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# Sustainable UK infrastructure

## Positive impact infrastructure projects support the levelling-up agenda

The levelling-up agenda has the potential to revitalise towns, cities and communities across the UK, which presents an attractive and innovative investment opportunity for pension schemes.

With the 2023 Mansion House financial services reforms requiring funds to allocate up to 5% of assets in levelling up the UK, we make the case for investment in UK based sustainable infrastructure as an effective part of a return-seeking portfolio, as well as an important source of income and diversification whilst supporting the levelling up agenda.

### Summary

Sustainable infrastructure assets can assist with:

- **Levelling up:** Help pension funds meet levelling up requirements;
- **Financial benefits:** Deliver an income that could help support cash flow negative schemes; and
- **ESG benefits:** Contribute towards climate change targets including alignment with UN Sustainable Development Goals (UN SDGs)

### Levelling up

An investment meets the levelling up requirements if it makes a measurable contribution to one of the levelling up missions set out in the [Levelling Up White Paper](#), and supports any local area within the United Kingdom.

There is no shortage of promising businesses operating across the UK with the potential to generate strong growth and, in turn, deliver returns for investors. However, this type of infrastructure requires a specialised skill set to invest into it effectively.

Gresham House's **sustainable infrastructure strategy can:**

- Supports levelling up across the UK offering regional and thematic real asset based investment opportunities
- Is aligned to the Mansion House goals for investment in unlisted UK companies
- Bases these companies nationally, helping meet the Government's mission of supporting job creation, and business expansion in regional areas which means investors have an opportunity to fund the urgent need for new infrastructure

### Financial benefits

Many LGPS find themselves well-funded but cash flow negative, and so the need for income has become increasingly important.

- At Gresham House we believe that impact drives return, and we understand the importance of delivering a cash yield, and a diversified strategy.

### ESG benefits

As net-zero targets draw closer, selecting investments that can contribute to reducing emissions has become increasingly important. Sustainable Infrastructure investments have the potential to support broader environmental and social objectives and provide alignment with a number of the UN SDGs.

**For professional investors. Past performance is not necessarily a guide to future performance.**

## The 'levelling-up agenda'

The Levelling up agenda commits to facilitating more local pension scheme investment in addressing place-based inequalities whilst delivering a financial return.<sup>1</sup>

## Sustainable real assets at Gresham House

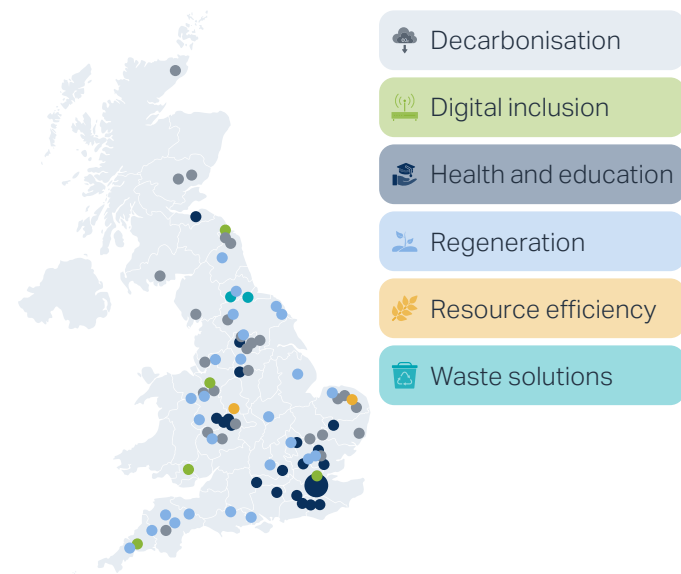
The drive for sustainability and the need for localised investment can combine to provide attractive opportunities for investors

Sustainable infrastructure offers a broad and varied universe of assets, the opportunity goes far beyond traditional sustainable infrastructure assets such as wind farms and solar panels, however. Sectors as diverse as agriculture, heavy industries, and waste are all being transformed by innovative companies seeking to deliver sustainable physical products and services solutions.

### 1 Progressing the levelling-up agenda

Gresham House is a specialist, alternative asset manager with investment strategies across all Place Based Impact Investing pillars.<sup>2</sup> Place-based investing is closely aligned with the national aim of levelling up the UK regions. It directs capital towards local and regional businesses, which might otherwise be too small to attract conventional investment.

With £740mn of commitments to date, 2,200 new careers have already been created, across the breadth of the United Kingdom (based on portfolio management accounts).<sup>3</sup>



1. Impact Investing Institute, February 2022

2. The Good Economy, An independent assessment of the place-based impact of Greater Manchester pension fund's local investment portfolios, September 2023

3. Past performance is not a reliable indicator of future performance

Additionally, Gresham House has a strong pipeline of potential investments across the UK via its British Sustainable Infrastructure Fund strategy (BSIF). These assets present attractive opportunities to support long-term growing businesses while generating the potential for returns.

By supporting the levelling-up agenda, these investments also align to UN SDG 10, which focuses on the reduction of fiscal and economic inequalities.<sup>4</sup>

### How Gresham House's BSIF strategy aligns with the levelling up missions

Levelling-up mission	BSIF area of focus
Living standards (Mission 1) Skills (Mission 6)	Overall strategy alignment: the BSIF portfolio has created over 2,200 new careers across the UK, many providing training to increase the skillset of their workforce
Research and development (Mission 2)	Resource Efficiency/Waste Solutions: BSIF invests in innovative sectors such as Vertical Farming and turning waste into valuable replacements for fossil fuels
Digital connectivity (Mission 4)	Digital Inclusion: BSIF invests in several alt-net businesses, connecting hard-to-reach areas in the UK with great internet to drive inclusivity
Education (Mission 5) Health (Mission 7) Wellbeing (Mission 8)	Health and Education: investing in building new early years educational facilities and specialised healthcare
Pride in place (Mission 9)	Regeneration: creation of Habitat Banks through the Environment Bank is improving access to green spaces ensuring that all parts of England can enjoy high-quality, sustainable environments and new nature creation



4. Not an endorsement from the UN

**For professional investors. Past performance is not necessarily a guide to future performance.**

## 2 Financial benefits

Our experienced investment team, led by Peter Bachmann and Simon Adcock, has a demonstrable track record of making successful investments across the UK in businesses of the size and scale targeted by the strategy.<sup>5</sup>

The Strategy comprises over £740m in sustainable infrastructure assets (as at 31 December 2023) across the previous two vintages of this strategy and sidecar investments.<sup>6</sup>

The team manage four regionally focused co-investment funds, including two for Greater Manchester Pension Fund. The commitments totalling £110mn, aim to deliver sustainable infrastructure investments in specific regions in the UK.<sup>7</sup>

The Good Economy has created a report outlining how Greater Manchester Pension Fund's local portfolios meet both their financial and impact objectives.

Both BSIF vintages have out-performed the target IRRs (as at December 2023) (both of these funds have had final closes).<sup>6,8</sup>

As the BSIF strategy target a cash yield, distributions could be used to help navigate liabilities particularly when schemes are cash flow negative. A previous vintage of the BSIF strategy paid a cash yield of 4.7% in 2022.<sup>6,9</sup>

This performance data provides early validation for the strategy.<sup>6,8</sup>

## 3 ESG benefits

Sustainable infrastructure assets have the potential to contribute positively towards schemes' climate change targets, such as net-zero emissions, by replacing carbon-intensive energy sources or improving the efficiency of legacy assets.

The overall investment approach of the BSIF strategy aims to achieve a portfolio of Sustainable Infrastructure with intentional and positive impact, clear additionality and demonstrable carbon reductions with anticipated outcomes well aligned to UN SDGs.<sup>10</sup>



5. Supported by a wider team, they have successfully invested over £1bn across 12 infrastructure platforms in BSIF I & II

6. **Past performance is not a reliable indicator of future performance**

7. This is not an endorsement from the United Nations

8. This fund is closed for investment.

9. **Targets are not guaranteed**

10. **There can be no guarantee that targets can or will be met, and they should not be taken as an indication of the Fund's expected or actual future results**

## Target impact per £100mn invested in BSIF Strategy<sup>6</sup>

**1,689,842**  
m<sup>3</sup> of water savings



**17%**  
of the UK's daily household water consumption



**17%**  
Olympic size swimming pools

**580**  
hectares of biodiversity created



**814**  
football fields

**1,492,420**  
tonnes of CO<sub>2</sub> emissions avoided



a return flight from Paris to New York for 710k passengers

**880**  
people cared for



**267**  
new nursery places



**10x return**  
for every £1 spent on digital skills and inclusion



**716,725**  
tonnes of waste diverted from landfill

equivalent to the household waste of **1,848,455 people**



the population of Birmingham and Liverpool combined









**24%** of the population of London

**1,495,539**  
MWh of low-carbon energy generated  
the same as taking **211,135** cars off the road



## The evidence

We need to reassess and redesign how we grow food, travel, and handle waste products, among many other issues, to make them more efficient and less harmful to our environment and society. Gresham House's Sustainable Infrastructure team has identified six target Sub-Sectors, across hard and soft infrastructure that the team believes can use sustainability as a competitive advantage to provide profitable investment opportunities.

Subsectors	Target impact	Target investments
 <b>Decarbonisation</b>	Lowest cost migration to clean energy	Industrial decarbonisation and energy transition infrastructure
 <b>Digital inclusion</b>	Improved access, connectivity and productivity for all parts of society	Fibre and gigabit networks, data centre infrastructure
 <b>Health and education</b>	Improved access to higher-quality services underprovided by the state	Dementia and specialised healthcare, new children's nurseries, and specialised education
 <b>Regeneration</b>	Restoration of nature and biodiversity enhancement	Biodiversity net gain habitat banks, nature-based solutions
 <b>Resource efficiency</b>	Better use of limited environmental resources	Sustainable food infrastructure, water savings and/or desalination, alternative proteins
 <b>Waste solutions</b>	Better recycling, treatment of waste and less landfill	"Closed-loop and on-site waste processing or treatment solutions

## Case studies

### Waste pelletisation - Waste Knot Energy<sup>11</sup>

Waste Knot Energy (WKE) is a small clean-energy company based in Middlesbrough, with potential to expand to up to five sites across the UK. Gresham House first invested in WKE in August 2020 via BSIF I.<sup>12</sup>

WKE produces pellets from non-recyclable commercial and industrial waste, to be used by heavy industry as a direct low-carbon alternative to coal. Not only does this significantly reduce emissions (compared with sending waste to landfill, a single project could deliver c.800,000 tonnes of annual CO<sub>2</sub> savings<sup>13</sup>), but it also reduces waste going to landfill.

From an investment perspective, the company has an attractive projected return and cash yield. WKE's operations also aim to address or contribute to SDGs 9, 12 and 13, whilst mitigating negative impacts such as industrial waste.<sup>14</sup>

WKE's planned expansion to UK-wide sites will support job creation in these areas, providing an economic benefit to the regions as well as a potential financial return for investors. These returns are underpinned by long-term contracts.

11. Not an investment recommendation

12. Gresham House, 2024

13. Review of Carbon Emissions from use of SIRF Pellets – Monksleigh, May 2022

14. This is not an endorsement from the United Nations

### Regional broadband<sup>15</sup>

Gresham House has invested into companies supplying high-speed broadband to Cornwall (Wildanet), Scotland and the North of England (GoFibre) and the 'Northern Powerhouse' cities (Telcom).

The UK government wants to bring high-speed internet services to 85% of UK premises by 2025, and these companies are perfectly placed to target underserved communities, aiming to create new jobs in the process. State support for the expansion of online services strengthens the growth story, while the pandemic and consequent remote working has reinforced the business case.<sup>16</sup>

In addition, better internet access will improve accessibility for people less able, or unable, to travel, provides better access to remote health and learning and enhance the ability of small businesses to reach new audiences.



15. Not an investment recommendation

16. UK Government 'Levelling Up the United Kingdom' White Paper, February 2022

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## Vertical farming - Fischer Farms<sup>17</sup>

Vertical farming is an innovative new area of agricultural infrastructure that allows plants to be grown indoors in multi-level facilities, which take up a fraction of the land and other resources used by traditional methods.

Vertically-farmed leafy greens are estimated to be up to 1,900 times more efficient from a carbon lifecycle perspective compared with imported produce.<sup>18</sup>

Fischer Farms has built what we believe to be the UK's largest automated vertical farming facility in Norfolk, adding to its first farm in Staffordshire where the growing technology was fully developed. Following traction with UK supermarkets, Fischer Farms plans to build more farms across the UK.

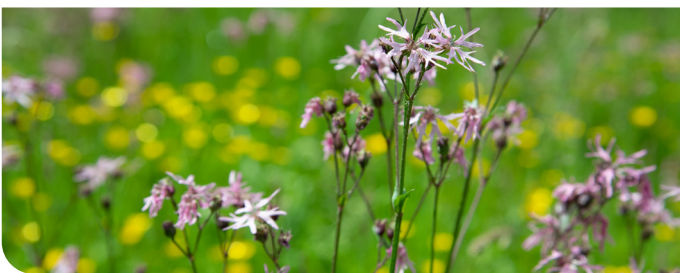


## Regeneration - Environment Bank<sup>17</sup>

Environment Bank is the opportunity to fund a new asset class of land that aims to deliver biodiversity net gain (BNG) to developers. The assets to be created are 'Habitat Banks' – large areas, typically 10 – 100 hectares of leasehold or freehold land on which biodiversity (e.g., a wetland or woodland meadow) will be created and maintained for 30 years with maintenance usually carried out by the farmer/landowner.

Following the introduction of the 2021 Environment Act, which introduced a requirement for developments to provide a mandatory minimum 10% BNG as a planning condition, enforcement commenced on 12th February 2024. The percentage of BNG is expected to vary between local planning authority (LPA) areas but may be up to 25%.<sup>19</sup>

There are currently 24 secured Habitat Banks, with ambitions to develop over 4,000 hectares of new Habitat Banks during the next five years. Key sales discussions are underway with leading housebuilders and large infrastructure developers for agreements to purchase the BNG credits that these Habitat Banks will generate.



17. Gresham House, 2024

18. 680x less carbon (0.003 tCO<sub>2</sub>e per tonne of yield vs. 2.029 tCO<sub>2</sub>e per tonne of yield) compared with importing

19. Targets are not guaranteed. Capital at risk

## Conclusion

An allocation to UK sustainable infrastructure has the potential to deliver on a number of pension scheme objectives including:

**Levelling up:** Help pension funds meet levelling up requirements whether their focus is more broadly on the UK or wanting more specific regional exposure

**Financial benefits:** Deliver an income that could help support cash flow negative schemes

**ESG benefits:** Contribute towards climate change targets including alignment with UN SDGs

At Gresham House, we believe there are many compelling investment opportunities across the UK to intentionally scale impactful sustainable infrastructure assets that we believe are beneficial for investors, society, and the planet.

## About Gresham House

Founded in 1857, Gresham House is one of the oldest companies in London. Since 2014, the business has been transformed, with a new ethos, team and investment mandate. Our established culture of empowerment, individual flair and entrepreneurial thinking enables us to attract and retain the brightest talent in the industry.

Gresham House has continued to go from strength to strength, through acquisition and organic growth, with assets under management of over £8.5bn (31 December 2023, unaudited) providing a strong and scalable platform from which we continue to grow.

Signatory of:



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