

Financing and Business Models

Session 3.2 - Financing an Energy Efficiency Project (from Investment Manager's Perspective)

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SDCL Overview

SDCL is a global investment firm with a proven track record of investment in sustainable energy generation projects in Asia, the UK & Europe and North America

SDCL Background

- Established in 2007, Sustainable Development Capital, LLP is an investment firm focussed on energy efficiency & sustainable infrastructure investment
- Since 2012, the group has raised over c.US\$1.5 billion in capital commitments for investment in private and public markets
- SDCL manages one fund listed on the London Stock Exchange (launched Q4 2018) and private funds in Asia, the UK & Europe and North America, specifically: UK (launched Q4 2012), Ireland (launched Q1 2014), Singapore (launched Q2 2014) and USA (launched Q1 2015)
- Team of 45 (30 in 2020), across offices in London, Dublin, New York, Madrid, Singapore and Hong Kong
- Institutional shareholders in SDCL include First Eastern Investment Group, Mitsui and Earth Capital

SDCL Energy Efficiency Income Trust Plc (“SEEIT”)

A first of its kind investment company focused on investments in energy efficiency projects

SEEIT Background

- SDCL is Investment Manager for SEEIT (Ticker: SEIT), the first energy efficiency investment company listed on the London Stock Exchange (raised £100m in Dec 2018)
- Year end market cap (after fundraising): c. £400m in 2019, c. £750m in 2020, c. £1bn in Sep 2021
- As of 17 Sep 2021, SEEIT has been included as a constituent of the FTSE 250 Index
- c.£945 million invested in a diversified portfolio of 42 energy efficiency projects with majority (c.70%) operational
- Technology exposure in: Solar & Storage, Biomass, Combined Heat & Power, EV Charging Infrastructure, Lighting and Energy Efficiency Solutions
- Revenues associated with investment grade or equivalent counterparties of c.62%
- Contract length remaining: 1 year to 20+ years
- Carbon Savings of 654,205 tCO₂ from Company's portfolio as at 31 March 2021

SDCL Energy Efficiency Income Trust Plc (“SEEIT”)

Risk Mitigation

From SEEIT Prospectus

- Counterparty-credit risk, being the risk of the Counterparty’s inability (or lack of willingness) to make the Contractual Payments, is mitigated through a qualitative and quantitative credit assessment and, where appropriate and where available on a cost-effective basis, through credit enhancement or parent company guarantees (or both).
- Performance risk, being the risk that the energy efficiency solution delivered does not result in the expected savings, is mitigated through: * performance guarantees from energy service companies, including O&M Contractors and EPC Contractors; and * for smaller energy service companies, qualitative risk assessment is undertaken
- Technology risk, being the risk that the Energy Efficiency Equipment used in the Energy Efficiency Project fails, is mitigated through using commercially proven technologies with strong track record and equipment warranties.
- Operating and maintenance risk, being the risk that the Energy Efficiency Equipment is not maintained resulting in equipment failure and financial loss, is mitigated through: * using O&M Contractors with a strong local track record; * ensuring that the O&M Contract matches the life of the performance guarantee, with operational failure covered by the performance guarantee; and * ensuring that the inability of the Counterparty company to meet the terms of the O&M, is covered under the terms of the energy service agreement (ESA) and may result in termination.
- Feedstock risk, being the risk that the availability of feedstock drops (or the price of feedstock rises), adversely affecting the project’s financial performance, is mitigated through: * ensuring that the Counterparty will have supply arrangements in place, where feedstock is required; * where it is not suitable for the Counterparty to source the supply of feedstock, ensuring that the Investment Manager contracts with established suppliers with local presence and strong credit; and * In case of any shortage in supply, ensuring that any feedstock supply contracts provide for pre-determined payments ‘liquidated damages’ to be payable by the supplier.

Source: <https://www.seeitplc.com/wp-content/uploads/2021/09/SEEIT-Prospectus-September-2021.pdf>

Investment Process – Initial Screening

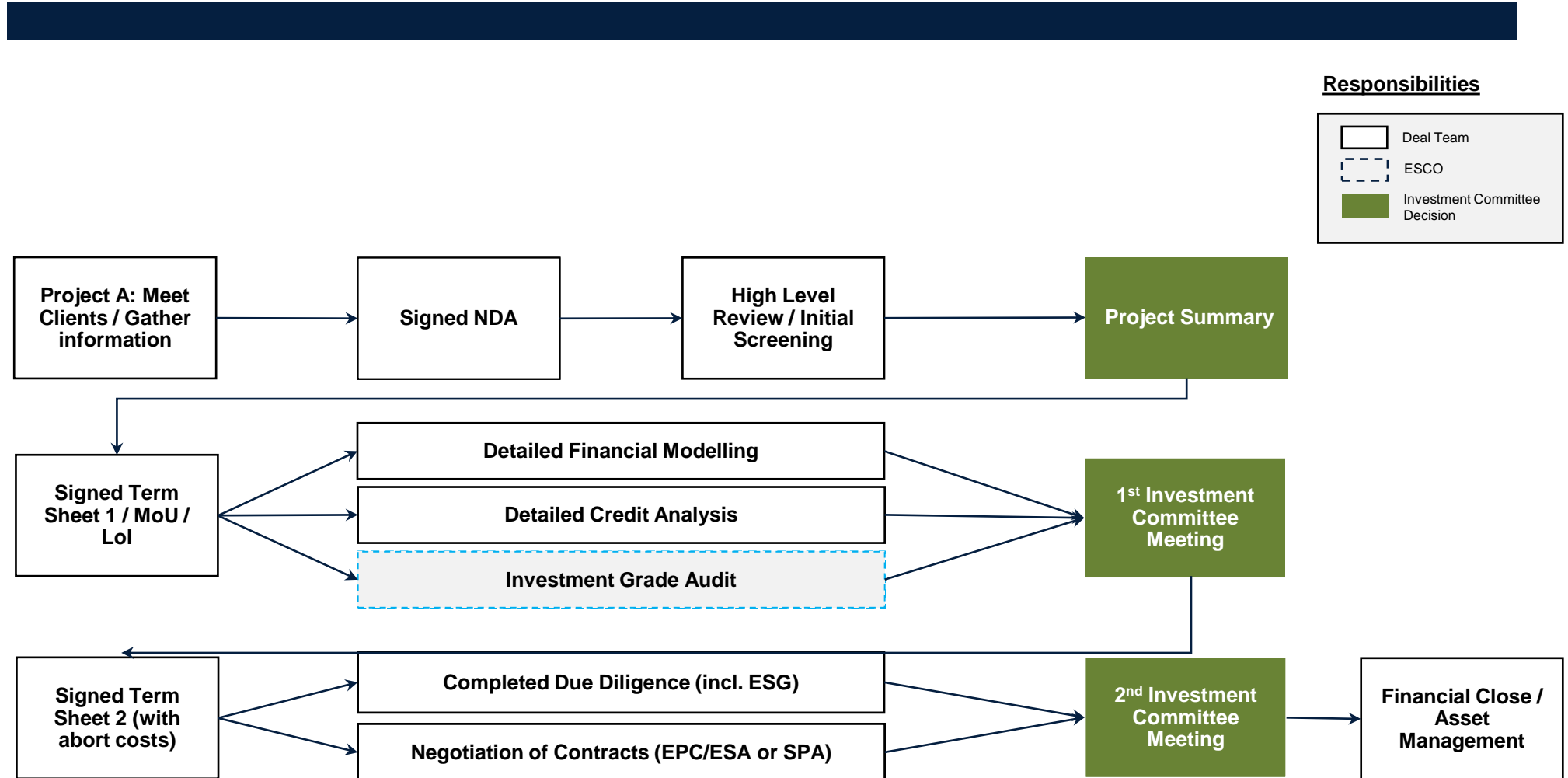
Selected criteria for a typical “INVESTABLE” energy efficiency project

For Internal / Team Discussion

- Credit profile of the Client/Customer
 - Qualitative and Quantitative analysis
- Does it meet the required return of the Fund
 - Country / Set Up / Operating Cost / Tax / Funding & Repatriation requirement
- Environmental, Social, Governance (“ESG”)
 - Qualitative analysis incl. Questionnaire
- Technology
 - Commoditised vs Disruptive technology
- Other Challenges?

Investment Process

Typical Investment Process Flow Chart





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