



UNECE – Investment Fund Designer - Update

Presented by

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Investment Fund Design - Status Update

- ❖ FFA: Developed to incorporate a fund, bank and development finance cooperation mechanism. First draft under review and finalisation
- ❖ LPA & PPM: Drafted to the pre-launch stage
- ❖ Heads of Terms: Drafted; requires investor comments and input
- ❖ Investment Policy Guidelines: Meets the mandate requirements
- ❖ Project Identification Form: Improved for bankable project
- ❖ Project Developer Profile: Developed as an aid for NPI's
- ❖ Glossary: Provided to reduce confusion on terms*

* e.g. "Guarantee" has a double meaning in Russian



Investment Fund Design - Next Steps

- ❖ Fund Investment Manager to be under appointment
- ❖ 10% Lead Investment Letter being prepared
- ❖ Preparation of Fund Investor Presentation underway
- ❖ Solicitation of commitment from the remaining 90% started
- ❖ Development of the project pipeline progressing well
- ❖ Identification of bankable launch projects lead candidates seen
- ❖ Obtaining commitments to the FFA in hand
- ❖ Launch of the fund: Target date Q3/Q4 2010

Our Business:

- ◆ Global Institutional Asset Manager
 - ❖ Understanding Institutional Investors
 - ❖ Diversification of the Investment Portfolio
 - ❖ Duration of Investments

Investor sentiment:

- ◆ Investor profile – diversification, ESG/SRI
- ◆ Placement and distribution
 - ❖ Pension funds
 - ❖ Family offices
 - ❖ Insurance companies
 - ❖ Fund of Funds

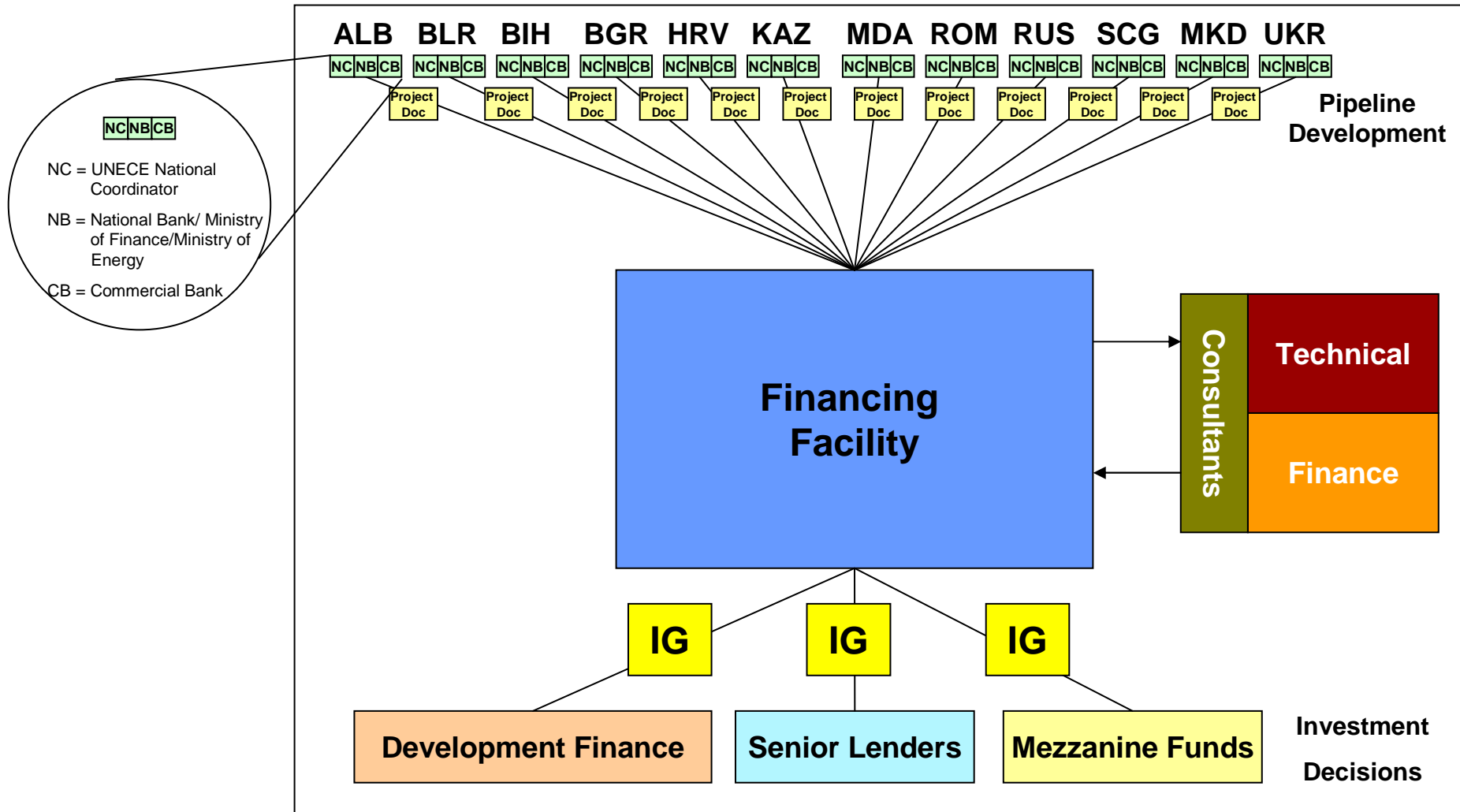
Common Terms of Investment Funds

- ❖ Background to the Investment Fund model:
- ❖ Investment funds provide a high degree of flexibility, provided by bespoke drafting of investment objectives and parameters to suit the various requirements of the individual participant investors (for example any specific tax or legal requirements)
- ❖ The first formal external document will be a Private Placement Memorandum (PPM), a confidential document outlining the investment proposition and soliciting investment from a selected group of prospective investors
- ❖ The pivotal contractual document, made available following an 'in principle' agreement to invest, is a Limited Partnership Agreement (LPA), a confidential agreement between the closed group of investors
- ❖ Market practice, and investor expectation, dictates that certain fund terms and pricing arrangements will follow a market standard (references are commonly made to '2 and 20' or '80:20' model, referring to management fees and the split of capital returns between fund investors and manager)

Launching an Investment Fund

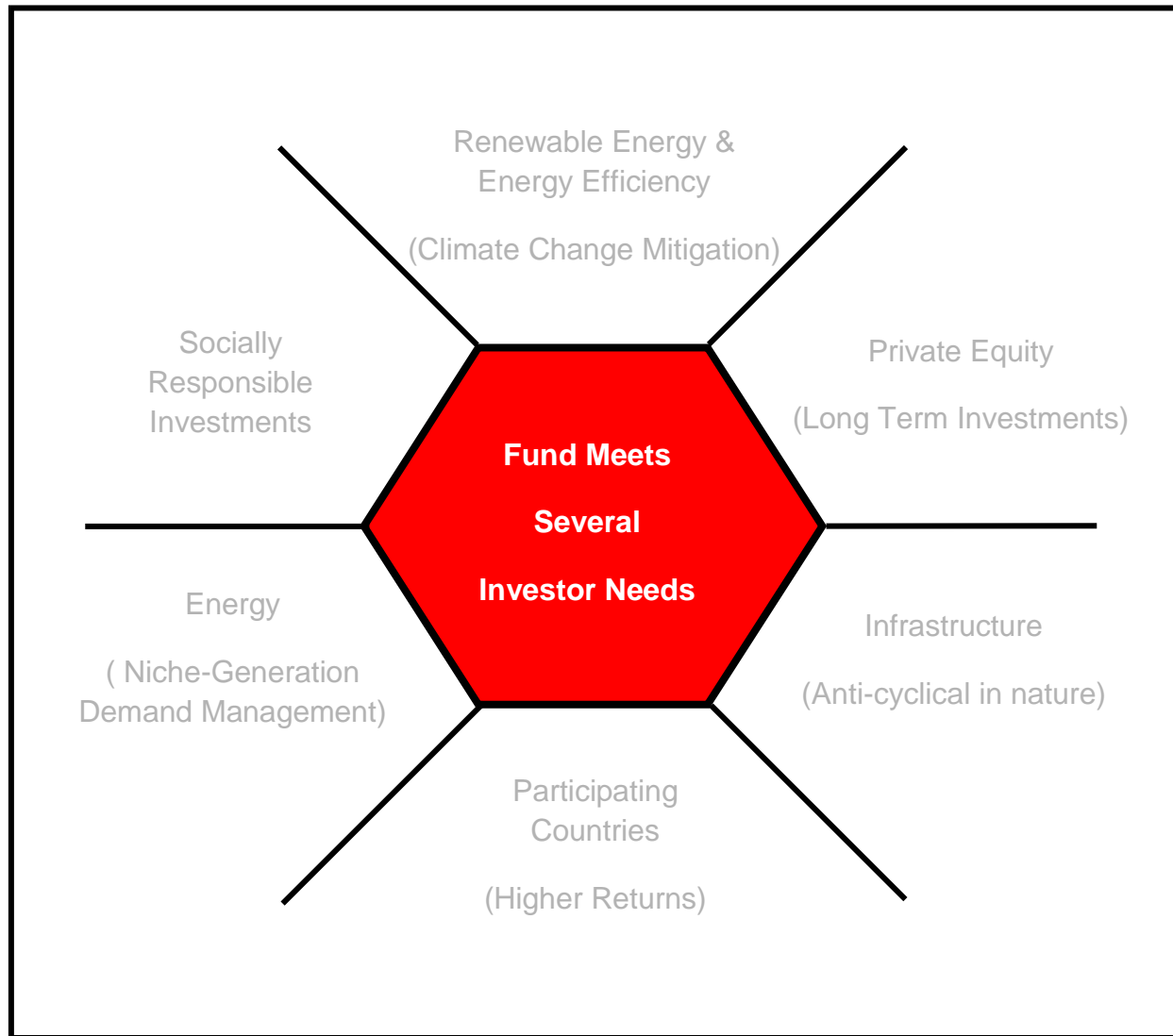
- ❖ Drafting the LPA and ancillary fund documents is a fund 'set-up' cost and is therefore often an expense that will be paid by the investors
- ❖ These costs are recovered by the investor through capital returns made on the fund's investment projects, prior to any preferred return, incentivising all parties to keep them low
- ❖ Minimal legal drafting expense is incurred until there is a high degree of certainty of commitment from cornerstone investors
- ❖ Fund documentation that has been used in previous similar projects may be available to address common themes and therefore help reduce costs
- ❖ The LPA will need to be tailored to address cornerstone investor issues and requirements, so preliminary discussion with investors will need to be conducted to determine the scope of the LPA
- ❖ The LPA will need to dove-tail with unique provisions of the FFA, and as a result a broad acceptance of the FFA will be required in order to avoid unnecessary negotiation and wasted costs

Fund Structure





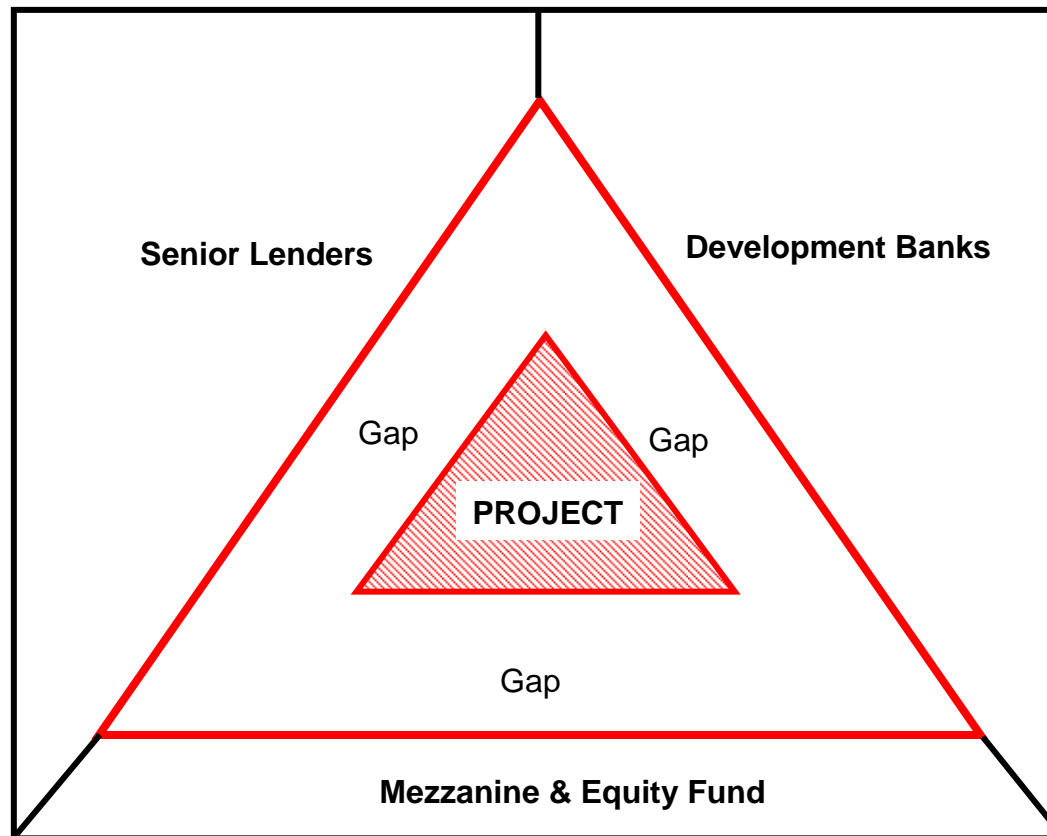
Investors: Why investor demand is strong



Investor – Express of Interest

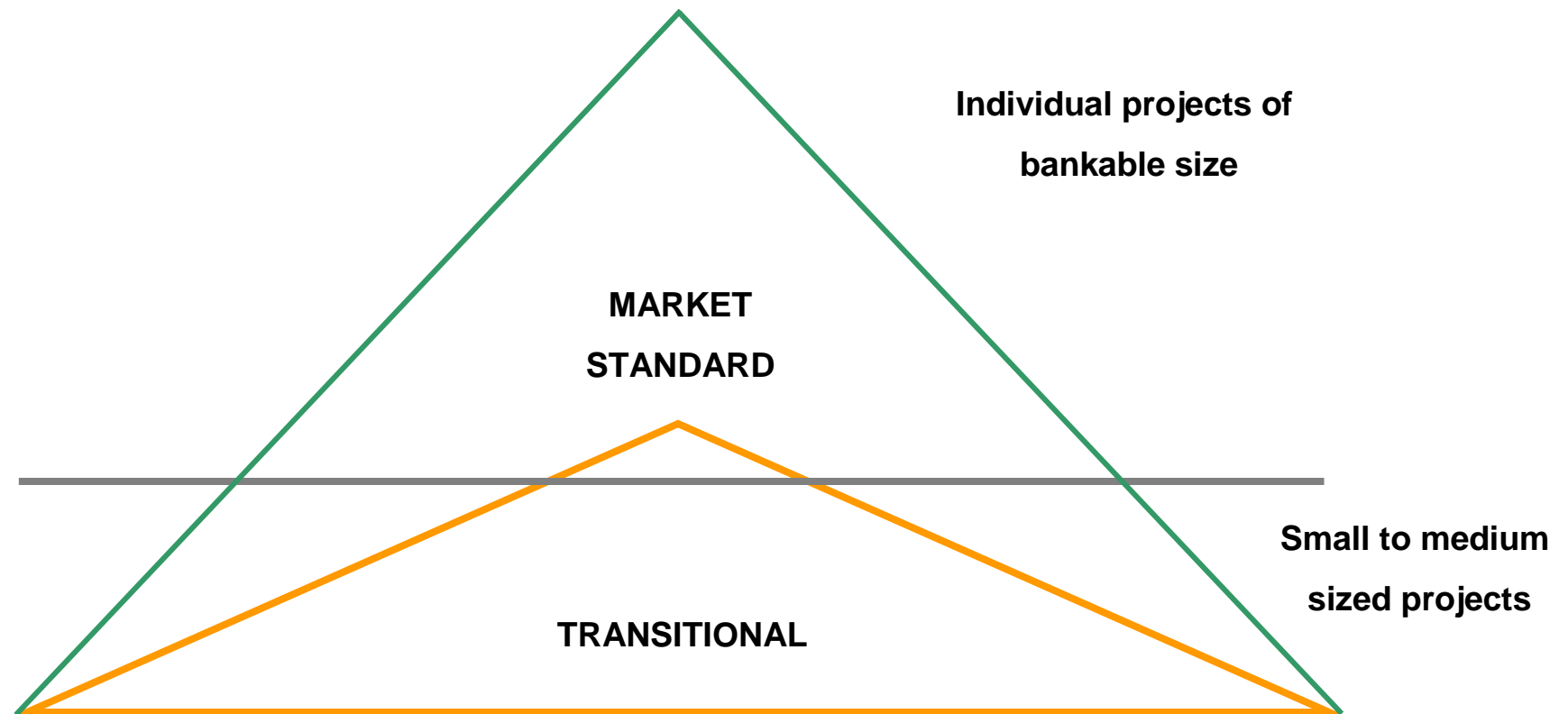
- ❖ Supernational organisations have been keen to understand the details
- ❖ Significant support has been seen at governmental level in EU countries
- ❖ International banks were among the first to express interest
- ❖ Local branches of international banks have strongly supported this idea
- ❖ Local banks have been enthusiastic to engage with the fund

Developing the FFA – Who fills the gap?



- ❖ Project document development support is key to promote bankable projects
- ❖ Targeted training could be used a to maximum effect here

Challenges: Universe of Projects



- ❖ Solving the issues of synchronisation and of project document development allows time to develop market -standard solutions for small projects and complex projects e.g. district heating.

Quote “If you had come in 2007 we had no need to see you, in 2009 we couldn’t have seen you, but in 2010 you come at just the right time”

- ❖ The project pipeline is robust
- ❖ The banks are keen
- ❖ Development banks showed firm interest in cooperating
- ❖ Banks have stalled projects due to the lack of mezzanine finance and are very willing to discuss aggregation
- ❖ The ESCO showed interest in market based financing given their privatisation aims

Quote “Why don’t you just tell us the rate; why always IRR?”

- ❖ The reaction from the banks was overwhelmingly positive
- ❖ Some banks were keen to participate by passing on participations on existing projects to relieve pressure on their balance sheet
- ❖ Nascent Project document development capacity exists, but the concept is not generally well understood
- ❖ Even though the majority of companies have state involvement, it came as an unexpected surprise to see how well the concept of market based financing was received

Quote “ The gap between the dream and a bankable project is very big”

- ❖ The FFA generated significant interest and curiosity and many saw the potential for it to solve the issue of project documentation generation
- ❖ Aggregation of projects was seen to be possible both at the bank and supplier level; even for a diverse group of projects with different owner operators
- ❖ Project document development is an advanced skill

Quote “But all of this is so easy”

- ❖ Strong interest from project developer, many of which already have completed projects. Keen to explore international financing
- ❖ Banks especially keen to cooperate. The approach of the FFA was welcomed and the risk sharing aspect was particularly attractive
- ❖ Insurers, very keen to assist too; both with projects and in as support capacity



Country Visits - General Observations

- ❖ Despite the difficult market conditions, the mood is cautiously optimistic
- ❖ Projects exist and are stalled because of the lack of mezzanine finance, insufficient attention to cash flow generation and poor project documentation preparation
- ❖ The perennial problems of the synchronicity of finance and project size are evident
- ❖ Project demand is significant
- ❖ The initial FFA was very well received by all – in all countries
- ❖ “Best practice” examples to show “business as usual” was seen as a very useful tool to shorten lead times
- ❖ The submission of project information to kick start the pipeline was spurred on in all three countries, in part as a result of the visit which supported calls by the NPI’s for such information

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