The Benefits of Investing in Renewable Energy Assets

Notz Stucki has over fifty years' experience of selecting external portfolio managers, many of whom are among the best-known managers of their time. This experience has influenced the way the firm selects managers, employing deep knowledge of the industry as a whole, combined with an accumulation of data on many hundreds of individual managers. The emphasis is on diversifying risk across a range of managers using complementary styles, which include long/short equities, fixed income and macro strategies.

Experience has taught Notz Stucki to pay as much attention to the individual as to the quantitative side of portfolio manager selection, which is part of the legacy of its founders, Beat Notz and Dr Christian Stucki. This approach has enabled the firm to secure exposure to a new generation of highly-skilled PMs coming from famous houses who are now launching their own funds. Allocations have recently been made to two of these, with a third currently under review. It is this same approach to excellence that has led to the selection of Augusta & Co, a leading adviser in the renewable energy industry.

The launch of the new fund by Augusta

The new Fund started from two premises: firstly, that the risk-return profile of real assets is expected to be more attractive than that of equities and fixed income securities in the coming decade, with capital flows increasingly being directed into infrastructure investments that offer stable cash flows. Secondly, that there is increasing evidence that responsible, sustainable business and investments are profitable, and that conversely the cost of even short-term environmental impact is significant.

Combining this with the need to offer investors an ESG investment product that delivers attractive, risk adjusted returns, Augusta and Notz Stucki set out to structure a product that provides stable long-term returns and low volatility, with low correlation to the public markets. The product will be designed to deliver returns in a transparent way, with a full alignment of interests between the promoters and investors, and will offer investors a level of liquidity which is not ordinarily associated with the renewables asset class.

Augusta Renewable Opportunities Fund, 'AROF', will be the first onshore open-ended structure of its type in the market.

The benefits of investing in renewable energy assets

In the infrastructure field, renewables have come of age, and taking the example of onshore wind, it is fair to say that technology and performance has evolved considerably over the last ten years. Significantly, business models are now more sustainable, and returns on invested capital with free cash flow generation have improved to the point where a wind turbine producing power with a predictable regularity, can now be structured as a reliable financial investment. Market growth is assured, we believe, with renewables being on their way to becoming the 'new mainstream energy source'. Only recently the International Energy Agency released figures showing renewables overtook coal in 2015 as the world's largest source of installed power capacity.

This position is supported by:

- Renewable Energy representing an increasing part of total EU power capacity;
- Growth driven by the regulatory framework and reduction in CAPEX due to technological progress;
- Developers and investors alike looking to recycle capital, opening up substantial growth in the secondary market and;
- Renewable energy projects continuing to attract institutional investors due to attractive, and crucially, stable yields.

Taking the example of France:

- After hosting the COP21 climate change conference in 2015, France has committed to an energy transition towards renewable energy, and has recently announced the reduction of its nuclear power station fleet;
- Government support to become a leading financial market for renewables growth and;
- Mergers and acquisitions (M&A) activity currently in full swing in an increasingly commoditised onshore wind sector.

Wind energy will remain a driving force of a more sustainable future, while offshore wind will become more economic, while continued coal and nuclear plant retirements and improved grid storage solutions, all acting as long-term drivers.

Hydro power as a secondary technology – an important focus for the Fund

One of the markets for the Fund's hydro investments will be Norway which generates over 96% of its power from hydro power.

In addition to being an economically proven technology in terms of maintenance and operating costs, hydro power has among the best conversion efficiency rates of all energy sources with a factor of between 90-95%. A largely negative correlation is typically observed in the capacity utilisation within any given year between wind and hydro assets, which makes an allocation to hydro an attractive technological diversification to wind investments.

In all, the Fund has three types of diversification: technological: the two main technologies being onshore wind and large hydro power; geographical: across major north western European markets; and size: a diversification across many individual power producing projects.

Type of renewable energy projects the Fund will invest in
AROF will focus primarily on existing operating assets located in North Western European markets with stable jurisdictions.

Moreover, AROF will focus on acquiring onshore wind projects with long term commitments, and hedged power price risk. The asset size will tend to be below 40MW in order to add diversification and to increase liquidity. With a view to optimising the IRR to investors, the Fund will invest on a leveraged basis to take advantage of current low interest rates but with flexible re-finance arrangements should interest rates increase substantially. A further aspect of the Fund is that AROF will actively seek to sell projects whenever a capital gain can be made which will provide further upside to investors that they do not get in traditional yield funds.

The Fund will focus on hydro power investments that deliver long-term stable cash flows which the Fund will reinvest or pay out (in the case of the Fund's dividend share class). AROF will invest into Norwegian hydro projects, and is working closely with an Augusta-funded local team on deal sourcing. Augusta believes that for several structural reasons the market for such assets is currently very attractive. There are also significant barriers to entry to the hydro power market in Norway as investments require active management, extensive know-how and significant valuation, control and risk management resources.

The Fund's investment highlights

- An existing portfolio of pre-negotiated assets to acquire, ensuring rapid deployment of capital:
- Stable 7-9% IRR (net of fees) for the accumulation share class or 5% (net of fees) annual cash dividend with the dividend share class;
- Regular active divestment and reinvestment strategy to take advantage of dynamic market movement and to boost capital gains
- Open-ended with regular subscriptions;
- 6-monthly redemptions after initial ramp-up period;
- Multi-currency share classes;
- Attractive management fees, with the performance fee subject to an annual 7% hurdle rate and;
- Luxembourg onshore structure offering transparency and leading industry standard terms.
- At the request of certain initial institutional investors, a separate, closed-end fund compartment will also be available with the same strategy but for separate assets and without the redemption feature.

In summary, access to these returns in this asset class, with these liquidity terms is not available elsewhere.

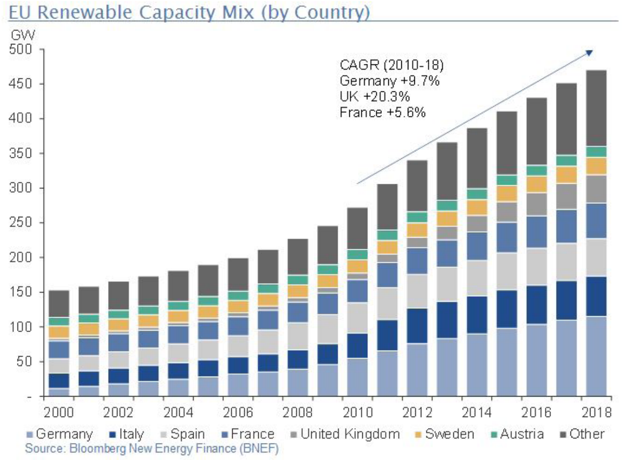
Liquidity - Augusta's main advantage
As a leading specialist in the field, Augusta has handled more individual renewables transactions than any other adviser in Europe. The firm has been transacting as a mainly sell-side M&A adviser since mid-2002 and to date has completed over 74 transactions for a cumulative value of Euro 7.5 billion. With each transaction, it processes around 20 bids which represents significant knowledge in terms of investor demand and valuations.

Access to this proprietary data is key to understanding capital flows in the industry, and the knowledge Augusta has from its sell-side advisory business is a major advantage. This is especially true for a Fund which is designed to actively trade assets and provide liquidity by way of redemptions that may require asset sales, thereby relying on the core skill Augusta has developed.

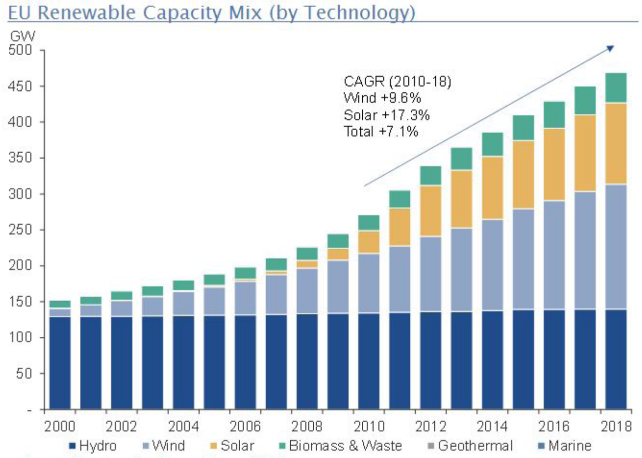
The secondary market for onshore wind is strong, with the total recorded transaction volume for operating onshore wind projects amounting to 3GW in 2015 according to the Augusta database. The actual number of transactions including unreported deals may well be substantially higher. Transaction volume is expected to increase further in line with the overall growth of the market.

The following tables illustrate how the market has evolved in recent years:

EU Renewable Capacity Mix (by Country)



EU Renewable Capacity Mix (by Technology)



An entrepreneurial spirit - teamwork, flexibility and discipline

Augusta has been working on renewables since its founding in 2002. Since then it has had a relatively low staff turnover, especially of senior staff. The two current partners Mortimer Menzel (who will run investment management) and James Knight (who will run the advisory business) have been working together at Augusta since 2004. Teamwork is at the root of everything the firm does. Since inception the firm has been funded without outside capital and this continues to be the case to this day. The capital is owned by the partners who have managed the strategic growth entirely on their own.

The future

With the development of the fund management business, Augusta is recruiting three new staff, notably one for fund compliance and operations and another for hands-on asset management, as well as a support analyst. Two of these staff have already been recruited.

Creating an investment management business out of a successful track record of advisory in a highly specialised industry is possible but not easy. The firm had been planning this move for a while but before the cooperation with Notz Stucki, the right product with the right characteristics was elusive. Market movements have helped here: the recent volatility of hedge funds, the lack of yield in government and investment grade bond markets, the lack of success of the classic private equity model in this sector, and the growth of a secondary market in renewables have all helped to make an innovative and practical proposition AROF into a truly interesting proposition. With its liquidity provisions, the Fund is a unique investment opportunity.

Given the growing allocation by investors to real assets that provide stable returns from reliable cash flows, the conditions to launch the Fund today are optimal.

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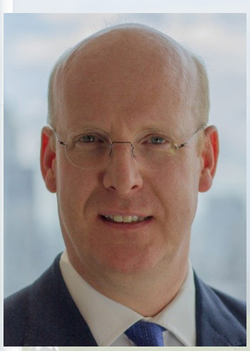

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