

# Foresight group

## Italian Green Bond Fund



Q1 2018

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## Executive Summary

### Main Features

- A Closed-end Fund focused on **direct lending** for green **infrastructure** projects
- Renewable Energy & Energy Efficiency Projects with **long-term contracted revenues**
- **Senior secured, investment grade, 25% floating rate, fully amortizing, listed** Green Bonds
- Bonds **directly** originated and arranged by the Foresight Italian team, total **control** on underlying projects **cash flows**
- **Cash yield** target **9-10%**, target **IRR 6-8%**, biannual cash distributions, the first expected within 12 months from inception
- **First closing** completed in January 2018, currently deploying capital. **Second Closing** scheduled for H2 2018

### Key Strengths of Foresight Group

- More than **30 years** of experience investing in private equity, infrastructure and renewables. One of the European leaders in green infrastructure
- **10 years** of experience investing in Italian green infrastructure, strong network of local service providers and first-hand knowledge of the jurisdiction
- **Secured pipeline** of projects and long-term track record of managing whole asset life

### Market Opportunity

- Infrastructure debt investments offer steady and **predictable cash flows**. The Fund should also benefit from **higher yields** due to the illiquidity premium associated with smaller projects and **lack of competition** from local banks
- Italy is the fourth largest energy consumer in Europe and is penalised by an electricity production deficit. **High energy prices** create a **strong demand** for energy efficiency and renewable sources, which is now being addressed by the National Renewable Energy Action Plan
- Investments in green infrastructure have been **growing** and are **encouraged**, also due to increased social and political pressure towards reducing global carbon emissions

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*Leader of Renewable Energy Infrastructure Leader in Europe*

34 Years

of track record

€3bn

assets under  
management

194

investments

75

analysts and  
managers

12

institutional  
funds

> 1GW

renewable energy  
production

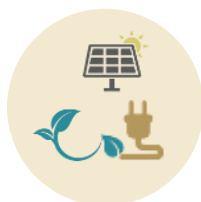
## Foresight Group

### Group Snapshot



#### Innovator

- With more than 30 years of experience in Venture Capital and Private Equity, Foresight has often achieved First Mover Advantage in new and innovative sectors
- Established leader within its core business sectors



#### Core Business

- Infrastructure: Solar, PFI, Reserve Power, Energy Efficiency & Smart Metering, Wind
- Environmental: Bioenergy and Waste Recycling
- Private Equity & Venture Capital: UK SME investing



#### Presence

- Founded in 1984
- 220 staff globally, of which 75 infrastructure investment professionals
- Offices in London, Manchester, Nottingham, Rome, San Francisco and Sydney
- €3bn AUM



#### Milestones

- 1° UK private investor in bioenergy, diverting more than 1 million tonnes of waste from landfill in the UK every year
- 1° UK private investor in battery storage
- 2° European investor in photovoltaic, generating more than 1.1GW of solar power
- Foresight accounts for more than a quarter of the generating capacity of the UK's top 25 sites
- The Foresight Italian Green Bond Fund is the 1° Italian green bond fund.

## Local Expertise

- Foresight started investing in Italy in 2007, mainly in greenfield solar projects, arranging relevant construction facilities;
- In 2011, Foresight, joined forces with Vei Capital to launch an investment platform (“ForVEI”) investing in Italian Solar PV plants with a total capacity of 60MW;
- In February 2016, the Foresight Italian team arranged the €180m refinancing package of ForVEI, increasing the capacity to 90MW and improving the platform capital structure;
- In August 2016, the Foresight Italian team arranged the 1<sup>st</sup> rated Project Bond for renewables for a solar portfolio of 43 MW in Italy that achieved investment grade rating from DBRS;
- In January 2018, ForVei was sold to a large utility player, crystallising an IRR of 15% over 7 years. This was one of the best performing solar PV platforms in Europe;
- In January 2018, the Italian Green Bond Fund reaches its first closing. Its second closing is scheduled for H2 2018;
- During the years, Foresight has provided advisory services for foreign and local infrastructure managers like Antin Infrastructure Partners, Quercus Investment Partners, HFV;

### Relation to Institutional Investors



### Advisory Contracts



### Financings arranged



### Local expertise Advisors Network





## The Italian Dedicated Team



**Federico Giannandrea | Partner, Head of Foresight Southern Europe**

- Joined Foresight in 2010
- VP within Deutsche Bank's Renewable Energy team.
- M&A lawyer at Allen & Overy
- Admitted to the Italian Bar in 2003
- BA cum laude in Law from The University of Rome



**Simona Befani | Senior Investment Manager**

- Joined Foresight in 2012
- Project Finance Lawyer at CBA and Allen & Overy
- Provided advisory work for clients such as AES, Sunray, API Wind, Unicredit, RBS, Eni amongst others
- Admitted to the Italian Bar association in 2010



**Lucio Favale | Investment Manager**

- Joined Foresight in 2013
- Financial Analyst at Cohen&Co and Deloitte Consulting
- Provided advisory work for: Municipality of Milan, SEA, FerrovieNord, Lombardy Region, CerTet, amongst others
- MA in Economic Science from Bocconi University



**Francesco Setola | Investment Analyst**

- Joined Foresight in 2016
- Corporate Financial Analyst at Ernst&Young
- Provided advisor work for Sonnedix, F2i, Astaldi, Enel, Enel Green Power, CdP amongst others
- Bachelor and MSc from LUISS Guido Carli



**Diomidis Dorkofikis | Director, Foresight Southern Europe**

- Joined in Foresight 2009
- Project Finance manager experience in Wind, PV & PPP projects. Provided advisory work for clients such as Antin IP, Quercus, Babcock & Brown, IKEA & Martifer amongst others
- Masters in Corporate Finance from SDA Bocconi



**Carlos Rey Micolau | Director**

- Joined Foresight in 2011
- From Principio Energy Consulting specialising in energy consulting and project development. Held several Project Manager roles at various development firms
- Holds degrees in Industrial Engineering and Industrial Technical Engineering from ETSEIB



**Francesco Maggi | Investment Manager**

- Joined Foresight in 2015
- Project and Corporate Finance Lawyer at Orrick, Herrington & Sutcliffe
- Provided advisory work for clients such as Deutsche bank, Intesa San Paolo, Santander
- Admitted to the Italian Bar in 2012



**Yanti Falangola | Director, Head of Institutional Capital Southern Europe**

- Joined Foresight in 2016
- 13 years of experience in Alternative Investments in various roles, of which the last 7 spent raising assets for various hedge funds
- Masters in Science of International Business from Florida Atlantic University
- Chartered Alternative Investment Analyst (CAIA) certified

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## Opportunity

### Reasons for the Fund Launch

#### Investment Rationale

- Due to the Basel III capital requirements, generally poor balance sheets and often considerable exposure to NPLs, the Italian banking system does not find long term lending for small projects very appealing;
- At the same time, the Italian industrial landscape is characterised by numerous small to medium size enterprises that demand cheaper energy or to achieve higher levels of energy efficiency;
- Foresight intends to exploit this **market dislocation**, by financing those energy infrastructure projects that are not considered by local banks;

#### Italy Focus

- The largest consumer of energy in Southern Europe (the fourth largest in Europe as a whole) with **high** consumer **prices**;
- Energy efficiency and renewable energy projects are strongly supported by the “National Energy Strategy” and its **investment requirements** of up to €170bn;
- **Favourable** legal and tax **framework** relevant to the debt capital markets;
- Shadow lending is just developing in Italy, hence little competition (**first mover advantage**);
- Italy is positioned in a “**sweet spot**” as a G8 developed economy with attractive return characteristics;

#### Team Strengths

- An adequately resourced team of **experienced infrastructure** investment professionals;
- First-hand knowledge of the local **jurisdiction** and local network of technical and legal advisors developed over 10 years of investment activity;
- A long-term **track record** of managing whole asset life, including construction risk;
- Responsible for the origination and structuring of the first, non banking, listed and investment grade rated, Italian green bond;

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## Fund Implementation

### Direct Lending & Origination

- The Fund will finance Renewable Energy & Energy Efficiency projects offering **first mover advantage** and a plethora of opportunities such as:
  - District heating and co-generation for communities of 15-50k residents
  - Public lighting
  - Energy Efficiency (SEU – CHP) for the Italian Industrial sector companies
- The lending will be achieved by direct origination of Green-Bonds, which will be listed on the Italian stock exchange;

### Capital Protection

- When compared to corporate lending, the Fund's financing structures have key benefits, including:
  - Tight **control of project cash flows**. Origination of **fully amortising** bonds, thus reducing risk through time
  - Highly transparent with clear **senior secured** creditor status and control over major project contracts
  - **Pre-defined risks**, with the ability to place the risk with the party best able to manage it
  - Single purpose or limited scope companies with **ring fencing**

### Value Creation

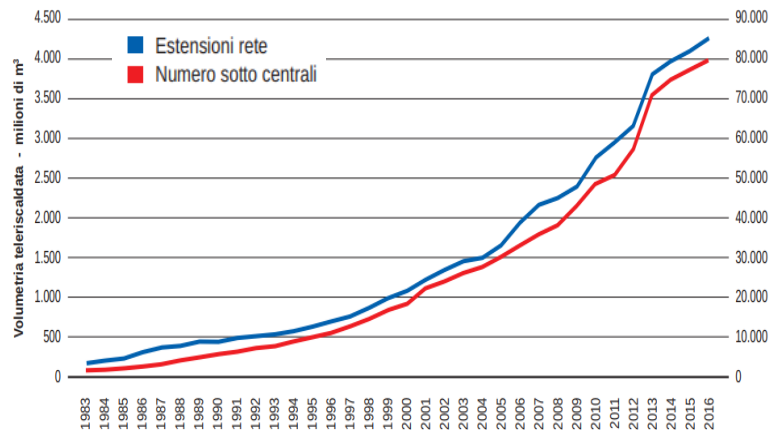
- Through management of **construction risk**. Greenfield projects are not usually rated, but can obtain investment grade rating post construction and once an operating track record is established;
- Through aggregation of **smaller** investment opportunities, which **size** do not attract mainstream lenders;
- By taking advantage of the Fund's closed ended structure which is not subject to any **regulatory capital** constraint;
- By **active monitoring** of the Bonds and assets during their operating life with **high control** due to single senior creditor status;

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### District Heating



- Currently there is more heat being wasted in Europe than is required to heat all of its buildings.
- District Heating can capture this surplus heat and deliver it competitively to buildings.
- The EU targets an increase in district heating from today's level of approximately 10% penetration, to approximately 30% by 2030 and 50% by 2050.
- The Fund will convert existing DH networks unifying cogeneration heat and power plants ("CHPDH") as well as build new green-field CHPDH systems.

### Public Lighting

- Public street lighting accounts for up to 70% of electricity bills of small municipalities, which are in real need for energy savings.
- The public tender market for the maintenance, installation and energy efficiency of public lighting systems between '02 and '12 has seen a total of 5,630 tenders for a total amount of €4.7bn.
- The Fund will provide financing for projects in the sub €25m segment and for long-term tenors, which is a space characterised by lack of competition from banks.



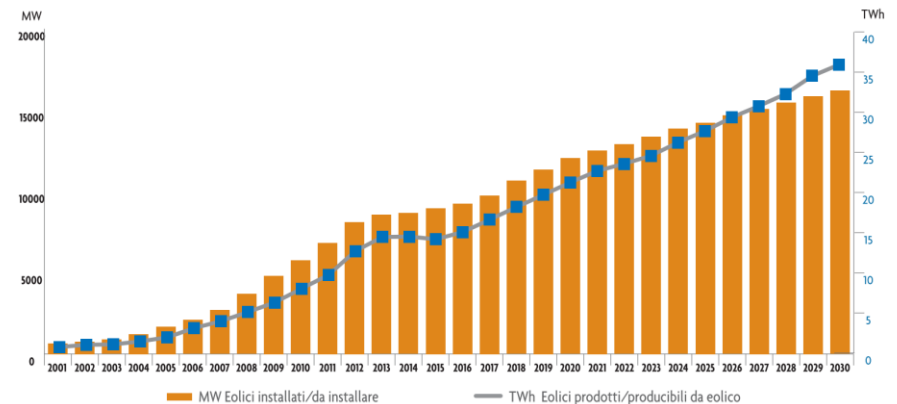


### Solar Photovoltaic (“PV”)

- Despite the absence of a feed-in-tariff, given the decreased cost of solar energy production, high irradiance levels and high retail electricity prices, Solar PV in Italy still represents an interesting market.
- Foresight’s funding will be directed towards SEU installations (“Sistemi Efficienti di Utenza”).
- In SEU installations, PV generators benefit from the exemption of grid taxes and charges for the electricity sold to the plant host.
- Such customers install PV plants within their compounds and enter with the relevant PV plant owner into power purchase agreements (“PPA”) with a duration up to 20/25 years with a “take or pay clause” at:
  1. Guaranteed level of consumption
  2. Fixed price
  3. Pre-agreed parameters
- Additional revenues can be achieved when energy not consumed by the host is sold via national grid.



### Wind



- The 2010 National Action Plan established a target of 12 gigawatts of onshore wind production (+680MW off-shore) by 2020, in accordance with the 20-20-20 European Climate & Energy package.
- In light of the above, there is still capacity for at least 2230 MW to be built.
- A new Incentive scheme to fill the capacity gap is in the process of being ratified.
- 5 new public auctions are expected in the upcoming years for a minimum amount of 500MW each.



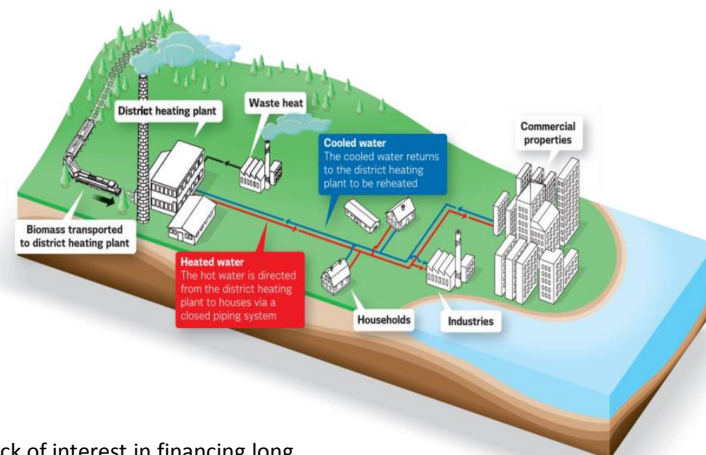
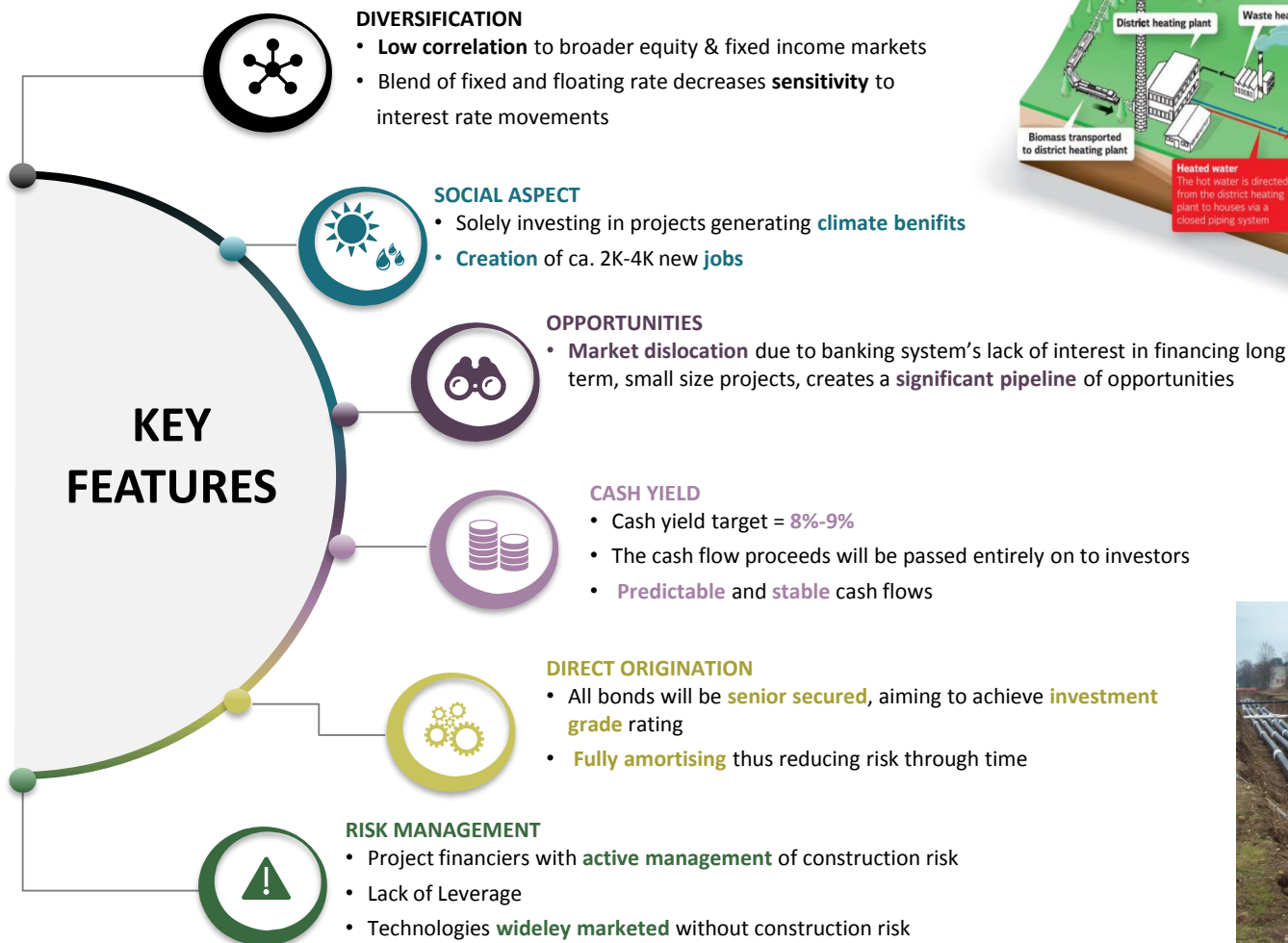
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## Benefits

### Summary of Strengths



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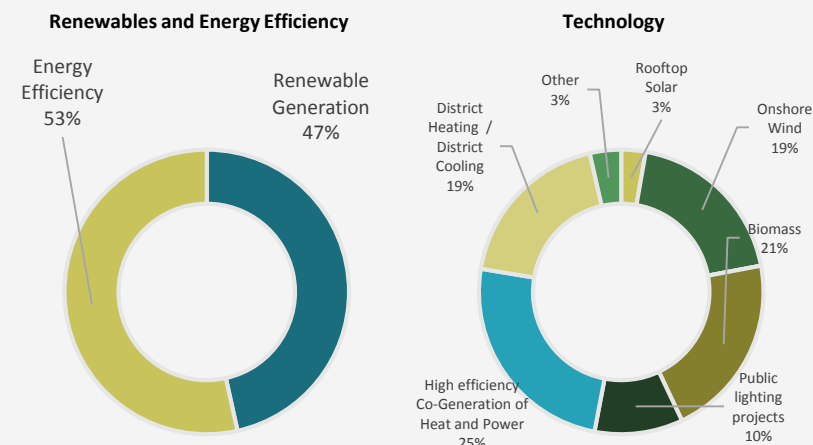
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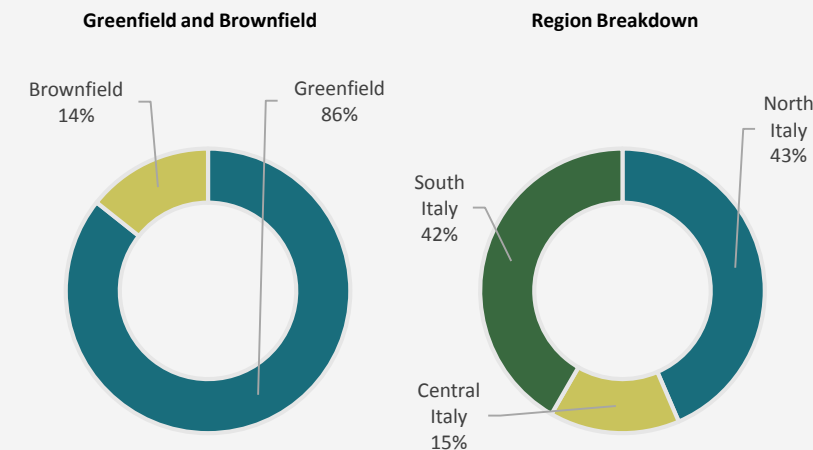
# Foresight Italian Green Bond Fund

## Pipeline in nuthshell

### Project Sector Pipeline Breakdown <sup>(1)</sup>



### Status and Location



### IGB Pipeline

Project Type	Transaction Type	Pricing (bps)	Project Size (MW)	Approx. Debt (EUR m)	Status
Biomass	Operating	470	16.8 MW	15	Exclusivity
Public lighting projects	Greenfield	600	15,185 lighting points	6	Exclusivity
CHP	Operating	670	1 Mwe / 4 MWt	6	Exclusivity
CHP	Greenfield	650	100,000 tonnes p.a.	20	Exclusivity
District Heating / District Cooling	Greenfield	620	141 MWt / 49 Km	13	Exclusivity
District Heating / District Cooling	Greenfield	660	9.3 MWt / 5.8 km	10	Exclusivity
Public lighting projects	Greenfield	590	15,808 lighting points	10	Exclusivity
CHP	Greenfield	620	45,000 tonnes p.a.	8	Exclusivity
District Heating / District Cooling	Greenfield	650	2.0 MWp / 1.5 km	4	Exclusivity
Rooftop Solar	Greenfield	580	3 MW	2	Exclusivity
Rooftop Solar	Operating	610	3 MW	2	T/S negotiation
Biomass	Greenfield	650	AD: 72,000 tonnes p.a.	3	T/S negotiation
District Heating / District Cooling	Greenfield	670	11 km	3	T/S negotiation
Biomass	Greenfield	690	36,000 t/year	15	T/S negotiation
Other	Greenfield	630	1 MW	5.6	T/S negotiation
Onshore Wind	Greenfield	575	36 MW	30	T/S negotiation
CHP	Greenfield	620	60,000 tonnes p.a.	5	T/S negotiation

Total

157

(1) Last pipeline updated on September 2017. Preliminary figures based on the information provided by the Sponsors.

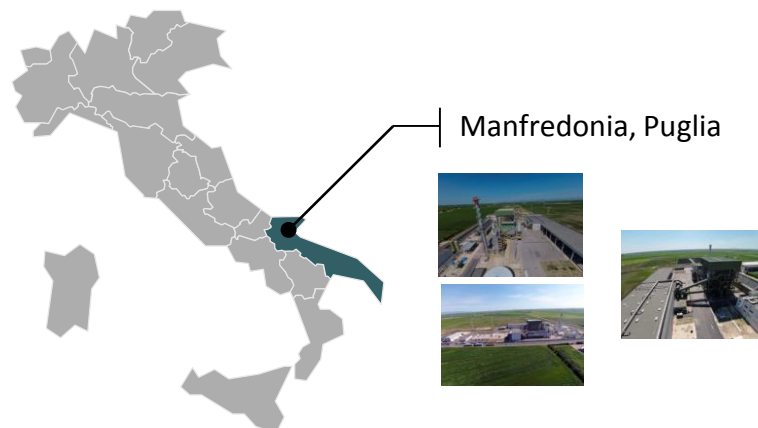
# Foresight Italian Green Bond Fund

## Waste to Energy Project - Brownfield

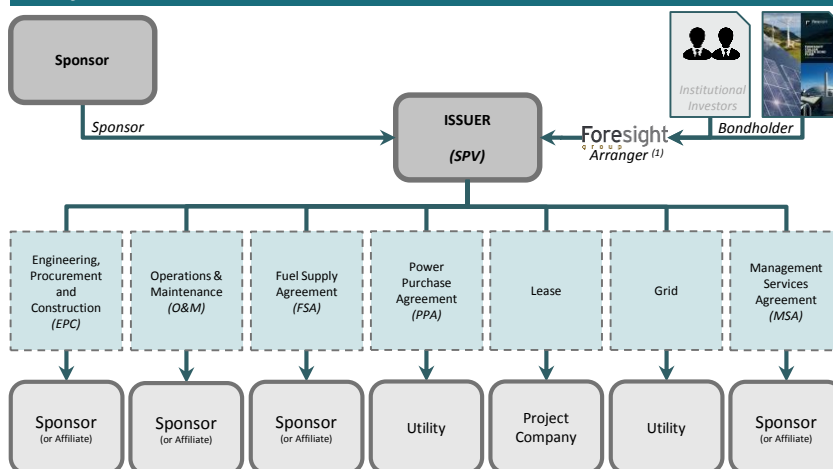
### Project Description

<b>Stakeholders</b>	<ul style="list-style-type: none"> <li>Sponsor is a the leading industrial group worldwide in the steel processing sector, with a yearly output of 5.6 million tons in 2016 and 6,500 employees worldwide</li> <li>Puglia Region (Municipality of Foggia, Manfredonia)</li> <li>the consortium manages several landfills and RDF processing facilities in Puglia,</li> </ul>
<b>Main Operating Data</b>	<ul style="list-style-type: none"> <li>Gross installed capacity 16.8 MW</li> <li>Net installed capacity available 14 MW</li> <li>Gross energy production (GWh) 123,750</li> <li>Net energy production (GWh) 105,000</li> <li>Operating hours per year 7,500 h/y</li> <li>Annual waste disposal 135,000 tons per year</li> </ul>
<b>Status</b>	Brownfield

### Location



### Project Structure



### Bond Characteristics

Issuer	A dedicated SPV
Amount <sup>(1)</sup>	ca EUR [40,000,000]
Upfront Fee <sup>(1)</sup>	250 bps
Margin	420 bps
Reference Rate	[25]% Floating EURIBOR 6M and [75]% Fixed
ADSCR	1.80x Initial Base Case
Tenor	15 years
WAL	15 years
Repayment	Amortizing - Semi-Annual (June / December)
Default (1,00x DSCR)	Minus 25% of Revenues

(1) On a case by case basis Foresight may act as co-arranger. In this case, IDC will act as placement agent for the bond subscription considering the maximum debt amount of IGB for single project

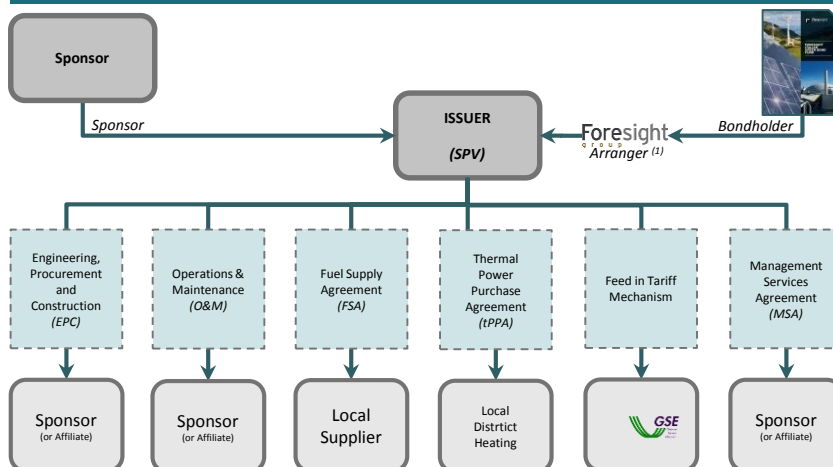
# Foresight Italian Green Bond Fund

## Co-generation Project - Brownfield

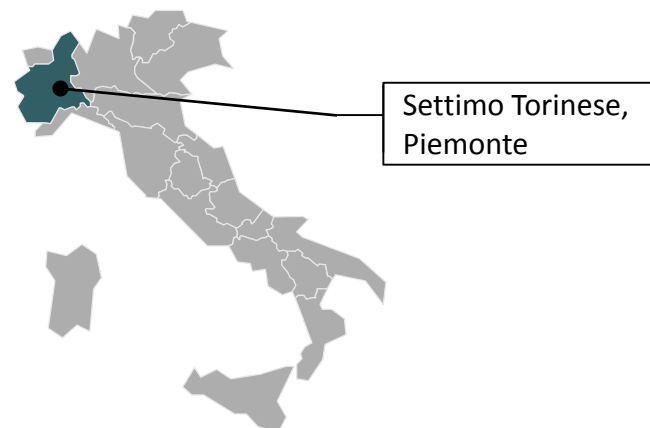
### Project Description

<b>Stakeholders</b>	<ul style="list-style-type: none"> <li><b>Sponsor</b> is a strategic leader of an entrepreneurs group of companies with the mission of became leader in production and consumption of renewable Energy.</li> <li>the <b>off-taker</b> of thermal energy is a district heating network of c. 50km in north-west Italy which serves residential, commercial and industrial customers under a concession which runs until 2035</li> <li><b>Different Suppliers</b> for the biomass with long term contracts (20 years) to secure the fresh wood chips</li> </ul>
<b>Main Operating Data</b>	<ul style="list-style-type: none"> <li>999 kW Electrical Output</li> <li>4,000 kW Thermal Power</li> <li>Ca.8.000 MWhe per year in electricity</li> <li>Ca. 32.000 MWht per year in thermal energy</li> <li>Incentive of 0.1996 €/kWhe for the next 20 years</li> </ul>
<b>Status</b>	Brownfield

### Project Structure



### Location



### Bond Characteristics

Issuer	A dedicated SPV
Amount <sup>(1)</sup>	ca EUR [6,000,000]
Upfront Fee <sup>(1)</sup>	250 bps
Margin	600 bps
Reference Rate	100% Fixed at Mid Swap Rate
ADSCR	1.80x Initial Base Case
Tenor	19 years
WAL	10 years
Repayment	Amortizing - Semi-Annual (June / December)
Default (1,00x DSCR)	Minus 18% of all revenues (ca. 40% of Thermal revenues)

(1) On a case by case basis Foresight may be act as co-arranger. In this case, IDCM will act as placement agent for the bond subscription considering the maximum debt amount of IGB for single project

# Foresight Italian Green Bond Fund

## Wind Prorject - Greenfield

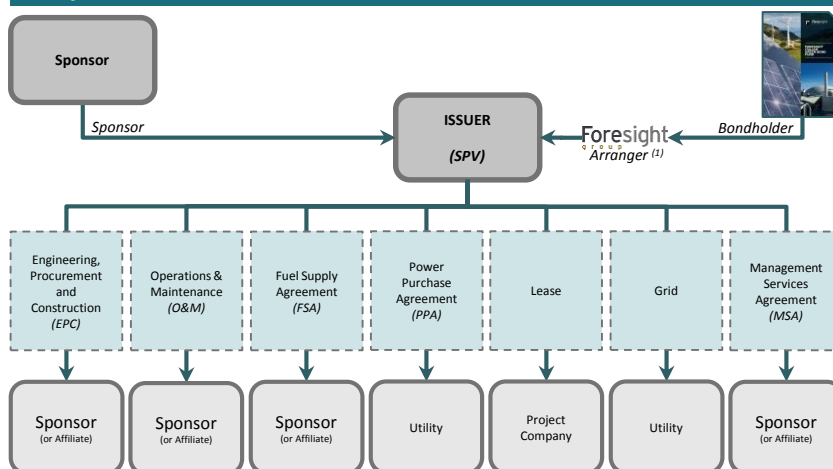
### Project Description

<b>Stakeholders</b>	<ul style="list-style-type: none"> <li>The <b>Sponsor</b> born in the 2009 specialized in the construction and production of electricity from renewable energy. The Sponsor, thanks to its R&amp;D department carry out technological and/or perfection and development of technological projects such as the design of a floating platform that allows to make massive installation of Off-Shore Wind Farm.</li> <li>The Technology provider is Vestas, a worldwide leader company as wind turbine manufacturer</li> </ul>
<b>Main Operating Data</b>	<ul style="list-style-type: none"> <li>Gross installed capacity 36MWp</li> <li>10 Aerogenerator Vestas V126</li> <li>3.6Mwp of Aereogenerator</li> <li>Working Hours P90 (1yr) – WindPro over 2,500 KWh/kWp</li> </ul>
<b>Status</b>	Greenfield

### Location



### Project Structure



### Bond Characteristics

Issuer	A dedicated SPV
Amount <sup>(1)</sup>	ca EUR [30,000,000]
Upfront Fee <sup>(1)</sup>	250 bps
Margin	580 bps
Reference Rate	[25]% Floating EURIBOR 6M and [75]% Fixed
ADSCR	Blended 1.60x PPA   2.20x energy
Tenor	16 years
WAL	11 years
Repayment	Amortizing - Semi-Annual (June / December)
Default (1,00x DSCR)	Minus 35% of Revenues on Base Case

(1) On a case by case basis Foresight may be act as co-arranger. In this case, IDCW will act as placement agent for the bond subscription considering the maximum debt amount of IGB for single project



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## Risks & Exit Strategies

### Addressing Main Risks

Risks	Description	Mitigation
<b>Blind Pool Risk</b>	Prompt deployment of AUM at launch or ability to generate sufficient deal flow	<ul style="list-style-type: none"> <li>Initial pipeline of projects already sourced</li> <li>Abundance of projects in need of financing</li> <li>Renewable energy sector in rapid expansion</li> </ul>
<b>Due Diligence Risk</b>	Due diligence process failing to address key risks	<ul style="list-style-type: none"> <li>An array of 3rd party entities will be involved, including lawyers, consultants, independent valuation companies and financial model auditors</li> </ul>
<b>Default Risk</b>	Bond issuer fails on coupon or principal repayment	<ul style="list-style-type: none"> <li>Typical project finance security package will be implemented: pledge over shares, bank accounts and mortgages, assignment of receivables, first demand bank guarantees, implementation of cash sweeps, possibility to replace subcontractors</li> </ul>
<b>Covenant Breach Risk</b>	Breach of any of the covenants agreed	<ul style="list-style-type: none"> <li>The Fund will typically have the right to take control of the issuer and the right to sell the underlying project company to recover the senior secured debt.</li> </ul>
<b>Refinancing Risk</b>	Early prepayment	<ul style="list-style-type: none"> <li>Cash sweeps and credit margin step ups will decrease the probability of prepayment and compensation for early prepayment introduced</li> </ul>

## Risks & Exit Strategies

### Addressing Main Risks

Risks	Description	Mitigation
<b>Interest Rate and Currency Risk</b>	Risk related to currency or interest rate fluctuation	<ul style="list-style-type: none"> <li>Certain borrowers may be required to enter into an interest rate swap with 3<sup>rd</sup> parties to hedge the loan amount at fixed rates</li> </ul>
<b>Completion &amp; Operation Risk</b>	The likelihood of a project achieving commercial operation	<ul style="list-style-type: none"> <li>Contractors relevant experience in similar projects will be valued by 3<sup>rd</sup> party engineers</li> <li>Implementation of fixed price contracts, penalties for delays and protection against cash flow reduction or failure to meet performance levels</li> </ul>
<b>Revenue Risk Volume</b>	The accurate forecast of revenues depends of wind/solar volume and calculated on historical data	<ul style="list-style-type: none"> <li>3<sup>rd</sup> party providers will assess the quality of data used in our models as well as the long term estimate of the average electric energy output</li> </ul>
<b>Revenue Price Risk</b>	The likelihood of power sales arrangement to change over time	<ul style="list-style-type: none"> <li>Following the change in Feed In tariffs, the excessive pressure on incentive's system sustainability has disappeared</li> <li>The vast majority of the underlying positions will not be dependent on Government subsidies but rather on long term, contracted revenues with minimum regulatory risk</li> </ul>

## Risk & Exit Strategies

### Flexibility on Exit

#### Portfolio Sale

- Institutional investors with long dated liabilities are seeking high quality, reliable income streams backed by real assets as an alternative to investment grade, fixed income portfolios with increasing interest rate risk
- Investors with an allocation to “Alternative Investments” are reducing their exposure to hedge funds after years of underperformance and to many mature real estate markets and increasing their exposure to safer, lower volatility infrastructure investments

#### Securitisation

- Securitisation volumes have recovered following the credit crisis and more non-plain-vanilla securitisations are being sponsored
- Green Bonds are increasing in volume and their social responsible characteristics and long dated tenors make them attractive
- Diversified sector exposure backed by a reliable long-term income stream can ensure a successful underwriting at exit

#### Fund IPO

- In October 2013, the Foresight Solar Fund Limited raised £150m at IPO, the largest listed solar fund at the time on the London Stock Exchange. Since then, the Fund has raised a further £132 million under its Placing Programme
- The Fund, comprised of fully operational assets, targets a 6% inflation linked annual dividend and it is on track to deliver a 6.17 pence per share dividend for 2017
- Foresight believes a similar listing could be achieved for the Green Bond Fund

#### Secondary Market

- Although the Italian Green-Bond market is still young, growth expectations are high as commercial bank lending has been hindered by the long recession and by the strict requirements dictated by more stringent regulatory capital (Solvency II and Basel III)
- The listing on Borsa Italiana standardised the pricing mechanism of Green-Bonds and improved liquidity

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## Fund Terms

### Structure

Luxembourg SICAV-SIF

### Min Sub

€1 million

### Cash Yield

9%-10%

### Target Size

€200 million

### Target IRR

6-8%

### Management Fee

1% of committed capital till the end of the investment period and 1% of NAV thereafter

### Duration

7 year (3 year investment period + 12 months)

### Performance Fee

12.5% over a 6% hurdle rate

### Foresight Role

Foresight will be the arranger and originator of bonds as well as the portfolio manager and distributor

### Arrangement Fee

2-3% charged to portfolio companies and distributed to the Fund (75%) and to Foresight (25%)

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