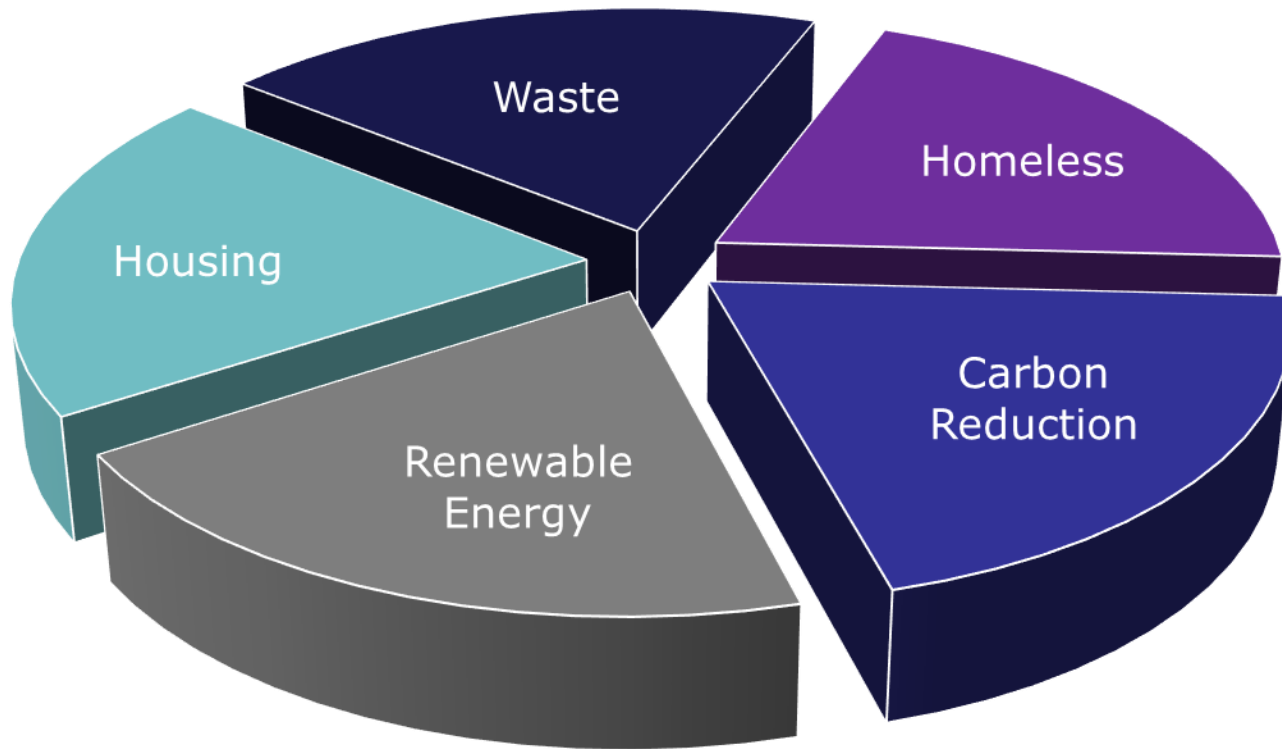
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World Economic Forum – Top 10 Risks Global Risks Report

1. Extreme weather – floods & storms
2. Failure of Climate change, mitigation & adaptation
3. Major Natural disasters, tsunamis & earthquakes
4. Massive incident of data fraud / theft
5. Large scale cyber attacks
6. Man made environmental damage
7. Large scale involuntary migration
8. Major biodiversity loss and ecosystem collapse
9. Water crises
10. Asset bubble in major economy

Investment Options for Local Authorities

Policy Driven Investment



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Investment Strategies

Investment Strategy must be:

- approved by Full Council at the start of each year
- published on website
- linked to Capital Strategy which states clearly whether proposed expenditure is for operational or investment purposes

Investment Strategy must cover:

- all non-cash investments eg
- land and investment property
- loans to 3rd parties

Investment Strategy must explain:

- Risk exposure arising from investment decisions
- How all investments are funded
- Opportunity cost of investments
- Rates of return being achieved

Investment Options for Local Authorities

*" An **investment strategy** is a set of rules, behaviours or procedures, designed to guide an investor's selection of an investment portfolio"*

Local Authorities have different risk appetites that are influenced by a variety of local factors. Key factors are;

- **Trade-off between risk and return.**
- **Direct or pooled investment.**
- **Equity or debt.**
- **Significance of ratings.**
- **Local preferences.**
- **Template counterparty list.**

Bond [definition]

- *'A bond is a fixed income instrument that represents a loan made by an investor to a borrower. A bond could be thought of as an I.O.U. between the lender and borrower that includes the details of the loan and its payments'*

...it's a loan.

Paradox [definition]

[par-uh-doks]

- *A seemingly absurd or contradictory statement or proposition which when investigated may prove to be well founded or true.*

"...it's too good to be true"

In the course of showing asset backed bonds to our customers, we have continually encountered the phrase, "*It's too good to be true*"! - Surely this is an absurd statement that will need investigating.

As our role is not to give advice, but merely present opportunity to investors (as clearly defined by the FCA), we point you to the CIPFA Code of Practice guidance notes. They recommend a Local Authority seek "expert advice" before investing in any such instrument.

For unrated asset backed bonds, expert advice = due diligence

The independent due diligence process will include an investigation into how the business makes money, examine what could possibly go wrong, check the business can afford the dividends, verify the asset backing adequately covers the investment in the event of default and confirm the validity of the security trustee acting on behalf of the bondholders as the entity holding the various security interests.

We cannot fight new wars with old
Weapons.

- **Vinoba Bhave** -

Generating a return

Around 40% of the EU's entire wind resources are available in British waters and will produce over 10% of UK electricity by 2020.

- Opportunity to co-invest with a leading infrastructure fund manager in offshore wind.
- Assets to be managed by a high quality industry operator.

One man's waste...

An operating renewable energy Anaerobic Digestion (AD) plant producing biogas (harnessed by two CHP engines) to supply electricity to over 2,500 homes.

- Guaranteed income streams to 2033 from Government incentives (FIT/RHI).
- Highly efficient Bio-digesters operating 24 hours, 7 days a week.
- PAS110 accreditation for digestate fertiliser, promoted as a stand alone product.
- Innovative and award winning business with flexible feedstock procurement and excellent industry contacts.



Benefits of Green Investments?

Over to You!

Would your Council Benefit from :

- Localised regeneration of distressed housing stock public and private ?
- Environmentally sound housing supply – Including additional units for temporary housing and the under 35's?
- New homes close to jobs and existing physical and social infrastructure?
- More care homes assisted/living spaces to cope with demographic demand?
- Usable capital receipt?
- Asset backed investment yielding 8% (3-5ys)?
- Carbon reduction impact - additional walking and cycling (improved health and well-being) and encourage the use of public transport (less traffic)?
- Potential capital savings through connecting to existing roads and utilities?
- Enhancing the overall quality of the built environment – with the impact of reducing crime through more active frontages and passive surveillance?
- Conserve rural and agricultural land and the consequential environmental, ecological and economic benefits for future generations?



Risk Diversification

...It's not Just about avoiding losses!

- Yield Impact.
- Accounting impact (IFRS9).
- Impact on cost of carry.
- Impact on benchmark: Bank rate v Inflation v Peers.
- Impact on sector concentration.
- Impact on maturity.
- Social / Environmental / Economic impact.
- VFM – Reward for the risks you are taking.

Convincing the Decision Makers

The Business Case

Access to Green Investments?

Does your Treasury Management Strategy or Capital Programme enable the consideration of Alternatives?

A paragraph or two included in the Non-specified section of your TMS is required - Set investment limits and duration. Plus the additional insertion of caveats to subject any 'alternative' investment to expert due diligence and s151 approval.

An opportunity to update the TMS is available in June 2019 with the 2018/19 Annual Review

Member training - MIFiD II FCA qualitative requirements.

With permissions, and incorporating full DD, an investment can be settled within 2 weeks of the initial offer.

Mifid II Qualitative obligations

1. Decision making

All decisions delegated to committee/sub committee.

Partial or full delegation to an officer or officers.

QUALITATIVE TEST

The "qualitative test" requires a firm to undertake an assessment of the expertise, experience and knowledge of the local authority in order for the firm to be reasonably assured, in light of the nature of its transactions or services envisaged, that the local authority is capable of making its own investment decisions and understanding the risks involved.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the question set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for investment management within your authority

Please complete the following section in relation to the decision making body within the authority.

1. Please indicate which one of the models below is used for investment decisions in the authority

a. All decisions delegated to committee or sub-committee.	YES <input type="checkbox"/>	NO <input type="checkbox"/>
(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)	Enclosed <input type="checkbox"/>	Link <input type="checkbox"/>
b. Decisions delegated to committee or sub-committee with partial delegation to an officer or officers.	YES <input type="checkbox"/>	NO <input type="checkbox"/>
(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)	Enclosed <input type="checkbox"/>	Link <input type="checkbox"/>
c. All decisions delegated to an officer or officers.	YES <input type="checkbox"/>	NO <input type="checkbox"/>
d. Other	YES <input type="checkbox"/>	NO <input type="checkbox"/>

2. Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.

Enclosed Link

3. If you have selected model 'd' other' above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

2. Experience, expertise and Knowledge

Are members provided with training on investment matters?

Are members required to complete a self-assessment with regards to their knowledge of investments?

Section 2: Expertise, experience and knowledge

If you answered (a) or (b) in Section 1 Question 1 (delegation or partial delegation to committee / sub-committee), please answer the following questions in relation to the members of the committee or sub-committee (not officers, investment advisors or consultants) which makes investment decisions of behalf of the authority.

If you answered (c) in Section 1 Question 1 (full delegation to officers) to Section 1 Question 1, please move straight to Section 3 and do not complete section 2.

1. Are members provided with a written brief on joining the committee? (Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Enclosed <input type="checkbox"/> Link <input type="checkbox"/>		
2. Are members provided with training on investment matters? (Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Enclosed <input type="checkbox"/> Link <input type="checkbox"/>		
3. Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered	hours delivered
4. Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5. Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6. Are members required to complete a self-assessment with regard to their knowledge of investments? (Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Enclosed <input type="checkbox"/> Link <input type="checkbox"/>		
7. Please state the number of years served on the committee (or other such investment committees) on average for each member.	years	
8. Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee (such as the average number of years of independent investment experience by members).		

3. Investment history and Strategy

Fixed interest securities.

Section 3: Investment history and strategy -

1. Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) - authorised funds (e.g. UCITS, NURS, PAIFs)	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) - unauthorised (e.g. investment trusts, closed-ended real estate funds, hedge funds)	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>
	<input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+	YES <input type="checkbox"/> NO <input type="checkbox"/>

4. Understanding risks

Does the Authority have a framework and/or risk management policy in place?

Are those involved in decision making provided with training on risk management?

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee officers (not investment advisors or consultants) making investment decisions of behalf of the authority.

1. Does the authority have a risk framework and/or risk management policy in place in relation to investments, for example as part of its Treasury Management strategy? (Please tick whether you have enclosed or provided a link to a details of the framework/policy)	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Enclosed <input type="checkbox"/> Link <input type="checkbox"/>		
2. Was external advice taken with regard to the preparation, monitoring and review of the framework/policy? If yes, please provide the name of the advisor:	YES <input type="checkbox"/>	NO <input type="checkbox"/>
3. Is the risk framework/policy reviewed on a regular basis? If YES please state the frequency of the review. (Please tick whether you have enclosed or provided a link to details of the last review)	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Enclosed <input type="checkbox"/> Link <input type="checkbox"/>		
4. Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? (Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Enclosed <input type="checkbox"/> Link <input type="checkbox"/>		
5. Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)	YES <input type="checkbox"/>	NO <input type="checkbox"/>
Enclosed <input type="checkbox"/> Link <input type="checkbox"/>		

Why Make Investments in Energy And Renewables?

- Visible Local Social / Environmental / Economic Impact.
- Reduce dependence on Fossil Fuels / Carbon Reduction
- Fuel Poverty / Cheaper Fuel
- Improve Average Yield On Investment Balances / Inflation Protection
- Diversify the Investment Portfolio
- VFM – Reward For The Risks You Are Taking.

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