Financing Sustainable, Climate Neutral Cities – The role of private investors

9 November 2020
13:00-14:30 CET
Welcome!

There is no lack of sustainable, climate friendly and smart technologies, but there seems to be challenges to implement and upscale them in city structures. Could finance be a barrier?

- Last week: Selected cities share their experiences, progress and challenges in developing a sustainable, climate neutral city; with a specific focus on the financing need and potential solutions for funding.
- Today: different private financial institutions providing their perspectives picking up from the needs expressed in the previous workshop on Financing Sustainable, Climate Neutral Cities
- We (SEI, Cleantech Scandinavia and SSE-SIR Misum) - Viable Cities’ Finance project (2020-2022), funded by Viable Cities
Our panelists today

• Carl-Emil Lindholm
  Director, Infranode

• Heimen Visser
  Fund Manager, PrimeVest Capital Partners

• Helena Olin
  Head of Real Assets, AP2

• Kristoffer Aanerud Nielsen
  Advisor, Climate & Sustainable Finance, SEB
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House rules

- Use the Q&A chat function to post your questions for the Q&A session at 14:00 CET
- Please state your name and organization/country
- Be short and clear
Recap from last week
The City Perspective – Webinar on 2 Nov

**Panelists:**

- **Gustaf Landahl**, Head of Department of Planning and the Environment, City of Stockholm;
- **Frans-Anton Vermast**, Senior Strategy Advisor Low Carbon and Connected Urban Planning, Amsterdam City
- **Bud Braughton**, Smart Columbus Project Manager
- **Serge De Gheldere**, Lead at Futureproofed & Klimaatzaak; Member of the Board and Executive Committee of Leuven2030

**Concluding remarks:**

- National legislation necessary to push sustainable city agenda; but regulatory “holiday” for pilot projects
- From pilot to scaling: private sector to step in; city government facilitator in this
- Combine different investment needs to have more leverage and go to market;
- Finances: financial balance needed (P&L, balance sheet)
- Transportation needs to be tackled – change need for commuting; add broadband; EV and biofuel cars; overcome range anxiety
- Declining and rural cities: help from bigger cities – solutions available for everyone
- Asking for forgiveness instead of permission?
Carl-Emil Lindholm
Director, Infranode
About Infranode

BUY-AND-HOLD STRATEGY
- No incentives to “exit” assets in near-term
- True, long-term partnership approach

ESSENTIAL INFRA-STRUCTURE
- Utilities
- Renewables
- Transport
- Social
- Digital

STRONG INVESTOR BASE
- Capital raised from reputable Nordic institutions
  - Fund I, fully invested of EUR 450m
  - Fund II, target EUR 1bn with over EUR 500m committed

NORDIC SPECIALISTS
- Largest team in the Nordics dedicated solely to infrastructure investments
- Team of 25 spread across local offices in Stockholm, Helsinki and Oslo

11 INVESTMENTS TO DATE

ESG FOCUS

25 YEAR FUNDS
- Partnership focus
  - Trusted partner for the public sector
  - Ability to take majority and minority stakes

TARGET SECTORS

CAPITAL RAISED FROM REPUTABLE NORDIC INSTITUTIONS

LOCAL KNOWLEDGE

INVESTMENTS MADE

INVESTMENT PHASE
- Full ESG review followed by inhouse ESG DD tool
- Active asset management
- Strong commitment where we as board members take responsibility to implement ESG factors in our business plan

ACTIVE ASSET MANAGEMENT
- Strong commitment where we as board members take responsibility to implement ESG factors in our business plan
Heimen Visser
Fund Manager, PrimeVest Capital Partners
Introduction: smart city the netherlands

Dutch municipalities have only implemented 10-15% LED in their public street lighting, whilst the Climate Treaty and the Energy Act require an energy reduction of > 50% in 2030 that will not be reached.


Research done by TNO shows that the public street lighting infrastructure is well positioned to be used as access points to implement future 5G mobile functionalities, the Environmental Act, but also EV charging as well as Smart City sensoring.

SMART City The Netherlands works closely together with the Bank of Dutch Municipalities in the transition towards an innovative & sustainable public lighting infrastructure with the aim to benefit municipalities with additional revenues (instead of just bearing the costs).
To connect 5G / Internet of things in objects in the public space, a combination of fixed and mobile networks of “smart public nodes” is needed.
Potentially they can be used for multiple smart city services

From a single use as streetlight, to multi-functional use for future functionalities
Municipalities must take the lead, otherwise the public space gets ‘out of control’
Transition in the public space in 3 well directed steps

- **SMART LIGHTING**
  - >50% energy savings
  - >15% maintenance savings

- **SMART PUBLIC NODES**
  - Additional revenue potential
  - 5-10% streetlights adoption

- **SMART CITY**
  - Growth potential Smart City
  - Control & ownership by municipality
THE “SMART city” partner model

Smart City Municipality X

Municipality X

Services agreement for Smart Lighting, Elektricity grid, Environmental Act, EV charging, WiFi, Camera surveillance, Outdoor media, Crowd control, etc.

Financing

Acquisition, advice & asset management

Back-to-back agreement

Technology & Service partners

- Infrastructure positioned apart from the services on top of infrastructure
- Best-in-class technology partners for maintenance, management and exploitation
In the neutral smart city model > 35 strong partnerships with municipalities, economic boards, application and technology partners.
Innovative realization of additional revenues

Acceleration of sustainability goals

Control & ownership of public space

“Smart” alternative financing
Helena Olin
Head of Real Assets, AP2
AP2 in brief

Andra AP-fonden (AP2) is one of five buffer funds within the Swedish pension system, and one of northern Europe’s largest pension funds.

The Fund manages SEK 381.3 billion in virtually all asset classes, all over the world.

We are leading specialists in the Swedish pension system and seek to be a world-class asset manager.

We are a global leader in integrating sustainability in our investments, for the benefit of the pension system.

The Fund is a long-term and responsible asset manager.
AP2s mission

• Manage the fund assets in such a way that they become the greatest possible benefit for the insurance for income-based old-age pension.

• To manage fund funds in an exemplary manner through responsible investments and responsible ownership. Particular emphasis shall be placed on how sustainable development can be promoted, without sacrificing the overall goal of being of the greatest possible benefit to the pension system.
Sustainability strategy

**Investment beliefs**

- Solid analysis of the pension system central to the strategy choice.
- Systematic risk-taking is required.
- Diversification reduces the risk.
- Active management creates added value.
- **Sustainability pays off.**
- **Climate change is a systemic risk.**
- Long-term assignments provide special opportunities.
- People and culture are critical to success.
- Stable processes are a prerequisite for good results.
- High cost efficiency gives better results
Principles

1. AP2 integrates sustainability in all investment processes.
2. AP2 actively seeks for investments that contribute to sustainable development.
3. AP2 works on the basis of the focus areas.
4. AP2 uses dialogue as a tool.
5. AP2 takes a scientific approach.
6. AP2 seeks to be a leader within sustainability.
Focus areas

World-class management

Climate

Corporate governance

Diversity

Human rights
Kristoffer Aanerud Nielsen
Advisor, Climate & Sustainable Finance, SEB
SEB’s milestones in Sustainable Finance

Our journey

- 2008: The World Bank issues the first green bond for institutional investors.
- 2008: Göteborgs Stad issued the first green bond by a municipality, assisted by SEB.
- 2013: SEB and Germany through GIZ form a strategic alliance to support green bonds in developing economies.
- 2014: SEB launches Green Mortgages for retail clients.
- 2015: SEB helps Vasakronan issue the first green bond for institutional investors.
- 2016: SEB leads ICA/GBP’s working group on external reviews.
- 2018: SEB signs the UN principles for responsible banking.
- 2019: SEB invited by the Chinese Premier Minister, as only financial institution to participate in the annual foreign expert symposium.
- 2020: Sweden National Debt Office selected SEB as green structural advisor for an inaugural green sovereign bond.
Sustainable Finance by the numbers
Development of the global green / sustainable debt capital markets

![Graph showing the development of green and sustainable debt capital markets from 2012 to YTD 30 Sep 2020.](image)

- **Green bonds**
- **Sustainability bonds**
- **Social bonds**
- **Sustainability linked bonds**
- **Sustainability linked loans**
- **Green loans**
Sustainable Cities Report
Comparative analysis of six cities and identification of best practice

Every city in this case study is a leader in sustainability for their respective regions, and most rank at the very top of most measure of urban sustainability. Each city was ranked based on their performance compared to the five other cities in this report across the eight categories Housing, Transport, Waste, Food, Water, Energy, Digital Space, and Social Equity and Public Access.

**Singapore**
Stronger Areas: Housing, Transport, Waste, Digital Space  
Weaker Areas: Water, Food, Energy and Public Access

**Stockholm**
Stronger Areas: Housing, Energy, Transport  
Weaker Areas: Water and Social Equity

**Copenhagen**
Stronger Areas: Waste, Housing, Transport, and Social Equity  
Weaker Areas: Water and Digital Space

**Toronto**
Stronger Areas: Water and Digital Space.  
Weaker Areas: Housing, Waste, Public Access and Transport

**New York**
Stronger Areas: Water, Transport and Digital Space.  
Weaker Areas: Waste, Housing.
Sustainable Cities Report

Key Findings

1. Technological innovation has made the future direction of cities uncertain, generating a bottleneck for sustainability investment strategies.

2. There is a strong correlation between high ratings on social sustainability and ecological sustainability, possibly because social exclusion generates resistance towards changes, so to sustain an urban green transition, cities have to be inclusive enough that each citizen takes ownership of the common space.

3. The most common denominator for leading sustainability cities is extensive investments in a smart-city infrastructure that can collect real-time data on sustainability challenges (e.g. energy surveillance, waste streams, air and water pollution, or traffic movements).

4. Cities incentive structures for private contractors are crucial for sustainability.

5. Systemic, rather than project-based, sustainability initiatives is the foundation for implementing technologies necessary for sustainability excellence.

Source: SEB report on Sustainable Cities
Conclusion
Concluding remarks

- Large investment needs – fund new infrastructure + refurbish infrastructure built in the 60s-70s. Too often municipalities are focused on their existing financing needs and existing costs. There is a need to be more forward looking on the scale of funding needs.

- Need to embrace new technologies and also new business models and ownership structures - how can cities find new revenue streams from sustainable infra investments, be smart about partial or whole private ownership that maintains responsibility/control of authorities? Assess future functionalities of assets - use this to change capex needs to opex savings

- Return on investments depends on risk with the investment – additionality required, new investments needed for private financiers

- Need to create an incentive for LGs to step into neutral entities – special purpose vehicle/neutral entity that contracts all partners. Private-public partnerships, - good if these are facilitated by a neutral player or coordinating actor. Kommuninvest has been a great model for Swedish municipalities and green bond issuances.

- Cities need to move beyond the existing model of doing everything on their own. Partnerships with private investors can bring in new funding but also expertise in a number of areas that can support city capacity. Different cities have different levels of competency on these issues.

Next sessions: More info: https://smartcityscandinavia.com/

- November 16: Funding mechanisms – moderated by Astrid Nilsson, Research Associate, SEI
- November: 16: The business case for sustainable cities finance – moderated by Fedra Vanhuyse, Head of Societal Transitions and Senior Research Fellow, SEI
Thank you!