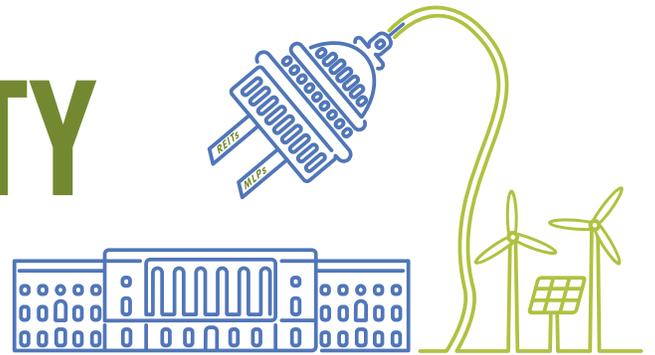




POLICY PARITY CAN UNLOCK ENERGY INVESTMENT



Investors call on policymakers to extend oil, gas, and real estate tax treatment to clean energy

“CalSTRS continues to look for ways to expand its commitment to investing in sustainable energy sources. What began as a \$250 million commitment to clean energy investment less than a decade ago has grown to nearly \$650 million today and we’re looking for tools to continue this trend. Master Limited Partnerships and Real Estate Investment Trusts have for decades provided an effective vehicle to enable a wide range of investors to fund America’s infrastructure. We should diversify these tools to connect today’s investors to tomorrow’s renewable energy and energy efficiency infrastructure.”

— Jack Ehnes, CEO, California State Teachers Retirement System



American institutional investors control a massive amount of capital. American pension funds alone control more than \$16 trillion in assets. These investors have money to invest in renewable energy, but few places to put it. Large-scale institutional investment in clean energy has lagged not because renewable energy is a bad investment, but because the kinds of investment vehicles most investors rely on are either unavailable for renewable energy projects, or in other cases are just developing.

Notably, the United States tax code has long allowed real estate and oil and gas-related projects to be structured as **Real Estate Investment Trusts (REITs)** and **Master Limited Partnerships (MLPs)**, both of which are attractive vehicles for institutional investors. These structures have spurred investment in American energy resources and other infrastructure; however, they remain off-limits to clean energy investors.

Ceres, which manages the \$11 trillion Investor Network on Climate Risk, is calling upon Congress and the Obama Administration to **level the playing field by extending REIT and MLP investment opportunities to renewable energy and energy efficiency**, thus opening up a much-desired channel for clean energy investment.

Institutional Investors and Individuals Want Clean Energy Investment Opportunities

Leading American investors are looking for investment opportunities in clean energy. And where they find them, they are taking advantage.

☀️ In early 2012, **Warren Buffett's MidAmerican**, a Berkshire Hathaway subsidiary, issued a bond to raise \$700 million in financing for a utility-scale solar project. Demand was so high they raised the amount to \$800 million. By the time the bond was issued, there was \$1.2 billion of interest, an indication of strong demand among institutional investors like pension funds. Given the success, in June of this year MidAmerican was gearing up to issue another \$700 million in bonds to finance yet another project.

☀️ Individual, or “retail,” investors also are looking for ways to invest in renewable energy. Earlier this year, the company **Solar Mosaic launched a “crowdfunding” program for solar projects** with investment increments as small as \$25. The founders expected it would take a month to raise the \$313,000 needed. Instead, the projects sold out in 24 hours, giving these projects an infusion of capital and the investors a 4.5 percent return.

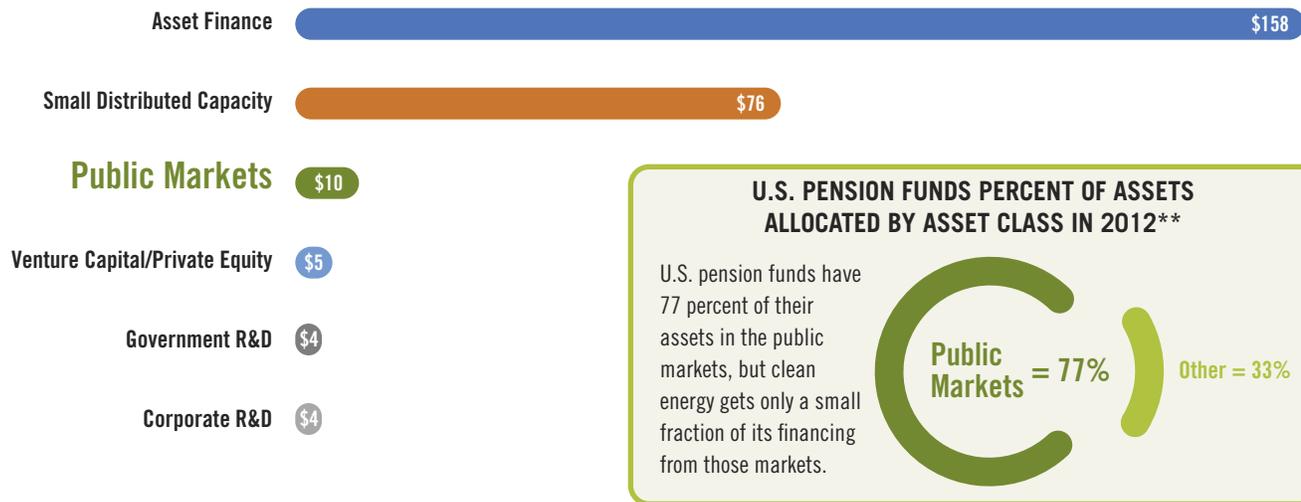
“We’re looking for exposure to clean energy opportunities throughout our \$2.9 billion portfolio. The ability to invest in clean energy infrastructure is particularly interesting. However, like many investors, we invest through the capital markets and are thus not in a position to finance individual renewable energy and energy efficiency projects. Smart changes, like those proposed for Real Estate Investment Trusts and Master Limited Partnerships, could provide opportunities for investment by firms like Pax as well as individual investors.”

Joe Keefe, President & CEO,
Pax World Mutual Funds,
New Hampshire

“The client demand for renewable energy is abundantly clear and the REIT structure is one that would enable exposure to diverse set of these assets. For investors avoiding fossil fuels, solar REITs are particularly attractive, as the long-term nature of developer contracts and stable cash flows makes them a strong proxy for utility sector exposure.”

Matt Patsky, CEO,
Trillium Asset Management,
Massachusetts

ANNUAL RENEWABLE ENERGY INVESTMENT (\$US BILLION, 2012)*



* 2012 Data from Bloomberg New Energy Finance and available via <http://fs-unesp-centre.org/sites/default/files/attachments/unespglobaltrends-master-datapack-2012.pdf>

** Towers Watson Global Pensions Asset Study 2013 <http://www.towerswatson.com/en/Insights/IC-Types/Survey-Research-Results/2013/01/Global-Pensions-Asset-Study-2013>

Public Policy Can Align Investors' Clean Energy Interests with Assets

U.S. pension funds manage more than \$16 trillion in assets, roughly three quarters of which they invest in stocks and bonds in the public capital markets. This asset allocation strategy is designed to help funds meet their obligations to retirees, but it has unintended effects on their ability to finance clean energy projects.

Bloomberg New Energy Finance estimated that in 2011 only \$10 billion of \$257 billion in clean energy investment came from the public capital markets. Instead, the majority comes from financing generation projects, which institutional investors do not regularly engage in. The result is a misalignment between investors' interest in clean energy and their actual holdings.

Fortunately, with policy parity, Master Limited Partnerships and Real Estate Investment Trusts can provide help ameliorate the situation. Since **MLPs and REITs trade like stocks**, institutional investors could easily use them to invest in renewable energy.

"Both our institutional and individual clients tell us repeatedly that they want opportunities to invest in clean energy. As we noted in our report Power Forward: Why the World's Largest Companies are Investing in Renewable Energy, companies ranging from Sprint to WalMart have realized significant value from investing in renewable energy and have subsequently made substantial commitments to do so. How then do we help finance these projects in a way that provides access to cheaper capital while affording main street investors an opportunity to participate? The proposed changes to MLPs and REITs are one smart way to do so."

**Barbara J. Krumsiek, CEO,
Calvert Investments**

Two Policy Vehicles Promise to Spur Investment

Congress currently provides tax advantages to the oil and gas sector and the real estate sector that are attractive to investors. These advantages, however, are not allowed for renewable energy and energy efficiency projects, such as combined heat and power.

In Congress, the **Master Limited Partnership Parity Act** removes the restrictions on financing clean energy through that vehicle. In the last Congress, it gained wide bipartisan support but failed to be brought up for a vote. We urge Congress to pass this bill.

For REIT financing of clean energy, the Internal Revenue Service has the ability to level the playing field. As it does for many investments, the **IRS can and should issue a revenue ruling to open up REITs to renewable energy.**

“There is no apparent logic to the current exclusion of renewable energy companies from the ability to form publicly traded partnerships. A large part of the intent in permitting energy companies to become MLPs was to encourage the development of domestic energy resources and infrastructure. Entity-level taxation was eliminated, and enabled a greater pass-through of revenues to shareholders, thus creating a “yield” vehicle and an additionally attractive feature of the entity’s equity. To fail to include renewable energy is, in effect, to say that the government and its tax system wants to implicitly encourage carbon-based energy development and to discourage—or not encourage—renewable energy development. It’s doubtful that a poll of citizens would agree with this standpoint.”

Lowell Miller, Founder, President/CIO, Miller/Howard Investments Inc., New York

“Investments like those possible through clean energy REITs are exactly the type of investments our clients want to make; like many Americans, they want to support projects that create jobs domestically and provide a source of clean energy. However, the options to invest this way have thusfar been limited for your average individual investor who is not wealthy, but is simply trying to manage their retirement funds. Our typical client already has a large portion of their investment portfolio dedicated to REITs. They are investments we know and trust and their use for clean energy could provide a great way to meet client demand with investment opportunities.”

George Gay, CEO, First Affirmative Financial Network, Colorado

For more information, contact:

Brandon Smithwood
Manager, Policy Program
Ceres, Inc
617-247-0700 X150
Smithwood@ceres.org