Healthy investment in green solutions

A Sicilian private equity manager tells **Yuri Bender** about an innovative way of bringing money to the public sector with environmental benefits

Traditional private equity funds have long ridden roughshod over institutions and private investors, believes Giuseppe Campanella, an engaging Sicilian investment manager with a fondness for pastries and detective stories.

"It is slightly depressing that while there is a growing appetite for investing in Italy, foreign institutional investors come to Milan like tourists searching for bargains, using a guide published ten years ago," he says of the northern Italian city he migrated to more than 20 years ago.

"It is often too late before they realise the shop and owner are not the same and the prices have changed."

Mr Campanella, co-managing director of State Street Global Investments (SSgI), has two other gripes about private equity culture: commissions based on committed capital and lack of client involvement in investments.

He is trying to address these problems through a new vehicle called Atmos. This is currently being promoted by SSgI's Italian fund of funds, Fondamenta, together with sustainable development specialists IGP Ambiente, founded by McKinsey's former Italian and Spanish boss, Rolando Polli.

Mr Polli originally approached the Cariplo Foundation, responsible for financing regional socio-economic projects, including regular renovations of Milan's La Scala opera house, with a proposal for investing in renewable energy.

The proposal was forwarded by Cariplo to Fondamenta, which manages the Foundation's private equity portfolio.

Mr Campanella and Mr Polli started to market the concept and discovered many investors were interested in renewable energy.

"Instead of a traditional fund, our idea was to create a vehicle based on full transparency and a fair cost level," says Mr Campanella. "This is a novelty in the landscape of the private equity industry."

The State Street fund put up €8m of the initial pool. Six wealthy family groups, with Italian industrial interests, were recruited to co-invest. The board hopes to recruit another four investors, not necessarily from inside Italy.

Giuseppe Campanella

A typical €10m investment into a company or renewable energy project will see an initial €2m staked by Atmos. Each of the ten club members will be given an 8 per cent pre-emption right for each investment. "The shares which they renounce will be distributed among the others," says Mr Campanella. "One investor may have more appetite for an Energy Saving Company (Esco). A typical Esco can go to the Milan council and offer to reduce expenditure on street lighting by 30 per cent, and ask to be paid by a success fee. It's a very innovative way to bring private money to the public sector and help fund organisations that are short of cash."

Other investors may prefer "green garbage" solutions, using energy generated by waste wood and vegetable fibres to pump back into the plant. Each "club" member has declared its intention to invest €5m, but there is no obligation to do so. Co-investing family groups include Bolla (gas distribution), Zambon (pharmaceuticals), Pesenti (cement) and the Hermes family office. "These are very bottom line oriented people. They have no interest in politics, just business," he says.

Investors pay a 2 per cent commission on capital actually invested, rather than committed capital. Atmos will charge a 20 per cent annual performance fee if the investments generate a capital gain greater than 8 per cent. "This is totally to the contrary of the traditional private equity fund, where people are getting fees without making investments," says Mr Campanella.

Bright horizons: renewable energy projects such as wind farms can provide low-risk investments PA

"The management team is risking a loss from the whole operation. This shows our interests are aligned with investors' interests."

The Atmos team has been running the rule over projects including a wind farm in Basilicata, an Esco in Palermo, Sicily, aiming to save electricity for the local healthcare authority, an Israeli water saving system, and a plan to produce energy generated from forest waste in Slovenia.

"Under the Kyoto agreements, Italian authorities are obliged to buy a certain percentage of their energy obligations in a renewable fashion," ventures Mr Campanella. "This means there is no commercial risk for us, as we have a fixed price and we know that any energy we produce will be sold."

The risks of the fund – which Mr Campanella says occupies a risk/return niche half way between a buy-out and a real estate vehicle – come from managing relationships with local authorities and evaluating investment projects. "Not all wind farms are equal, by any means," he says.

Fondamenta was originally part of a joint venture between State Street and retail investment house Mediolanum. The latter was set up in 1981 by insurance salesman Ennio Doris, and Silvio Berlusconi, then an up-and-coming young businessman.

The venture was bought out by State Street for €2.6m earlier this year, allowing Mr Campanella's team to leave the soul-less Milano 3 satellite City, in favour of offices perched above his favourite Sicilian pastry shop, overlooking Duomo square.

"Everybody is happy," jokes Mr Campanella. "The only voice urging caution is coming from my dentist."

'Super choice' heralds pensions shake-up

The fund management industry is bracing itself for change in the face of Australian regulations giving employees the opportunity to opt out of their corporate schemes. **Lachlan Colquhoun** reports on expected savings trends, such as self-administered schemes

Almost 5m Australians have recently been allowed to choose their retirement savings providers, in a move that could lead to a massive shift in investments.

Yet while the new regulations are expected to lead to changes in the country's A$710bn (£308bn, €442bn) pensions industry, there are few signs of the "big bang" originally predicted.

From July 1, Australian employees whose retirement savings are held in corporate or industry pension schemes have been able to put their retirement nest eggs in the scheme of their choice.

Retirement savings are known as superannuation in Australia. And the July 1 deadline was tagged as the beginning of an era of "super choice" for many Australian employees, who may want to change providers because of disappointing investment performance, or because they want to start up their own – self-managed – scheme.

The industry has been bracing itself for a mass exodus of savings out of corporate and industry schemes. But many pensions experts believe any shift in savings will be gradual, adding momentum to changes already taking place.

"Our research indicates that probably about 8 per cent of people want to change as a result of 'super choice', so that's less than 500,000 people," says Philippa Smith, chief executive officer of the Association of Superannuation Funds of Australia (ASFA). "These changes are likely to happen largely when people change jobs, so we are expecting that to occur over a two to three year time frame."

Since 1992, Australia has had a compulsory superannuation regime, where employers are required to pay 9 per cent of an employee's gross salary into a superannuation fund, which can be operated by the employer, an industry group, or a third-party provider such as a bank or investment company. These savings are only accessible when that person reaches 55 – a threshold that is set to increase to 60 by 2025 for people born after 1964.

> 'The writing is on the wall' for the corporate providers, many of which see little reason to continue with their schemes

The legislation has helped create a huge savings pool that has bolstered the fund management industry and the domestic stock market.

The growth in Australian superannuation comes despite heavy taxes. Pension savings are taxed three times, comprising a 15 per cent charge on the compulsory contributions paid by employers, a 15 per cent charge on investment earnings, and 15 per cent on the paid-out amount. As well as corporate and industry schemes, Australian superannuation funds include public sector schemes, retail accounts offered by banks and investment companies as well as self-administered, or "do-it-yourself" schemes, where individuals or families run their own funds.

The superannuation industry manages a total of A$710bn, with assets growing at a rate of about A$50bn a year, or A$1bn a week.

In recent years, the retail superannuation industry has seen strong demand for its products. Investors have also been pouring more money into self-administered schemes, with an average 50 funds being registered each day.

This contrasts with the slow decline of the corporate superannuation funds, which were once the bedrock of the industry. Many companies have stopped offering corporate, or in-house, schemes, because they are increasingly seen as a drag on management time and a source of rising costs. However, industry schemes have defied predictions of an imminent decline, because of their relatively low fees and their decision to widen the investor base beyond specific industries.

There are more than 1,000 corporate superannuation funds with a total of A$65bn of assets, according to ASFA.

Industry funds hold total assets of A$104bn, while retail funds are managing a total of A$235bn. There are more than 300,000 self-administered funds with total assets of A$163bn.

Alex Dunnin, director of research at Rainmaker Information, a specialist research firm, says "the writing is on the wall" for the corporate providers, many of which see little reason to continue with their schemes in an era of greater competition and rising compliance costs.

Mr Dunnin believes the local fund management industry will benefit from a potential shift in investors' assets.