Green Finance Institute

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National Wealth Fund Taskforce

Report

Prepared for the Labour Party

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Contents

Executive Summary

The Labour Party has committed to provide £7.3[1] billion of public capital to invest into a National Wealth Fund (NWF) with the goal of mobilising private capital to fund the UK's transition to a low carbon economy. Investment catalysed by the NWF should create green jobs and drive growth across the UK.

The challenge is clear. The Climate Change Committee calls for £50 billion[2] of investment a year between 2030 and 2050. This will require significant investment from the private sector. To deliver it, government will need to deploy the right combination of policy, regulation, tax, and subsidy, as well as catalytic capital to crowd in sufficient private capital. Policy will be a key enabler.

Even where clear policy direction is set, offering the certainty that investors require, there will still be projects going unfunded because levels of investment risk appetite sit beyond the thresholds of commercial investors. Public capital is able to take this, often high, initial risk and catalyse private sector investment. These risks range from technology maturity risk to revenue certainty and upstream supply chain risk and vary within specific sub-sectors or investment types. Public co-investment in critical infrastructure aligns public and private interests and signals clear government endorsement of private investment into economy-wide decarbonisation and growth of essential supply chains.

1 Green Finance Institute "National Wealth Fund Taskforce" (2024)
2 Climate Change Committee "The Sixth Carbon Budget: The UK's path to Net Zero" (published December 2020)

This interim report sets out design principles for the NWF and five key foundational recommendations to ensure the NWF can be genuinely additive, driving a step-change in green investment:

- **Foundational recommendation:** Public capital investment alone will be insufficient to realise the transition to a low carbon economy. A stable, long-term, and competitive policy environment will be paramount for the realisation of the NWF's target objective of mobilising private capital (at a rate of 3:1 as set out by Labour). Public capital investment, when directly supported by policy, can take on risk that private capital alone cannot, offering potential returns for the fund, and a clear path to mobilise large scale private capital. Developing strategic alignment between the NWF and net zero policy will therefore be key.
- **Design principles:** The NWF must deliver for investors, government and for industry to succeed. In practice, this means operational independence from government, but strategic alignment with government via a clear mandate and complementary economic policy. It must be additive, flexible and have speed-to-market.
- **Recommendation 1:** The NWF must be empowered to deploy catalytic capital with higher levels of risk appetite against a broad, strategic investment mandate, aligned with government priorities to maximise flexibility and allow the NWF to respond innovatively and with agility to the challenges and opportunities of different sectoral transitions. The NWF will need to pursue the best investment opportunities (in terms of strategic significance, impact on carbon emission reductions, and the ability to crowd in private capital), within this mandate and the economic policy framework. Whilst demonstrating higher risk appetite, this won't mean only targeting first loss positions and below market rates of return. Instead, it means identifying risks the NWF is uniquely capable of managing. These include 'First of a Kind' execution risks where the NWF itself is effectively working with government to develop the market, thus the importance of policy and business models is key. These investments need to succeed if private capital is to support subsequent deals in the same sector so there is likely to be equity upside for the NWF.
- **Recommendation 2:** The NWF must be mandated to deploy a broad range of products and financial instruments, recognising that intervention differs by sector. Equity, deployed at higher levels of risk appetite with a broad range of risk-adjusted returns to attract the broadest investor appetite, is paramount. The ability to also offer concessional debt, guarantees and price assurance products (potentially including contracts for difference and offtake contracts) would enable the NWF to take a 'Swiss-army-knife' approach, and deploy capital in a way that most effectively mobilises private capital. Each of these product strategies will require further validation. Where third-party-fund investment aligns with mission and investment needs, this should also be in scope. The NWF should explicitly exclude pure grants from its remit, given their provision unlikely to deliver the expected return on investment. Instead, the NWF should encourage increased coordination and potential aggregation across existing grant-giving organisations.
- **Recommendation 3:** The NWF should crowd in private capital on a deal-by-deal basis, rather than at the fund level, to maximise its catalytic potential in the immediate term. Opportunities to crowd-in fund level capital will be considered as part of the NWF's medium-term strategy,

including any possible impact on the public finances[3]. It will be important that fund strategy, structure and mandate are future-proofed to incorporate fund-level mobilisation. Getting this transition right will be key to fund success in the long term, given the high cost and extensive maintenance required to sustain investments purely at the deal level.

- **Recommendation 4:** For speed-to-market, the NWF's capital should initially be managed and deployed by an existing organisation(s) in the current UK development finance architecture. UKIB has been highlighted as one potential organisation of best fit. The launch of the NWF should be accompanied by a review of the government-owned development finance institutions with the objective of simplification, building economies of scale and reducing friction for private investors. Improved coordination or consolidation under a single umbrella will allow optimal capital solutions to be deployed across the broadest range of sector needs to deliver net zero. Similarly, other HMG net zero funds and grant-giving activities should be better coordinated or aggregated.
- **Recommendation 5:** The NWF — or the institution that will house it — must operate at arms-length from government; its governance should comprise of an independent Board and independent investment committee with credibility and track record in the market. The case will need to be made for a relaxation of public-sector pay and procurement constraints to attract professionals of sufficient experience and calibre; this is key — alongside clear alignment of interests to ensure that remuneration is intrinsically linked to the success of investments.

Constituted correctly, with longevity and stability in mind, the creation of the NWF could represent a pivotal moment in the UK's journey towards a sustainable future. By learning from international best practices and tailoring the approach to the UK's unique context, the NWF could help to unlock the private capital required to propel the UK towards its 2030 and 2050 carbon reduction targets as per the UK's nationally determined contribution[4].

3 While out of scope for this report, further review of implications on fiscal rules (in particular Public Sector Net Debt (PSND)) are required to ensure consistency with objectives. This review may wish to consider the exclusion of certain public development institutions from PSND calculus through necessary governance reforms, changing the treatment of assets, or at least reducing emphasis on PSND in the fiscal rules.

4 Gov.UK "UK's Nationally Determined Contribution, updated September 2022" (2024)

01

NWF objectives & investment priorities

Rationale for intervention

An estimated five-fold increase in investment is required in the UK by 2030 to achieve net zero, with sustained annual investment of £50 billion[5] per year from 2030 through to 2050; this investment need cannot be met by the public or private sector alone.

The NWF will address the current funding gap for green investment projects that are not being funded by private investors. The fund will likely be most additive by investing in nascent technologies or projects at the initial stages of market development, to address risk and reduce private sector barriers to investment. Specifically, research on the current UK green investment landscape has identified a number of common barriers to investment:[6]

- **Investment viability:** a combination of high capital requirements, first-of-a-kind technology risk and volatility in the price of production inputs and outputs (particularly for pilot projects) means that for financial institutions, the level of risk posed for certain green investments is beyond their appetite.
- **Demand certainty:** current policy to support green investment is relatively short-dated with limitations in regulatory frameworks to drive demand, particurlarly for novel technologies. This is compounded by a lack of established and creditworthy markets for low-carbon products resulting in an absence of long-term bankable offtake contracts needed to secure project financing.
- **Value chain readiness:** timing delays to enabling infrastructure and dependencies between production and offtake assets is preventing investment. This, coupled with a lack of robust domestic supply chains in an increasingly tight global market, an insufficiently skilled workforce and lack of established enabling infrastructure (e.g. Transport and Storage Infrastructure) is resulting in uncertainty for both production and offtake across a number of sectors.

Focused on supporting the UK's transition to a low-carbon economy by mobilising private investment, the NWF should be understood as a sovereign-backed **green catalytic fund** rather than a sovereign wealth fund, which are typically larger in scale and invest for purely financial objectives. The NWF must therefore be designed to address various sectoral risks presented (technology maturity, regulatory certainty etc) through well-structured risk sharing solutions.

5 Climate Change Committee "The Sixth Carbon Budget: The UK's path to Net Zero" (published December 2020)

6 KPMG analysis

Overarching fund objectives and design principles

The overarching objectives of the NWF should be to drive UK competitiveness by (i) driving the UK's transition to a low carbon economy, to (ii) crowd in private capital (iii) and create growth and new jobs across the UK. For the NWF to fulfil these objectives, and deliver unique value to the UK, it must meet the needs of three key constituencies: investors, government and industry (as set out below). The fund should be designed in a way that is easy to understand for individuals across constituencies.

Design principles agreed by Taskforce

Works for investors

Specifically:

- Operationally independent
- Aligned with their needs (broad set of tools, fast to deploy, regulatory efficient)
- Attractive risk/ return profile

Works for Government

Specifically:

- Catalytic (mobilising private capital)
- Additive (filling a gap in existing provision)
- Fast to market (inc. implementable)
- Ability to align policy priorities (future proof and scalable)

Works for priority sectors

Specifically:

- Provides the right type of capital
- Operational simplicity
- Can work alongside other types of support (e.g. technical assistance)

Accompanied by a stable, aligned and competitive policy environment

Defining investment priorities

An investment mandate, rather than fixed sectoral funding allocations, is the best way of ensuring that government can deliver on its overarching objectives (i.e. private capital mobilised, a reduction in carbon emissions and new jobs created). Specifically, the greater flexibility to pursue a broader range of investment opportunities, and the increased market credibility that will come from designing the NWF's investment criteria in a way that mirrors private investment funds (where appropriate) will improve the ability of the NWF to mobilise private capital in a way that is truly catalytic. This approach will also enable the NWF to respond dynamically to the specific challenges inherent in different sectors that could have a critical impact on the transition to a low carbon economy. This flexible approach will also resonate with institutional investors potentially investing in NWF at a fund-level, a medium-term aspiration (explored further in Chapter 4).

Leading international comparator funds articulate focused investment priorities to support delivery of high-level strategic objectives. The Canada Growth Fund and Australia's Clean Energy Finance Corporation provide examples of different approaches to determine strategic objectives and investment priorities.

NWF investment priorities should be informed by (i) an agreed strategic investment mandate, (ii) the wider industrial strategy to drive UK competitiveness, (iii) identification of the biggest opportunities in the UK in terms of decarbonisation, specifically where there are funding gaps. The NWF objectives (focused on catalytic capital) should also inform the product offer (set out in chapter 2).

Labour have signalled five preliminary sectors where NWF capital could help to catalyse private investment: green steel, green hydrogen, industrial decarbonisation, gigafactories and ports. It is recommended that the fund be structured to facilitate, as needed, investment into these sectors, which analysis shows will enable a reduction in emissions across Transport, Industry and Electricity Supply which account for more than 50%[7] of the UK's emissions. But also that the fund design factors in the potential to facilitate private investment into wider sectors of the economy that may also benefit from catalytic capital — both sectors but also local delivery entities such as the Combined Authorities.

Analysis of further sectors that could be considered — see below — provides a useful example of the considerations needed to determine fund investment priorities.[8] In addition, noting the importance of having a stable and aligned policy environment (e.g. provision of subsidy control) to ensure fund success, consideration has been given to the extent to which policy will inform how helpful NWF capital will be helpful in reducing investment barriers (detail in the appendix attached).

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7 DESNZ, "2023 UK greenhouse gas emissions, provisional figures" (Published March 2024)

8 KPMG analysis

Fund	**Canada Growth Fund (CGF)** C$ 15 billion[9] (2022)	**CEFC** A$ 30 billion[10] (2012)
Strategic Objectives	CGF will make investments that catalyse substantial private sector investment in Canadian businesses and projects to help transform and grow Canada's economy at speed and scale on the path to net-zero. CGF's investments will help Canada meet the following national economic and climate policy goals: 1. Reduce emissions and achieve Canada's climate targets 2. Accelerate the deployment of key technologies 3. Scale up companies that will create jobs, drive productivity and clean growth industrial base, and encourage the retention of intellectual property in Canada; and 4. Capitalise on Canada's abundance of natural resources /strengthen critical supply chains	CEFC will deliver on the objective of the CEFC Act (2012) to: • Facilitate flows of finance into the clean energy sector • Facilitate the achievement of Australia's greenhouse gas emissions reduction targets
Investment Priorities	• Projects: projects that use less mature technologies and processes to reduce emissions across the Canadian economy • Clean tech: technology companies inc. SMEs which are scaling less mature technologies that are in the demonstration or commercialisation stages of development • Low-carbon supply chains: companies and projects across low-carbon or climate tech value chains, inc. low-carbon natural resource development	• Energy decarbonisation (with a switch to alternative fuels): investments span the energy sectors, from new solar and wind generation to large scale energy storage • Efficient use of energy and materials: investments span infrastructure, property, natural capital and new energy sources e.g. hydrogen • Natural capital and carbon sequestration: investment alongside landowners to maximise productive, sustainable use of natural capital assets

9 CGF website, interview with CGF team

10 CEFC website, interview with CEFC team

Investment themes

The High/Medium/Low rating for the role of policy is a qualitative assessment of the potential impact of policy in addressing the barriers to private investment in the priority sectors. This assessment was based on research of publicly available information regarding the policy landscape undertaken as part of the sectors analysis, considering the maturity of policy within each sector.

Investment viability		Sector impacts
High capital requirements	Upfront capital requirements are high for many low-carbon and nascent technologies and sectors with some sectors struggling to access capital Role of policy: Low	■■□□ Green Steel ■■□□ Green Hydrogen ■■■□ Industrial Decarbonisation ■■■□ Gigafactories ■■■□ Ports
Investment return	Input price volatility and long payback periods caused by tight margins is moving the risk-reward balance below those required for private investors Role of policy: Low	■□□□ Green Steel ■□□□ Green Hydrogen ■■□□ Industrial Decarbonisation ■■■□ Gigafactories ■■□□ Ports
Technology maturity	First of a kind risks are preventing investment in new technologies and the deployment of solutions unproven at commercial scale Role of policy: Medium	■■■□ Green Steel ■■□□ Green Hydrogen ■■□□ Industrial Decarbonisation ■■□□ Gigafactories ■□□□ Ports
Delivery risk	Permitting delays, cost overruns and construction delays create uncertainty in the deliverability of projects Role of policy: Medium	■□□□ Green Steel ■■■□ Green Hydrogen ■□□□ Industrial Decarbonisation ■□□□ Gigafactories ■■□□ Ports

Potential Role for NWF

1. Debt financing for strategic assets on de-risk development on a “no-regrets” basis where anticipatory investment is required
2. Equity financing where higher risk profile or a long-term investment horizon is required
3. Loan guarantees where counterparty creditworthiness is a barrier to accessing capital

Illustrative support

- Debt financing to develop portside infrastructure at larger “strategic” ports
- Equity financing for smaller ports
- Equity funding for recycling technologies for batteries/steel
- Loan Guarantee to support access to renewable power via Purchase Power Agreement contracting

Demand certainty		Sector impacts	
Demand certainty	A lack of long-term revenue certainty and credit worthy offtake is impacting estimated returns and creating barriers to securing capital Role of policy: High	■□□□	Green Steel
		■■■□	Green Hydrogen
		■□□□	Industrial Decarbonisation
		■■□□	Gigafactories
		■■□□	Ports

Potential Role for NWF

1. Loan/revenue/price guarantees where lenders require contracts to commit funding (considering relationship of NWF with low carbon contracts). In the absence of this certainty, the NWF could underwrite the risk
2. Equity/debt co-investments in downstream assets to stimulate offtake and reduce uncertainty

Illustrative support

- Price guarantees to chemical feedstock consumers to support switching from grey to green hydrogen
- Debt/equity to support deployment of large scale grid storage infrastructure in order to stimulate demand for battery cells produced in gigafactories

Value chain readiness		Sector impacts	
Enabling infrastructure	Interdependencies between investments create a "chicken and egg" issue impacting investment certainty Role of policy: High	■■■□	Green Steel
		■■■□	Green Hydrogen
		■■■□	Industrial Decarbonisation
		■□□□	Gigafactories
		■□□□	Ports
Supply chain	The UK has capability and capacity gaps in upstream and 2nd life processing supply chains with skills gaps also creating investment challenges Role of policy: Medium	■■■□	Green Steel
		■■■□	Green Hydrogen
		■■□□	Industrial Decarbonisation
		■■■□	Gigafactories
		■■□□	Ports

Potential Role for NWF

1. Debt/equity in supporting development of enabling infrastructure where a policy gap exists
2. Debt in supporting investments where a significant supply chain gap exists
3. Debt/equity to accelerate commercialisation of new technology and discrete sections of a value chain

Illustrative support

- Debt/equity funding for CO2/H2 T&S infrastructure for dispersed sites
- Debt/equity for commercialisation of steel recycling facilities

02

NWF product offer

Key components of the investment thesis

The NWF should deploy a range of products with high levels of risk appetite. At the portfolio level, the NWF should not be loss-making and should be self-funding, targeting a low return through the investment cycle, for example in line with the long-term gilt (individual assets will be priced to reflect differentiated risk). This is consistent with the approach taken by most UK development finance institutions and other international examples. There might be certain deals where concessionary products are required (e.g. equity), particularly to ensure competitive risk-return profiles when compared to international opportunities. That said, where the NWF takes on delivery risk, in conjunction with the development and rollout of new business models, success in first of a kind projects should deliver an outsized return to the fund.

Leading international comparators offer a 'swiss-army-knife' of products, allowing them to deploy capital in innovative and nimble ways

Core products per each organisation

		Canada Growth Fund	CEFC	EIB[1]	KFW[3]
	Fund size/ assets (£)	£9 billion	£16 billion	£38.1 billion[2]	£580 billion[4]
Grants	Grants			●	
Equity (in companies)	Directly in companies	●	●		●
	Indirectly via funds	● (Prioritises delivering concessional financing across products)	●	●	●
Lending (to companies)	Lending		~Not core offer	●	●
	On-lending		●	●	●
Infrastructure	Lending	●	●	●	●
	Equity	●	●	●	
	Guarantees		●	~Not core offer[5]	●
Price assurance	Offtake contracts	●	~Not core offer		
	Contracts for difference	●	~Not core offer	~Not core offer[5]	

1. Includes funding options across EIB; 2. Fund size determined by EIB climate spending allocation; 3. Includes funding options across KfW excl. KfW development bank; 4. Based on total KfW fund size; 5. Offer through EIB Climate Bank initiative (part of European Green Deal).

Note: some organisations may offer products that are not flagged, but to a minimal extent.

Source: Canada Growth Fund Technical Backgrounder, Financial Services Commission, Australian Government, CEFC Investment Policies, CEFC Equity Investment Portfolio, CEFC About Our Finance, CEFC About Our Finance FAQs, CEFC Asset Finance, EIB Climate Bank Roadmap, KfW's Impact on the economy, KfW Energy and the Environment, KfW IPEX-Bank Infrastructure (PPP), KfW Oliver Wyman IC

Which products/ financial instruments should the fund be mandated to deploy?

To address the investment barriers set out in the previous section and maximise the fund's catalytic potential, the NWF should have a broad mandate to deploy a range of products (a 'Swiss-army-knife'); that allows the capital stack within the investment to be tailored on a needs basis.

Within the existing UK public investment landscape, there is strong grant provision (UKRI, Innovate UK, ARIA), equity (BBB, UKIB), debt (UKIB) and some provision of guarantees.

To be catalytic, and meaningfully different from existing provision the NWF should offer:

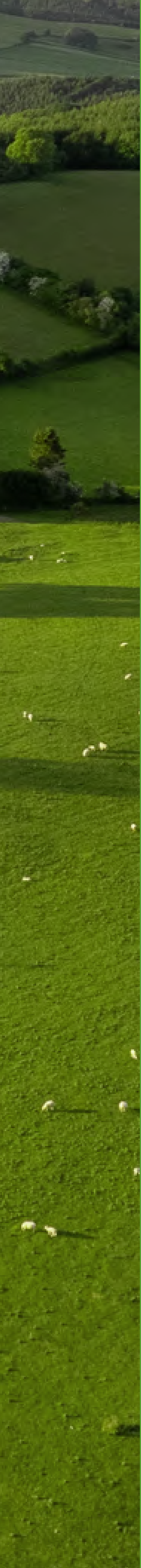
- **Equity,** with the ability to invest in both **projects** and **funds** that pose higher levels of risk. The NWF could consider deploying non-control equity for greater speed to market in the immediate term.
- **Concessional debt** (providing loans below standard market rates) where this is required alongside other forms of capital that cannot be sought elsewhere.
- **Guarantees** and **wider price assurance options** (further detail on example price assurance mechanisms is provided in the appendix), deployed in a coordinated manner. This could include:
  - **Contracts for difference** to stabilise revenues at a set rate, guarding against losses in volatile markets in more established projects and industries.
  - **Off-take contracts** to ensure revenue stabilisation before production begins, particularly for less established projects and industries.

Charging for the provision of guarantees would also enable the NWF to benefit from potential upside. Where there is a clear case, and it sits within broader objectives and mandates, investment through third-party funds should also be in scope.

By offering this broad product suite, the NWF can operate in a truly innovative manner. It is recommended the fund does not deploy pure grants as the catalytic nature of such investments is limited, there is no expected return on investment and there is adequate provision from other funding bodies in this space.

To address the likelihood that additional pure grant funding will be required to close some deals, the NWF could consider establishing a formal co-investment relationship with one of the UK's existing public grant giving bodies to provide blended finance options. This is akin to the relationship between Australia's CEFC and the Australian Renewable Agency (ARENA)[11], which leads on grant provision. This would be done in the context of the wider landscape review of the development finance architecture proposed, and the case for aggregation of development finance activities under a single umbrella, including where appropriate, grants. It would also sit alongside a developed technical assistance function that could support through advice but also development capital to bring projects to market, depending on sector need.

11 CEFC "CEFC statement on ARENA funding" (published September 2022), Interview with CEFC team



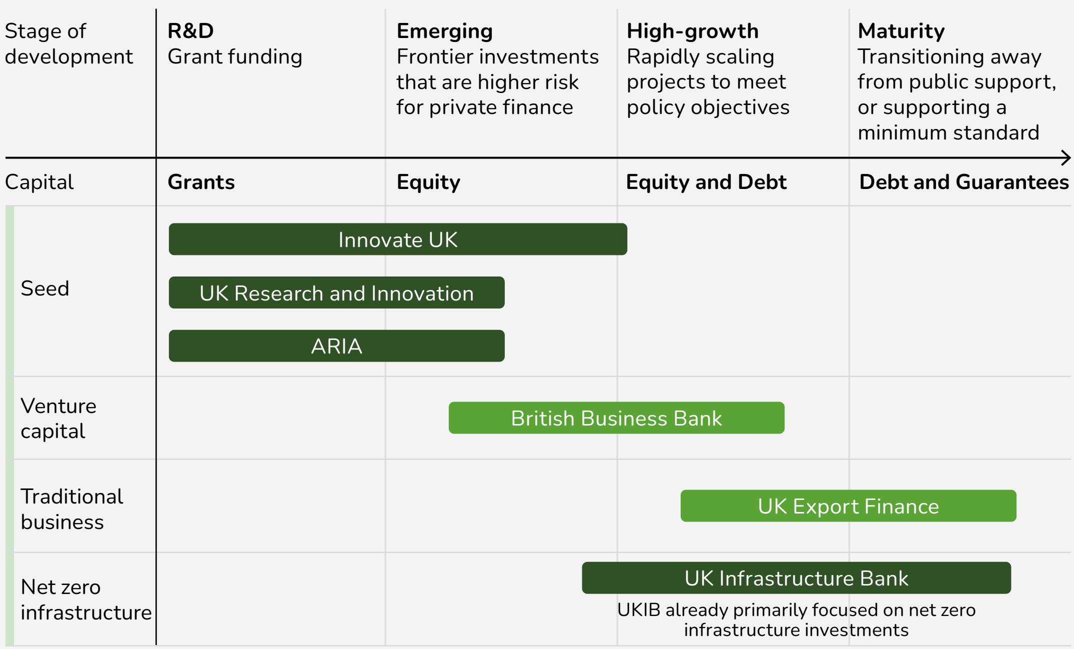
03

Placement of NWF in existing landscape

Context: the UK public investment landscape

The UK's landscape of public investment bodies is complex and fragmented, with other European countries pushing for greater consolidation and join-up in this space, rather than establishing new institutions. For example, between 2005 and 2016, the French public investment landscape was consolidated under the Bpifrance umbrella, with dedicated subsidiaries that focus on specific investment instruments or approaches. KfW in Germany also operates as an umbrella organisation including KfW promotional Bank and KfW IPEX-Bank (focused on export and project finance)[12].

There are already a significant number of public organisations operating within the development finance ecosystem



Complementary infrastructure expertise:

- Homes England
- National Infrastructure Commission
- Infrastructure and Projects Authority

Scottish and Welsh finance institutions:

- Banc
- The Scottish National Investment Bank

Primary areas of focus | Mostly direct financing | Mostly indirect financing

Source: UKIB "Strategic Plan 2022" (published June 2022), Oliver Wyman analysis

12 KfW website

Due to the fragmented nature of the ecosystem, there is not a single entity with the capabilities required to provide the breadth of support expected from, and recommended for, the NWF. With that in mind, careful consideration is required to integrate the NWF into the existing landscape. Specifically, two interrelated but distinct questions must be answered:

- (A) Is a new institution required or should this be integrated into the existing UK development finance architecture?
- (B) Who should manage the funds?

(A) Is a new institution required or should this be integrated into the existing UK development finance architecture?

Option 1: Establish the NWF as a new institution

The creation of a new institution presents an opportunity for clarity of objectives and ease of interaction. However, in the context of existing landscape fragmentation, and with speed-to-market as a key design principle, it is a firm recommendation that a new institution is not created, adding further to this fragmentation, and creating overlapping mandates (e.g. with UKIB on low carbon infrastructure).

Establishing new institutions can take a significant amount of time. For example, the former UK Green Investment Bank took 1-year to appoint a CEO, and another 18 months to hire the ~100 person team required to run the organisation.

Option 2: Merge the NWF with an existing development finance institution

The NWF could be established as part of an existing UK entity (either on balance sheet or as a subsidiary). The NWF could manage the new £7.3 billion separately to existing organisational funds, under a separate mandate and with scope to leverage synergies between teams. There is clear precedent for this model with the BBB which operates separate mandated and commercial arms — the mandated arm operating on a sub-commercial basis. Similarly in the EU, the European Investment Bank (EIB) Group consists of the EIB as a bank and the EIF as a fund and subsidiary of EIB. While considerable work will be needed to fully establish the NWF as part of an existing organisation (including hiring additional resource), this option would give reasonable speed-to-market, avoiding the delays of establishing a brand-new entity.

A key success factor for this option is defining and effectively communicating the difference in objectives and value proposition between the NWF and the mandate of the existing organisation (and any organisations with adjacencies). If key overlaps are identified, and there is a strong risk of creating confusion, there could be further scope to refresh the broader organisational mandate, anchored around a shared mission and re-purpose, and redirect existing organisational funds towards the NWF to increase the size of the portfolio.

The most relevant organisations for consideration would be UK Infrastructure Bank (UKIB) which has an existing focus on low carbon infrastructure investments, British Business Bank (BBB) which has significant VC investment experience, and Homes England (HE) which focuses on housing and could be particularly relevant if it were proposed as a future investment priority (e.g. house-building infrastructure or retrofitting). Given the need to deliver both speed to market and wider reforms, it is recommended that strong consideration be given to an initial partnership between the NWF and an existing development finance institution. UKIB could be best fit for this, though further stakeholder engagement is required.

Moreover, there is evidence that companies find it challenging to navigate and find relevant sources of finance and support within the current institutional landscape. The creation of the NWF should trigger a review of the wider development finance landscape to explore the aggregation of existing public funds that have been established to deliver related outcomes (e.g., Carbon and Storage Infrastructure Fund, Industrial Decarbonisation and Hydrogen Revenue Support scheme etc.). Furthermore, clarification and alignment of mandates to ensure funding strategies are clear to the market is essential. To deliver this, consideration should be given to an umbrella body that aggregates existing development finance activity in net zero transition and infrastructure. This would mirror the approach of the EIB, KfW, and Caisse des Dépôts.

(B) Who should manage the fund?

Regardless of which of the above options is selected, the decision about who should manage the fund is distinct.

To manage the fund in-house the NWF should prioritise appointing individuals with private sector investor expertise and market credibility to manage the fund. Pay constraints must be relaxed to enable the calibre of appointment required. More broadly, establishing a culture which enables and encourages risk taking, with scope for maximum innovation, creativity and forward-thinking would be a key success factor in this approach.

However, even if appointing individuals with a strong track record, limited institutional track-record (across the broad product set, even if existing development finance institutions have experience deploying certain types of capital) may point towards, at least the partial outsourcing of funds. For simplicity and ease of engagement, outsourced funds could be managed under a single NWF wrapper.

Different options for outsourcing fund management, which are not mutually exclusive, include:

- **Being managed by one or more of the existing public development finance institutions.** For example, if it is decided that the NWF should be integrated into existing development finance architecture, that organisation could decide to manage it partially in-house, and partially outsource it to other organisations with more specialist expertise (for example UKIB on infrastructure and direct equity investments, BBB on 'Clean Tech' VC fund, etc.). Since this report recommends the NWF be integrated with an existing institution it would likely make most sense for that institution to take responsibility for managing the fund directly. This will require the institution to build or hire in new capabilities under a dedicated function. This does not preclude other fund models being pursued over the longer term. Investing through thematic third-party funds that align with the mandate of the NWF should be part of the product suite and therefore working with either private funds or public pension funds remains in scope.

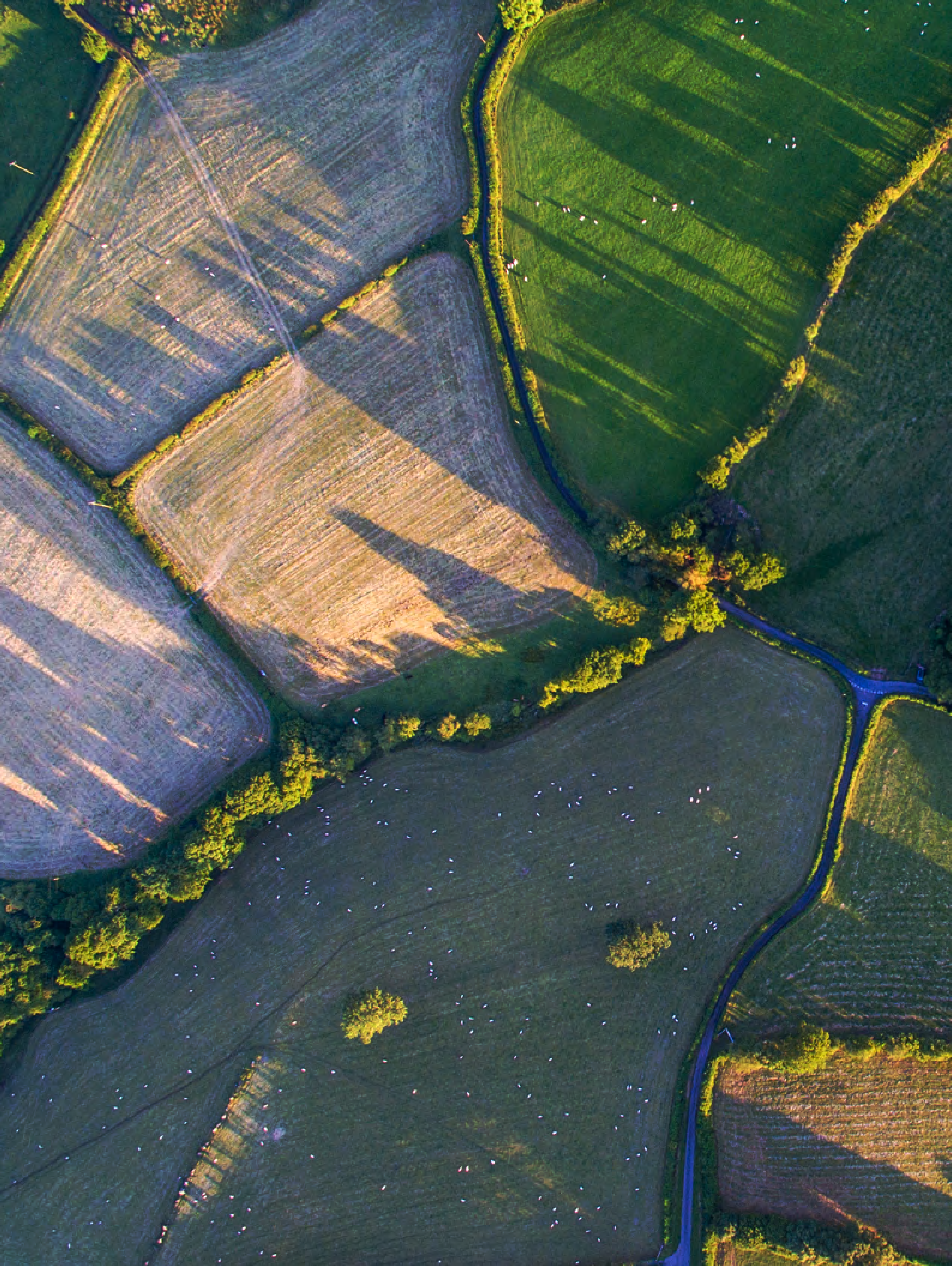
- **Being managed by a public pension fund.** This is in line with the Canadian Model where the Canada Growth Fund is a subsidiary of the Canada Development Investment Corporation (CDEV) but is actively managed by PSP Investments (a Canadian public sector pension fund)[13]. GLIL Infrastructure (a joint venture founded by the Greater Manchester Pension Fund and London Pensions Fund) represents the closest equivalent to PSP in a UK context, but their experience is clearly focused on infrastructure investments (where they manage a £3.6 billion portfolio), rather than more broadly across the green investments space[14]. The Pension Protection Fund, whose mandate is to protect the pensions of those on Defined Benefit Schemes in the case that their pension becomes insolvent[15], is another example of an institution that could have responsibility for management of a portion of NWF capital.
- **Being managed by one or more of the existing private sector funds.** Outsourcing the management of the fund to private investment funds would leverage their strong brands and existing track records in the market. This could build on existing precedent for this model, for example the Charging Infrastructure Investment Fund, where specialist private equity fund Zouk Capital[16] manages £200 million of initial investment on behalf of UKIB, seeking to match-fund with private capital. Whilst this funding it is not focused on maximising private sector capital mobilisation, it is an approach to build on. Carefully messaging the benefits of this approach will be important to mitigate potential negative sentiment around the management of public money by private actors for commercial gain. In addition, consideration needs to be given to the fact that private managers may not have experience investing based on strategically important but non-commercial criteria. In the case of the fund being managed by private sector fund managers, in some instance, significant consideration would need to be given to fee structures to ensure this did not undermine the value proposition.
- **Being managed through a joint venture between a private sector fund(s) and an existing development finance institution(s).** This hybrid approach would combine key elements of the options discussed above, acknowledging that this might be required to mitigate skills fragmentation across existing organisations.

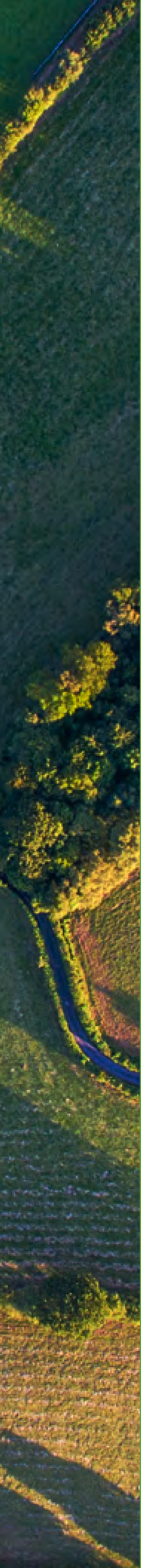
13 CGF "2023 Annual Report" (published December 2023), interview with CGF team

14 GLIL Infrastructure website

15 Pension Protection Fund website

16 UKIB "UKIB looks to accelerate investment in electricity storage to help UK deliver on net zero ambitions" (published July 2022)

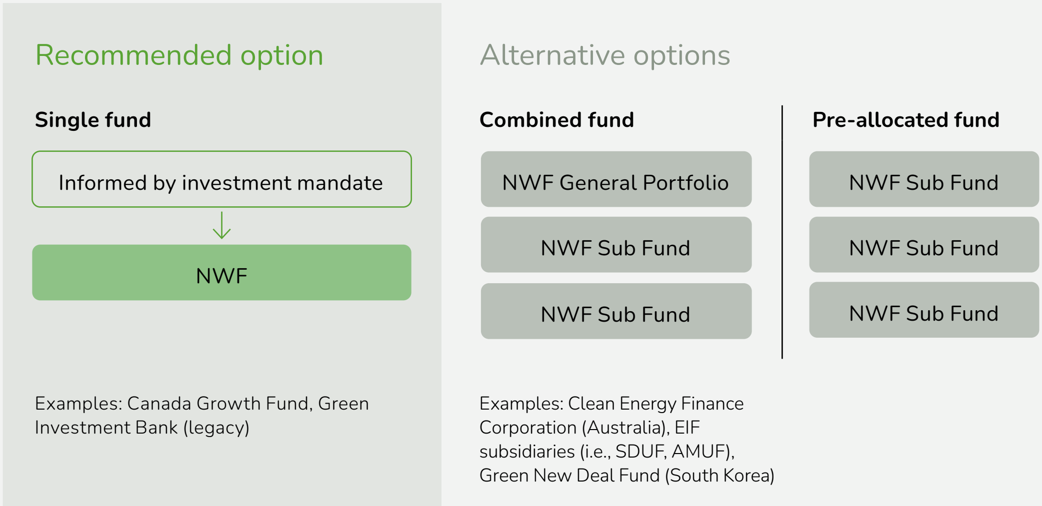




04

NWF structure

Fund structure options agreed by Taskforce



How should the portfolio be structured?

It is recommended the fund is a **single, rather than preallocated**, 'pot of money' managed in line with the agreed strategic objectives and investment priorities. This is the approach taken by the Canada Growth Fund and by the UK's former Green Investment Bank, and enables the fund to operate dynamically and pursue more attractive opportunities. From an investor standpoint, the use of a single fund ensures greater confidence around operational independence (a key design principle for this cohort).

If using a single fund model, there are several mechanisms that can be used to allow government to actively drive the fund's investment approach and priorities:

- **Investment mandate:** the investment mandate will be determined by government in consultation with the fund and will be used as the basis for all investment decisions made by the NWF.
- **Legislative mandate**: enshrining the fund's investment priorities into law ensures that any fundamental changes to the NWF's mandate must be proposed and approved by Parliament.
- **Governance arrangements:** the governance surrounding the fund should ensure that government has adequate oversight of NWF operations while maintaining an appropriate level of independence. More detail on specific governance arrangements is below (see chapter 5).

While it is not the recommended approach, if it is deemed politically necessary to ring-fence capital for deployment in specific sectors, NWF should use a combined fund structure as opposed to a purely preallocated fund. This will allow government to maintain the balance between maximising for flexibility and optimal returns while delivering on sectoral commitments.

In practice, this would mean the fund having a general portfolio of capital and then a series of sector or initiative specific sub-funds with more rigid investment criteria. Additional sub-funds could also be established over time, alongside new capital commitments, to reflect evolving government priorities. Australia's CEFC uses the combined fund structure, with several sub-funds dedicated to specific initiatives[17].

While use of a combined fund allows government to fulfil specific policy commitments and maintain flexibility to pursue truly catalytic investment opportunities, there is a risk that spreading capital across several 'pots of money', and ring-fencing it, limits fund impact by restricting the types of deals the NWF can invest in. The same logic can be applied to a purely 'preallocated fund' (with no general portfolio), which is not recommended as an option, and for which there is no clear precedent in international comparators.

Where should private capital be crowded in?

To maximise the 'mobilisation rate' (i.e. how much private capital is crowded in), the fund should be designed in a way that **crowds in private capital at the 'deal level' rather than 'fund level'**. This is consistent with the approach taken by the Canada Growth Fund and the Australian CEFC[18] and reflects the challenges of getting private investors to commit at the fund level when there is limited track record and lack of clarity on returns at the portfolio level. While this approach would maximise for mobilisation, it would likely exclude the participation of certain investor types.

Specifically, the fund will likely need to take a longer term view if trying to attract certain institutional investors. For example, while larger pension funds will have the capacity and appetite to conduct in-house due diligence of investments on a deal basis, the same does not apply across the wider UK pensions landscape. In some cases, there will preference to invest at a fund level. That said, international funds have experienced the downstream mobilisation of such pension investments once the initial investment had been de-risked. Depending on how the fund's mobilisation rate is calculated, this subsequent mobilisation could be attributed to the NWF.

Importantly, as the fund establishes a track record, and builds its capabilities, **over time there could be scope for the NWF to raise funds for investors that do not have the capacity or appetite to invest on a deal-by-deal basis.** The International Finance Corporation's Managed Co-Lending Portfolio Program illustrates how crowding-in at the fund level in this way can work (similar to an index fund), leveraging the World Bank brand to achieve a mobilisation rate of 8:1 for investments in developing countries[19]. This approach would need to be tested with potential investors.

17 CEFC "Where we invest" (2024), interview with CEFC team

18 Interview with the CEFC team, interview with the CGF team

19 International Finance Corporation (World Bank Group) "Managed Co-Lending Portfolio Program" (2024)

How should the fund crowd in private capital?

The NWF should develop a comprehensive methodology to build an investment pipeline and crowd in private capital that would not have otherwise been invested. Key components might include:

- **Encouraging inbound investments requests:** Efforts to (i) build the NWF brand in the market, and (ii) making it as easy as possible to field inbound enquiries (e.g. through a publicly available inbox, web form or phone number) will help to direct promising investment opportunities towards the NWF for triage and due diligence. These inbound requests could be direct from industry, Local Authorities or from investors who have identified an investment opportunity but require NWF support (e.g. first-of-a-kind equity or an offtake contract) to get the investment over the line. It should be noted that such an approach can create logisitcal challenges in terms of the volume of requests received and ensuring consistency in the way potential investors pitch opportunities.
- **Building key partnerships with other organisations:** By establishing formal and informal partnerships with the existing climate focused finance organisations and development finance institutions, investment opportunities can be more effectively triaged between institutions (e.g. an investment opportunity declined by one institution that could be a good candidate for the NWF can be filtered through by way of an agreed process).
- **Ensuring ongoing outreach to areas with greatest expected impact:** Perhaps most importantly, in addition to reacting to inbound opportunities, the NWF should proactively identify investment opportunities based on expected alignment with the NWF's proposed strategic objectives (e.g. UK sectors with the greatest carbon emissions / priority sectors). Establishing sector teams will further develop the pipeline and build key strategic investor partnerships with specialist investors operating in these areas.

Ongoing monitoring on a deal-by-deal basis contexualised to market developments will be necessary to ensure the fund is not competing with private capital and is instead financing deals / projects that would not have closed without an element of public co-investment.

Expected risk-return profile

Given the proposed approach to crowd in private capital at the deal level, the expected risk-return profile would be determined on a deal-by-deal basis. Given the inclusion of concessional products, returns will occasionaly be asymmetric, favouring the private sector. However, there should be scope for equity upside for public capital, particulary on delivering first of a kind projects through managing execution risk.

Wider policy implications and considerations

Noting the primacy of the wider policy environment, the fund itself could be accompanied by a technical assistance function that incorporates pipeline development and demand side support tools. Such capability would help to ensure that the longer term policy considerations necessary to ensure investment success remain on the agenda. Given it's direct experience deploying capital in the market, the NWF would be well placed to provide advice to government on policy changes that would further increase the flow of private capital to priority sectors. There is precedent for this model, for example The Development Bank of Wales provides advice to the Welsh Government on the impact of government policy on decarbonisation.[20] The British Business Bank also operates as a "centre of expertise on smaller business finance in the UK, providing advice and delivering on behalf of government".[21]

20 "Annual Operational Plan 2023/24" (published December 2023)

21 British Business Bank "Shareholder Relationship Framework Document" (published December 2022)


SLOW

05

NWF governance

Key principles to shape the governance approach

Prioritising operational independence will build credibility and make the NWF proposition more attractive to investors. Full operational independence will make it more challenging for government to enact priorities through directly controlling the deployment of capital, but if optimising for high ratios of private capital deployed, operational independence is paramount.

The exact governance structure for the NWF will be heavily informed by the decision made regarding the fund's positioning in the existing landscape (see chapter 3) alongside its fund structure. Some broad principles will apply across options. These principles include:

- The fund should ideally have a **legislated foundation to signal longevity to the market and** provide the stability and certainty that private co-investors need when making long-term investments.
- The NWF **should be managed at arm's length** from government with independent operations and decision-making capabilities.
- The government should confirm a **multi-year allocation of capital** to be deployed against a **multi-year strategy** to enable independent operations against a long-term strategic view.
- The NWF should establish an **independent investment committee** to make investment decisions. They should work within the investment thesis (with defined success criteria) that has been agreed with government.
- The NWF must have an **independent Board** if not being managed on the government balance sheet. Government should be represented on the Board, providing an ability to influence but not veto.
- The NWF may consider establishing an informal governance / advisory mechanism capture perspectives from the **wider ecosystem** that would be beneficial for ensuring the fund can evolve to meet the changing needs of investors and project developers.

Finally, which part of government takes the lead in either directly managing, or managing the relationship with, the NWF will have significant implications for its final form and the policy objectives that are optimised (for example, between HM Treasury, Department for Energy Security & Net Zero, or Department for Business and Trade).

Defining success

As part of the NWF set-up, government will need to work with the NWF to agree the key performance indicators (KPIs) and success measures for the fund. It must be decided whether a key metric should be used as the ultimate indicator of success (e.g. a mobilisation rate of 3:1) alongside a broader set of metrics to determine objectives and success (e.g. contribution towards carbon emissions, carbon value for money, creation of green jobs, location of intervention etc.). Existing industry metrics could be used to contextualise definitions of success and ensure that

KPIs are measurable across sector / type of investment e.g. those set out by the Transition Plan Taskforce and the Glasgow Financial Alliance for Net Zero (GFANZ).

It must also be determined whether specific targets / conditions must be met at the deal level or at the portfolio level. For example, the mobilisation rate target of 3:1 should be a portfolio average and not an outcome of every transaction. Focusing on a broader set of metrics would protect the NWF from having to pursue a single objective (e.g. mobilisation of private capital alone). Where possible, any transactions should deliver against a wider set of public policy objectives, including jobs, supply chains and regional growth. That said, private capital mobilisation should be a primary objective, given the quantum of capital needed to deliver the transition.

Consequently, particular attention should be given to deciding a KPI / set of success measures that tracks whether NWF investments are truly additive. Agreeing the exact nature of such KPIs will be particularly important if the fund is to accept inbound investment requests as recommended. Working through an example, investors making inbound requests may need to demonstrate that private capital has not been able to previously invest (to a point that makes the project commercially viable) before the NWF agrees to deploy capital.

Once this shared vision for success has been agreed, it can then be built into an investment criterion (where appropriate) and actively monitored and evaluated as part of ongoing reporting and portfolio management.

Prioritising operational independence will build credibility and make the NWF proposition more attractive to investors.

Conclusion & recommended next steps

By building off proven international examples, the NWF can be designed to crowd in private capital to priority areas to drive growth, create green jobs and support the UK's transition to a low carbon economy.

Importantly, funding the transition to a low carbon economy is not a short-term mission. The NWF must be an enduring institution with a sustained focus on being catalytic and additional in the market. To faciliate this, the structure and governance should be designed to be agile, responding to maturing market conditions and evolving policy priorities in order to retain a focus on crowding in — not crowding out — private capital. A clear legislative mandate and ability to deploy multi-year capital allocations against a multi-year strategy will support this.

To ensure any public investment is truly impactful, it must be accompanied by a stable, aligned, and competitive policy environment. Key policy priorities worthy of note include the acceleration and long-term commitment to business model development for emerging sectors, reform of the planning system to cut planning delays and accelerate investment, tackling the skills gap through the Green Skills Action Plan and strengthening the UK carbon price alongside other demand pull measures. The NWF policy advisory capability could play an ongoing role in supporting government to design and implement these policies.

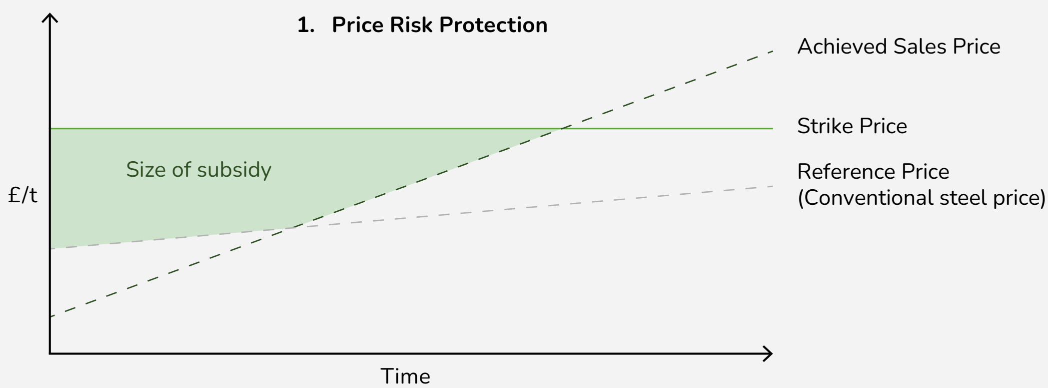
The Taskforce recommends the following next steps to drive this work forward:

- Clarify the working relationship between the NWF and Great British Energy, to build investor confidence and delivery certainty.
- In line with HMT Green Book guidance and noting the speed with which recommendations were generated, conduct a formal assessment of market failures and identify and assess the spectrum of options for addressing these market failures, especially fund structures, products and investment gaps (e.g., ticket gaps which currently fall between existing public provision).
- Determine which structure and associated interventions will be most likely to catalyse pension fund investment.
- Decide which organisation will be responsible for managing and deploying the NWF, and create a roadmap to coordinate and simplify the interaction of investors with government on infrastructure finance under a single umbrella. Develop clear messaging to provide confidence and clarity in respective objectives. Use this to inform which part of HMG will lead on the implementation of the NWF.
- Align with HMT review of existing funding provision from public sector bodies to consider case for further aggregation into NWF (e.g. Automotive Transformation Fund, Carbon Capture and Storage Infrastructure Fund, Industrial Energy Transformation Fund, Industrial Decarbonisation and Hydrogen Revenue Support scheme etc.).
- Clarify the legislative, regulatory government accounting and subsidy control implications of the proposed changes to ensure, in particular, appropriate treatment under Public Sector Net Debt calculus.
- Agree the NWF investment mandate, including investment priorities, definition of investment criteria, broadening of priority sectors (e.g. building retrofit) and confirmation of KPIs.
- Conduct additional analysis identifying exemplar projects the NWF could invest in, to provide a view of the current pipeline and determine how far the fund could catalyse private capital in practice.
- Clarify the licensing required for the approach (e.g. if extending the mandate of an existing organisation) and prioritise passage of any legislation required in first Parliament.
- Design and mobilise the NWF's operating model, identifying broader capabilities required and interfaces with existing teams (where relevant).
- Launch investor relations to (i) identify short-term pipeline opportunities, (ii) establish early commitment to partnership and collaboration.

Appendix — Price assurance mechanisms

Price assurance was identified as a possible mechanism the fund could play a role. Two examples of revenue guarantees are detailed below including a contract for difference (CfD) and a Cap and Floor mechanism. The below are illustrative. Further analysis on the structuring and role for NWF of these mechanisms is required to ensure any provision aligns with the defined objectives of the fund.

CfD mechanisms can provide price assurance in sectors where the market does not provide sufficient price signals to incentivise low carbon products — e.g. Green Steel



A CfD (Contract for difference) mechanism, such as that currently in development for UK Hydrogen Business Models (and currently used in the OSW sector), could offer price certainty for eligible green steel producers. These protections would work as follows:

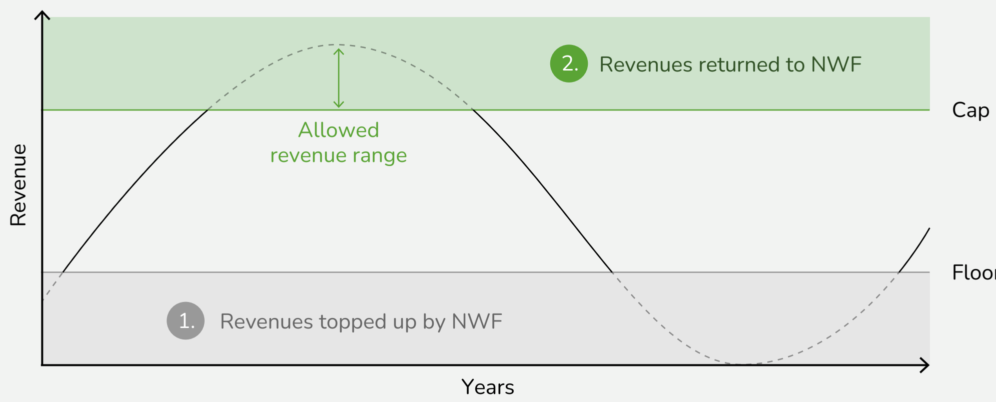
1. Price Risk Protection: A counterparty (such as the LCCC) potentially funded by the NWF could offer producers a per unit revenue top up to cover the cost base and required returns based on an agreed strike price. In return, projects will agree to profit share any offtake price achieved that is higher than the strike price with the NWF.

- **Difference payment:** calculated as the difference between the steel reference price and the strike price agreed with each project
- **Strike Price:** a £/t determined based on project Capex, Opex and WACC, and agreed and finalised through negotiations with LCCC

Benefits of CfDs:

- CfDs provide revenue stability while encouraging producers to optimize their processes through competitive strike prices, fostering a more competitive and innovative market
- CfDs only require payments when the market price is below the strike price, potentially reducing the burden on funding provider, so no upfront capital is required to enable sector development

A Cap and Floor mechanism can be used to de-risk investment where revenue uncertainty is a blocker to investment, especially when the timing of when offtake contracts impedes investment viability — e.g. Ports



The Cap and Floor (C&F) mechanism is currently used to support revenue stability for UK Interconnectors. A similar regime would allow ports to operate on a merchant basis, stacking revenues across a number of revenue streams. The overall revenue stack is then subject to a minimum and maximum level, at which:

1. If the earnings fall below the 'floor' level, the NWF (either directly or through a counterparty such as the LCCC) would top up revenue to the floor level. This is set on the basis of discounted and annuitized CAPEX, OPEX and debt service costs over the lifetime of the contract. **It does not require a subsidy to be effective, as no payment is made unless annual revenues fall below the floor.**

2. If revenues exceed the cap, the operator would return excess revenues to the NWF. The cap level is to be determined considering total OPEX, CAPEX, depreciation and equity expected rate of return. This in turn will be discounted and annuitized. A Soft Cap could be introduced whereby revenue would be shared between the asset and the NWF to incentivise investment.

Benefits of Cap & Floor:

- Unlocks upfront private sector investment for development by providing revenue certainty while firm contracts are not yet in place
- Is subsidy free above the floor — given ports have an established business model with a strong expectation of demand it is possible this is achieved at zero cost to the NWF, with a potential upside above the cap
- Allows merchant operations — minimising operational role for NWF in administration of the contract

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About the National Wealth Fund Taskforce

The National Wealth Fund, with its proposed £7.3bn of public capital, presents an opportunity to design a first of kind public-private partnership, that deploys catalytic capital to crowd private investment into priority net zero sectors. Green Finance Institute (GFI) is providing advice to the Labour Party on how to structure and implement its commitment to create a National Wealth Fund. Dr Rhian-Mari Thomas OBE, CEO of the GFI, is the chair of an independent taskforce that includes the CEOs of some of the UK's leading financial institutions.

For more information, visit www.greenfinanceinstitute.com/national-wealth-fund-taskforce

About the Green Finance Institute

Established in 2019, the Green Finance Institute is accelerating the transition towards an environmentally sustainable and resilient economy by catalysing investment in net zero and nature positive outcomes. Uniquely positioned at the nexus of the public and private sectors, the Green Finance Institute is the UK and Europe's principal forum for innovation in green finance.

The Green Finance Institute partners with financial institutions, corporates, policymakers, academics, philanthropists and civil society experts to develop solutions that will redeploy capital at the pace and scale that science demands. As an independent organisation, backed by government and philanthropic funders, the Green Finance Institute co-designs financial instruments and mechanisms as well as develops the enabling frameworks, guidance and policy ideas needed to support greater green investment.

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