

# Energy Efficiency Investments In A Pension Fund Asset Allocation – A Case Study

Michael Friedlander, COO/CFO  
APG Asset Management Asia, Ltd

25.0708.08

# Introduction to APG

- Established on 1 March 2008: All Pensions Group
- Builds on a long tradition of pension fund management
- One of the largest independent pension administrators in the Netherlands and one of the largest managers of pension assets in the world
- Promotes the pension interests of 2.7 million Dutch individuals and 4000 employers
- Advocate of collective pension schemes
- APG has a long-term contract with its client



Algemene Pensioen Groep

# About APG Asset Management (1)

- One of the largest specialised managers of pension assets worldwide
- Aims to make high real long-term returns, which help the pension fund to provide attractive pensions at reasonable premiums
- Proven track record for returns: on average about 6% per year in the past 15 years
- Extremely low costs compared to commercial asset managers



Algemene Pensioen Groep

## About APG Asset Management (2)

- Focus on the long term with an investment strategy that is based on internal ALM expertise
- Team of 500 investment professionals worldwide
- International network and subsidiaries in New York and Hong Kong
- Assets largely (80%) managed internally: brings flexibility and low costs
- External mandates only if internal management does not add value or if external route is more inexpensive
- Large number of broadly spread internal portfolios which makes it possible to customise risk and returns



## About APG Asset Management (3)

- Broad internal knowledge and skills present for largely actively managed portfolios
- Strong player in the illiquid segment
- Innovative approach to investment

# APG Asset Management Worldwide

- Offices in
  - Heerlen (100 professionals)
  - Amsterdam (300 professionals)
  - APG Investments US (New York, 90 professionals)
  - APG Investments Asia (Hong Kong, 30 professionals)
- Strategic partners
  - AlInvest (Amsterdam, London, New York, Hong Kong)
  - New Holland Capital (New York)



Algemene Pensioen Groep

# Objectives of APG and APG Asset Management

- APG's ambition:
  - Use customised asset management to contribute to the objectives of the pension fund client: a good pension at a reasonable price
- Long-term objective for returns of about 7% nominally
  - 4% real, 2% inflation, 1% salary growth
  - 1% more in investment returns equals 6-7% pension premium
- Realising the client's ambition requires investment in real assets
  - Manage real investment risks
  - By spreading over investment categories, strategies and countries



# APG's Investment Beliefs

- ✓ Investment risk is rewarded
- ✓ Financial markets are not entirely efficient
- ✓ There is a premium on illiquidity
- ✓ Investing for the long term pays off
- ✓ People and culture are critical factors for success
- ✓ ESG factors are an increasingly important factor in investment decision making
- ✓ Diversification is a “free lunch”





# Retrofit Case Study

## Beijing Gateway Plaza – Retro Fit to LEED EB Rating



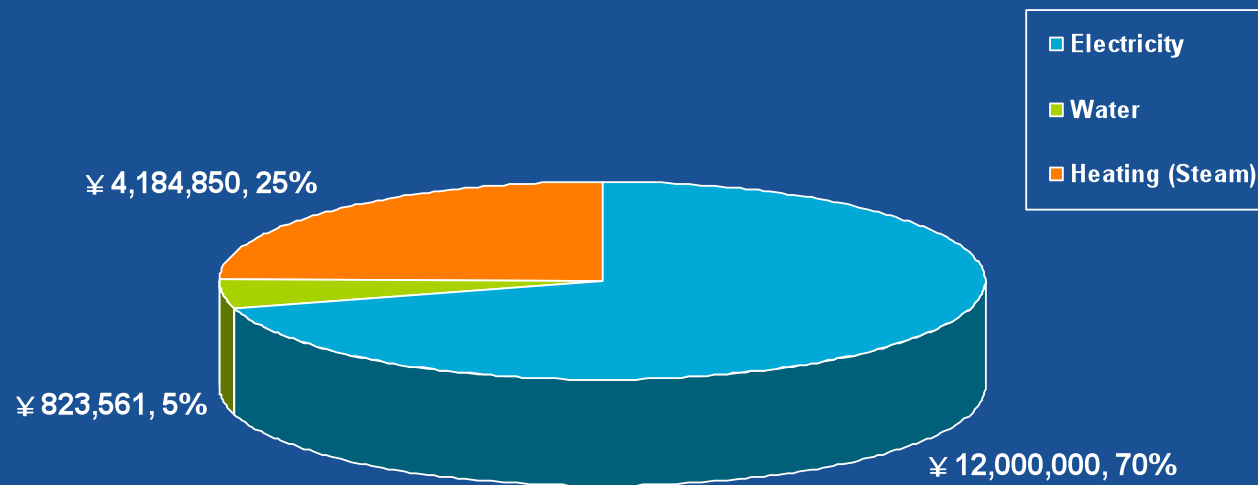
- Location: East Third Ring Road, San Yuanqiao Business District
- Size: Approximately 140,000 square meters, 29 floors above ground and 3 floors
- Usage:
  - All the underground floors: clubs and car garage
  - 1<sup>st</sup> & 2<sup>nd</sup> floors: financial service institutions
  - 3<sup>rd</sup> floor: high-end restaurants
  - 5<sup>th</sup> to 29<sup>th</sup> floors: senior business office
- Opened For Commercial Occupancy: 2005



Algemene Pensioen Groep

# Energy Split By Expenditure

## Beijing Gateway Plaza



# Investment Grade Audit Results

## Two “Baskets” Of Energy Conservation Measures (ECM’s)

### ECM’s

- Energy Monitoring Center
- Power DId Mgt Center
- Indoor Air Quality
- Humidification
- LEED Certification

¥8.6 Million

¥2.5 Million



#### Intangible

ECM Benefits Accrue to Building Owner/Operator



- Chiller Optimization
- AHU Retrofit
- Free Cooling System
- Parking Ventilation
- Lighting System Upgrade

¥4.8 Million



#### Tangible

ECM Benefits Accrue to Investor



Algemene Pensioen Groep

# Investor Financial Model

## Beijing Gateway Plaza

### Key Assumptions

- Total Capital Requirements – 4.8 M RMB
- Overall Simple Payback – 4.1 Years
- Term of Agreement – 10 Years
- Leverage – 2:1, Amortizing Debt
- Income Tax Rate – 25%
- Management Fees – 2/20 after 8% Preferred

### Results

- Minimum EBIT Coverage – 1.79
- Cash on Cash Return (IRR) To LP's *After* Fees & Taxes

**23%**



# Conclusions

## Shared Savings Model = Shared Benefits

- Investor: attractive risk adjusted returns
- Building Owner/Operator:
  - Reduced O&M & Capex
  - Increased Value of a Property
  - Ability Get LEED Rated For A Small Investment (Cost of Submittal)
  - Preferred Building From a Commercial Standpoint (Increased Rents + Occupancy)
- Tenants: Improved Environmental Conditions
- Vendor: Equipment Sales & Servicing
- Bank: Attractive Lending Book
- Global Community: Reduced Use Of Resources (energy, water, steam, gas, etc.) & Reduction in GHG Emissions



# Next Steps

## “Chicken & Egg” Problem

### *Shared Savings Model*

- *Only 1 Fund Which Institutional Investors Can Participate*
- *Until There Is Demand, Money Managers Wont Allocate Time, Energy & Resources To Creating Funds*
- *Without Supply, Institutional Investors Are Hesitant About Making Commitments of Time, Energy, Resources & Allocation To New Asset Class*

