Sustainable Finance Strategy – Feedback on Consultation Paper November 2023

Submitter: Resident Capital Pty Ltd.

Submission & Proposal: Pillar 3, Priority 10: Catalysing sustainable finance flows and markets.

Addressing Discussion Questions:

1) What role can the CEFC play to support the scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious sustainable finance agenda?
2) What are the key barriers and opportunities for the CEFC to support finance and market development in areas with significant climate co-benefits, including nature and biodiversity?

Relevant Expertise for Submission – Infrastructure – Resilience - Community

1) Innovation in infrastructure investment funds for domestic and global institutional investors – equity & subordinated debt. Including for the world's first and largest subordinated global infrastructure debt fund series – strategy, build, launch.
2) Blue chip finance sector employers, with domestic and global product development and business building responsibilities. Achieved scale at proposed strategy target size.
3) Consultation to the CSIRO Enabling Resilience Investment Team (2022) on financing pathways for resilience investment, with a micro grid case study based on Cobargo.
4) Innovating proactive community engagement with property planning authorities.

Framing of Response

1 As per this Consultation Paper – The CEFC 'has worked alongside investors, innovators and industry to drive emissions reductions and sustainable investment across our economy.'

Nature of Investment Catalysed	Total project returns at nominal investor targets for category (stand-alone or post government grants), however not meeting risk adjusted thresholds, for example due to: • uncertainties of technology & markets; • lack of history of operation for contracting parties; and • newer regulatory authorities & supervised activities.
Aided Capital Formation	Increased certainty of project completion through: • providing an element of funding, reducing equity & debt required; • demonstrating confidence in the investment through its credibility in assessing project economics; and • creating novel agreements and processes
Enhanced investor returns	Reducing equity 'cheques', concentrating return over smaller investment; and Providing a greater capital buffer for debt investors reducing assessed risk.

Many resilience, climate adaptation and emission reduction projects would be investable at a project level if all beneficiaries were captured, but miss with measurable IRR's of 5% to -15%.

How can the CEFC and government as an investor facilitate investment that assesses nature and biodiversity, avoided costs, future tax and levies and community resilience alongside investment return objectives to innovate financial solutions?

Proposal: Specific investment strategy -presented at concept level. **10 Yr FUM target: $10-100b.**

Case Study: Strategy implementation example for $1b target size fund based on a national resilience challenge available for review on request.

Sustainable Finance Investment Challenge

Key Assumptions

- Investment has a role in mitigating the impacts of extreme climate events and a hotter future for nature, biodiversity, individuals, corporations and governments.
    - The need for investment in climate adaptation, resilience and emission reduction is substantial and urgent.
    - Target capital formation is slower and lower than required.
- Government is exposed to outsized environmental, physical asset, social recovery & reconstruction costs as the provider of last resort and for much of the mitigation investment.
- Many projects that can help the environment and economy adapt to a hotter future are close to being investable but don't meet private investment criteria on a standalone basis.
    - Often they blend environment, community & investment elements which makes them compelling in aggregate but non-viable for either government or industry to finance alone.
    - Downstream revenues potentially occur to various levels of government through avoided costs, levies and charges which may not be captured in the project's financials.

Historic Approach

- Grant programs have historically addressed the returns gap, designed to lift investment cases over initial barriers to development, build support infrastructures and demonstrate pathways and processes for follow on investments. However:
    - in many cases, even optimised important projects remain marginal/uninvestable on a stand-alone government/industry financing basis; and
    - capital formation following grant programs is often slow with grants commonly sized to meet specifc objectives, slowing comprehensive proof of concept.

Current Innovation

- The recently expanded Capacity Investment Scheme looks to sure up project financing through contracted revenue floors and ceilings.
- This approach will likely rapidly boost target investment.
    - This submission is based on a similar principle, though with a different enhancement mechanism and ring fenced subsidies.

Source of investable ideas

- There are current and emerging industry and government bodies and initiatives prioritising environment actions and identifying investment focus. Examples include APRA, The National Emergency Management Agency (NEMA), Resilient Futures Investment Roundtable (RFIR), The International Group on Climate Change (IGCC), the Task Force on Nature Related Financial Disclosures (TFND), Task Force on Climate Related Financial Disclosures (TFCD), the International Sustainability Standards Board (IFRS - ISSB)
    - Investment ideas, valuation methods and target investor markets need to be assessed against (to be developed) investment criteria, prioritisation, feasibility and investment process metrics.

Proposal: Fund to Invest in Sustainable Finance Projects

CEFC Leads Sustainable Finance Equity Investment Program

Target investments

- Physical assets and businesses inc bio-diversity, environment, climate resilience, adaptation elements
- Currently measurable project level IRR's of +5 to -15%

CEFC's Role

- Fund sponsor & Sole initial investor via seed assets
- Builds managed fund - establishing fund strategy, investment process, team, track record, pipeline, compliance & reporting
- Establishes valuation metrics for sustainable elements – incorporates in investment cases
- Stand-alone Investment Committee – reviews/approves target sustainability elements
- Drives down cost of investment through embedding novel pathways and agreements
- Builds investor market acceptance, fund raises and services government and institutional clients

Investment Proposition

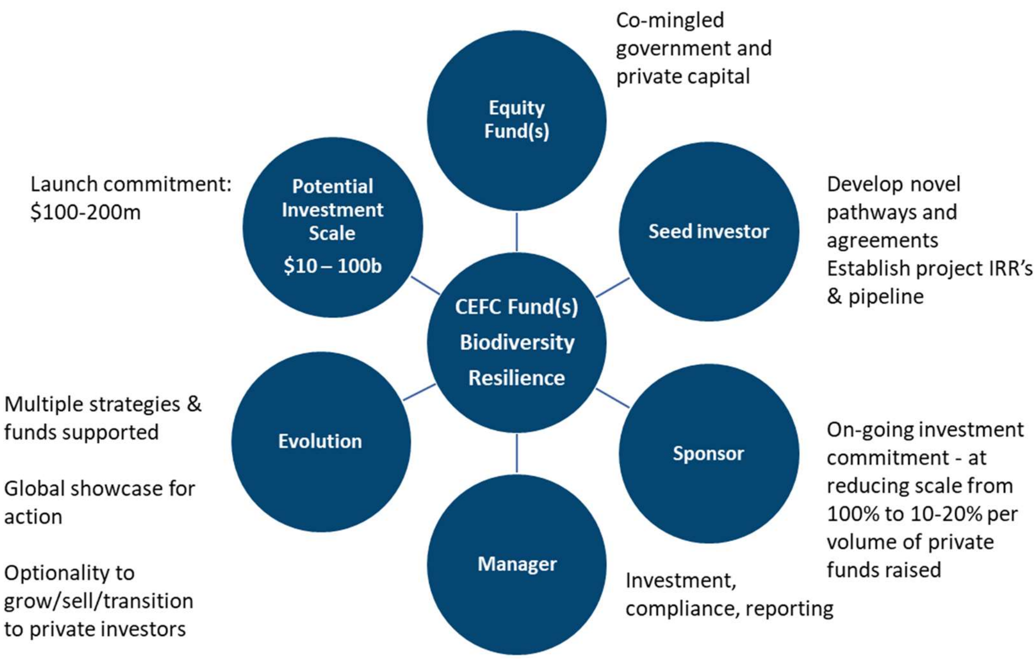
- Target investor returns curated through contributing seed assets at less than invested value
- CEFC/Government has dual involvement – i) incubates and contributes seed assets and ii) is a Fund investor seeking a commercial return
- CEFC/Government has flexibility to set level of subsidy and mix of subsidy/investment reflecting environment and community priorities

3

Future State

- CEFC progressively becomes a minority investor
- Over time could replicate, retain, devolve management, seed private sector funds or sell fund suite

Key Elements



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