LISTED PRODUCT STRUCTURES FOR SUSTAINABLE DEVELOPMENT IN EMERGING AND FRONTIER ECONOMIES

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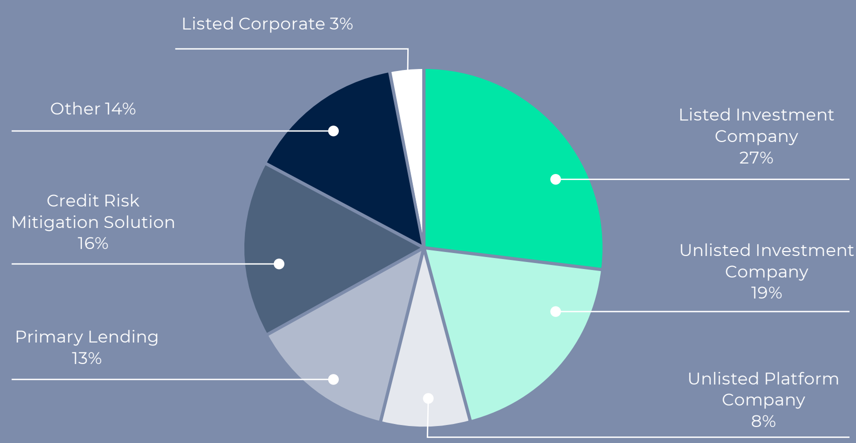
EXECUTIVE SUMMARY

The UK Government's flagship programme to mobilise institutional capital through listed product structures, MOBILIST, aims to harness public markets for the sustainable development of emerging and frontier economies.[1] The programme sources, selects and supports pioneering issuers looking to list on public markets, offering technical assistance through the listing process and anchor equity into first-of-their-kind capital raises.

The research presented in this report showcases the commercially viable listed product structures that MOBILIST has identified to date, which hold promise for allocators in accessing the emerging and frontier markets. While the research is primarily focussed on product *structures*, to offer a full analysis of each structure's potential we situate these structures in the context of proposed investment *thesis and strategy*.

Our analysis demonstrates the breadth of compelling structures through which allocators can access emerging and frontier markets and their sustainable development. Figure E1 shows that the majority of products proposed to MOBILIST by the time of writing were listed or unlisted investment companies. The listed investment company was designed during the 19th Century to provide permanent capital for long-term, illiquid investments in emerging markets. While at the time the preeminent emerging market was the United States of America, a recent resurgence of renewable energy investment companies shows that the structure remains well-suited to financing sustainable development today.

FIGURE E1 – PRODUCT PROPOSALS BY STRUCTURE CATEGORY



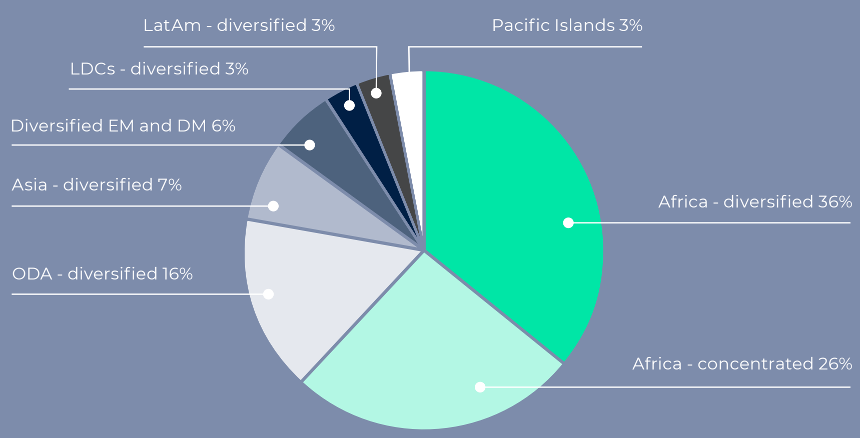
Market participants also proposed a diverse range of platform companies; primary lending vehicles; innovative credit risk transfer products, including guarantees and securitisations; listed corporates; special purpose acquisition companies (SPACs); funds-of-funds; equity in a multilateral development bank; a legal recovery fund; and thematic bonds. It is also important to note that several listed product structures were notably absent from our sample, but may offer potential to mobilise capital for sustainable development in emerging and frontier markets going forward. For example, in this report we consider exchange traded funds (ETFs), real estate investment trusts (REITs), and long-term asset funds (LTAFs) – none of which has yet reached MOBILIST's pipeline.

[1] https://mobilistglobal.com/about/

Just as the investment propositions in our sample varied in terms of structure, sponsors pitched varied investment strategies, including in terms of geographic exposure, sector, and the underlying assets into which they proposed to invest.

On geographic strategy, Figure E2 shows that MOBILIST has so far identified a set of strategies with a tilt to Africa, and more broadly demonstrates the novel geographic diversification offered by products in our sample. This is striking and contrasts with the wider emerging and frontier markets universe. An equal-weight portfolio across these products would align capital much more closely with the need for development finance than, for example, a portfolio tracking the MSCI EFM (which offers a 3.8% Africa weighting) or even MSCI FM (offering a 24.4% Africa weighting).

FIGURE E2 – PRODUCT PROPOSALS BY GEOGRAPHIC FOCUS OF INVESTMENT



In terms of sector, two-thirds of products in our sample envisioned some renewable energy exposure, a weighting more than ten-times the entire energy sector in the MSCI EFM index (5.3% energy) and the MSCI ACWI (5.2% energy).

If they are to mobilise transformative private capital flows for sustainable development in emerging and frontier markets, the listed structures discussed in this report must attract major institutional investors. Section 4 analyses our sample in terms of feasibility, commercial viability, scalability, replicability, and additionality. Feasibility requires a compelling combination of structure, strategy and leadership team with credible track record. We assess that to maximise listing feasibility in the near-term, allocators should only be required to back innovation in at most one of these dimensions.

Commercial viability is predominantly a matter of strategy, with most structures in the market proving viable in diverse contexts. One important exception is the SPAC, which is facing macroeconomic and regulatory headwinds that may undermine its competitive advantage over a regular corporate initial public offering (IPO). Listed investment companies that rely on a yield advantage may also face competition as we emerge from an extended period of low yields in the fixed-income space.

Ensuring that listed products scale and are replicated is vital if millions of dollars in anchor capital are to unlock billions or trillions of dollars for sustainable development. Perhaps the most important constraint on scale in the context of the structures and strategies in our sample is liquidity. Illiquidity in smaller emerging and frontier markets is a constraint across structures, but is particularly acute for the open-ended ETF. As successful products scale, they will likely attract copycats in the market; though a key exception is contexts in which there is clear first-mover advantage.

Opportunities for additionality go beyond individual raises to affecting systemic change in the way sustainable development in emerging and frontier markets is financed altogether.

A key innovation with such systemic potential offered by several proposals in our sample was the move by development finance actors to exit investments in their portfolio through listed products. Other proposals offered additionality by increasing the share of emerging and frontier market capital flows that is dedicated to their sustainable development.

Overall, it is striking that the offer of support and investment from the UK Government is indeed leading to the surfacing of original investment strategies through listed product structures that are aligned with developing country needs. We conclude with the following observations:

- **A pipeline exists and is actively seeking capital.** MOBILIST has received 44 proposals from varied commercial sponsors to date. Proposals identified substantial investment pipelines and saw their solution as scalable. This demonstrates potential for allocators to access emerging and frontier market assets aligned with Sustainable Development Goals (SDGs) and international climate commitments.
- **Different structures can address similar problems.** Comparable underlying assets can be accessed through diverse structures. Listed and unlisted investment companies can offer permanent capital to match extended project development durations; while securitisations, guarantees and insurance all reallocate risk across actors. Private funds and credit protection structures can help incubate earlier-stage assets; while listed investment companies and securitisations are more appropriate for operational, cash generative assets.
- **Capital recycling should be the norm** for development finance institutions (DFIs) just as it is for private equity (PE), and public markets offer unparalleled depth and scale for exit mobilisation. Such exits allow DFIs and PE to focus on higher-risk, higher-return earlier-stage assets, and can be achieved through diverse listed structures.
- **PO is a milestone, not an end.** To move from millions to billions to trillions, the market needs listed product structures that prove commercial viability, can scale efficiently and be replicated easily. Strategies in our sample varied in terms of risk-adjusted returns, and certain structures are facing stronger market and regulatory headwinds than others.
- **Complexity need not be a constraint.** MOBILIST has unearthed varied high potential structures. The most familiar structures offering access to new markets and assets may be swiftest to market. However, while more complex structures may require market education and technical support, they may also be the most transformational over time.

1. INTRODUCTION

The UK Government's flagship programme to mobilise institutional capital through listed product structures, MOBILIST, aims to harness public markets for the sustainable development of emerging and frontier economies.[2] The programme sources, selects, and supports pioneering issuers looking to list on public markets, offering technical assistance through the listing process and anchor equity into first-of-their kind capital raises. MOBILIST also invests in complementary research and policy work to inform allocators seeking exposure to emerging and frontier economies and their sustainable development, to enhance enabling policies and market infrastructure, and to generate learning and thought leadership at the intersection of public markets and development finance.

The research presented in this report showcases the commercially viable listed product structures that MOBILIST has identified to date, which hold promise for allocators in accessing emerging and frontier markets. In addition, this piece is intended to inform issuers' choice of listed structure, enhancing their prospects of successful listing; and to consider the feasibility and value of listed structures in the context of momentum around mobilisation of private capital among development finance institutions.

Given the thematic focus of MOBILIST's initial request for investment propositions relating to sustainable infrastructure, the majority of proposals reviewed in this analysis envisaged listed investment company structures (predominantly UK investment trusts) or unlisted investment companies, whose intention is to build an asset portfolio and then list. However, a breadth of funding proposals built on alternative structures have also been received, including for SPACS, securitisations, and facilitating instruments such as guarantee products, which would enable new investors to participate in certain listed emerging market and frontier market instruments that otherwise would have been outside their mandate.

This paper begins with a brief summary of our sample and methodology in Section 2, before analysing the listed product structures and strategies that have been proposed to MOBILIST thus far in Section 3. Section 4 assesses these structures' fit with the nature of capital needs in emerging and frontier economies, and for their sustainable development. This analysis assesses potential in terms of feasibility, commercial viability, scale and replicability, and additionality, and barriers to each. Conclusions and recommendations are presented in Section 5.

[2] Ibid

2. SAMPLE AND METHODOLOGY

Findings are based primarily on an analysis of investment propositions received by MOBILIST since its inaugural call for proposals in early 2021. The sample of propositions comprises expressions of interest submitted through two distinct processes. First, we have reviewed in detail the proposals submitted to MOBILIST's first competitive process launched in early 2021, with an explicit focus on sustainable infrastructure as an asset class. This process aimed "to identify one or more entities who will structure an investment vehicle or platform which will list on international and/or local exchanges in order to mobilise sources of UK-based, international and/or local public market capital allocation."[3]

On 3rd November 2021 in the margins of the Glasgow Conference of Parties (COP26) the UK announced a short list from the proposals that had been reviewed during 2021. These included two investment companies targeting a London Stock Exchange (LSE) listing, a securitisation platform, a guarantee fund and an unlisted investment company, which was seeking to build a portfolio of earlier-stage infrastructure assets before listing once the portfolio is operational.[4]

The second cohort of expressions of interest in our sample was submitted through a rolling procurement process that followed the initial sustainable infrastructure competitive process. This rolling process[5] was sector-agnostic, potentially influencing the structures and strategies proposed. Written expressions of interest for this cohort were not available due to ongoing due diligence at the time of writing. They are omitted from detailed analysis in Section 4, but the type of product and target sectors and geographies did inform Section 3's analysis of structures and strategies.

While the research is primarily focused on product *structures*, to offer a full analysis of each structure's potential we situate the analysis in the context of their proposed investment *thesis and strategy*. Throughout, our analysis avoids disclosure of non-public information by talking in general terms about the structures proposed and avoiding naming of individual propositions, except where this information was public at the time of writing.

[3] MOBILIST Investment Product Competition – Call for Expressions of Interest, 9th March 2021

[4] https://mobilistglobal.com/news-views-events/glasgow-cop-press-release/

[5] https://mobilistglobal.com/wp-content/uploads/2022/06/2211_Mobilist_Request-for-Proposal-RFP_October_2022.pdf

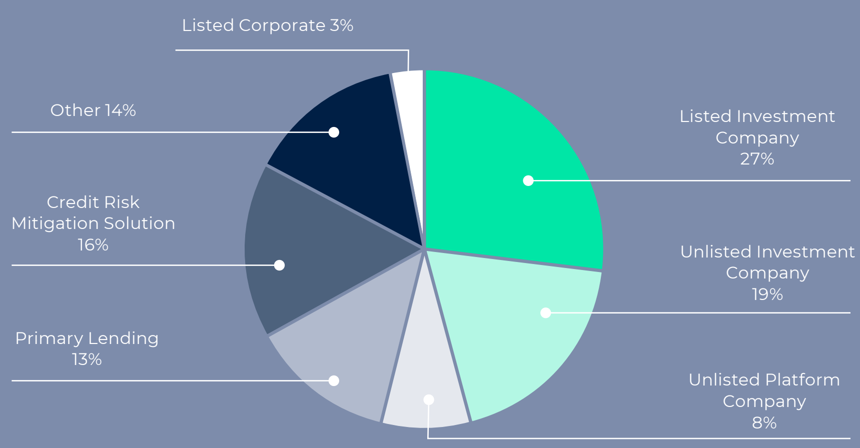
3. STRUCTURES AND STRATEGIES

This section deconstructs the listed product structures and strategies present in our sample. We demonstrate the breadth of propositions received by MOBILIST, highlighting the diverse opportunities through which allocators may extend their exposure to emerging and frontier markets, and to these markets' sustainable development. We further highlight geographic and sector concentration among propositions, and discuss several structures that are increasingly visible in the markets but that have not featured in proposals to MOBILIST to date.

Listed product structures

Our analysis demonstrates the breadth of compelling structures through which allocators can access emerging and frontier markets and their sustainable development. Figure 1 shows that the majority of products proposed to MOBILIST to date were listed or unlisted investment companies. However, market participants also proposed a diverse range of platform companies; primary lending vehicles; innovative credit transfer products, including guarantees and securitisations; listed corporates; SPACS; funds-of-funds; equity in a multilateral development bank; a legal recovery fund and thematic bonds. The predominance of investment companies likely reflects a focus in the initial competition on sustainable infrastructure assets, which we demonstrate below lend themselves well to the features of the investment company structure.

FIGURE 1 – LISTED PRODUCT STRUCTURES

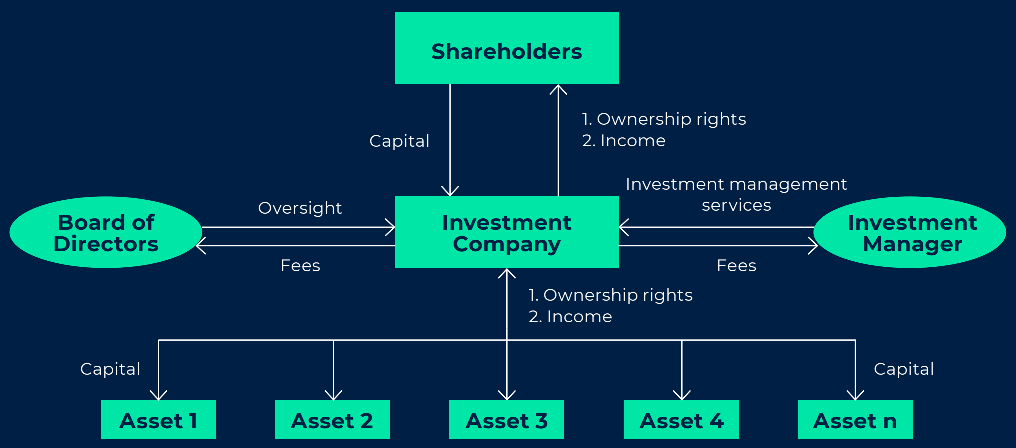


These structures sought to mobilise capital through listed products in one of four distinct ways. First, those structures labelled as 'listed' requested MOBILIST anchor capital at IPO. These products would offer co-investing public market allocators in the near-term exposure to sustainable development in emerging and frontier economies. Second, a cohort of products sought seed capital prior to listing over the longer-term. These products proposed to originate, build, and scale in the private markets and build the track record required to attract allocators at IPO. Third, a novel set of enabling instruments sought equity injections to de-risk investments in such a way as to crowd-in third-party commercial capital. Finally, one proposal sought equity into a listed fund-of-funds and the platform that would host the parent fund.

In this section, we discuss the characteristics of the structures most frequently proposed to MOBILIST. Subsequent sections deal with their advantages in the context of emerging and frontier markets' capital needs, and barriers to listing, scaling, and replication.

Listed investment companies and unlisted investment companies planning to list over the longer term represent 42% of investment propositions in our sample. For example, this cohort included the first two products to receive investment under MOBILIST, the ThomasLloyd Energy Impact Trust (TLEI) and the CLEAR Fund sponsored by InfraCo and Helios. TLEI came to market through a successful $150 million IPO in December 2021, while the CLEAR Fund was at the time of writing a private fund with the intention to list in the future. The investment company structure is summarised in Figure 2.

FIGURE 2 – INVESTMENT COMPANY STRUCTURE



Whether listed or unlisted, the investment companies in our sample proposed to invest shareholder funds into high quality sustainable assets that provide a compelling risk-adjusted return and deliver on impact objectives. The listed structure was seen by sponsors as appropriate for operational, cash generating assets, while earlier-stage assets that have yet to start generating cashflow were more frequently proposed to be held in unlisted structures, given the preference of listed market investors for a dividend generating product. In this way, unlisted companies were intended by participants to act as incubators of assets, allowing them to reach a level of maturity that enables a fair market valuation when the company lists.

The cash-generative nature of underlying assets is an important feature for listed investment companies, which offer an income generating alternative to government or corporate bonds. This has been particularly relevant in the past 14 years of very low government bond yields. Interviews with key informants revealed such income as a vital priority for the UK investment trust shareholder base.[6] For example, ThomasLloyd Group have emphasised that during investor outreach prior to launching the IPO that "every investor we spoke to said we had to define the income."[7] Unlisted companies may also seek some cash generative assets in the portfolio, but with increased flexibility around use of that cash beyond shareholder dividends. Furthermore, the unlisted structure is particularly well suited to building portfolios of assets over time, given the capacity to draw down from a pool of committed capital. Contrastingly, in the listed sector the capital raised is effectively fully drawn with incremental capital secured by returning to the market to raise new primary capital.

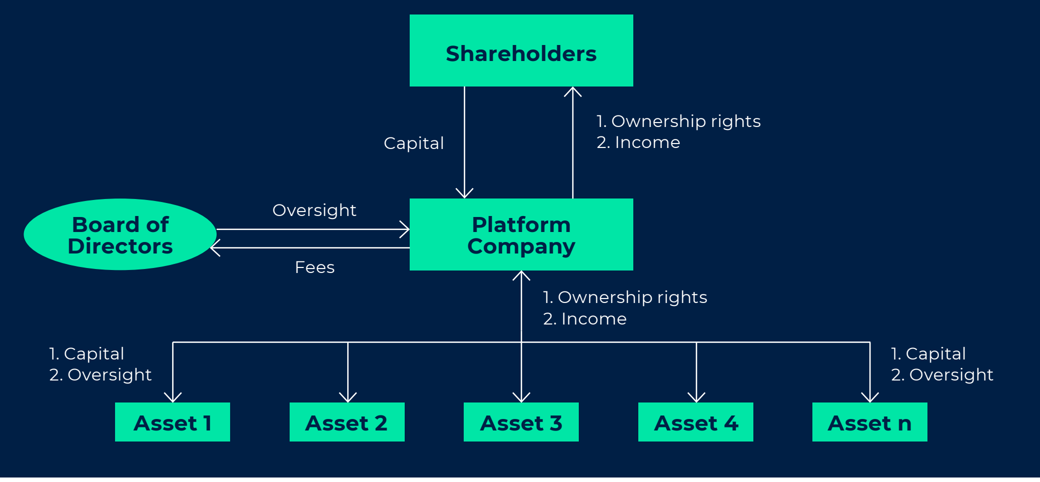
The ThomasLloyd Group itself is a good illustration of both the flexibility and complementarity of unlisted and listed structures. The assets held by the TLEI investment trust were originated and developed by ThomasLloyd Group in unlisted funds before

[6] MOBILIST (Forthcoming) "Investment Trusts for Sustainable Development"

[7] Anthony Coveney, Managing Director, ThomasLloyd Group, Key Informant Interview

transferring into TLEI following its listing.[8] The TLEI IPO Prospectus states that the listed investment company aims to generate attractive dividend growth and long-term capital appreciation by investing directly in a diversified portfolio across fast-growing and emerging economies in Asia. The trust aims to generate additional value through the focus of its investments on construction-ready or in-construction projects. Pre-operational assets will only be prioritised where: (i) an offtake agreement has been entered into; (ii) the land on which the project is situated is identified or contractually secured where appropriate; and (iii) all relevant permits have been granted. The trust will also invest from time to time in operational assets, "to diversify the portfolio and to secure a dividend flow in line with its dividend policy"; however, it will not typically provide funding for 'development or pre-construction projects'.

FIGURE 3 – PLATFORM COMPANY STRUCTURE



Platform companies or holding companies seek to own controlling stakes in the bulk of their investments and to operate them or drive the strategy from the centre. Figure 3 shows similarities between the two structures, with the key difference being the absence of an investment manager in the platform structure, as the investment is carried out by the management team of the holding company itself.

This controlling element brings with it the advantage of being able to share best practices across the portfolio, be it in terms of operations, management or impact. For example, the propositions in our sample included one entity that planned significant acquisition activity in the food security and storage sectors in southern Africa. Such an active acquisition strategy would typically be more naturally financed through the unlisted space. Under this format the management team can collate a group of operating assets which are then consolidated. The larger unit ultimately will reach a size where new acquisitions become the exception and the performance of the group can be more easily tracked and modelled, allowing for the degree of predictability and assessment required by public market investors. This is why the listed markets do not tend to value highly acquisitive corporate strategies.

It can be seen that an acquisition strategy has similarities to a development strategy in the infrastructure sector. Listed structures do not operate under a "callable capital" model and each new capital raise may require an extended process. In the unlisted format the vehicle can rapidly draw capital when a new investment opportunity is identified.

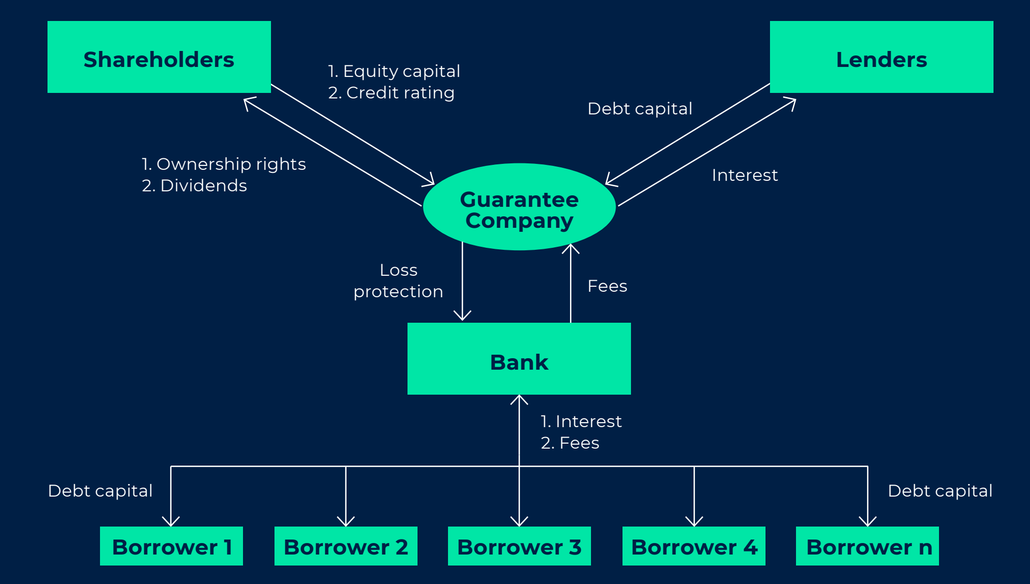
Although MOBILIST is only able to invest into the equity of a company or investment company, the MOBILIST pipeline includes vehicles whose investment strategy is to mobilise debt capital. For example, one commercial fund manager proposed a **listed credit fund** structure in which the equity raised from MOBILIST and other public market allocators would be deployed into sustainable infrastructure debt in Latin America.

[8] https://tlenergyimpact.com/wp-content/uploads/2021/11/ThomasLloyd-Energy-Impact-Trust-plc-Prospectus-web.pdf

Another proposal, backed by a large global bank and a sovereign wealth fund, sought equity to fund a sustainable infrastructure debt financing platform, which proposed to lend a meaningful portion of its book to marginally bankable projects characterised by elevated project risk, country risk or political risk. The proposal envisaged a blended finance structure to funding the platform, with MOBILIST and other DFIs providing junior capital in the form of an equity stake in the vehicle with a capped return in order to enhance the return available to the senior investors. The potential listing in this case is of the platform several years hence, after proving the concept under private ownership.

Several others proposed equity investment into platforms that would provide **credit enhancement**. For example, one proposal sought MOBILIST's equity investment into a debt platform that would utilise credit enhancement provided by an export credit agency (ECA). ECAs cap the protection they offer at 80%. In the proposed structure, private sector commercial lenders would benefit from the protection provided by the ECA cover, while the balance of credit would be extended by the platform itself and would not receive credit protection. The vision for a listing is twofold – once sufficient loans have been issued by the platform, these would be securitised and listed as credit-linked notes; secondly, if and when the platform proves its commercial worth, an IPO could be planned.

FIGURE 4 – GUARANTEE COMPANY STRUCTURE



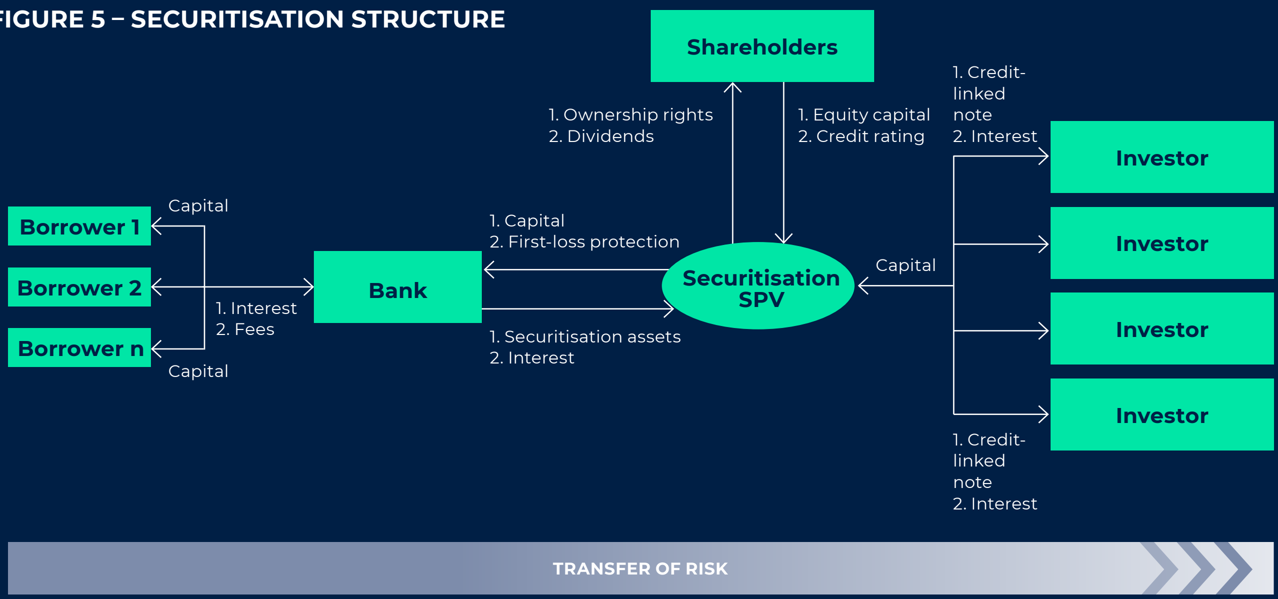
Several proposals sought MOBILIST's investment into SPVs or platforms that would buy infrastructure loans from the commercial banking sector and **securitise** them, listing the credit linked notes and thereby transferring credit risk from the primary lender to the capital markets. The sponsors additionally highlight the potential to list the securitisation platform at a future date if and when the business case is proven.

Figure 5 highlights how the structure reallocates risk across investor segments, recycling banks' capital to reinvest in higher-risk project finance during the development phase and transferring loans to lower-risk operational infrastructure assets with more visible cashflows into public markets. Therefore, refinancing of these more mature loans is attractive to the primary lender. By creating a layered capital structure for the securitisation with junior and senior capital the SPV is able to further reduce the overall cost of capital as it can draw in investors seeking lower risk investments for the senior tranche. The predictable nature of the cashflows (mature loans) is necessary to create such layering and is why this structure is not suitable for loans to projects during a development phase.

With a predictable set of cashflows the SPV is able to secure an investment-grade credit rating for its senior capital (classified as BBB or above) from one or more of the leading international credit rating agencies.

This unlocks access to institutional investors who require a credit rating to invest, and enables capital to flow to countries which themselves do not carry investment grade ratings. For securitisations backed by exposures in these markets to receive investment grade ratings, some form of credit enhancement or junior capital may be required. This is where MOBILIST's equity capital was envisaged in our sample to play a catalytic role.

FIGURE 5 – SECURITISATION STRUCTURE



Lastly MOBILIST has identified a small number of proposed Special Purpose Acquisition Companies (SPACs). SPACs are shell companies that list with the intention of acquiring a private businesses post-listing. The structure provides a lower-cost and simpler way of listing a business (the acquisition), but there is less regulatory scrutiny compared to a standard corporate IPO process. SPACs became popular in the US market in the second half of 2020 and 2021, with 59% of IPOs in the US during 2021 being of SPACs.[9] During 2021 and 2022, landmark SPAC acquisitions included emerging market companies, such as the record-setting acquisition of Singapore technology company Grab, valued at $40 billion,[10] with other mooted SPAC acquisitions covering ODA-eligible markets, including assets in Brazil.[11] While activity in the space has cooled in 2022, it is not surprising to see sponsors now turning their attention to the opportunity in emerging markets.

SPACs share some of the concerns around platform companies, in that investors into the SPAC do not know precisely what assets will be acquired – they must put their faith in the sponsors and the ability of the sponsors to execute a deal that is accretive. As a result, SPACs initially raise a modest sum with a large share placement at the point of acquisition of the target to reduce any cash drag on the shell. SPACs have also been criticised for their governance– not only is a company listed without having to go through all the usual hurdles, but the sponsors are heavily incentivised through the carry mechanism to close *a* deal, not necessarily *the best* deal at the best price. Although SPAC shareholders can vote against a proposed deal, this misalignment of incentives is a concern with the structure.[12]

It is also important to note that several listed product structures were notably absent from our sample, but may offer potential to mobilise capital for sustainable development in emerging and frontier markets going forward.

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[9] https://www.statista.com/statistics/1234111/number-traditional-spac-ipo-usa/

[10] https://fortune.com/2021/12/02/grab-ipo-stock-shares-spac-price/

[11] https://www.reuters.com/markets/us/brazils-lavoro-list-us-through-12-bln-spac-deal-2022-09-15/

[12] https://www.ft.com/content/6eb655a2-21f5-4313-b287-964a63dd88b3

For example, developed markets have seen the allocation of increasing resources to investment strategies via the **Exchange Traded Fund (ETF)** structure. ETFs have evolved from being passive index tracking instruments into thematic vehicles that allow investors to gain exposure to diverse sectors and strategies, increasingly with an active manager making certain allocation decisions. Many sustainably themed active ETFs are now offered on the markets in Europe and the US, and we assess that similar products could soon be replicated with emerging and frontier markets strategies.

Real Estate Investment Trusts (REITs) are another well understood global asset class, and one would expect to see this structure enter MOBILIST's pipeline in time. This is perhaps the most well-known means through which real assets are accessed through closed-ended listed collective investment structures. One competition submission self-identified as a REIT, but given that the proposed vehicle would not own any real estate assets for some time, this classification does not appear appropriate at this stage.

More than 40 countries and regions jointly boast 865 listed REITs with combined equity market capitalisation in the region of $2.5 trillion as of December 2021.[13] This includes significant number of REITs listed in emerging markets, including Malaysia, South Africa, Mexico, Thailand and Turke.[14] REITs have similar but different rules to investment trusts, including a requirement to distribute most profits from rental businesses to shareholders. REITs do not pay corporation tax on profits from their rental business, and shareholders in REITs pay income tax as opposed to dividend tax, as though they owned the underlying properties.[15]

Finally, a new structure that has yet to be seen on the UK market is the **Long-Term Asset Fund (LTAF)**. This structure was announced by the FCA in November 2021 as an additional vehicle for matching longer-term assets to institutional capital. The LTAF has very flexible investment rules that permit investment in a range of liquid and illiquid assets, such as private equity, private debt and infrastructure, and to invest in other funds. Although the LTAF will be an open-ended structure, dealing and redemption terms should align with the liquidity of the underlying assets, with regulators stipulating no more than monthly dealing windows with a minimum 90-day notice period, ensuring that the investment manager has some degree of stability and predictability around the capital available to be deployed. The structure is thought to be especially appealing to defined contribution pension funds, but no LTAFs have yet come forward covering either developed or emerging market strategies.

Strategies

Just as the investment propositions in our sample varied in terms of structure, sponsors pitched varied investment strategies, including in terms of geographic exposure, sector, and the underlying assets into which they proposed to invest.

On **geographic strategy**, MOBILIST has so far identified a set of strategies with a tilt to Africa. This is striking and contrasts with the wider emerging and frontier markets universe. Almost two-thirds of proposed products planned to invest in Africa, with only two dedicated Asian strategies and one investing across Latin America. Other strategies that planned to invest across a diverse geography of countries eligible for Official Development Assistance (ODA), while one specifically sought to invest across various of the Least Developed Countries (LDCs) only.

Figure 6 demonstrates the novel geographic diversification offered by products in our sample. An equal-weight portfolio across these products would align capital much more closely with need for development finance, than for example a portfolio tracking the MSCI EFM (which offers a 3.8% Africa weighting) or even MSCI FM (offering a 24.4% Africa weighting).

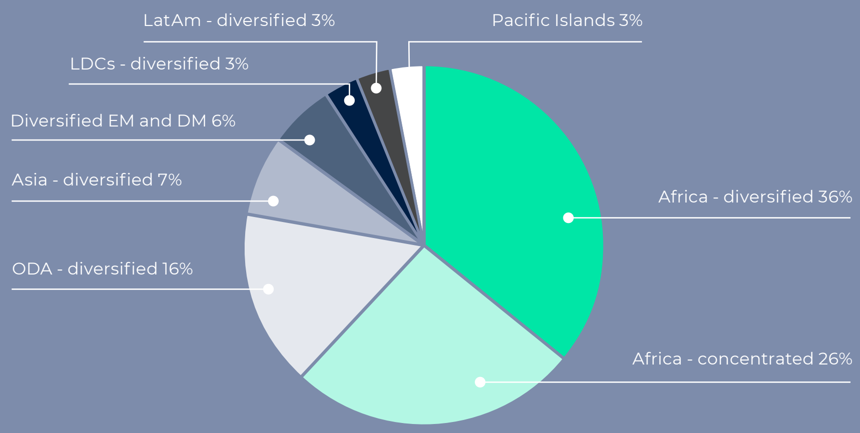
[13] https://www.reit.com/investing/global-real-estate-investment

[14] https://frontera.net/emerging-market-reits/

[15] https://www.theaic.co.uk/your-guide-to-investment-companies/what-are-investment-companies

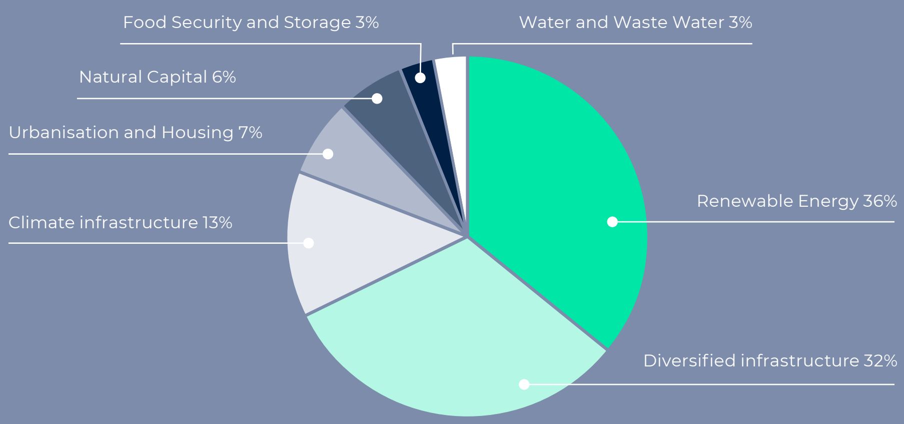
This was a central pillar of the original MOBILIST business case thesis and it is striking that the offer of support and investment from the UK Government is indeed leading to the surfacing of investment strategies that are aligned with developing country needs, which are not met by the market currently. Among the Africa strategies identified, 58% were diversified while 42% offered single country or concentrated exposures. We discuss the risks created by such concentration in the context of the proposed structures later in this section.

FIGURE 6 – PRODUCT COMPETITION SUBMISSIONS SPLIT BY GEOGRAPHIC FOCUS OF INVESTMENT



In terms of **sector**, Figure 7 shows that two-thirds of products in our sample envisioned some renewable energy exposure, a weighting more than ten-times the entire energy sector in the MSCI EFM index (5.3% energy) and that in the MSCI ACWI (5.2% energy). Approximately half of this subset focused on renewable energy only, while the remainder offered exposure to renewable energy as part of a diversified infrastructure or climate infrastructure strategy. The latter also covered green housing, clean transportation, green manufacturing, and natural resource management – all themes that are increasingly prevalent across listed markets in developed economies.[16]

FIGURE 7 – PRODUCT COMPETITION ENTRANTS SPLIT BY TYPE OF INFRASTRUCTURE INVESTMENT



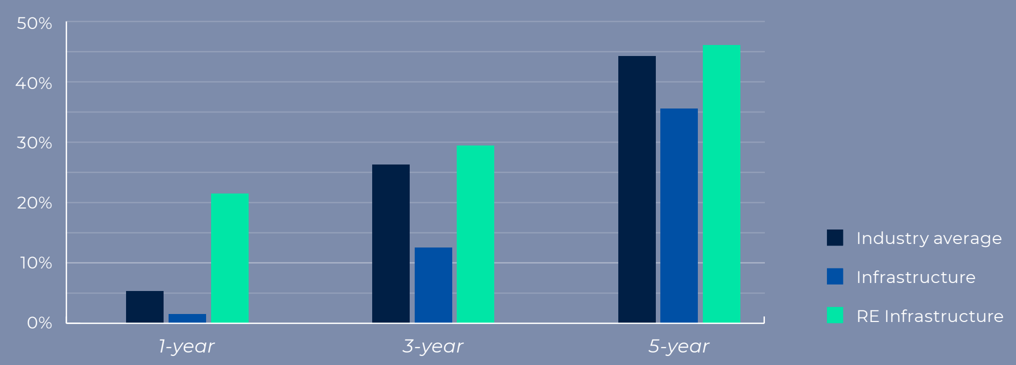
[16] https://assets.kpmg/content/dam/kpmg/xx/pdf/2022/01/emerging-trends-in-infrastructure-2022.pdf

Renewable energy assets in Africa tend to be at earlier stages of development, whereas Asia's further progression down the maturity curve is more supportive of listed companies. Of an aggregate renewable energy capacity of 87GW in Africa, only 21GW (24%) is currently operational. Of the remainder, 12GW (14%) is in construction, with the balance of 54GW (62%) still in the early stages of development. For this reason there is a clear need for both unlisted and listed vehicles to first incubate these assets (private) before exiting to a (public) listed market format.

It is perhaps not surprising that renewable energy has proven so popular amongst entities responding to the MOBILIST sustainable infrastructure competition. The majority of managers were seeking to raise capital on the LSE for which assets with a hard currency revenue stream are optimal. Renewable energy assets fit that profile well, as generally they come with long term off-take agreements and compete with/complement hard currency-denominated fossil fuel power. The transition of renewable power from being more expensive than fossil fuel to the current status of offering a pricing advantage, coupled with the high levels of demand growth being seen across the African continent, make this a particularly attractive sector, but one that is also ripe to attract international capital that is seeking a climate impact.

The success of London-listed investment companies investing in renewable energy in the UK and other developed markets have further increased the attractiveness of targeting this sector and set important benchmarks for future renewable energy investment trusts. Figure 8 shows this superior performance over three-, five-, and particularly one-year horizons.

FIGURE 8 – INVESTMENT TRUST PERFORMANCE BY SECTOR[17]



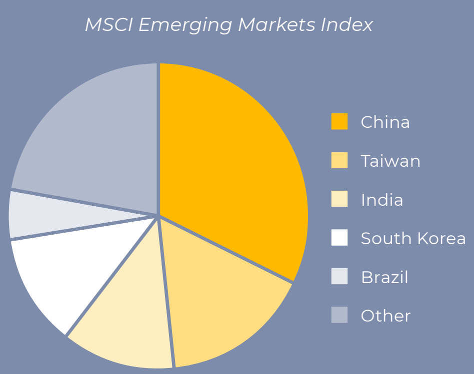
As predominantly collective investment vehicles, most structures considered in this analysis also offer strategies to achieve **diversification** in the underlying asset base, which as discussed later in this report constitutes a potential advantage in attracting allocators. For example, several sponsors sought to diversify across markets, including TLEI's strategy to expand its renewable energy investments from established markets in India and the Philippines into new markets Sri Lanka, Thailand, and Vietnam. Others proposed to diversify into other sectors, for example expanding from renewable energy only into green urban projects or wastewater treatment.

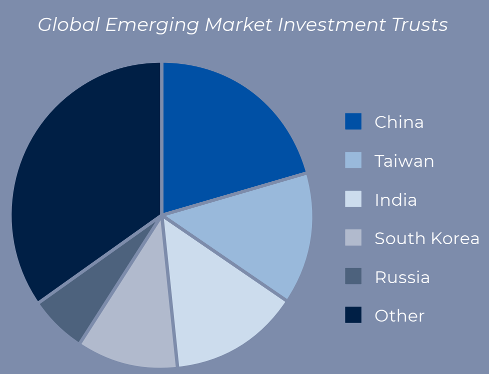
This diversification reflects broader trends in the market for listed investment companies. Our landscaping identified 12 investment trusts that market themselves as global emerging or frontier market vehicles, and at least 16 more that serve subsets of these markets with either regional or country-specific strategies. These 28 global, regional and country-specific investment trusts collectively offer exposure to 39 emerging and frontier markets. Whilst Africa lags behind other regions, Figure 9 shows that the share of this cohort of investment trusts' assets allocated *outside* the top four emerging markets is almost two-thirds greater than the corresponding weight in the MSCI EM index.

[17] https://www.theaic.co.uk/aic/find-compare-investment-companies

An alternative to risk management through diversification saw several proposals building from a fund manager's deep specialisation in an underlying market or asset class. One sponsor with a deep understanding of Nigeria proposed both a clean energy fund listed company and one focused on affordable housing and mortgages, while another with three existing dedicated renewable energy funds covering Asia and Africa proposed a new listed fund that would be entirely concentrated on Ugandan renewable energy assets for at least the first two years.

FIGURE 9 – COMPOSITION OF MSCI EMERGING MARKETS INDEX VS GLOBAL EMERGING MARKET INVESTMENT TRUSTS[18]





In addition to demonstrable access to seed assets, proposals analysed in this research highlighted varied strategies to **scale**. Sponsors expressed confidence that, once their initial investments delivered commercial returns, market dynamics would take over and new funds would drive further growth. Examples include listed investment companies undertaking secondary issuances to grow their investable capital, unlisted companies raising equity at IPO after demonstrating their track record, and credit enhancement platforms scaling through equity issuances or increased financial leverage.

The varied structures and strategies evident across our sample demonstrate the availability of assets in smaller emerging and frontier markets, including in Africa; and the multiple ways in which institutional investors can gain exposure to these markets and their sustainable development via listed product structures. However, at the time of writing, the majority of these propositions had not been tested in the market. In the remaining sections, we discuss the strengths and potential of the structures in our sample in the context of their investment theses and strategies, and the challenges these products may face in attempting to list. Finally, we close with reflections on how the potential of listed product structures can be harnessed and barriers addressed.

[18] MOBILIST (Forthcoming) "Investment Trusts for Sustainable Development"

4. POTENTIAL AND BARRIERS

The following analysis considers the fit between the structures in our sample and the financing needs of emerging and frontier markets, particularly in relation to assets that may contribute to sustainable development in these countries. While each market's needs and pathway to sustainable development is unique, the economies that require capital most acutely share certain characteristics. For example, major index providers tend to define emerging and frontier economies in terms of their level of economic development, scale, liquidity, and accessibility for international investors.[19] Therefore, products must be structured to attract allocators in the context of predominantly private underlying assets, limited local and regional exit opportunities, more uncertain policy and regulatory environments, elevated currency risk and market access risks.

Furthermore, the asset classes prioritised in investment strategies in our sample have characteristics that influence the feasibility and desirability of alternative listed product structures. In addition to the segmentation of infrastructure assets into development and cash-generative operational assets, MOBILIST submissions to date cover agriculture, carbon credits, small- and medium-sized businesses (SMEs), financial services and real estate, including in relation to investments that promote energy efficiency. In what follows, we discuss the fit between alternative structures and underlying assets.

Structures and criteria – overview

If they are to mobilise transformative private capital flows for sustainable development in emerging and frontier markets, the listed structures discussed in this report must attract major institutional investors. First, sponsors must demonstrate **feasibility** by securing tangible pipeline through the origination strategies defined in their proposals. TLEI, CLEAR Fund and others have shown that such pipeline exists in diverse Asian and African markets, offering a clear line of sight to imminent listing or IPO over the medium term.

Once emerging and frontier market pipeline is secured, sponsors must be able to demonstrate **commercial viability** in terms of total risk-adjusted return, and in such a way that matches allocators' liquidity and governance requirements. Viability is a prerequisite to attracting investment banks and brokers willing to back a capital raising process, and is assessed relative to allocators' opportunity sets in the public and private markets. The availability of comparables and relevant benchmarks substantively affects prospects of attracting larger allocators.

All else being equal, allocators in the private markets will typically expect higher total returns to compensate for greater liquidity risk and, as discussed above, greater operational risk. Exit strategy is particularly important for private funds, for whom negotiating power diminishes as fixed-term mandates approach expiration. This challenge also increases at larger ticket sizes, for which the pool of potential buyers in the private markets diminishes. Public market allocators' liquidity expectations substantially affect viability at IPO, and, for example, often constrain larger institutional investors' participation in listing of investment trusts.

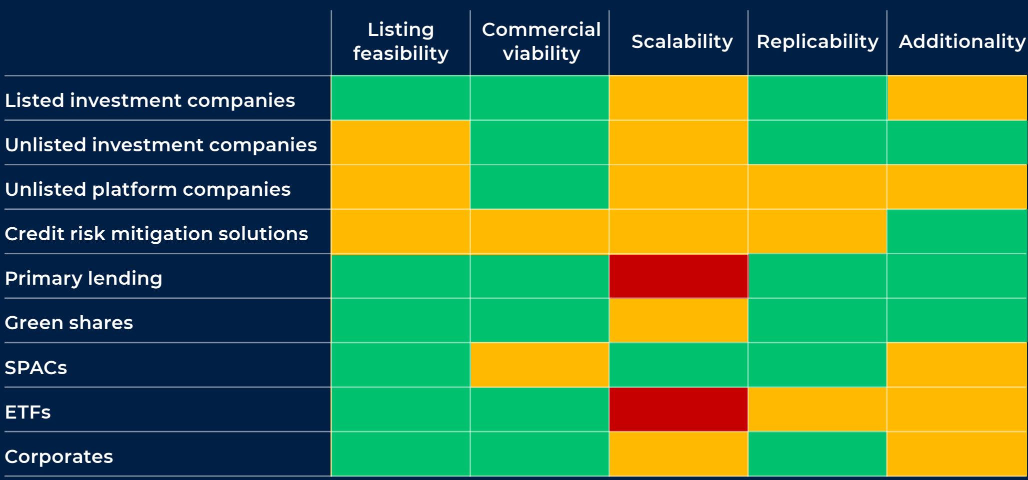
Once deemed commercially viable by allocators at IPO, listed products must prove their proposition in the market to reach **scale**. In the context of the structures discussed in this report, such scale requires successful capital deployment to build track record ahead of future capital raises. Here the skill of the collective vehicle management team is critical, though some structures offer the team inherent advantages in the context of emerging and frontier economies and the real assets that drive their sustainable development. Capital raising strategy may also vary, with important distinctions between open-ended and closed-ended structures, and between domestic and international listings.

[19] https://www.msci.com/eqb/pressreleases/archive/MSCI_2022_MCR_PR.pdf

Finally, to drive systemic change and unlock transformative flows into emerging and frontier markets, the pioneering propositions in our sample must trigger **replication** by others. Such replication is not only a matter of inspiration and proving an investment thesis, it also requires adequate transparency and a critical mass of peer products to set robust market benchmarks and comparables against which allocators can measure future opportunities.

Figure 10 summarises our appraisal of the alternative structures in our sample against prospects during each phase of the listing, scaling, and replication journey, and the extent to which these propositions have potential to drive systemic change that would otherwise not have occurred (so-called '**additionality**'). Green signifies a structure that in our view should be able to achieve the stated aim in most cases when used for investments in emerging and frontier markets, amber signifies a structure that may have challenges within an emerging market landscape in achieving the stated aim and red signifies in our view more significant challenges in achieving the stated objective within emerging and frontier markets.

FIGURE 10 – SUMMARY ASSESSMENT OF LISTED PRODUCT STRUCTURES



Listing feasibility

Feasibility may be analysed in terms of structure, strategy, and sponsor. The majority of structures in our sample are well-established in emerging and some frontier markets, demonstrating their technical feasibility. Notable exceptions include the commercial securitisation platform and the lending platform relying on ECA coverage to reduce risk to commercial lenders, for which no obvious precedent exists in emerging and frontier markets. Sponsors of these untested structures acknowledged that substantive investor education and incubation under private ownership would likely be required to prove feasibility. While these structures may take time to come to market, they could prove transformative for capital flows to emerging and frontier economies in the longer-term.

Among more established structures, propositions in our sample were pioneering in their strategy. For example, TLEI was the first emerging and frontier market renewable energy investment trust to list on the LSE. However, six new developed market renewable energy-focused investment trusts launched in 2021, raising a combined £874m at IPO. This brought the total number of renewable energy investment trusts listed on the LSE to 22, with a total market capitalisation of over £15bn.[20] In this sense, TLEI wraps novel emerging and frontier market exposures under a sector that has proven popular in developed markets and in a well-established structure for at least a segment of public market allocators. In this sense, the TLEI proposition varies one key variable – geographic exposure – while providing investors with substantial familiarity across others.

[20] https://www.theaic.co.uk/about-us/our-sector

A further five proposals sought to bring renewable energy investment companies with an emerging market focus to the market, while similar crossover proposals included one investing in urban infrastructure in West Africa, again replicating a strategy that has proven successful amongst UK listed investment companies. A proposal for a guarantee company sought to extend the success of the DFI-backed GuarantCo model, that guarantees local currency debt issued by EM issuers, with hard currency credit enhancement. However, even in the context of familiar structures and sectors, the shift to emerging and frontier market strategies is non-trivial. As discussed above, pipeline feasibility is a key concern among potential investors unfamiliar with specific economies or the broader emerging and frontier market asset class.

In terms of capital raising strategy, most proposals that are looking to list are targeting the LSE, but depending on the specific investment and the target investor base, a local listing could be more appropriate. For example, an investment in a platform company investing across Southern Africa might stand a better chance of success listing on the Johannesburg Stock Exchange (JSE) than the LSE, as South African investors may have a better understanding of these markets than UK based investors in general. Those UK investors who are interested can still invest directly on the JSE. As well as deciding on listing jurisdiction, there is also sometimes a decision to be made around which exchange to list on in a particular market, for example whether to list on the main exchange or on a second platform such as AIM in the UK.

A third consideration that may affect feasibility of listing is management team track record. Several of the propositions made to MOBILIST were either from teams that may be unknown to global allocators, or from major names moving into unfamiliar asset classes and markets. Building track record in private markets offers an important route for investment managers to prove themselves in the context of their proposed strategy, enhancing the feasibility of listing over time.

An important signal of overall feasibility is the extent to which the proposed issuer has been willing and able to engage quality advisers, including a sponsoring investment bank and lawyers. By definition these proposals will have successfully completed the due diligence reviews of those professional counterparties, and coverage of these ‘at risk’ costs signals the sponsor’s own conviction in their investment strategy and capital raising prospects.

Early engagement with target investors is crucial in understanding the likely success of a listing. In emerging markets listing processes have become longer in recent years, with companies often being introduced to potential investors well ahead of any planned listing by brokers conducting ‘early look’ meetings, taking feedback from the market and then refining not just the listing strategy but also the marketing and valuation of the company. This may be followed by ‘pilot-fishing’, a second opportunity to test feasibility before the official launch of a listing process.

As an example, ThomasLloyd Energy Impact began work on the listed investment trust a year before MOBILIST was announced. It was this early engagement that helped them to establish the key parameters of the structure that were an essential part of the offering, as well as helping the wealth managers and institutions that tend to invest in comparable investment trust IPOs of infrastructure assets in developed countries build up their confidence in the manager and the new emerging market strategy.

Among propositions that do not intend to list in the near-term, feasibility hinges centrally on the management team's ability to originate and build pipeline. For unlisted structures raising capital in private markets, this means identifying assets and incubating them to a maturity at which yield and risk management track record is appealing to allocators in public markets. For catalytic products designed to facilitate third-party listings, it means demonstrating the value proposition of the product's instruments for third parties. The pre-listing or unlisted structures in our sample include the platform that hosts a sustainability fund of funds; or the vehicle that purchases infrastructure debt, securitises it, and lists the credit notes.

Even if the equity is not listed in the near term, unlisted equity investments can be used as anchor equity for issuing listed debt securities. This introduces management to some of the discipline and pressures of operating in the public glare, without exposing them to the full scrutiny of the markets before the business is ready. Such a strategy builds track record and tests feasibility of strategy and sponsor in the markets prior to testing the feasibility of the listed equity structure.

Commercial viability

Most structures in our sample have been proven to be commercially viable in the market, subject to the soundness of the underlying investment thesis. This includes listed investment companies, platform companies, corporates, and ETFs. However, it is critical to note that at the time of writing, global markets were transitioning from a low yield environment through a period of substantial volatility into what appears likely to be a period of structurally higher yields on low-risk fixed income products. We have seen this trend erode the relative attractiveness of listed investment companies,[21] which thrived as an alternative strategy to deliver predictable income for investors. Reduced demand at IPO and post-listing could, all else being equal, affect commercial viability over the medium term.

SPACs are the one structure in our sample that we feel may be marked down on commercial viability. At the time of writing, the SPAC boom of 2021 appeared to be unwinding, with a sharp year-on-year decline in the number of deals (54% down) and IPOs (80% down) during the first half of 2022 and a record number of SPAC deals terminated.[22] In addition to broader macroeconomic headwinds, these trends appear due to disappointing performance by newly de-SPACed companies and shifting policy and regulatory stances in the US. New SEC rules were expected to be finalised later in 2022 and enforced from 2023,[23] potentially reducing the cost and process efficiencies that had underpinned the structure's popularity. At the time of writing, the Nasdaq was consulting on its own treatment of the structure.[24]

While for most propositions the overarching structure was well-tested for commercial viability in the market, several proposals in our sample sought MOBILIST equity into higher-risk, junior tranches, allowing private sector institutional investors to take lower-risk positions. For example, one platform proposed to use ECA enhancement to cover commercial lenders' exposure to projects, while the platform's equity investors, potentially including MOBILIST, provide the uncovered balance of funds. In this sense, MOBILIST investment was sought to catalyse the structure through its higher risk tolerance than market investors.

[21] https://www.hawksmoorim.co.uk/research/articles/real-assets-and-rising-bond-yields/

[22] https://www.skadden.com/insights/publications/2022/09/quarterly-insights/despite-slowdown-in-spac-activity-opportunities-remain

[23] https://www.sec.gov/news/speech/crenshaw-remarks-spac-symposium-042822

[24] https://www.nasdaq.com/solutions/spac

Such structures need not be seen as concessional or sub-commercial to the extent that MOBILIST is compensated for higher risk with relatively more attractive expected returns. For example, guarantee companies, insurance providers and securitisation vehicles are well understood structures in developed markets. Different types of credit investor are willing to take on different levels of risk, as they are compensated accordingly – buyers of the most junior tranche of mortgage-backed securities for example have a good understanding of the risk characteristics of the underlying mortgages and they expect a higher return from their investment than those purchasing higher-rated securities.

In emerging and frontier economies, however, the market for securitisations and guarantees are less well developed,[25] and the underlying risks are generally higher. As in developed markets, investors face credit risk, but additionally they face greater macroeconomic and on occasion political risk. Weaker credit rating infrastructure in many smaller emerging and frontier markets further exacerbates this issue, by adding a layer of uncertainty around risk profiles of the underlying portfolio. As a result, there may not be depth in these markets for different tranches of credit, and hence market participants may not be prepared to take on higher-risk, higher-potential return tranches when it comes to securitisations, or to underwrite guarantees/insurance. This gap in the market can only be filled by catalytic investors able to accept a greater level of risk, and over the longer term through domestic capital market development.

Several other propositions did, however, explicitly request 'concessional' capital from MOBILIST. MOBILIST has been clear that it invests on commercial terms, seemingly mitigating scope to provide concessional resources for such propositions. However, one should consider concessionality in this context over the long term. For example, MOBILIST could accept substantially higher-risk positions with sub-commercial risk-adjusted returns in the near term if it is compensated later in the product's lifecycle. Such strategies could be particularly compelling when future capital raises are foreseen, or when products seek investment at the pre-listing stage.

[25] https://pdfs.semanticscholar.org/72fb/450740858791d3a4eb98b8d4dd33f30f255b.pdf

Scale and replicability

Ensuring that listed products scale and are replicated in the market is vital if millions of dollars in anchor capital are to unlock billions or trillions of dollars for sustainable development in emerging and frontier economies. These concepts are closely interrelated: the market will seek to replicate any successful, scalable investment strategy or concept. A key exception is contexts in which there is clear first-mover advantage in scale, meaning that copycat structures may not be able to match the success of the pioneer. Examples could include instances in which a platform company acquires all leading companies in a market, or where a dominant in-country developer enters an exclusive partnership with an investment company, disadvantaging later entrants.

Perhaps the most important constraint on scale in the context of the structures and strategies in our sample is liquidity. Liquidity is vital in attracting market attention and drawing in more investors. All asset allocators have minimum liquidity requirements, and securities that fall below threshold daily and average trading volume thresholds will simply not be considered by portfolio managers. Post-listing liquidity has been a significant obstacle preventing institutional investors from backing investment trusts at IPO and over time. Consolidation in the wealth management industry, a key investor segment for listed investment companies, has further driven up minimum investment sizes and liquidity thresholds, meaning that increasing shares of the investment trust universe are no longer in scope for the large wealth managers.[26]

There is no straightforward solution to the issue of liquidity. On one hand it is an emerging market issue – with emerging markets as a universe having been out of favour from global investors for over a decade,[27] average daily trading volumes have dropped considerably. This is made worse by the increased concentration of the emerging markets index into a few large countries in Asia, and the lack of development of the local investment industry in a number of smaller emerging and frontier markets, outside South Africa.[28]

From a structuring perspective, previous MOBILIST research revealed that listed investment companies face additional challenges associated with limited investor awareness and familiarity with elements of the structure. From a strategy perspective, liquidity is less of a constraint to scale among themes that are more likely to command greater market attention, leading to larger initial investments and more follow-on trade after listing. Therefore, there may be a trade-off for allocators looking to back sustainable development in emerging and frontier markets – invest in novel themes with potential to be transformative if successful, or back established themes with the liquidity that makes success more likely.

Several proposals sought to enhance liquidity by accessing additional investor pools through a dual-listing strategy. Evidence on the attractiveness of this strategy is mixed and varies from market to market. A 2008 McKinsey study[29] focused on developed markets concluded that cross listings do not add value, and one emerging market investor consulted for this research highlighted that for smaller emerging and frontier markets, dual listings can, counter-intuitively, in fact *split* liquidity between two exchanges, doing more harm than good.

The liquidity issues referred to above are not specific to investment companies – they apply to all companies with listed shares, including corporates and credit funds, and may be a challenge for the development bank looking to issue a new class of green shares. One mooted solution is for cornerstone investors to structure their investments in different blocks. For example, rather than investing a single ticket of £25m at IPO, invest only £10m at IPO, and gradually buy shares in the market to increase the stake to the target level. This strategy (i) provides some protection in the event that there is pressure on the stock and (ii) drives liquidity, meaning the stock will have more chance of being on the radar of more investors.

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[26] MOBILIST (Forthcoming) “Investment Trusts for Sustainable Development”

[27] https://www.etfstream.com/features/will-emerging-markets-roar-back-after-their-lost-decade/

[28] https://www.ifc.org/wps/wcm/connect/dacea4f3-17da-4f4b-943f-9b107dfe3be0/EMCompass-Note+77-Creating+Domestic-Cap-Markets-Dev-Countries.pdf

[29] https://etfdb.com/etfdb-category/emerging-markets-equities/

ETFs may be particularly difficult to scale in emerging and frontier market contexts. ETFs have scaled very well in the developed world and there are now 72 emerging market ETFs listed in the US alone, of which six have a sustainability focus. However, the scale challenge for an ETF in the context of smaller emerging and frontier markets is the liquidity of underlying securities. Every time an ETF is bought or sold, in theory it is buying or selling units of the underlying investments. Unlike investment trusts, which are closed-ended, permanent capital vehicle, ETFs are open-ended and so have minimum liquidity requirements to ensure they are able to execute their trades.

More generally, it is difficult to scale without listing. Previously we noted that a listing is not appropriate in the near term in every instance, but investment companies and platform companies, as well as corporates, will find it difficult to truly scale without an eventual listing. Listing provides a currency, and a means for raising more capital from the vast pool of public investors, at a fair price. Thus for the unlisted or pre-listing structures in our sample, a listing at some point is a reasonable expectation, certainly as long as the company is succeeding in its growth ambitions.

Additionality

Opportunities for additionality go beyond raising additional capital for a given transaction to affecting systemic change in the way sustainable development in emerging and frontier markets is financed altogether. A key innovation with such systemic potential offered by several proposals in our sample was the move by development finance actors to **exit investments in their portfolio** through listed products. In this sense, so-called 'public markets exit mobilisation' has potential not only to raise capital for these proposals, but to fundamentally reimagine the DFI business model, with exit strategy built in from origination through investment committee to portfolio management.

One example from our sample was the CLEAR Fund, backed by InfraCo Africa and Helios Investment Partners. In this structure, equity ownership of the underlying assets moves from a DFI (InfraCo Africa) to private shareholders and in time to public shareholders when the CLEAR Fund lists. InfraCo Africa will be able to use the proceeds from reducing its stake to invest in new development projects that entail greater risk, and which would not likely be attractive to public market allocators. One other proposal suggested a comparable approach to capital recycling.

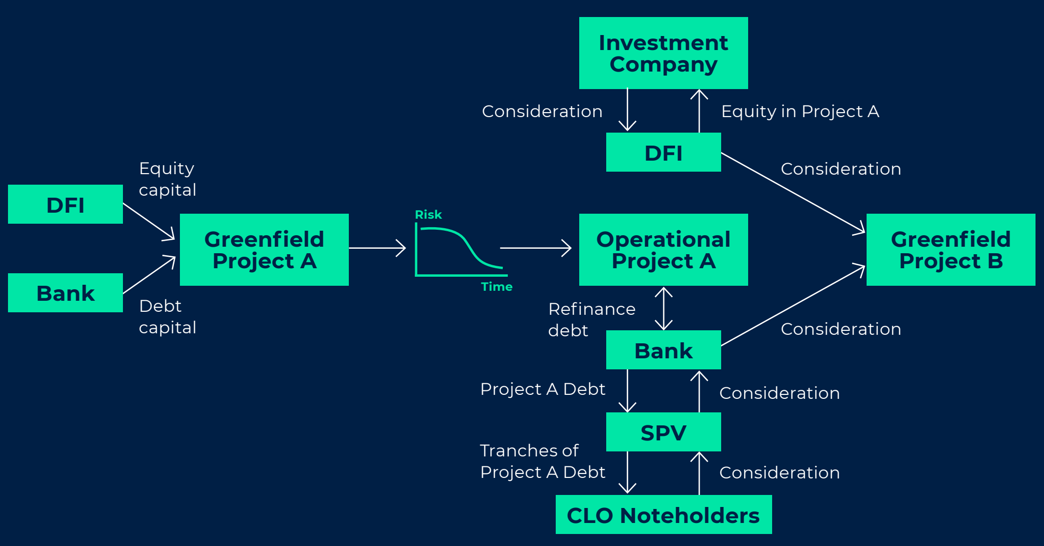
While exit mobilisation may be best understood with reference to DFIs, the concept of capital recycling is **equally relevant for private investors**. Most fundamentally, this strategy (i) aligns assets' risk-return profile with allocators' risk-return preferences, and in doing so (ii) attracts a new pool of investors, who otherwise may not have sought these exposures. As projects mature and operations become cash generative, development risk reduces and the risk-return dynamic shifts, such that investment company shareholders can expect a yield on their investments. For the DFI or private equity (PE) house, the investment company is a very attractive off-taker of assets because it has permanent capital and a long-term outlook, meaning it can pay fair price for the asset at the time when the PE house or DFI is ready to sell, and it need not worry about redemptions or end of fund life that reduce its own investment capability. Having a known pool of investment companies whose risk appetite matches the assets being developed considerably reduces the risk to the developer.

PE houses may find unlisted investment companies are better counterparts for a transaction if some development risk remains in the assets. For example, one proposal sought to set up an investment company that would re-house equity and debt investments held by the sponsor's private funds. PE funds usually have a fixed lifespan of between 5-10 years, but it is not necessarily the case that all investments will have reached operational maturity in that time. Having an unlisted investment company that is comfortable taking on development risk means that the assets can be re-housed without significant disruption, the private equity LPs receive the returns on their investment, and then may well re-commit to a new fund run by the PE sponsor.

Recycling of capital can apply to debt capital just as it can to equity capital, and can be equally impactful. Securitisation vehicles can buy loans at any stage, but the recycling of capital is most viable as project risk reduces, incentivising the borrower to refinance on more attractive terms. SPVs or central market counterparties can purchase the refinanced loans from banks, providing the bank with the funds to issue new loans while packaging up the loans into securitised notes. The securitised notes are sold to debt investors according to their risk appetite and the credit rating of the securitisation, diversifying the funding base.

Figure 11 visualises this structure. A greenfield, high risk Project A is funded to financial close by a DFI and a bank (in this simple example one of each, but more likely consortia on both sides). As development progresses, permits are obtained, construction starts and budgets are kept to, the risk to the project reduces (typical project lifecycle). Once the project is de-risked sufficiently, for example on the verge of commercial operations or slightly earlier, this risk profile is now more suitable for a larger pool of commercial investors. At this point, an investment company buys out the DFI's equity stake and/or an SPV buys the debt from the bank, securitising it and repackaging with other similar debts for sale to investors in credit-linked notes. The DFI and the bank are both capital rich having been bought out, and can recycle resources into further risky projects that match their risk appetite and skillset.

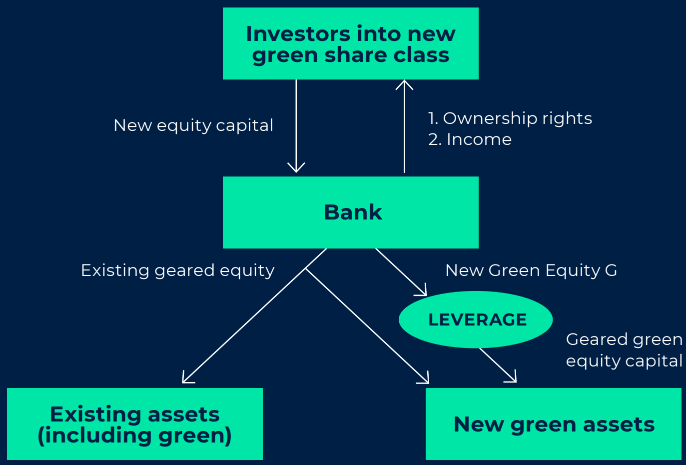
FIGURE 11 – EXIT MOBILISATION THROUGH SECURITISATION



In addition to the overall volume of capital mobilised into emerging and frontier markets, the proposals in our sample have potential to **increase the share of this capital directed to sustainable development.** For example, one proposal submitted by a development bank envisaged issuance of a new 'green equity' share class, with the proceeds from the issuance only able to be deployed into investments contributing to climate mitigation or climate adaptation. The equity would be levered up in line with the bank's existing ratios, resulting in a 3-4x multiple. Such a strategy, if successful, could well be replicated by commercial banks as well as other development banks.

While it may not 'decarbonise' the bank's existing portfolio, from the point of view of reducing investment into established carbon-generating projects, the proportion of the balance sheet deployed in carbon generating versus green projects would shift markedly. Going forward this would enhance green projects' prospects of securing funding relative to other investments. Figure 12 shows this form of additionality, with the green share class and associated leverage deployed into additional green assets in the development bank's portfolio.

FIGURE 12 – ADDITIONALITY THROUGH PORTFOLIO REBALANCING



Green bonds work in a similar manner, with proceeds only able to be invested in green investments such as renewable energy, clean transportation and natural resource management. If successful, the proposed guarantee instrument to cover hard currency green bonds would similarly shape the flow of capital allocated to green projects.

Several proposals sought to achieve additionality by **making viable underlying assets that otherwise would not have been viable**, bringing new opportunities to public market allocators and new capital to emerging and frontier economies. For example, proposals that looked to increase access to guarantee platforms, export credit risk coverage and credit insurance all sought to unlock additional capital by shifting risk between investors of varied risk appetites. Entry into these structures of an actor with a uniquely high risk tolerance in the context of diversification in their portfolio broadens the pool of investors for whom the underlying assets can be attractive. Such an investor could be MOBILIST itself, but one proposal also identifies opportunities for reinsurance by a more diversified holder to play a similar function.

An alternative to guarantees and other credit enhancement structures is simply to lend directly to marginal projects that are struggling to obtain commercial funding, and internalise the cost of the credit enhancement by lending on concessional terms. This formed the basis for a proposal put forward jointly by a major international bank and a large sovereign wealth fund to fund a platform that would lend a meaningful portion of its book to marginally bankable projects, with the extra credit risk absorbed by MOBILIST and other DFI funders. The blended finance approach will get more projects to financial close in markets where the need is greatest, but there is a balance to be struck between additionality and concessionality.

5. CONCLUSIONS

Harnessing public markets for sustainable development in emerging and frontier economies is an important ambition. In this report, we have demonstrated the multiple, practical ways in which this ambition can be translated into real-world capital flows and positive impact. Specifically, we have analysed the diverse product structures that can wrap underlying assets in such a way as to meet public market allocators' risk, return and liquidity requirements, while ensuring alignment to the sustainable development goals.

Learnings across the pioneering product proposals submitted to MOBILIST include:

- **A pipeline exists and is actively seeking capital.** MOBILIST has received 44 proposals from varied commercial sponsors to date. Proposals identified substantial investment pipelines and saw their solution as scalable. This demonstrates potential for allocators to access emerging and frontier market assets aligned with SDGs and international climate commitments.
- **Different structures can address similar problems.** Comparable underlying assets can be accessed through diverse structures. Listed and unlisted investment companies can offer permanent capital to match extended project development; while securitisations, guarantees and insurance all reallocate risk across actors. Private funds and credit protection structures incubate earlier-stage assets; while listed investment companies and securitisations are more appropriate for operational, cash-generative assets.
- **Capital recycling should be the norm for DFIs just as it is for PE**, and public markets offer unparalleled depth and scale for exit mobilisation. Such exits allow DFIs and PE to focus on higher-risk, higher-return earlier-stage assets, and can be achieved through diverse listed structures.
- **IPO is a milestone, not an end.** To move from millions to billions to trillions, the market needs listed product structures that prove commercial viability, can scale efficiently, and be replicated easily. Strategies in our sample varied in terms of risk-adjusted returns, and certain structures are facing stronger market and regulatory headwinds than others in terms of commercial viability.
- **Complexity need not be a constraint.** MOBILIST has unearthed varied high potential structures. The most familiar structures offering access to new markets and assets may be swiftest to market. More complex structures may require market education and technical support, but could be transformational over time. For example, the provision of credit enhancement might be enough to attract a new type of investor into emerging market debt, particularly through credit linked notes. If that investor generates a good return, they are more likely to continue to allocate to the emerging market asset class, so the enhancement provided by MOBILIST could be seen to bring and keep new investors in emerging markets.
- **Concessionality may be a matter of time horizon.** Concessional finance will never be scalable in the market, as commercial market operators seek an appropriate return for the risk they take. However, the provision of junior capital with a higher risk tolerance to demonstrate that a particular sector is investable would be catalytic and result in scale.

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GFANZ
Glasgow Financial Alliance for Net Zero

MOBILIST has been endorsed as a Catalytic Initiative by the CEO Principals of the Glasgow Financial Alliance for Net Zero (GFANZ), the global coalition of leading financial institutions committed to accelerating the decarbonisation of the economy, chaired by Mark Carney, the UN Special Envoy on Climate Action and Finance and anchored in the UN's Race to Zero campaign.

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