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Investing in infrastructure debt through a climate impact strategy

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Last year, LBP AM launched its first impact strategy in real and private assets, classified under article 9 of the SFDR regulation.

The aim ?

To contribute to the Paris Agreement's objective of limiting global warming to well below 2°C by reducing greenhouse gas emissions through long-term investments in infrastructure and more specifically in low-carbon or decarbonizing technologies.

Why focus the strategy on climate

A rapidly expanding universe, not only due to the central role innovation plays in climate topics but also because it benefits from public support, including the NextGenerationUE stimulus plan.

Far from being a mere opportunity, this decision was a natural consequence of the dual expertise developed over time by our infrastructure debt team:

- On the one hand, a good knowledge of the targeted sectors of activity through the deals already completed in the past and.
- On the other, the mastery of transparent and proven impact tools and performance indicators.

A Legitimacy acquired over time

This climate impact strategy is the culmination of a process that our management team began very early on. Very early on we became aware of the risks associated with climate change in our asset class, and we have therefore developed a real commitment to this issue because we are firmly convinced that we all have a role to play in this challenge.

As early as 2016, we integrated extra-financial considerations into our financing by setting up a grid for analyzing transactions according to environmental, social and governance (ESG) criteria, and then we developed impact reporting tools. .

For example, we have partnered with **Carbone 4** to develop non-financial indicators on assets. We have also participated in several market initiatives on impact and climate change, such as **Finance for tomorrow**, **PRI** and **CDC Biodiversity. .**

A good knowledge of the relevant businesses in the framework of a climate strategy

This awareness has enabled us, within the framework of pre-existing funds, to apply financing in sectors such as renewable energies (solar energy or off-shore wind power) but also in areas that are off the beaten track in asset class, such as biomass, electric charging stations or smart electrical network.

We therefore have a very good track record in terms of investment in these sectors, as we have already completed 30 transactions in Europe in this type of activity, for a total of 1.3 billion euros.

A solid and enforceable basis for defining impact

by Frédéric Lowe, SRI analyst at LBP AM

LBP AM's SRI solutions team has developed an eligibility grid to determine whether a strategy or a fund can be defined as «impact».

This grid is based on the three axes of impact finance, namely intentionality, additionality and measurability.

On this basis, 15 qualifying questions have been formulated based on several reference frameworks, in line with the highest level of requirement. These questions include:

- What is the environmental or social issue to which the strategy intends to contribute?
- What are the means implemented by management to generate impact?
- Has a consistent measurement indicator been identified at the fund level to measure impact?

To qualify as an impact strategy, all of these questions must be answered in the affirmative.

Implemented at the end of 2020, this tool was used for the first time for the climate infrastructure strategy. It is intended to be used for all LBP AM funds wishing to be qualified as «impact», regardless of the underlying assets.

A transparent approach

Our strategy is to finance pure players whose technologies and/or products are already climate efficient (low-carbon or decarbonizing) to ensure a real impact on the climate.

Starting point to select investment universe: Identification of the main sources of greenhouse gas emissions in Europe, namely primary energy production and the use of this energy, primarily in transport and building.

In a second phase, our team determined the type of eligible infrastructure, based on the new European taxonomy...

...classified in three segments:

Solutions to decarbonize the energy mix

⇨ *Irenewable energies such as solar energy, wind turbines or geothermal energy, and the circular economy*

Transport electrification

⇨ *rail, charging stations for electric vehicles, etc.*

The reduction of energy consumption through energy efficiency

⇨ *for example storage solutions or smart grids*

Impact is measured, for each asset and for the portfolio as a whole through three key performance indicators:

- **the percentage of revenues aligned with the taxonomy,**
- **the carbon footprint,**
- **the alignment with the 2°C global warming scenario.**

What types of funding are targeted?

Our strategy aims to finance both infrastructure projects and corporates, provided their risk profile remains compatible with that of the asset class (long-term assets essential for communities, visibility on cash flows, etc.).

The strategy focuses on projects in the construction phase (greenfield) as well as on infrastructures in operation (brownfield).

The range of transactions envisaged is ultimately very diversified: solar panel parks, operators of electric charging stations, and railway rolling stock companies. **The strategy covers primary financing, refinancing and acquisitions.**

We are intent on deepening our understanding of the universe in the best possible way, within a reassuring framework thanks to the application of very strict granularity and diversification rules.

Strategy in brief

Target size of the fund

€500 million

a first closing having already taken place for €270 million.

Average life span

8 to 10 years

Margin target between

250 & 275

basis points above Euribor Mid-Swap*

Target weighted average portfolio rating

BBB-

(with a minimum rating of BB- required for assets)

*Note: this objective is slightly higher than that of the last diversified strategy launched by the team, thanks in particular to the strong positioning on the EEO theme and to the geographical and sectoral diversification.

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