**Commercial In Confidence**

**Castlepines Global Equities Limited**

**Investment Process and Criteria**

**How Castlepines Invests**

Castlepines is an equity fund. We are investors, not lenders, and we invest directly into certain projects and assets and take an ownership interest directly in the project and asset. As we are not lenders, we take no security over the assets, so no mortgage, charge nor lien nor any other form of security.

Castlepines invests all equity and no debt. All the equity is from Castlepines own pension fund and also from large public pension funds and the pension funds of insurance companies. These funds are obtained by Castlepines’ partner banks. Castlepines would typically invest between 5% and 20% of its own funds into any project, and the balance of the funds would be from the public and private pension funds and insurance company pension funds that are sourced by our partner banks. The pension funds that contribute to our investments are typically from countries such as Australia, New Zealand, United Kingdom, Germany, USA, Canada and some Scandinavian countries.

Before investing in any project, Castlepines seeks to ensure that the pension funds’ required return or coupon on the equity they have contributed, is secure. That coupon, which is in the nature of preferred equity, must be paid when due to the pension funds during the term of the investment. Any profit from the project or asset over and above the coupon is to be shared between Castlepines and the project developer, based on the allocated shares in the project or asset. Both Castlepines and the developer will also share in the residual asset, again based on agreed percentages.

The absolute key to any investment is ensuring that the return to the pension funds, (the coupon or preferred equity), is secure and is date-certain and sum-certain for the full period of the investment, and that the payer is ‘investment grade’. To ensure that the return is investment grade, Castlepines insists on the world’s best feedstock suppliers, builders, operators and off-takers. Each key counterparty to the project or asset must be investment grade, or at the very least a world-class company, with a substantial balance sheet and wrapped by a minimum AA-rated insurer.

To further ensure that the pension return is secure, there must be synchronicity with the key contractual arrangements with the project. The feedstock contractual period must match the term of the offtake period, so that there is a guaranteed supply of feedstock for the life of the investment. The operations and maintenance agreement must also be for the full term of the offtake period. And finally, the offtake period must match the full term of the financing.

Castlepines is also a passive investor. It not does seek to actively participate in the operation of the project, and it does not seek to control the Board of the project company.

**Investment Period and Required Returns**

Castlepines’ equity is very low-cost. It is able to keep its required returns so low because it looks to invest for the long-term to provide pension funds with long-dated and conservative returns. Castlepines is happy to get its capital returned over 20 to 40 years - by doing so it can keep its required returns (which include capital and a relatively small interest component) well under double digits. Obviously the shorter the investment period, the higher the required return, as we need our capital back over a shorter period. When we meet we can provide you with our break-even yield spread-sheet, which shows our required returns over different time frames in different currencies, from 5 to 30 years.

We also require a relatively modest annual CPI uplift to our required yields. At the moment, the required uplift is in the range of between 2% and 4%, depending on the nature of the project. If an annual CPI uplift is not available on the project we would accordingly need to adjust our required return slightly for the investment period.

**Investments: Assets and Geography**

Castlepines invests in a wide range of assets and projects in a number of continents and countries. Castlepines is not so much concerned with the country itself, although there are certainly some countries in which we could not invest; it is more concerned about the quality of the counterparties. We are happy to look at weaker countries, if the counterparties to the project are strong and our ultimate payer is investment grade. In weaker countries, the project would need to be ‘de-risked’ from the Government, so that that project is not dependent on government regulation and incentives, such as rebates and feed-in tariffs, and that the government or a government-controlled entity is not a counterparty to the project.

This is a list of asset types that we particularly favour:

* Energy: renewable and conventional energy, heat and power generation;
* Natural resources: oil, iron-ore, gas, coal and other in-ground commodities;
* Property: commercial, industrial and retail, airports, hospitals, hotels, prisons;
* Infrastructure: roads, highways, pipelines, ports, oil storage, dams ,large-scale water assets;
* Shipping; tankers, LNG, bulker, container carriers, FSU, barges;
* Financial: re-capitalising banks and financial institutions.

**Key Investment Criteria**

These are Castlepines key investment criteria or requirements:

* The minimum investment amount is 100 million (EUR, USD, GBP, SGD, (YEN, KRW- in USD equivalent)). We like to contribute capital in amounts of between ($,£,€) 100 and 500 million. Depending on the project, we can invest up to ($,£,€) 1 billion or more;
* Feedstock: the feedstock must be supplied by an investment grade supplier, and the feedstock supply agreement must be for the full term of the investment;
* EPC/Construction: if we are funding construction, we require a substantial builder, with a fully bonded turn-key construction contract;
* Operations and Maintenance: the operator must be an investment grade operator, and the O&M contract must be for the full term of the investment, and the operator must assume all operational risk;
* Offtake: the offtaker must be investment grade. This entity will be paying the required return directly to the pension funds, so that income must be ‘investment grade’. The offtake period, again, must be for the full investment term. There must be an effective floor in the offtake agreement, so that the income cannot at any time during the term of the contact fall to a level below which we can meet the required return to the pension funds. However, the amount of offtake that must be contracted for the full investment term need only be enough to meet the coupon at our minimum plus basic operational costs. The project developer is free to deal with the balance of the offtake as it sees fit to maximise profit, whether that be trading the offtake, placing it on the spot market, or otherwise;
* Insurance: Castlepines cannot have any feedstock, construction, operations or offtake risk. If any of the key counterparties are not investment grade and/or any of the key contracts leave open any risk to our ability to receive enough income to meet the required coupon, those risks must be wrapped by a minimum AA-rated insurer.

**Process and Timing**

All the key contracts must be in place (or at the very least, committed heads of terms signed) before Castlepines can seriously consider a project for funding. We need to be able to show the pension funds as well as Castlepines’ partners where their return is coming from, when it will be paid, and in what amount.

It typically takes approximately 4 months to close the financing on a relatively straightforward transaction, and around 5 months for a more complex transaction. That timing commences on the presentation to us of final drafts of all the key documents for the project and other related due diligence materials requested by Castlepines.

* **Castlepines Due Diligence & Fatal Flaw Analysis**

Once we receive the final drafts of the key documents and our fees, we commence our due diligence on the project, which includes engaging our lawyers to undertake a fatal flaw analysis, and our tax advisers to prepare the appropriate tax structure for the investment. Our law firm will review the key documents, identify any flaws in them, and suggest how to improve the documents and send them back to you. The fatal flaw analysis process typically takes 3 weeks, if there are relatively few red flags, if there are more, this process could take longer.

* **Engaging our banks**:

Once the fatal flaw analysis is completed to our satisfaction, we will engage our banks to secure the co-equity. We will present the documents and the fatal flaw analysis, plus a detailed summary of the project to our banks. The banks will then engage with the pension funds they deem most appropriate based on the specifics of the project. This process usually takes about 6 weeks. Once the co-equity is secured, the banks will present an unconditional offer of finance. It will usually take a further 8 weeks to complete the financing.

**Costs**

You must cover all costs and expenses related to the due diligence undertaken by Castlepines and its respective advisors, and also, separately, the costs associated with securing and closing the financing. There are two separate tranches of fees:

* First, we will provide you with an MOU/term sheet and within 10 days of the signing of this MOU and providing us the key documents you must pay us an amount of between ($,£,€) 100,000 and ($,£,€) 70,000. This amount is a contribution to Castlepines’ costs in respect to its due diligence on the project or asset, which includes fees for engaging its lawyers to undertake a fatal flaw analysis and also for our tax advisors who advise on the appropriate deal structure. The fees cover all the work undertaken by Castlepines and its advisors to get the documentation and the project into a position where Castlepines will formally present the project to its partner banks, and request the co-equity:
* Then secondly, if and when the banks confirm the pension fund co-equity and that the financing is unconditional, you are required to cover all costs and expenses in respect to the financing (including the legal and banking fees, taxes, project tax consultation and all other such administrative and out of pocket expenses), which costs are not anticipated to be greater in aggregate than 0.2% of the total amount of the financing. These costs are refunded at close/settlement and added to the amount of the investment sum.

Castlepines charges no management fees. So there are no fees during the investment period nor at the end of the investment period.

**What We Need From You: Executive Summary**

For us to give serious consideration to your project, first, we need to receive from you an executive summary of the project. That executive summary will typically be 2 to 4 pages, it will not be technical in detail, and it will specifically address the following:

* The background and description of the project, including the key elements of the project, and the overall rationale that underpins the project; total capital required, period of financing;
* Financials: the key financials of the project, including total revenues, operating costs, EBITDA;
* How the project meets each of our key investment criteria as mentioned above, and also importantly, where the project fails to meet the criteria, and if so what other options might be available.

**Confidentiality**

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**Castlepines Global Equities Limited**

**Project Structure Chart**

**CGE**:

50% Shareholding

**Pension**

**Funds**

**SPV**

Funded 100% equity by CGE

**Project Developer**:

50% Shareholding

**Feedstock**: Investment grade, contracted for the term of investment

**EPC**: Investment grade, fixed-price fully-bonded, turn-key contract

**O&M**:

Investment grade party, contracted for the term of investment

**Off-taker**: Investment grade; contracted for the term of the investment

……pays the coupon to pension funds and CGE