



association of the
luxembourg fund industry

| **carbon investment vehicles**



**luxembourg:
the centre of excellence for
carbon investment vehicles**

I. what are carbon investment vehicles and who are the investors?

Carbon Investment Vehicles (CIVs) include all types of investment vehicle that raise public and/or private capital to purchase carbon emission reductions.

There are various types of CIVs:

1. Structures that directly purchase carbon credits on the primary market from projects reducing greenhouse gas emissions
 2. Structures that directly finance such projects, via project finance or equity interests
 3. Structures active on the voluntary market
 4. Structures implementing trading strategies on secondary carbon-emissions markets.
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Investors have a wide range of different motives and strategies.

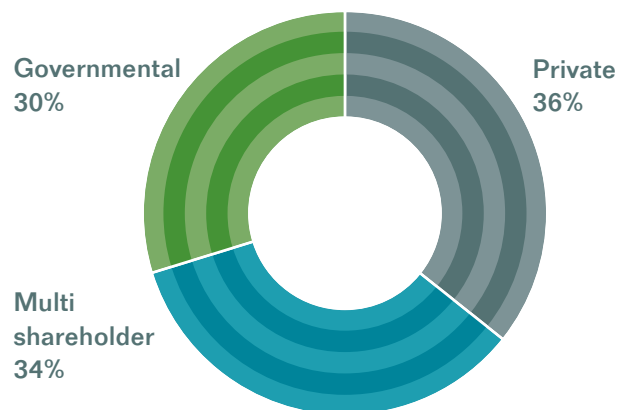
They tend to be:

- compliance buyers: industrialised countries that have signed the Kyoto Protocol and industrial companies subject to the European Union Emissions Trading Scheme (EU ETS), which are obliged to reduce their greenhouse gas emissions, willing to outsource or diversify their credit purchasing activities to meet their Kyoto or EU ETS obligations
 - buyers aiming to fulfill their obligations under a voluntary scheme or develop a carbon-neutral status to enhance their reputation and increase their market share as climate change becomes an increasingly global concern
 - speculative investors who see the rising price of carbon as a potential source of revenues.
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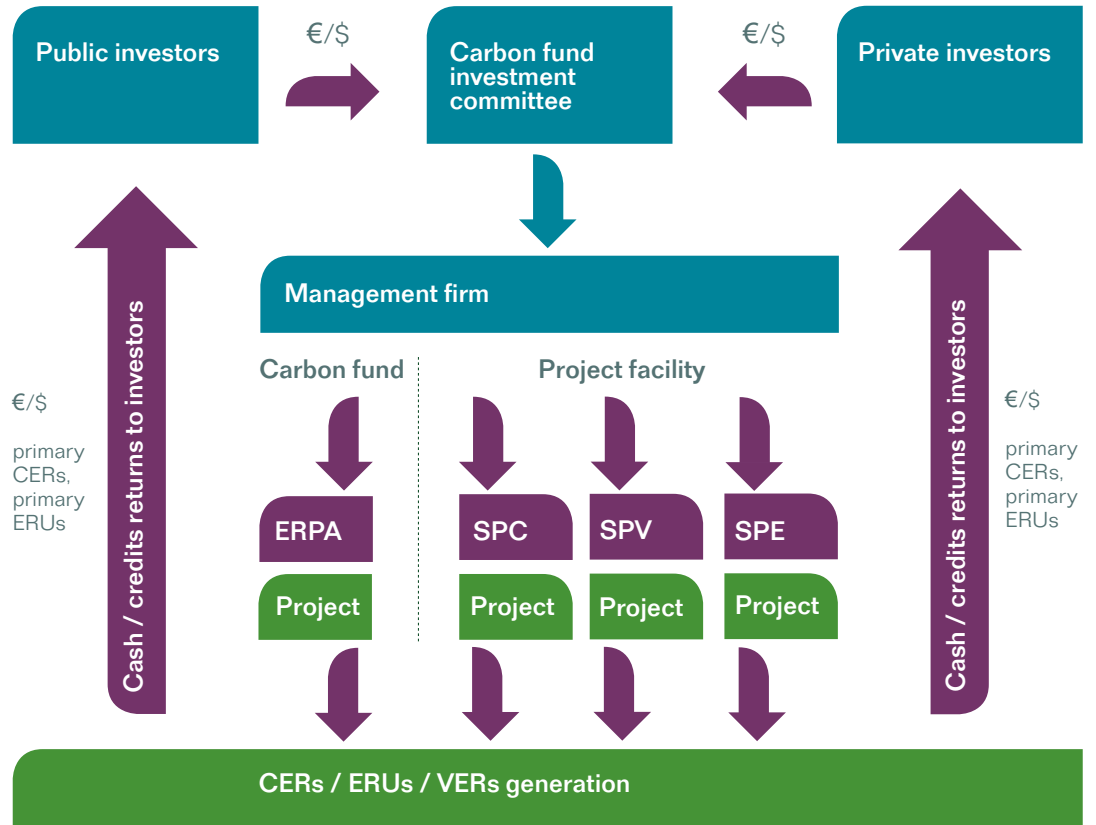
Carbon Investment Vehicles focusing on voluntary offsets or pre-compliance projects can also invest in Verified Emission Reductions (VERs), a type of carbon offset traded in the

voluntary or Over-the-Counter market for carbon credits. Pre-compliance projects issue credits as VERs, but these may be converted into Certified Emission Reductions (CERs).

Carbon vehicles by investors type



Structure of a Carbon Investment Vehicle



CER: Certified Emission Reduction
ERU: Emission Reduction Unit
ERPA: Emissions Reduction Purchase Agreement
SPC: Special Purpose Company
SPV: Special Purpose Vehicle
SPE: Special Purpose Entity
VER: Voluntary Emission Reductions or Verified Emission Reductions

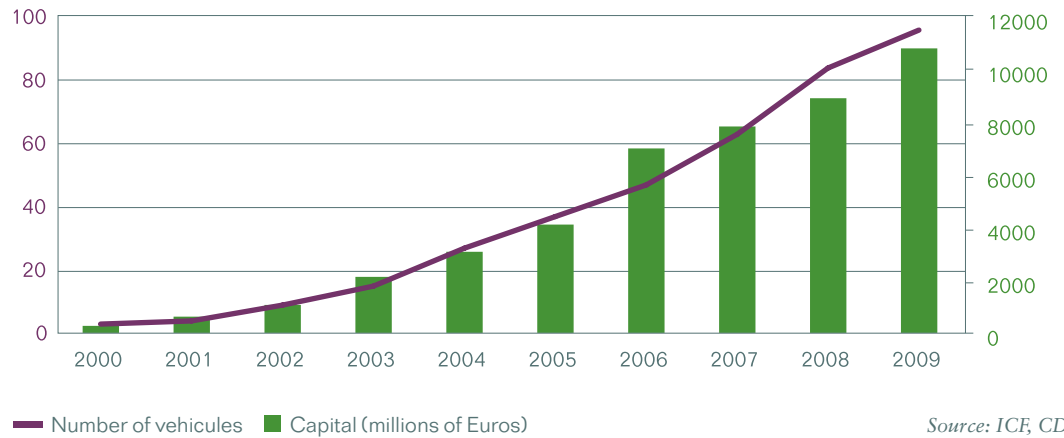
Source: CDC Climat – Carbon Investment Vehicles in 2010

Note: This diagram does not take into consideration the secondary market, since it operates in a way similar to traditional secondary markets for equities, commodities, etc.

II. facts & figures

Worldwide growth in Carbon Investment Vehicles:

Evolution of carbon vehicles

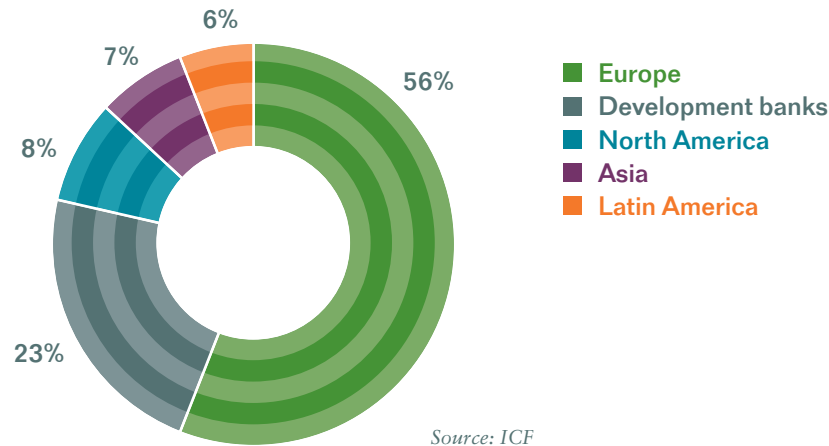


CIV markets have enjoyed a bullish trend over the past 5 years, starting with the second phase of the Kyoto Protocol in 2006. In 2009 there were 96 CIVs with assets totaling €10.8 billion, a 62 % increase since 2005.

The carbon market is now expecting a strong signal from the international community to continue its exponential growth, with Europe already committed to reductions for 2012-2020 through the EU ETS.

European trends drive the market:

Carbon vehicles by fund manager location, 2008



The European Union is considered the locomotive driving reductions in global carbon emissions:

- Its Cap-and-Trade System (EU ETS)¹ is recognised worldwide
- European governments were among the first to create CIVs
- The EU is pledged to reducing its Green House Gases (GHGs) emissions to meet the highest standards.

To date more than half of the world's carbon vehicles have been launched and are managed in Europe.

CIVs were initially created by governments to allow them to collect enough carbon credits to meet their commitments. Private entities were quick to identify scope for growth in the sector, and invested in this market. They made the biggest contribution to growth over the past few years, accounting for more than a half of all CIVs in 2009.

¹ A ceiling on emissions is defined at European level, opening a market for credits representing tradable shares of this maximum (carbon credits). These are initially distributed via a quota system.

III. why is luxembourg the domicile of choice for carbon investment vehicles?

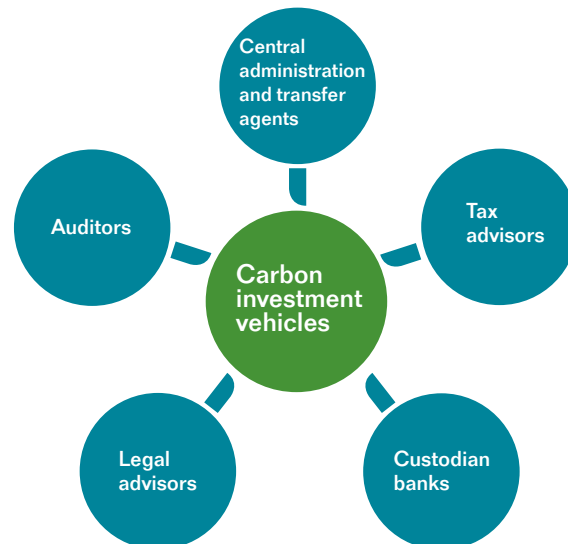
As the European financial centre of choice for fund set-up and distribution, Luxembourg is proactively developing dedicated expertise in this booming market.

- Efficient, pragmatic legal and regulatory framework and a supportive government
 - A stable democracy with a solid economy
 - Global distribution centre and largest investment fund centre in Europe
 - Presence of global players and flexible IT infrastructures
 - Large talent pool
 - Tax expertise
 - World class fund administration
 - Culture of client service
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How can Luxembourg help you set up a carbon investment vehicle?

- A wide range of investment vehicles suitable for carbon finance
 - Specialized Investment Funds (SIFs)
 - “Société d’Investissement en Capital à Risque” (SICARs)
 - UCI Part II funds (under 2002 legislation)
 - Associated insurance and reinsurance vehicles guaranteeing credit delivery
 - Expertise in carbon finance and CIVs
 - A core group of professionals within leading financial institutions, law and audit firms, actively developing world-class service
 - Microfinance expertise that could reinforce the development of programmatic Clean Development Mechanisms (CDMs)
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Luxembourg: a leading centre for the creation, administration and distribution of CIVs



When setting up an investment vehicle, specialists can help you optimise your product

from a legal, regulatory, tax, operational and distribution point of view.

For more information regarding financial industry professionals, texts of relevant laws, as well as information about submitting application

files to the Luxembourg regulator (CSSF), visit the website of the Association of the Luxembourg Fund Industry (ALFI) www.alfi.lu

The Association of the Luxembourg Fund Industry (ALFI), the representative body for the Luxembourg investment fund community, was founded in 1988. Today it represents over a thousand Luxembourg-domiciled investment funds, asset management companies and a wide variety of service providers including depository banks, fund administrators, transfer agents, distributors, law firms, consultants, tax advisers, auditors and accountants, specialist IT providers and communications agencies.

Luxembourg is the largest fund domicile in Europe and its investment fund industry is a worldwide leader in cross-border fund distribution. Luxembourg-domiciled investment structures are distributed in more than 50 countries around the globe, with a particular focus on Europe, Asia, Latin America and the Middle East.

ALFI defines its mission as to **“Lead industry efforts to make Luxembourg the most attractive international centre”**.

Its main objectives are to:

■ **Help members capitalise on industry trends**

ALFI's many technical committees and working groups constantly review and analyse developments worldwide, as well as legal and regulatory changes in Luxembourg, the EU and beyond, to identify threats and opportunities for the Luxembourg fund industry.

■ **Shape regulation**

An up-to-date, innovative legal and fiscal environment is critical to defend and improve Luxembourg's competitive position as a centre for the domiciliation, administration and distribution of investment funds. Strong relationships with regulatory authorities, the government and the legislative body enable ALFI to make an effective contribution to decision-making through relevant input for changes to the regulatory framework, implementation of European directives and regulation of new products or services.

■ **Foster dedication to professional standards, integrity and quality**

Investor trust is essential for success in collective investment services and ALFI thus does all it can to promote high professional standards, quality products and services, and integrity. Action in this area includes organising training at all levels, defining codes of conduct, transparency and good corporate governance, and supporting initiatives to combat money laundering.

■ **Promote the Luxembourg investment fund industry**

ALFI actively promotes the Luxembourg investment fund industry, its products and its services. It represents the sector in financial and in economic missions organised by the Luxembourg government around the world and takes an active part in meetings of the global fund industry.

For more information, visit our website at www.alfi.lu



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