

## **PRIVATE EQUITY GREEN REVOLVING FUND – pGRF**

*Benefiting educational institutions at the primary, secondary, and tertiary levels*

### **Proposal**

A current trend for universities is investing in Green Revolving Funds (GRFs), or funds that invest in renewable energy and energy efficiency projects. These funds allow universities to upgrade older buildings, and then reap the benefits of lower energy costs. The high preliminary infrastructure improvement investments are then paid back over time using these energy savings.

In the past three years the number of GRFs at universities has quadrupled according to the Sustainable Endowments Institute (SEI), adding 37 new funds between 2008 and 2011. Their report analyzes 52 institutions with GRFs, and reports a range of return on investment between 29% and 63% since inception for various funds. The initial investment in GRFs varies - from less than \$100,000 to over \$1,000,000 - however the initial fund size does not seem to hinder the potential to generate above average returns.

While universities have been adopting GRFs at an accelerated rate, this trend has not yet been adopted by the private market. This is a huge opportunity, as these funds currently generate substantial ROI, which can only be improved upon as new, innovative energy efficient technologies are developed. While other institutions may be hesitant to adopt these technologies on their own, a fund that finances these activities would be handsomely rewarded through repayment with energy cost savings.

We propose to set up a private equity fund that works in a similar fashion to a GRF. Our fund would initially target private and public educational institutions at the primary, secondary, and tertiary levels of education interested in reducing their environmental footprint, while capitalizing on the reduced energy costs resulting from infrastructure improvements. Schools would benefit from external funding to improve their facilities, while repaying this debt with energy cost savings. Many school districts have large, older buildings in need of repair that could significantly reduce their energy costs with a few relatively easy improvements to lighting and insulation.

### **Strategy**

The Private Green Revolving Fund (pGRF) seeks an initial capital investment of \$50mm in order to invest in large scale projects, with modern yet proven energy reduction technologies. Established energy reduction technologies include using improved light bulbs, installing low flow showerheads and faucets, improving insulation, and upgrading windows and doors. While these methods are not as flashy as long-term projects such as solar panel installations or wind turbines, they reduce energy costs, can be significant given the scale of investment, and have generally short repayment periods.

### **Fund Structure**

Our fund will target an initial capital raise of \$50mm (large enough to have an impact) and maintain an investment mandate of efficiency and innovative projects ranging from \$25m to \$5mm (small

enough to include the underserved). Our private equity fund will allow private and public capital to partner in an investment vehicle which is liquid (quarterly redemption policy), has a competitive fee structure (less than \$5mm 2.0%, \$5mm to \$25mm 1.5%, \$25mm or more 1.0%), competitive incentive fee (10%) and a diversified opportunity set of investable projects. Relative to GRFs, this model will provide superior access to long-term oriented investors (Public Pension Funds, Private Pension Funds, Endowments, Foundations, Private Businesses, and High Net Worth Individuals) seeking to invest in a diversified portfolio of Sustainability Projects without sacrificing ROI.

Our fund will also be among the first funds dedicated to investing in and providing capital for sustainable projects at multiple private and public educational institutions at the primary, secondary, and tertiary levels. Creating an environment where the beneficiaries of our investments (our partners) will not only provide strong returns from the projects but also provide a platform for student involvement and education that will instill strong sustainability habits in thousands of students.

### **Return Objectives**

Professional investment managers make capital allocation decisions based on the relative expected return of one asset class with that of another, while investors evaluate quarterly and annual returns on an absolute basis. Therefore, our annual return target is 7% plus inflation (CPI). This will also serve as the incentive fee benchmark. We will use two methods for capturing returns – a loan method for shorter term projects, and a percentage (75%) of savings method for longer term projects. According to SEI's 2011 GRF survey, the median ROI of respondents was 32% - significantly above average broad market returns equity. This creates a significant margin of safety for us to achieve our target return.

### **Implementation**

The most difficult part of implementation will be to accurately report dollar amount energy savings from investments. Data would have to be analyzed before the projects are implemented and aggregated to get average energy usage. Because utility prices constantly fluctuate, each month energy savings must be calculated based on usage savings, taking into consideration current utility prices, taxes, and new fees to accurately determine how much money was saved. Because monitoring a wide variety of projects would be time consuming and costly, initially investments will be focused on a few core technologies, however, a team will be assembled to constantly monitor new technologies, and model the cost to savings benefits of their adoption.

### **Environmental and Educational Benefits**

Along with the obvious environmental benefit of reducing energy use, this project has the added benefit of becoming a driver for environmental education. Schools receiving loans have an opportunity to incorporate the energy saving techniques and technologies into the classroom. For example, teachers can help students conduct energy audits before and after projects are implemented, providing a practical platform for science and math education.