ThomasLloyd SICAV-SIF - Cleantech Infrastructure Fund

Profil	
Investment approach	ThomasLloyd SICAV-SIF - Cleantech Infrastructure Fund
Company unit	ThomasLloyd Global Assetmanagement (Switzerland) AG (as Investment Advisor)
Internet	www.thomas-lloyd.com
Investor profile	
Investor horizon	Medium to long term
Risk category	Medium
Returns expectation	Positive performance largely independent of the capital market
Loss tolerance	Losses are possible

Rated entity:

The subject of this rating is the investment process employed by the ThomasLloyd Group in the field of tangible assets. In particular the rating refers to the infrastructure segment, and within that, especially the area of sustainable power generation from renewable sources as well as the associated efficient power transmission and distribution systems. The investment process was analysed and evaluated in relation to its implementation in a Luxembourg special fund in the legal form of an SICAV-SIF.

TELOS-Comment

ThomasLloyd is a globally active investment and consulting company specialising exclusively in the renewable energy sector in Asia.

The company has specialised in alternative investments since its founding in 2003; its focus was originally on private equity and hedge funds, and then, when it took over the internationally active Illington Fund Management Group in New York in the year 2006, it gradually began to focus on the cleantech and renewable energy sector. Firstly its investment banking was focused on that sector, then by investment management. Since 2010 the whole of the ThomasLloyd Group has been directed exclusively at the cleantech and renewable energy sector (with an emphasis on Asia, and currently this means the Philippines and Cambodia). ThomasLloyd SICAV-SIF, Luxembourg, was a consequence of new European legislation embodied in the Alternative Investment Fund Managers Directive (AIFMD). *ThomasLloyd* benefits from its years of experience in designing and managing investments. Its management is made up of highly experienced people from various disciplines such as investment and asset management, corporate finance, treasury and administration. They are surrounded by a team of approximately 180 specialists in the fields of property financing, operations, logistics and monitoring; and in the fields of solar/wind/biomass they have the corresponding practical experience in conducting complex projects in the infrastructure area. A network of consultants, contractors and service providers built up over the years completes the expertise of *ThomasLloyd* in the investment process. Its outstanding contacts on location allow *ThomasLloyd* to generate attractive projects in the field of renewable energy infrastructure in both countries. A further guarantee of *ThomasLloyd*'s success is the financial strength behind the Group. With its international allies, who include a subsidiary of the World Bank, *ThomasLloyd* is to be considered one of the leading providers in the field of renewable energy infrastructure in both locations.

The *ThomasLloyd SICAV-SIF Cleantech Infrastructure Fund (TLCTIF)* product evaluated in this Rating Report involves the application of a highly disciplined investment process which, using numerous diversification elements, focuses on exponential growth in the market for renewable energy infrastructure in Asia and on generating earnings which are, as far as possible, independent of the capital market. Investments from the Fund are made in infrastructural projects involving renewable energies as well as the associated efficient power transmission and distribution systems. The investment process pursues a clear process chain based on a combined top-down and bottom-up approach. The infrastructural area of *ThomasLloyd* gathers together task-related expertise from several subsidiaries including *ThomasLloyd Capital Partners S.á.r.l., Luxembourg (TL Lux)* as a general partner of *ThomasLloyd* SICAV-SIF, *ThomasLloyd Capital LLC* (USA) with locations in New York, London and Singapore as well as other places – which is responsible for project origination, DD, transaction, structuring & documentation, equity/debt syndication and M&A – as well as *ThomasLloyd Global Asset Management (Switzerland) AG (TL CH)* based in Zurich and London as an investment advisor responsible for portfolio and risk management, reporting. *TL Lux,* as the initiator of the part-fund set up in the legal form of an *SICAV-SIF* under Luxembourg law, defines the Fund's investment philosophy and aims. *TL CH* assists in an advisory role (investment advisor), especially when deciding about the actual investments and disinvestments that are to be done. It is from this central infrastructure that *ThomasLloyd* performs the key functions of designing and managing projects in the field of renewable energy infrastructure. The renowned service company *MDO Management Company* based in Luxembourg is responsible for managing the Fund. In addition to investment decisions made in conjunction with the Investment Committee, *MDO* also undertakes all of the risk management and controlling. By consistently applying a selection process for investment opportunities in conjunction with thorough due diligence before every investment decision, a broad spread of potential investment opportunities is made available. Furthermore, *ThomasLloyd* focuses exclusively on investing in projects which fulfil its strict list of criteria. Quality assurance and risk management are an integral component of the investment process and are subject to clearly defined monitoring and stringent results control. Because it entered renewable energy infrastructure projects relatively late and maintains clear exit strategy guidelines, the Fund has optimised its return-risk profile.

The *TLCTIF* Fund has been available in the form of a Luxembourg SICAV-SIF since September 2014, thus allowing institutional investors, including in Germany (EU passport) to subscribe to the product. Since it was set up in January 2011 the Fund has demonstrated a cumulative net return of well over 20% p.a. on its average participating capital. The investment process in the tangible assets area of this rated entity achieves a rating of **AAA-.**

Organisation

Just after the turn of the millennium, *ThomasLloyd Group Ltd, London,* became the first European fund provider to become involved in developing fund solutions in the field of tangible assets. Following its initial work in the USA, this branch of *ThomasLloyd's* business extended itself worldwide. Asia represents a local focus. The Group has concentrated exclusively on the field of tangible assets since 2007/2008. The specific area of renewable energies was identified early on as a sustainable field of growth. These investments have few correlations with traditional investment categories. Furthermore their value drivers are largely independent of other capital and of macro-trends.

Following its initial participation in a Canadian solar project (2008), *ThomasLloyd* extended its leading position in the field of renewable energies by acting as the principle for its own fund, beginning in early 2010. With the support of the networks it had created on location in the countries, *ThomasLloyd* developed concepts, initiated projects and managed those projects both technically and also in financing terms, all the way through to realisation. Its alternative investment strategies are developed in Europe. The projects themselves aim to profit primarily from growth opportunities in Asia and to generate sustainable, economically sensible earnings without correlating with traditional capital markets. This also applies to the *ThomasLloyd SICAV-SIF – Cleantech Infrastructure Fund* under Luxembourg law which represents the rated entity belonging to the rated investment process upon which this Report is based. *ThomasLloyd* unified all of its business areas within a single Group in the year 2010. This integrated financial group consists of four business areas:

- Project Finance
- Asset Management
- Investment Solutions
- Corporate Centre

ThomasLloyd is today one of the leading investment banking and investment management groups focusing exclusively on the renewable energy sector in Asia. The Group now has around 180 specialists who handle the entire value chain from the acquisition of assets/projects, to portfolio and risk management, all the way to managing investors and pure asset management.

So far *ThomasLloyd* has conducted more than 100 large-scale projects in 22 countries, with a transaction volume of more than three billion US dollars. Wherever practical, *ThomasLloyd* has bundled together its services across different projects to achieve economies of scale – such as its risk management and reporting.

The Group's headquarters are in Zurich and London. Other locations include New York, Luxembourg, Singapore, Manila, Frankfurt and Munich. Under the umbrella of 'ThomasLloyd SICAV-SIF' (under Luxembourg law; basically equivalent to the German public special AIF / special fund) *ThomasLloyd* conducts an umbrella fund and fully regulated fund platform (in compliance with the European AIFM directive) to offer a fund product which initially, in the year 2011, was established and successfully managed under the name *ThomasLloyd Cleantech Infrastructure Fund.* In order to meet the demands of European (semi-) professional investors in terms of investment opportunities and also to comply with new European legislation on alternative investment funds and fund managers (AIFMD), the portfolio was transferred into a Luxembourg SICAV-SIF as part of a non-cash investment.

This investment vehicle is designed very much to meet the growing needs of institutional investors which *ThomasLloyd* has identified in the field of tangible assets.

The renewable energy fund called the *ThomasLloyd SICAV-SIF – Cleantech Infrastructure Fund (TLCTIF)* is the first part-fund belonging to the *ThomasLloyd SICAV-SIF* umbrella fund. The TLCTIF fund is an investment company with variable capital in the legal form of a partnership under Luxembourg law, which enables investments for investors that include institutional entities such as insurance companies, public-professional and private pension funds, and foundations. The Fund was authorised by Luxembourg's supervisory authority, the CSSF, in September 2014. The TLCTIF fund is registered with BaFin (Germany's Federal Financial Supervisory Authority) for sale in Germany, and is therefore approved for sale in Germany (EU passport) to (semi-) professional investors. Investors participate in the TLCTIF fund directly as limited partners or indirectly via feeder funds. There are basically two investment possibilities open to investors: an accumulating share class and a distributing share class. Both share classes are available for subscription in four currencies (EUR, USD, GBP, CZK).

The TLCTIF fund invests directly in infrastructural projects in the field of sustainable power generation from renewable energies, and the associated efficient power transmission and distribution systems, with a geographical focus on Asia.

There are currently investments in 16 projects: 13 in the Philippines and 3 in Cambodia, with a total volume of approximately US$ 750 million. The 16 project or operating companies concentrate on the specialised renewable energy fields of solar, wind and biomass power generation.

ThomasLloyd's investment philosophy focuses on investment entities that have already received the necessary (state) approvals and permits.

The diagram in Fig. 1 on page 4 shows the fund structure.

Fund structuring, fundraising and sales within the *ThomasLloyd Group* are the job of the Investment Solutions area, for which *T.U. Michael Sieg* is responsible.

A key role in the *TLCTIF* evaluated by this Rating is played by *ThomasLloyd Capital Partners S.á.r.l. (TL Lux)*, Luxembourg. This General Partner undertakes, together with the AIFM, the key task of managing the fund and therefore defining the investment policy, aims and restrictions pursued by the product in harmony with legal regulations.

TL Lux (General Partner) has appointed the service company *MDO* as *Alternative Investment Fund Manager (AIFM)* for the operative management of the *TLCTIF*; its jobs include deciding which investment and disinvestments to undertake, as well as the whole area of risk management and reporting to clients. There are clear written agreements describing precisely what tasks this entails.

TL CH acts as an investment advisor and therefore supports *MDO* in adhering to the defined investment policy and actual investment decisions.

In the field of renewable energy infrastructure, *ThomasLloyd* benefits from the many years of experience and technical knowledge of its management, which is made up mainly of leading personnel from international big-name commercial and investment banks, engineers, and construction and project managers. The broad interdisciplinary expertise of the people responsible provides the *ThomasLloyd Group* with a closely-knit network. Because of this excellent structure, *ThomasLloyd* manages to handle the entire value chain from acquisition and project development, to the operation of investment entities, to exit strategies. Fund structuring, design and management, and risk management for investment solutions, are closely interlinked in the Group.

T.U. Michael Sieg, Chairman of the Administrative Board and Chief Executive Officer of *ThomasLloyd*, holds a 6.4% stake in the *ThomasLloyd Group*. A highly specialised team of renewable energy experts has been formed to work for *ThomasLloyd* as senior advisors and as a project management team on location (Singapore, Philippines, Cambodia), and to ensure close networking with locally active collaborators at all times.

ThomasLloyd has developed into an integrated financial group over recent years and has won some prestigious prizes and awards for the consistent and successful implementation of a series of projects in the field of renewable energy infrastructure. *ThomasLloyd* also collaborates with the International Finance Corporation (IFC), a World Bank subsidiary. Its alliance with the Bank of the Philippine Islands (BPI), which is now involving itself for the first time in renewable energies, also demonstrates *ThomasLloyd's* advantageous position and outstanding reputation in the region.

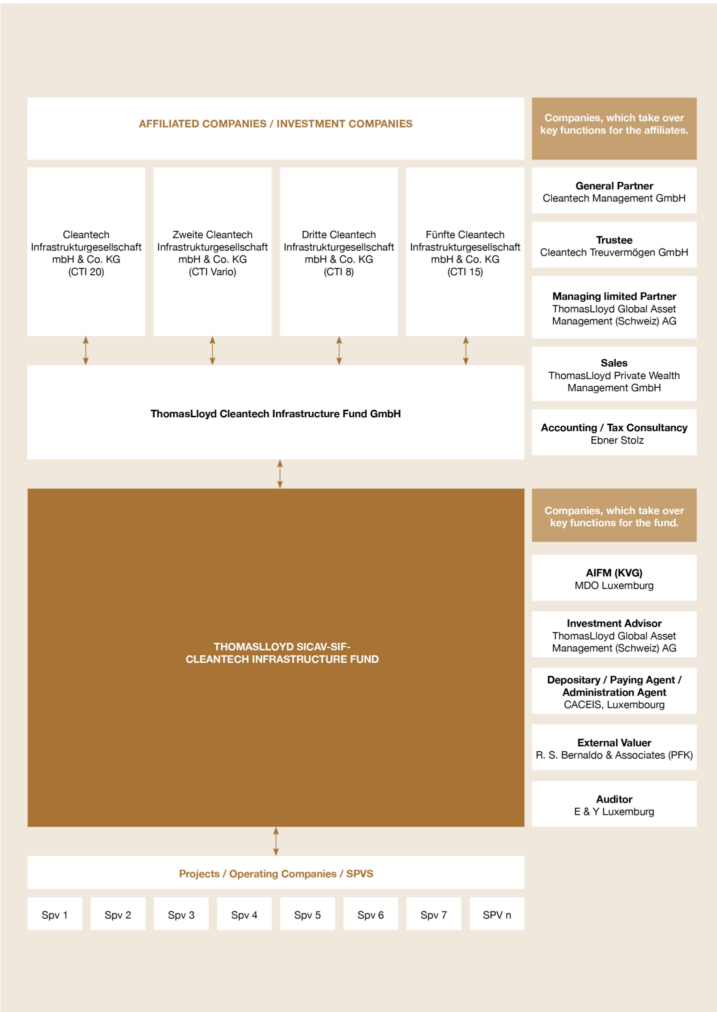

illustration 1: A new fund structure under Luxembourg law

Investment process

ThomasLloyd's investment philosophy in the infrastructural investment sector is based on the fact that, because of the capital markets' historically low interest rates and high volatility, investors – especially institutional ones – are seeking investments in sustainable growth markets which can offer them constant, sustainable earnings combined with moderate risk.

The *ThomasLloyd* Group fulfils these conditions by investing specifically in the following areas:

- Sustainable power generation in the field of renewable energies, focused on solar power, wind farms and biomass plants
- Power transmission
- Power distribution

The TLCTIF fund invests in a highly diverse portfolio of infrastructural projects in the three aforementioned sectors in Asia, currently in the Philippines and Cambodia. The funds for current and planned investments originate in investor participations in sub-funds / feeder funds belonging to the *TLCTIF*. The *TLCTIF* utilises this money to invest in actual projects or operating companies (SPVs). Currently there are 13 projects in the Philippines and 3 projects in Cambodia.

The investment philosophy is based on the idea that megatrends independent of the capital market, such as renewable energy infrastructure, offer exponential growth and represent a genuine value driver for investors putting money into substantial/tangible assets. The *TLCTIF* concentrates its investments at locations whose conditions at a regional and national level create the requirements for sustainable growth in the field of renewable energy infrastructure, and where this infrastructure is either competitive (from a price viewpoint vis-à-vis existing competitors), or in some cases the only available option. *ThomasLloyd* currently believes that these conditions are met in the Philippines and Cambodia, which are the TLCTIF's investment focuses.

The foundation for all this is *ThomasLloyd's* own developed investment process which has been the recipient of several awards, as have the Fund's projects. Recently its innovative strength gained it the accolade 'Company of the year' from an independent commission of experts in the field of solar power generation in the Philippines.

The investment process, which clearly defines the stages of selecting projects in which investments will be made, is depicted in the following diagrams (Figs. 2 and 3).

The investment process is based upon a conventional combination of a top-down and a bottom-up approach.

The top-down analysis involves questions about

- Location
- Choice of technology
- Project phase

The subsequent bottom-up approach follows clear and standardised rules as well. The bottom-up analysis is divided into the following steps:

- Available project pipeline
- Set-up and assessment
- Due diligence
- Evaluation and structuring
- The investment itself

Once this clear process chain has been successfully completed and investments have been successfully made in an actual project ('investment entity'), other tasks ensue. These include in particular the following two areas of activity:

- Firstly it is *ThomasLloyd's* job to regularly monitor ongoing projects (from a financial and a technical point of view) as well as contract fulfilment (asset management).
- Secondly, part of *ThomasLloyd's* investment approach is to investigate various disinvestment options as part of clearly defined exit strategies (such as selling to potential buyers, executing an IPO). Regarding the average duration of a project, *ThomasLloyd* pursues clear objectives: in the field of solar power between 12 und 24 months, for bioenergy between 24 and 36 months and for wind power between 18 und 30 months. When a particular project is removed from the *TLCTIF* portfolio after a successfully concluded exit, it is replaced as quickly as possible with a newly acquired project. Investors are informed in regular portfolio reports about the specifics of project development.

The following presents a detailed explanation of top-down analysis and the bottom-up investment approach:

<u>Top-down analysis</u>

A consistent strategy at a top-down level is required to secure successful investment in a highly diverse portfolio of projects in the field of renewable energy infrastructure, and, in every investment project, to fulfil the aspiration of achieving optimum added value and the best possible return-risk ratio.

ThomasLloyd was closely involved in the renewable energy infrastructure market right back at the turn of the millennium. The experience it had gained in other continents and countries prompted the Group to set up its own fund and invest in infrastructural projects in Asia, beginning in 2011. The reasons for this move include the fact that Asia is not only the region of the world with the highest population, but also the one with the fastest growing economies. This naturally brings with it a rising demand for energy, and because conditions in the power sector remain partially inadequate, there is an urgent need to provide sufficient energy capacity in the foreseeable future.

After investigating all of the relevant aspects in detail, *ThomasLloyd* decided, in country terms, to concentrate for now on the Philippines and Cambodia. *ThomasLloyd* has built up a network of contacts in business and politics over the years in these regions. It has also been able to bring on board big-name local providers in the fields of law, project management and technology, and these enable investment entities to be operated and processed smoothly. All this has allowed *ThomasLloyd* to become one of today's leading asset managers and project financers for renewable energy infrastructure in the region.

A crucial part of conducting the investment process successfully is identifying the projects that are most promising in terms of implementation, local conditions and timing. A major guarantor for the fulfilment of these objectives is the interdisciplinary team that can call upon experts in all the relevant disciplines such as finance (financing, treasury, cash management), logistics and operations, solar, wind and biomass expertise, and even administration (monitoring, reporting) and legal & compliance. By applying a detailed set of criteria, this team chose the Philippines and Cambodia as the most attractive investment locations. They evaluated political stability (general security situation), key financial and economic figures (current and predicted), existing capital and energy market structures, and the existence of a regularly functioning legal system, as well as factors specific to renewable energy such as climatic and topographic conditions and the usability of power generated using renewable energy. All this was gathered together to produce an overall score.

On this basis, *ThomasLloyd* identified the Philippines and Cambodia as high-opportunity regions in terms of suitability for investment as well as planning security.

With a population of almost 100 million, the Philippines is currently the second largest country in South-East Asia. The Philippines is a democratic country with a functional legal system and a multi-party system. The country has one of the highest rates of economic growth: according to forecasts by the International Monetary Fund, gross national product is set to rise by almost 50% between 2011 and 2018. International rating agencies assess the Philippines positively (19 upgrades in succession). Most of the world's 500 biggest corporations maintain a presence in the country – and some of them have their Asian headquarters there. The situation in this country also offers ideal conditions for all three areas of renewable energy: solar, wind and biomass. The Philippine government took a key foundational step in making the country attractive by passing a law on renewable energies and thus underlining the state's interest in building up these resources.

Regional investment focus is currently on the Philippines (San Carlos Solar Energy, SaCaSol) which is partly because it is so attractive to invest in solar plants there. *ThomasLloyd* is currently managing 13 projects in the Philippines. The first of these plants has been operative since the middle of 2014 (it is the first large-scale solar power station in the Philippines), while other solar projects are due to be connected up in 2015. Then there are other plants which are due to go online by no later than 2017.

With its 15 million inhabitants the Kingdom of Cambodia also offers ideal conditions. Its business environment has helped the country to strong economic growth over the past ten years. Cambodia's economy grew by an average of 10% from 1998 to 2008 thanks to strong exports, and is set to continue on a positive upward trend of 6% to 7% over the next few years. A lot of the country's electricity is currently imported from abroad. With an energy demand rising by around 12% p.a. and lots of renewable energy sources (especially biomass, but also wind and solar), there are potentially some very good opportunities to build renewable energy power plants in an environment of stable and high energy prices.

ThomasLloyd is managing three solar projects in Cambodia, all of which are still in the planning phase.

<u>Bottom-up investment approach:</u>

The success of *TLCTIF* in achieving lasting, above-average earnings combined with moderate risk is based primarily on choosing suitable projects in which to invest. The investment policy critical to the TLCTIF part-fund, the investment objectives pursued by the Fund and the restrictions imposed on it, are stipulated by the General Partner *TL Lux*. The managers responsible for *TL Lux* are *T.U. Michael Sieg*, *Anthony Coveney* and *Paul de Quant.* All three decision-makers (managers) have been acquainted for many years with international financial markets and in particular with the development and financing of projects. One key factor when selecting investment entities is a clear focus on projects which have already received their main approvals (state and building law) and which, at the time of investment, are either at the stage immediately prior to financial close or in the notice-to-proceed phase. In this way the part-fund *(TLCTIF)* manages to achieve the highest possible earnings while taking limited risks. The TLCTIF part-fund is permitted to take all the necessary measures (such as providing guarantees) to ensure that investments in operator companies (investment entities) are successfully structured and the project is implemented.

The bottom-up level is about the actual choice of investment projects.

The first step at the bottom-up level (project choice) consists of origination & screening. This phase consists of an initial, less-detailed assessment of potential project investments. The ideas for possible investments come from various sources within *ThomasLloyd*'s closely knit network, such as consultants, general contractors and contacts made at industry conferences.

If this initial assessment is positive then the location is visited together with the general contractor. This is preceded by an initial financial and technical analysis of the project.

ThomasLloyd retains exclusive partnership rights in all its investments.

After that the Investment Committee (IC) has to give is approval to pursue the project further. The IC consists of three people, one of whom is nominated by the *General Partner TL Lux*, the two others by the *Alternative Investment Fund Manager (AIFM)* and *MDO Management Company S.A., Luxembourg (MDO)*. Mr *T.U. Michael Sieg* represents the interests of *TL Lux* in the IC.

If the IC issues its approval then the second step is to perform detailed due diligence on the project from a financial, technical and legal point view.

Financial due diligence is divided into three separate phases, each of which has a different return-risk profile. These three phases are those of acquisition and development, construction, and – at the end of the value chain – operation of the plant itself. The first two phases encompass the period from the project idea all the way to commissioning the plant. In the initial phase, questions have to be clarified about purchasing project rights and making payments for permits already issued. It is in this phase that *ThomasLloyd* can make full use of the strength of its equity base. Many of its rivals often have to obtain outside funds at this point in order to enter a project. *ThomasLloyd* has the necessary liquidity, allowing it to make decisions in a short amount of time. In the construction phase the whole building costs are required. During this phase, *ThomasLloyd* pursues a consistent policy and only makes payments due according to the progress of construction phases and after careful a comparison of targets and actual performance. All of the cost items are subjected to continual stress tests. In the third phase, the operating phase, *ThomasLloyd* calculates time- and risk-weighted capital yield, cash values and internal interest flows over long periods of time (20 years or more). During this phase, sensitivity analyses (plannable capital reflux, overall cost of project, possible leverage through use of external funds) are performed to determined the return from the project.

Technical due diligence involves things like a detailed investigation of the extent to which general contractors employed on location will, with the experience and capacity (including financial) they have, be able to perform the project properly. Furthermore, a detailed examination is undertaken to determine the extent to which the project will, given its facilities and intended location, meet with a corresponding demand and be able to be run at a profit. Specific technical prerequisites are checked for the fields of solar, wind and biomass.

Legal due diligence involves an evaluation of the legal situation of the operating company and checking that all the necessary permits exist. It also entails analysing any regulatory obstacles and any existing contracts such as those on the equipment / procurement situation / construction (EPC).

For the due diligence stage, *ThomasLloyd* employs external consultants from various specialised areas in order to achieve as high a market value as possible for the project (including tax aspects, for instance).

The third stage, evaluation and structuring, also focuses on optimising the project, and does so by examining the structure of transactions and the financing of the project. Various evaluation methods are employed, such as the Discounted Cash Flow (DCF) process. Again, the IC must give its approval at this stage. What is then the fourth and final stage of the bottom-up level then takes place: the actual investment itself. Several people and entities are closely involved in this crucial stage, which involves signing all of the agreements and contracts needed for the project investment and the necessary transactions.

Before *MDO* and the IC make a final decision to invest (or disinvest) in a project, that project has to be subjected to an independent evaluation by an external institute such as local specialist R.S. Bernaldo & Associates (RSBA, Philippines). RSBA uses the DCF model to evaluate (fair market value) the investment project. This is done just before investing and then at regular (monthly) intervals and, in the event of a sale (exit), at the end of the investment. RSBA takes into consideration all the available project-specific data as well as other supplementary information such as details of the country and the industry standards.

MDO, *Luxembourg,* is responsible for managing the TLCTIF part-fund. *MDO* has been expressly appointed by *TL Lux* (as *General Partner*) to manage the *TL SICAF-SIF* fund and TLCTIF part-fund as their *Alternative Investment Fund Manager (AIFM)* registered under Luxembourg law. *MDO*'s primary responsibilities include making actual decisions about investments and disinvestments in/from investment entities that have first passed through the strict process chain of decisions at the bottom-up level, as described above.

The company *ThomasLloyd Global Asset Management (Switzerland) (TL CH)* is employed as an investment advisor to further ensure that the TLCTIF part-fund's investment strategy and philosophy are adhered to. *TL CH's* area of responsibility lies in the run-up to investment decisions. It includes analyses and structural suggestions for investment entities as well as recommendations on how to optimise financing. This consultative function vis-à-vis *MDO* means that it is *TL CH*'s task to ensure that general investment policies and objectives are adhered to. *TL CH* is not involved in the actual decision-making process about investments, as is envisaged by the AIFMD.

This decision is taken by *MDO* as the *AIFM*, but not until the IC's approval has been obtained. The IC has the right to veto any decision *MDO* makes.

MDO's realm of action is very far-reaching. In the broadest sense, *MDO* is responsible for managing the TLCTIF part-fund. This basically encompasses two areas of responsibility:

- Portfolio management
- All of risk management

The tasks that fall under portfolio management include deciding whether to invest or disinvest. *MDO* has other duties that belong to the proper daily management of the Fund. These include accessing accounts, performing transactions, and any decisions connected to investments made; also entering into contractual relations provided they comply with the philosophy and rules of the investment policy. *MDO* is also obliged to properly document all of the transactions relating to management of the Fund.

MDO is also responsible for every area of risk management. This includes providing a comprehensive risk management system which encompasses evaluation of the *TLCTIF*, as well as observing and monitoring liquidity and operational risks. The ongoing monitoring of all the risks is based on a comprehensive risk matrix which incorporates all of the risks that need to be monitored by *MDO* (such as macro risks like development of economic growth and gross domestic product in the Philippines; micro risks such as changes to the cost structure at a fund level; credit risks; liquidity and counterparty risks; operational risks) and includes a schedule for monitoring.

ThomasLloyd uses this sophisticated system to professionally cover all aspects of risk management. Risk management is dealt with in more detail in the next section.

CACEIS Bank Luxembourg performs the conventional function of a depository bank for storing and administering the *TLCTIF* product, and also acts as a paying agent. *CACEIS* has many years of far-reaching experience relating to the legal particulars of Luxembourg fund structures and is also familiar with the ongoing administration and management of Luxembourg vehicles. All of the aforementioned tasks performed by companies involved in the process are regulated in detail contractually.

Another major factor in the overall success of the Fund is a correctly timed entry and exit. By entering projects late as described above, *ThomasLloyd* avoids entering into incalculable risks. Equally important are the exit strategies at an early stage. *ThomasLloyd* prefers to decide about when to exit a project before or at the start of the actual operational phase, which in itself can endure for several years. The actual implementation phase then focuses on the period beginning with acquisition and ending shortly before or after the plant is commissioned ('at/after commercial operation date'). Exit strategies and optimum disinvestment points can be implemented in a number of different ways. These include selling separate or collective investment entities, facilitating a direct investment by a third party, and launching on the stock exchange (IPO) for long-term strategic investors such as power supply companies or for financial investors such as infrastructure funds and institutional investors. Refinancing via banks is also possible: for instance, *ThomasLloyd* recently refinanced SaCaSol 1 A&B in conjunction with a Philippines bank (BPI).

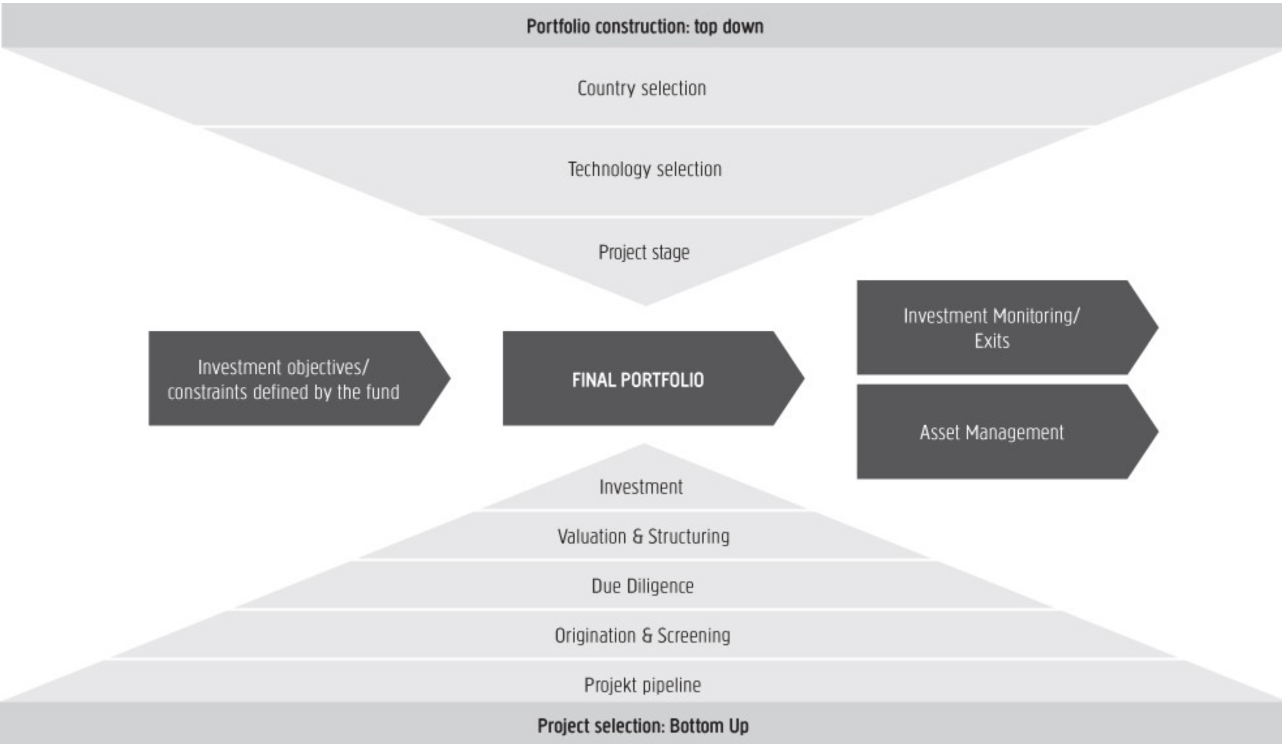

Illustration 2: Investment process

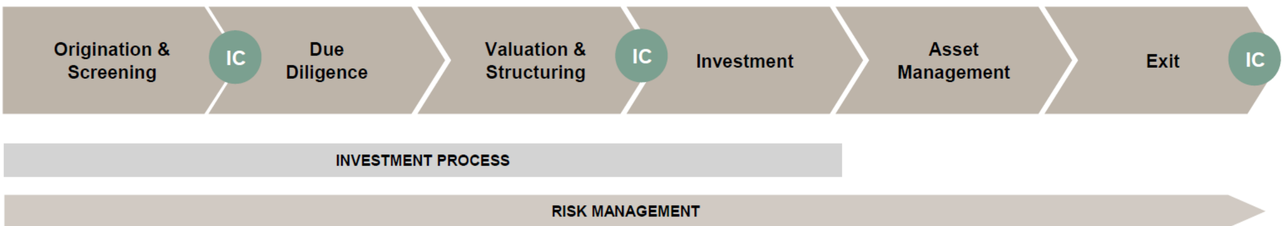

Illustration 3: Bottom-up project selection

Quality management

The most important element of quality assurance is efficient implementation of the investment process in compliance with targets and the criteria that have been set. Risk management is an integral component of the investment process at *ThomasLloyd*.

A comprehensive set of criteria apply to the various countries and regions of Asia. This list includes current and predicted financial and economic figures, existing capital and energy market structures, political stability, the general security situation and the legal system. *ThomasLloyd* also analyses other criteria in detail such as climatic, geographical and topographic conditions, as well as the availability and usability of renewable energy resources in the country.

One of the biggest risks in any infrastructural project is its early failure, which can happen for a variety of reasons. This is why important ways of securing the investment process are the point of entry, the procedural method, and diversification across numerous projects and countries. *ThomasLloyd*'s very broad diversification across 16 cleantech infrastructure projects in the Philippines and Cambodia minimises potential mis-investments and risks. Late entry eliminates risks in the project development phase. *ThomasLloyd* strives to achieve maximum added value without taking the risk of project development. By selling early, the Fund also circumvents a power plant's relatively low-yield operating phase. In addition to a wide risk spread and the exclusive use of commercial technologies, the Fund only employs regionally leading general contractors and excludes most building risks by utilising contracts that involve fixed prices and deadlines in advance.

During the investment process, project implementation and asset management, a range of interlocking, risk-minimising steps are taken for the benefit of investors, including various types of guarantees and insurances from various parties (warrantors). The risk of a possible delay in a plant's commissioning is minimised by means of 'delay in start up' insurance designed to compensate loss of earnings. As well as manufacturer's guarantees on components there is a performance guarantee from the general contractor covering implementation of the project in hand. In its various projects, *ThomasLloyd* works with primary insurers, some of which reinsure their risks through reinsurers in the USA and Europe. The risk of potential failure by the general contractor is additionally minimised by means of suitable bank guarantees (pro rata). Basically between 10% and 25% of the cost of a project is secured in this way (the capital at risk is never any more than that). Payments are only made to the general contractor in small instalments in keeping with the progress of construction – never before the work is done. Component transport is also insured. The kinds of insurance customary in the market (including liability) are used to minimise risks during the building phase.

A range of screening methods are used to identify, quantify and then prioritise risks. A risk matrix is used by *MDO* to regularly monitor different types of risk (market, credit, liquidity, counterparty, operational and other risks).

Risk management within the investment process encompasses the following areas:

- Compliance with the Fund's strategic, risk and finance criteria (management of project/transaction risks)
- Minimising the risks identified in the investigation phase
- Sensitivity analysis (aim: optimised transaction structure and evaluation)
- Adhering to the limits laid down by the IC
- Monitoring counterparty risk
- Timing projects to coincide with optimum conditions in the capital markets
- Assessment of counterparty risk

Financial due diligence involves performing a sensitivity analysis of final project returns. As soon as a project enters regular operation its overall costs are calculated; they consist of acquisition, development and building costs as well as the potential leverage achieved by including external capital.

The *TLCTIF's* investment guidelines stipulate that the technologies chosen must be mature, that the political situation allows for planning combined with an enforceable legal system, and that the state guarantees financial support for renewable energies. According to the investment guidelines, no more than 50% of assets may be invested in one country. No more than 30% of assets may be invested in a single entity either.

Collaborating partners are chosen from *ThomasLloyd's* existing networks. Its excellent network enables *ThomasLloyd* to gain early access to the best power plant projects. Renowned and leading external consultants such as Ernst & Young and Norton Rose Fulbright are also enlisted. Much importance is attached to securing and documenting these contacts in order to maintain a high quality standard.

There are scheduled site visits as well as the ongoing monitoring of investment entities.

Investments in foreign currencies entail foreign exchange risks.

There are a very comprehensive set of agreements that regulate in detail all the rights and obligations of everyone involved in the investment process.

Team

The *ThomasLloyd* investment team is led by founder and Managing Director *T.U. Michael Sieg*. *ThomasLloyd*'s Administrative Board includes, alongside *T.U. Michael Sieg* (Chairman), *Anthony M. Coveney* (Executive Director), *Klaus-Peter Kirschbaum* (Executive Director) and *Simon J. Cox* (Non-Executive Director). All of these four people have many years of experience in project management.

The *ThomasLloyd* investment team includes fund managers specialising in renewable energy infrastructure and experts who are able to manage the projects actively on location worldwide through all their implementation phases. All of the staff are very well qualified and have far-reaching expertise in the field of infrastructure. The investment team also have numerous additional qualifications and diverse professional experience. *ThomasLloyd* specialists have many years of international experience in top positions at leading companies in the field of engineering, building and project management, and in some of the world's biggest oil and energy corporations. The language culture at *ThomasLloyd* is also diverse, which means that local challenges in the target markets do not represent a problem.

A total of 180 people work in the *ThomasLloyd* Group, including all of the areas involved in the investment process such as banking and project management. In overall terms it can be said about *ThomasLloyd* that its employees embody team spirit and possess comprehensive specialist knowledge in their particular fields combined with far-reaching experience as befits a global player.

TELOS Rating Scale	
AAA	The funds complies with highest quality standards
AA	The funds process complies with very high quality standards
A	The funds process complies with high quality standards
+ / -	further differentiate within a rating level

Contact

TELOS GmbH
Kirchgasse 2
D–65185 Wiesbaden
www.telos-rating.de

Telefon: +49–611–9742–100
Telefax: +49–611–9742–200
E-Mail: info@telos-rating.de