

Management report to Council

Agenda item 6.5
Council
29 October 2013

Sustainable Melbourne Fund: full year performance results to 30 June 2013

Presenter: Mark Stoermer, Director Corporate Business

Purpose and background

1. The purpose of this report is to present the financial and operational performance results for the full year ended 30 June 2013 of the Sustainable Melbourne Fund (SMF).
2. Council established SMF on 17 April 2002 to support Council's environmental objectives through strategic investment in external entities. SMF is administered by a board of independent trustees. Council provided \$5 million to establish the SMF, which is expected to be financially self-sustaining. Council is the sole beneficiary and unit holder of SMF. Council also resolved to provide a grant of \$500,000 to SMF in the 2010–11 financial year to develop administrative processes around the use of Environmental Upgrade Agreements (EUAs) which was funded by Sustainability Victoria.
3. SMF operates under governance provisions as defined in a Project Charter and a Trust Deed. The charter defines Key Performance Indicators (KPIs). Council has also established an additional KPI for the SMF in relation to services it is providing Council to administer EUAs.
4. In June 2013 the Council:
 - 4.1. noted the SMF 2013–16 Business Plan
 - 4.2. set the SMF hurdle rate for a return to be no less than the rate of inflation over the period of 1 July 2011 to 30 June 2015
 - 4.3. agreed to extend the Service Level Agreement between the Council and the Trustees of the SMF for the administration of EUAs for two years to 30 June 2015.
5. SMF is required by the Charter to provide an annual report to Council (Attachment 2). The Trustees have resolved to also provide quarterly reporting to Councillors which have been provided throughout the year.

Key issues

6. SMF earned gross income of \$0.48 million in the 2012–13 financial year. The net asset value of the SMF as at 30 June 2013 was \$6.21 million, which represents a gross revenue return of 7.7 per cent. After deducting expenses, SMF's net loss was \$0.206 million representing a net return of minus 3.3 per cent. SMF received an unqualified audit report from the Victorian Auditor General's Office.
7. The SMF 2013–16 Business Plan outlines the strategy by which it will return to profit and achieve its hurdle rate.
8. SMF's key operational activities and achievements are outlined in the attached report.

Recommendation from management

9. That the Council accepts the performance report for 2012-13 of the Sustainable Melbourne Fund as detailed in the Annual Report.

Attachments:

1. Supporting Attachment
2. Sustainable Melbourne Fund – Yearly Operational Report 30 June 2013

Supporting Attachment

Legal

1. No direct legal issues arise from the recommendation in the report.

Finance

2. The financial implications are discussed throughout the report and attachment.
3. SMF KPIs are as follows:
 - 3.1 A triennial rate of financial return of no less than the rate of inflation.
 - 3.2 Delivery of environmental benefits in at least one of the following categories: water conservation and quality, renewable energy and energy efficiency, sustainable transport or waste minimisation.
 - 3.3 Delivery of social benefits in at least one of the following categories: businesses in the municipality, residents in the municipality and the wider community of Melbourne or visitors to the municipality.
 - 3.4 Provision of alternate alliance and development opportunities in line with the above KPIs.
 - 3.5 Commercial success of services provided to sustainable initiatives (eg EUAs).

Conflict of interest

4. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a direct or indirect interest in relation to the matter of the report.

Stakeholder consultation

5. Consultation with the SMF management was undertaken in preparation of this report.

Relation to Council policy

6. The SMF is an initiative of the Council.

Environmental sustainability

7. The Charter of the SMF requires it to consider the social benefits and allow it to invest in projects that will deliver environmental benefits in water consumption and quality, renewable energy and energy efficiency, clean and efficient transport and waste minimisation.
8. The environmental sustainability benefits are detailed in the Annual Report.



**SUSTAINABLE
MELBOURNE
FUND**

Annual Report

2012 - 2013



Sustainable Melbourne Fund (SMF) has been investing profitably in sustainability for 11 years and has a proven track record. As the first fund of its kind in Australia, innovation was built into the organisations DNA at the outset; and this continues today. SMF is the only organisation experienced in the creation and implementation of the EUA model, with international and local experience and is the only provider of third party administrator for EUA programs in Australia.

Our vision, our values

The over arching aim of SMF is to extend the eco city goals of Melbourne City Council. SMF uses its financial capacity, independent structure, broad mandate and local market knowledge to drive financial innovation in the development of sustainable solutions for Victorian businesses. SMF values innovation, efficiency, leadership and being engaged in the community of renewable energy and energy efficiency advocates.

The projects SMF have enabled through access to capital - whether it is through the use of an EUA or through direct investment - have resulted in positive social, environmental and economic outcomes. Through job creation, increased worker productivity, community-enable solar powered neighbourhoods and reduction in energy costs for businesses and consumers by lowering greenhouse gas emissions, SMF has made a powerful impact on the communities in the city of Melbourne.

Our philosophy

SMF believes that targeted development and application of technology, coupled with the sharing of knowledge and information creates economic, social and environmental benefits.

Our primary focus is on urban areas, in which there is the greatest potential to realise economic growth and mitigate against the negative effects of climate change.



Introduction

An economic and environmental proposition

There is an increasing awareness among Australian society and industry stakeholders about the importance of efficient energy use. Driven by a sense of urgency, organisations are searching for the best sustainable solutions to address the challenges posed by excessive energy consumption. With a heightened market awareness, a range of solutions and practices have become available. However, overwhelmed by the range of solutions and options, some organisations have instead resorted to a wait-and-see approach. On the other hand, for those that see the immediate commercial opportunities in tackling these issues; there has never been a better time to act.

SMF combines expert knowledge of sustainable practices and extensive experience with financial solutions to develop innovative products for organisations.

SMF works with a broad range of industries and stakeholders, with the purpose of establishing strategic relationships. SMF facilitates market growth and manages assets to achieve environmental and financial objectives - issuing low-cost loans that support key environmental initiatives, programs and policies of the City of Melbourne.

SMF is well connected to both the public and private sectors within greater metropolitan Melbourne. Its strategic focus and knowledge is recognised and sought by other councils and state governments. Moreover, its size, effective management and productivity allow it to adapt quickly to industry trends.

In the 2012/13 financial year (FY), significant efforts were undertaken by SMF to review its business outlook and identify key objectives as well as define a growth strategy leading to 2016. The objectives endorsed by the unit holders, can be split into four key areas:

- **Innovation (products and services)**
- **Education (market education and engagement)**
- **Transaction (resource efficient market)**
- **Effective Management (processes, people, risk)**

This year's Annual Report tells the story of SMF's finance-led activities in the built environment within the Melbourne City municipality, wider Victoria; and of its positive impact on local and international markets following an extensive market education phase.



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Highlights

\$10.99m

The highest growth in SMF's investment pipeline history.

4 times

The environmental benefits per dollar invested compared with last year.

75%

The increase in investments value compared with last year.

18

New strategic partnerships made that vastly expanded SMF's sales channels.

43%

The portion of investments made with recycled capital.

25%

Growth in the number of EUA applications received on the previous financial year.

Investments

- \$670,000 of principle returns from loan portfolio.
- A 48% increase in revenue from our investment portfolio on the previous financial year.
- A 15% reduction in the cost base of the fund on the previous financial year.

Environmental upgrade agreements

- 28% increase in expressions of interest in EUA applications since last year
- More than half of those who expressed interest in EUAs are currently in process of making applications.
- Significant contribution to development of EUA legislation and program delivery model in South Australia.
- A federal government grant to rollout a national Business Case for EUAs (BC4EUA) program.

Engagement & market education

- Implemented social media strategy and engaged in a highly active social media community including SMF blog.
- Established 10 strategic partnerships to diversify sales channels for EUAs.
- Established 8 strategic partnerships with peak bodies to raise industry awareness of EUAs to generate greater adoption of EUAs.

Innovation

- Partnered with Commercialisation Australia to invest into an IT start-up focused upon delivering energy efficiency information to residential energy consumers, delivering 2% energy savings across the user base numbering over 50,000 (~12GWh / day)
- Completed pre-feasibility of innovative and novel finance solution targeting rooftop mounted solar installations on industrial buildings within the municipality of Melbourne.



Message from the Chairman and CEO

On behalf of the Board Members and Executive, it is our pleasure to present the 2012/2013 Sustainable Melbourne Fund (SMF) Annual Report.

Financial year 2013 was a very important year in the development of the Sustainable Melbourne Fund (SMF). Building upon the previous year's focus of developing and piloting the Environmental Upgrade finance administration and program offering, the Trustees and Executive continued the investment into the business offering and establishing the fund for sustained future growth.

Throughout the year our focus remained on innovative products, services and the expansion of SMF's presence in the national and global marketplace.

Challenges posed by a slowing economy, waning business confidence and a fluid, competitive marketplace demanded a fresh approach which our Trustees and Executive initiated to develop existing opportunities whilst addressing the economic challenges. A comprehensive review of the SMF's strategy and business plan was undertaken with detailed consultation with the City of Melbourne. The resultant strategy adopted by the Trustees is focused upon maximising the value proposition of SMF, which is aimed at delivering the desired environmental, social and financial outcomes for the City of Melbourne. Built around four main goals, financial year 2012-2013 saw SMF begin to deliver on the plans for the next three years.

Growth in the pipeline of investment opportunities was the largest in SMF's history while also delivering a growth in number of transactions over the previous year. By June 30, the pipeline of opportunities was three times larger than available cash reserves. These opportunities lay a promising foundation for financial year 2013-2014 where the efforts of the Trustees and the Executive will be focused on enabling SMF to sustain a higher deal flow than ever before.

Gross revenue returns of 6.9% and an increase in the impact of the funds invested were achieved despite underlying benchmark rates declining by more than 17% during the

reporting period. The anticipated deficit was greater than budgeted, primarily due to the delay in receipt of funds associated with successful grant applications.

Despite challenging market conditions, the underlying performance of SMF surpassed the anticipated returns.

Changes to the SMF team structure during the year has enabled us to build a more customer focused approach with increased stakeholder engagement as well as a strengthened relationship with the City of Melbourne. We have achieved gains through reducing our immediate team size and adopting a new and fully integrated approach to marketing and communications, with external consultants at the ready to advise on business communication and government relations activity. This change has enabled SMF to create efficiencies and better understand where targeted effort is required in order to drive the uptake of both the SMF loan portfolio and EUAs within the City of Melbourne.

Our pre-feasibility work in seeking to unlock the solar potential of significant amounts of industrial and retail roof space within the City of Melbourne and in the wider State of Victoria is in part the realisation of our desire to develop new products and services. We have begun to expand our reach nationally, through the development of our Third Party Administrator (TPA) model for use within councils throughout Australia.

Through market education and maintaining links with both industry and State Government, we have increased market awareness of the availability of a unique form of capital finance in Australia.

Our Environmental Upgrade Agreement (EUA) mechanism remains a pioneering approach for funding building upgrades that demonstrate both environmental and financial benefits. It's an approach garnering significant support in Australia with more EUA programs being established in New South Wales.

South Australia produced a business case this year endorsing the establishment of an EUA program in that State with a recommended delivery mechanism similar to that undertaken by the City of Melbourne and SMF, through our TPA business model. Similarly, expressions of

interest in EUAs and the TPA model have been received from Singapore, New Zealand and the United States.

Locally, EUAs have gained momentum throughout the year as consultants, councils, building owners and tenants begin to recognise energy efficiency in buildings as a commercial and environmental opportunity.

Through maintaining links with our local, national and global industry partners and municipalities alike, SMF and its unit holder, the City of Melbourne is recognised both nationally and internationally as a market leader in energy efficiency finance for the built environment.

Strategy is only ever as good as its implementation and SMF's Executive rarely fail to accomplish their mandate effectively. When issues arise, they adapt and capitalise on opportunities: the sign of a dedicated and motivated team.

We have been privileged to work with and, indeed, learn from Board members with great business acumen and life experience. We wish to express to those Board Members our appreciation of their contributions and efforts.

Finally, on behalf of the Board and Executive, we would like to record our appreciation of the continuing support we receive from the City of Melbourne.

We take great pride in what has been achieved to date and we are confident that SMF is well placed to take advantage of future opportunities.

Robert Jamieson
Chair, Sustainable Melbourne Fund and Governance and Audit Subcommittee

Scott Bocksay
Chief Executive, Sustainable Melbourne Fund





Operational Overview

Investments

SMF recorded significant growth in activities associated with its loan portfolio with an increase in investments made on the previous financial year, zero loan impairments and an increase in the amount of capital recycled into new loans from the previous period.

As a lender and facilitator, SMF aims to be a catalyst for the energy efficiency and building retrofit market to create innovative ways of financing projects that deliver triple bottom line outcomes for the unit holder, the City of Melbourne.

Despite weakening market conditions, SMF has received the highest pipeline of opportunities in its history. These include projects such as building upgrades, innovative water treatment technology, small community wind farms and community focused lighting upgrades.

This year, SMF achieved a \$10.99 million total value of investment pipeline opportunities. During the period, \$1.552 million of the assessed applications in new project loans were transacted upon, representing a 75% increase in loans made from the previous year (Figure 1).

The investments include projects that focus on building services upgrades, boiler and chiller upgrades, lighting upgrades as well as a software development project. As of June 30, there was a total of \$7.578 million in projects still under assessment by management (Figure 2).

Not only has the quantity of loans from the previous financial year increased, so too has the efficacy of each dollar invested with a four-fold increase in the environmental benefit of the projects invested.

Figure 1 - Annual Loans Made 2006-2013

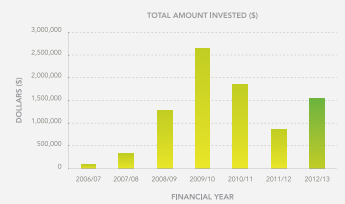
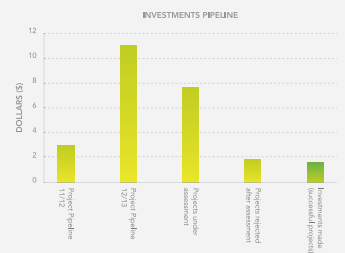


Figure 2 - SMF Investment Pipeline



BILLCAP - Case study of investment

The first investment of its kind, the software development project was designed by technology start-up, Billcap, for the purpose of enabling customers of energy retailers to track energy usage to prevent bill shock. While some energy retailers have provided web based platforms to the end users (clients) to monitor and track their energy usage, Billcap's project is tailored to provide the clients energy usage data to the energy retailer. This in turn enables the retailer to tailor products (price packages) best suited to their client energy use profile, thus hedging against client churn and increasing customer retention rates as grid energy prices continue to escalate.

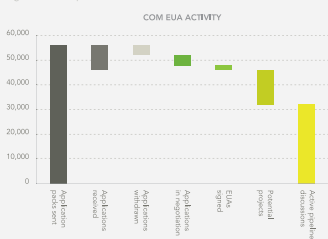
Environmental upgrade agreements

EUA project activity – City of Melbourne

A total \$5.62 million in EUA activity has been carried out over four unique projects since the first agreement was signed in 2011. These projects have resulted in reductions of greenhouse gas emissions equivalents (CO₂ –e) by 56,000kg per annum over a combined 73,000 m² of floor area, cutting energy costs for these developments by nearly half a million dollars (\$491,000).

Similar to the outcomes of the investment portfolio, FY 2012/13 saw dramatic growth in SMF enquiries. During the period, SMF received 28 expressions of interest into the use of an EUA for a specific retrofit project, of these, 5 resulted in applications to use EUA, 3 of which were successful. These include a \$2.6 million project and a \$1.92 million capital expenditure project that are expected to deliver an estimated 2,670 tonnes of CO₂ –e and estimated 8,940 tonnes of CO₂ –e respectively over the project's lifespan (Figure 3).

Figure 3 - EUA Pipeline



Currently there are 16 projects in the pipeline ranging from imminent signing of the EUA to early feasibility. The value of these projects range from \$0.5 million to \$20 million comprising of small to large commercial office buildings, retail outlets and hotels with proposed works ranging from lighting and systems upgrades to major upgrades and refurbishments (Figure 3). The development of the pipeline of projects remains a key focus for SMF. While SMF is continuing its efforts to convert 'expressions of interests' into signed EUAs, additional activity to increase the number of enquiries is also being undertaken. These include, but are not limited to:

- Boardroom luncheons or Boardroom Roundtables
- Workshops, seminars and events

- One-on-one engagement
- Development of collateral
- Publishing articles in trade media
- Social media

Engagement and market education

As EUA programs become established through a greater number of municipalities and gain wider acceptance as a funding mechanism for building retrofits, so does SMF's reputation as the EUA experts in the industry. With its overlapping functions of administrator, educator, facilitator and where necessary - financier, SMF is at the forefront of driving change across the industry.

SMF is the only organisation in Australia with experience in providing Third Party Administrator services for EUAs. Implementing EUAs using a third party administrator (TPA) allows councils to focus on other key priority areas and simultaneously access world leading commercial experience.

A third party administrator's role is to facilitate the financing of environmental building upgrades through the use of an EUA on behalf of building owners, tenants, lenders and councils. As the sole provider of this type of service, SMF has in-depth knowledge and understanding of:

- the legislative impact of EUAs on rateable land
- commercial application of EUAs in the built environment
- developing retrofit projects to optimise returns for the building owner and occupier
- creating business case and tools to promote EUAs as the funding mechanism of choice to pay for building retrofits
- facilitating industry engagement to promote EUAs
- providing advice to local councils to design and implement an EUA program in their municipality.
- the impact of maladministration of programs on councils operations, and the finance and property sectors.

An integrated approach

During FY 2013, SMF adopted a new and fully integrated approach to marketing and communications activity. This has enabled SMF to better understand and identify where targeted effort is required in order to drive the uptake of both the SMF loan portfolio and EUAs within the City of Melbourne. Efforts have been focused upon building a third party sales force and lead origination for potential EUA projects (Figure 4). In order to provide accurate and relevant information to a wide and varied range of stakeholders, the target audience has been segmented into the following key groups:

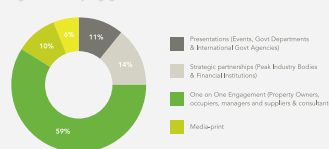
- Property owners – predominantly non-residential
- Property occupiers
- Property and facility managers
- Australian financial institutions
- Suppliers and consultants to the built environment industry (includes energy services companies)
- Local, State and Federal governments
- Peak industry bodies
- International government agencies

Figure 4 - Third Party sales force



This activity is supported by market education and engagement delivered predominantly through social media and traditional media outlets. Where potential clients are considering an EUA as an attractive way to finance, one-on-one meetings are still the most common and preferred way of engaging with the target audiences (Figure 5).

Figure 5 - Industry engagement and communication channels



Online engagement and social media

SMF launched a social media presence for the first time in January 2013, including a blog hosted within the SMF website, and Twitter and LinkedIn profiles. Reach through these platforms has both broadened and deepened nationally and internationally, proving to be valuable avenues for generating awareness and discussing topical issues, while also connecting with a diverse and highly mobilised target audience. In this period, SMF's online presence has grown to include a highly engaged network of industry consultants, media outlets, journalists and government. Social media has been used to deliver two predominant outcomes so far:

- Raising awareness of SMF and EUAs among government, media, consultants and other third party sales force members locally and overseas; and
- Building relationships with key journalists, Councillors in Sydney and Melbourne and positioning SMF as an active leader in the online space, driving and participating in conversations about energy efficiency and finance in Australia.

Online and real-time engagement with these stakeholder groups during industry events such as the Alliance to Save Energy Conference – Summer Study (Sydney, March 2013) has resulted in acquisition of online followers on Twitter and LinkedIn with a number of influential members of the energy efficiency community. The accumulated reach of the online network is in excess of 200,000 active users and groups.

Website

The SMF website remains the core repository of information on SMF's products and services, with each communication effort aiming to direct traffic to the site.

More than half (56.98%) of visitors to the site were new (unique) over the course of the year (a total of 4,006 unique out of a total 7,025 visits) demonstrating consistently increasing awareness of SMF.

Pages viewed per visit and duration of visits has remained steady over the last year. Visitors to the site tend to spend between three and four minutes digesting content and exploring between three and five pages each time. The bounce rate remains low at an average of 35 per cent, which indicates the content is engaging and relevant to visitors.

Given the significant growth in both expressions of interest (EOIs) in EUAs and the investment pipeline, the performance of the website is high, in terms of supporting delivery of the desired business outcomes of increasing interest in applications for EUAs and investment loans.

Innovation

Owners Corporations loan product

During the 2013 FY, efforts were undertaken to address blockages to investments being made within the municipality of Melbourne. One loan was made to an Owners Corporation at 50 Swanston Street Melbourne. Owners Corporations represent 22% of the total commercial office net lettable area (NLA) within the City of Melbourne. These ownership models have limited access to financing to improve their assets with several major lenders retreating from the space during the previous number of years.

Commercialisation strategy of SMF Third Party Administration (TPA) services

There has been a significant increase in EUA activity across multiple regions within Australia. Currently nationwide there are EUA projects with a combined value of \$32.42 million.

SMF has been actively engaging with all states and municipalities offering EUAs or considering EUAs to develop a new service offering which supports the prevalence of EUA programs across the country. Where EUA programs become ubiquitous, a broader market is able to be serviced, enabling building owners, tenants and intermediaries to benefit from EUAs in more municipalities. Thus an increased likelihood of EUA deals becomes possible.

Feedback received from SMF stakeholders and also subsequently confirmed by the South Australian Government's report, "Environmental Upgrade Finance: Business Model and Business Case" is that the third party administration model for the EUA program is both the industry preferred approach, as well as the most cost effective method of establishing and operating EUAs on a nationally consistent basis.

In order to investigate this market offering SMF entered into a strategic alliance with ClimateWorks Australia to explore the potential of ClimateWorks Australia becoming a licensed user of the core SMF IP. These efforts continue beyond the reporting period.

Pre-feasibility completed upon new approaches to financing solar within the municipality of Melbourne

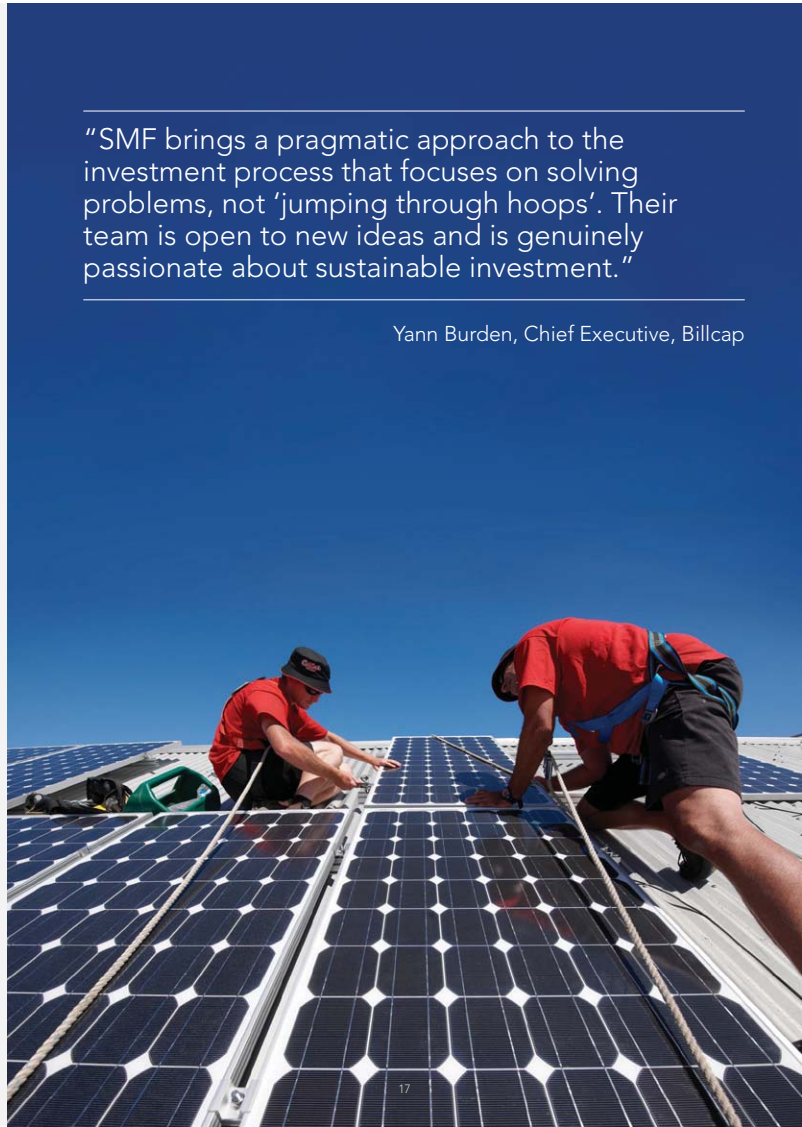
Few commercial buildings currently have solar panel roofing in the City of Melbourne. This is in part due to the nature of its unique built environment (consisting of relatively fewer free standing dwellings and a majority of high rise apartments).

For most apartment dwellers, the building typography is not consistent with the suitability of installing solar panels upon these roofs. Within these buildings, 73% are renters, representing 55% of all dwelling types in the municipality.

While residents of the municipality of Melbourne find it hard to install solar panels on their roofs, there remains significant opportunity to utilize industrial roof space. This program identified 1.5 million square meters of roof space potentially suitable for solar power station and targets a solution to deliver positive outcomes for both residents of the City of Melbourne, but also businesses which operate underneath these identified roofs.

"SMF brings a pragmatic approach to the investment process that focuses on solving problems, not 'jumping through hoops'. Their team is open to new ideas and is genuinely passionate about sustainable investment."

Yann Burden, Chief Executive, Billcap



Our Organisation

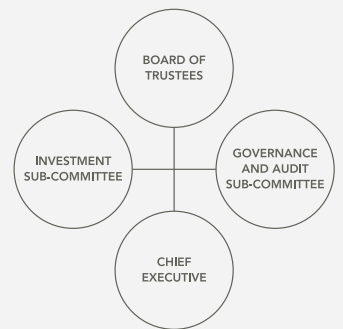


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Our governance

SMF is governed by a Board of Trustees, comprising of a Chair and five Trustees, each bringing a variety of experience to compliment the goals of the fund and provide strategic direction to management. The Board is also supported by an Investment sub-committee and a governance and audit sub-committee who assist the Chief Executive to deliver strategic outcomes. Board meetings are held bi-monthly.

The sub-committees are made up of the divisions of the board formed for the purpose of discussing specific issues on behalf of the board. After the sub-committees complete their work, the issues are returned to the full Board for consideration based on the sub-committees' recommendations and final decisions.



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Robert Jamieson
Chair, Sustainable Melbourne Fund, and Governance and Audit Subcommittee

Robert is a senior partner with the international law firm, Ashurst. His practice involves energy and resources, environment and government (including governance and probity) matters. He is currently the Practice Head of the firm's environmental law practice and is the business leader of part of the firm's energy and resources practice.

He is recognised both nationally and internationally as a leading environmental law practitioner.

Robert is a former board member of the firm and was the managing partner of the Melbourne office from 2000-2003. Outside of the law, Robert has a number of interests and roles:

- **Chairman of the Sustainable Melbourne Fund**
- **Former Chairman of the Human Rights Law Centre and former Board member of PILCH (Public Interest Law Clearing House)**
- **Visiting fellow at the University of Melbourne – teaching from time to time in the Master's program-environmental and water resources law**
- **Former Chairman of Diving Victoria and current board member of Diving Australia**
- **Former board member of the Melbourne Football Club and current Chairman of the Red and Blue Foundation (the fund raising arm of the Melbourne Football Club)**
- **Deputy Chairman of the Savewater! Alliance Inc.**

Robert is a graduate of Monash University having been awarded a Bachelor of Science and Bachelor of Laws degrees in 1981 and 1983 respectively.



Brett Lazarides
Deputy Chair, Sustainable Melbourne Fund, and Investment Subcommittee

Brett Lazarides is a professional independent director within institutional investment and superannuation markets who specialises in unlisted infrastructure & private markets. Currently, Brett's other fiduciary roles include Independent Director and Investment Committee Chairman for Combined Super Fund and nominee director on the Board of Hobart International Airport.

Brett has over 27 years experience in the financial services industry, spanning Insolvency & Investigations, Ernst & Young; investment banking within Global Project & Structured Finance, National Australia Bank; and funds management, as Head of Infrastructure investment for National Asset Management & Perpetual Limited and subsequently as Head of Infrastructure & Private Equity for UniSuper's \$2.4 billion Alternative Assets portfolio.

Brett is a Chartered Accountant, holds a Diploma in Applied Finance & Investment and is a fellow of both the Financial Services Institute of Australasia and the Australian Institute of Company Directors



Liza Maimone
Trustee, Sustainable Melbourne Fund and Governance and Audit Subcommittee

Liza Maimone is a Sustainability and Climate Change partner of PricewaterhouseCoopers Australia (PwC) and is PwC Australia's Consulting Market Leader.

Liza has led sustainability and climate change professional services teams for the past 12 years, and has over 17 years' experience in the field, covering a wide range of advisory and assurance projects in the areas of climate change, sustainability strategy and reporting, and safety and environmental risk management. Prior to professional services, Liza worked with a global engineering firm and a global oil and gas company.

Liza is a chemical engineer with post graduate qualifications in energy and resources law and is a registered Greenhouse and Energy Auditor (Clean Energy Regulator).

Liza is a member of PwC's Global Sustainability Governance Board, and a member of PwC Australia's Consulting Leadership team. She holds various professional memberships.



Anna Skarbek
Trustee, Sustainable Melbourne Fund and Investment Subcommittee

Anna Skarbek is the Executive Director of ClimateWorks Australia. Prior to commencing this role in 2009, Anna worked in London as Vice President at Climate Change Capital, a specialist investment manager and advisor dedicated to raising and deploying capital for low carbon activities. Anna led a transaction team providing financial, strategic and policy advice to energy-intensive industries, financial institutions, clean technology companies and governments.

Previously in Australia, Anna was senior policy adviser for the Victorian Deputy Premier and Minister for the Environment and Water, an investment banker in Macquarie Bank's energy and utilities team, and a solicitor with the national corporate law firm Mallesons Stephen Jaques. Anna has also served as a director of The Big Issue Australia and a director of Amnesty International Australia in roles including National Treasurer and Victorian President.

Anna is also a director of the Clean Energy Finance Corporation, and a member of the Land Sector Carbon and Biodiversity Board. She was until recently a director of the Carbon Market Institute and the Linking Melbourne Authority.



Tony Arnel

Trustee, Sustainable Melbourne Fund and Member Investment Subcommittee

Tony Arnel is the Global Director of Sustainability for Norman Disney & Young (NDY) an international engineering consultancy. NDY works across a range of market sectors including buildings, transport, utilities and defence.

Tony is the former Victorian Building and Plumbing Commissioner. As well as being a founding Director and Chair of the Green Building Council of Australia, he is also the former Chair of the World Green Building Council. He is also a member of the Strategic Council of the Climate Institute and is also a director of the Australian Government National Occupational Licensing Authority.

Tony is a Life Fellow of the Australian Institute of Architects and a Fellow of the Australian Institute of Company Directors. He is past Chairman and Director of the Melbourne International Comedy Festival-Australia's largest arts festival. In 2009 he received the Australian Financial Review's 'True Leadership' Award and in March 2010 he received the inaugural 'Leadership in sustainability' Award from the Australian Institute of Architects. In 2011, Tony received the 'Individual Award for Contribution to Sustainability' at the Melbourne Awards.



Scott Bocskay

Chief Executive

Scott was appointed as Chief Executive of Sustainable Melbourne Fund in July 2010. He has more than 15 years of professional, management and leadership experience and drives a highly skilled team in delivering positive environmental and commercial outcomes in the built environment with his innovative approaches.

Prior to this, Scott was the inaugural Australian Country Director of the Clinton Climate Initiative (CCI), where his expertise led the development of CCI's activities in Australia, working collaboratively with governments of all levels and the finance industry. Scott made a significant contribution to the establishment of Environmental Upgrade Agreements (EUAs) in Australia, the Victorian Greener Government Buildings program; and development of the CCI clean energy team based out of Australia.

Scott has a wealth of previous experience as a senior executive consultant providing strategic and commercial advisory services to a range of clients capturing the commercial opportunities available through energy efficiency, renewable energy and other environmental challenges and is well regarded as a leader in the field.



"We're proud to finance this innovative response to a significant economic and environmental issue. By financing EUAs, we are encouraging our customers to invest in sustainable technology that will make their building cheaper to run and also more environmentally friendly."

Rowan Dowland, GM Development, bankmecu

Financial Statements

Director's report

The 2012/13 FY, delivered marked improvements in the underlying impact of the SMF businesses. Dramatic growth in the investment pipeline combined with increased expressions of interest in EUAs indicate that continued investment into the development of these market opportunities is warranted.

Efforts have been focused on diversifying and growing revenue streams for SMF. A comprehensive strategic review was undertaken by trustees. An outcome of this was a revitalised business plan, focused around 4 key goals including products and services innovation, an educated and resource efficient marketplace and a well-managed business. These goals were embraced and endorsed by the unit holders, the City of Melbourne. This new strategy dictates the continued investment into the business by the trustees around the adopted business plan.

Evidence of success of the new strategy is demonstrated by significant growth in the amount of project loan investments made during the period, which 75% higher than the previous reporting period (Figure 6) and confirmed in the growth in pipeline of opportunities. The pipeline for investments as at June 30 2013 is robust with opportunities totalling \$7,578 million (of total deal flow of \$10.99 million) up from \$2.93 million the previous financial year. Cash available to be invested in this pipeline totals \$3.463 million (it is a requirement of the trusts charter that a minimum of \$0.5 million be retained in liquid cash assets) as at June 30.

Figure 6 - Loan Portfolio Value, Benchmark and Weighted Interest Rates



During the period there were three decreases in the cash rate from the Reserve Bank of Australia. Both the 10 year government bond and 90 day Bank swap rates were directly impacted by these decisions. Despite a declining benchmark rate the SMF was able to increase the margins on its loan rates thereby partially offsetting declining

revenues experienced in the cash investments portfolio (Term Deposits). The weighted average interest earned on the loan portfolio reflects a 30% growth in margins over the period (Figure 6).

Figure 7 shows the positive outcome of reallocating assets into an increased number of project loans. Income earned on the cash investments portfolio (Term Deposits) decreased by 37.7%. The underlying reduction in revenue from the cash portfolio was attributable to declining interest rates, which dropped by 17.4% over the period (Figure 8).

Figure 7 - Volume of investments in cash portfolio and loan portfolio

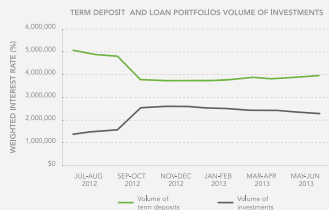
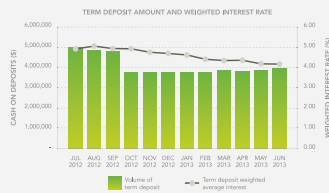


Figure 8 - Term Deposits and interest rates



The approved budget for the financial year planned to deliver a deficit, agreed within the context of a three year budget performance period to allow capacity for building following the early years of development. The fund earned gross income of \$428,000 over the reporting period. The net asset value as at June 30 was \$6,212 million, which represents a gross revenue return of 6.9%. After deducting expenses the net loss was minus \$206,000 representing a net return of minus 3.3%

The trustees confirm that a successful grant application was approved during the financial year in partnership with ClimateWorks Australia - valued at \$780,000.

Subsequent to the period, the trustees can confirm that the funding agreement has been executed between the Federal Government and ClimateWorks Australia and detailed project planning is underway. It is expected that \$0.210 million of grant funds will be received by SMF in relation to this project, this is not recorded in the financial reports and exceeds the total target grant revenue budgeted for over the period. Taking into account these events, the underlying performance of the fund exceeds the budgeted expectations.

Operational costs were reduced by 6.2% (\$40,000) from the previous financial year reflecting efficiency gains in the operation of the fund and a shift from EUA development stage to delivery stages within the municipality of Melbourne. The greatest savings were made from reduced staff costs with savings of 11.2% which reflect a move towards contracting of a full service communications consultancy.

The underlying financial performance of the fund is broadly in line with expectations with some timing delays in revenues occurring, which are expected to occur in coming year. Combined with the evidence in the growing impact of the fund, the trustees are satisfied the investment mandate of the fund is being met and are confident these early years of investment will return rewards in the medium term for long term sustainable growth of the fund.



**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	2013	2012
		\$	\$
Revenue			
Interest received - cash and cash equivalents		192,236	308,540
Interest received - sustainable project loans receivable		165,066	111,507
Grants	2	63,000	100,000
Application fee		7,740	-
Total revenue		428,042	520,047
Expenses			
Employee benefits		498,379	564,503
Audit fees	2	5,400	5,235
Accounting fees		31,822	20,520
Legal costs		9,973	27,893
Bank charges		36	63
Administrative costs		16,869	20,042
Consultants fees		52,072	13,050
Advertising & marketing		10,639	16,877
Conference fees		3,824	382
Travel		5,567	7,635
Total expenses		634,581	676,200
Surplus / (Deficit)		(206,539)	(156,153)
Total comprehensive income for the year		(206,539)	(156,153)

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**STATEMENT OF FINANCIAL
POSITION AS AT 30 JUNE 2013**

	Note	2013	2012
		\$	\$
ASSETS			
Current Assets			
Cash and cash Equivalents	3	3,963,422	5,054,805
Trade and other receivables	4	886,588	413,344
Total Current Assets		4,850,010	5,468,149
Non-Current Assets			
Trade and other receivables	4	1,421,363	1,013,237
Total Non-Current Assets		1,421,363	1,013,237
TOTAL ASSETS		6,271,373	6,481,386
LIABILITIES			
Current Liabilities			
Trade and other payables	5	45,233	38,114
Provisions	6	5,996	22,676
Total Current Liabilities		51,229	60,790
Non-Current Liabilities			
Provisions	6	7,363	1,275
Total Non-Current Liabilities		7,363	1,275
TOTAL LIABILITIES		58,592	62,065
NET ASSETS		6,212,782	6,419,321
EQUITY			
Accumulated surplus / (deficit)		(362,692)	(156,153)
Contributed equity	7	6,575,474	6,575,474
TOTAL EQUITY		6,212,782	6,419,321

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Sustainable Melbourne Fund

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