US Solar
Fund

# Attractive and sustainable returns from US solar power

**Quarterly Update** | 31 December 2019

US Solar Fund

# Fourth Quarter Update

## USF Quarter Highlights

- **Second Acquisition**: US Solar Fund (**USF**) announced the binding acquisition and financial close of a 39 MWDC portfolio developed by Cypress Creek Renewables (**CCR**). The portfolio includes six utility-scale solar power projects located in North Carolina, totaling $35 million of equity. They commenced construction simultaneously with close in December.
- **Third Acquisition**: In October, USF entered exclusivity with Greenbacker (**Greenbacker**), for a 39 MWDC operating portfolio in North Carolina. Subsequently, in December, USF announced it had entered into a binding acquisition agreement for the eight projects, committing $36 million of equity.
- **Milford Update**: The 128 MWDC Milford Project (**Milford**) located in Utah began construction in early September and is progressing well. The project is on track for completion as expected in 2H 2020.
- **Pipeline Update**: As of 31 December 2019, the Investment Manager's pipeline included 2,036 MWDC of assets with a cash equity value of $1.9 billion and an average PPA term of 14 years.
- **Dividend**: USF announced its second dividend of 0.50 cents per ordinary share (paid on 7 February 2020). This represents an annualised dividend yield of 2% when measured against the initial issue price of $1 per share.
- **Fourth Acquisition and Full Commitment**: After the end of the period, USF announced it had entered into a binding acquisition agreement with Heelstone to acquire a 177 MWDC portfolio of 22 operating projects located in North Carolina, Oregon and California. The acquisition and a subsequent refinancing would require the remainder of the IPO proceeds.
- **Fraud**: At the end of January, New Energy Solar Manager (the **Investment Manager**), was the victim of a fraud (**Fraud**); $3.3 million of the fraudulent payments remains outstanding. The Board's investigation to date indicates that the Fraud is an isolated incident originating from outside the Investment Manager with no indication of collusion with any member of the Investment Manager's staff. The Board and the Investment Manager are working together and with all relevant external stakeholders with a view to recovering the remaining funds and otherwise ensuring the Company is made whole.

During the quarter, USF closed its second acquisition and announced its third acquisition (the third acquisition closed in January after quarter-end) bringing total committed capital to $101 million.

The second acquisition is a 39 MWDC portfolio of six projects located in North Carolina acquired from CCR. Construction commenced concurrently with close of the acquisition in December. The projects will reach completion during 2020, with the first being finished in late Q2 and the last later in the second half of the year. Each project in the Portfolio has executed a fixed price power purchase agreement (**PPA**) for 100% of the electricity produced by the project with subsidiaries of Duke Energy (S&P rating: A-). The weighted average term of the PPAs across the six projects is 13.1 years.

Acquisition number three is a 39 MWDC portfolio of eight operating projects in North Carolina acquired from Greenbacker. The projects commenced operations between 2012 and 2015 and all are selling 100% of their electricity output under fixed-price PPAs with subsidiaries of Duke Energy (S&P rating: A-). The weighted average term remaining of the PPAs is 10 years.

In December, USF announced its second dividend of 0.50 cents per ordinary share for the period ending 30 September 2019. This dividend was paid on 7 February 2020 to shareholders on the register as at the close of business on 17 January 2020.

The Investment Manager's pipeline of opportunities included 2,036 MWDC of assets with a cash equity value of $1.9 billion and an average PPA term of 14 years at the end of the period. At 30 September 2019, the Investment Manager disclosed a pipeline of 4,219 MWDC of assets with a cash equity value of $3.6 billion and an average PPA term of 16 years. The slow-down over the quarter has been partially driven by developers fast-tracking projects to be construction-ready earlier in the year in order to safe harbor projects for the 30% Investment Tax Credit (**ITC**). The ITC has had its first step down in 2020, when it moved to 26%. The step down will not impact any of the announced USF projects.

After the end of the quarter, USF announced that it had entered into a binding acquisition agreement to acquire a portfolio of 22 operating assets from Heelstone. The assets are in North Carolina, Oregon and California and commenced operations between 2016 and 2018. They sell 100% of their electricity output under fixed price long-term PPAs to a variety of investment grade off-takers (S&P ratings ranging from BBB+ to A). The PPAs have a weighted average term remaining of 12 years.

The fourth acquisition combined with the three previously announced transactions represents a total commitment of approximately 70% of the net IPO proceeds. Post-acquisition, USF intends to use the remaining 30% of the net IPO proceeds to refinance the existing project level debt with a new, smaller debt facility on more attractive terms resulting in lower portfolio gearing and improved returns.

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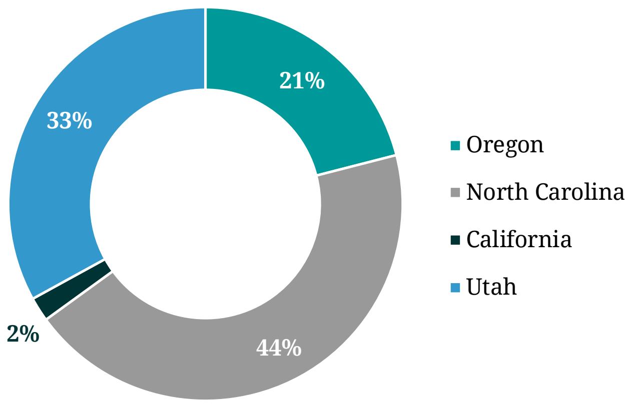
Including the refinancing, the IPO proceeds are fully committed across 37 projects in four states totaling approximately 382 $MW_{DC}$ with a capacity weighted remaining PPA term of 16.2 years as of 31 December 2019. All USF assets to date, including both operating and in-construction projects, have qualified for the 2019 ITC of 30%.

**Figure 1: USF Portfolio Composition by State ($MW_{DC}$)[1]**




The remaining weighted average PPA term of the portfolio exceeds the target set out in the Prospectus dated 26 February 2019 (**Prospectus**) of entering long-term PPAs of at least 15 years. This transaction also marks the commitment of proceeds in just over the Prospectus target of six to nine months from IPO. Pleasingly, over 50% of USF's assets are fully operational, with the remainder expected to be operational by the end of 2020.

Due diligence of additional pipeline opportunities is ongoing and USF is considering putting an acquisition facility in place to fund future acquisitions.

On 30 January, it was announced that the Investment Manager had been the victim of a fraud in relation to contracted construction payments (**Payments**). The Payments were made from the US bank account of a USF project company (**Project Company**) to a third party US bank account.

In a subsequent announcement on 31 January 2020 the Company advised that $3.6m of the Payments had been recovered and returned to the Project Company's bank account and $3.3 million remained outstanding.

On 7 February, an update was provided as the Board, with the assistance of the Investment Manager, continued its investigation into the Fraud.

It was announced that the Fraud occurred when the Investment Manager received fraudulent payment instructions for genuine invoices totalling $6.9m for construction work completed by a contractor (the **Contractor**) to the Project Company. This resulted in Payments being made to a third party US bank account rather than to the Contractor's US bank account.

The Board's investigation to 7 February indicates that the Fraud is an isolated incident originating from outside the Investment Manager with no indication of collusion with any member of the Investment Manager's staff.

When making the Payments, the Investment Manager complied with the relevant processes and procedures for the Company which were established at the time of its IPO in 2019. The Investment Manager has, however, with the full support of the Board and at its own cost, decided to appoint a global accounting firm to undertake a review of the Investment Manager's financial processes and controls. USF's Audit Committee Chair will travel to the Investment Manager's New York office to ensure the review meets the Board's expectations.

The Investment Manager's parent, Evans Dixon, is conducting a review of relevant cyber security arrangements based on its established Cybersecurity Framework. Leading this review are the Group Chief Technology Officer and Senior Cybersecurity Manager who are responsible for cybersecurity across all Evans Dixon business units, including the Investment Manager. Separately the Contractor is conducting a review of its own cybersecurity arrangements supported by an external cybersecurity consultant.

The Board and the Investment Manager are working together and with all relevant external stakeholders with a view to recovering the remaining funds and otherwise ensuring the Company is made whole.

There is currently no impact to the relevant construction schedules or budgets. USF will provide further updates in due course.

[1] Portfolio composition includes Acquisition Four, acquired after the period ended 31 December 2019

# Fourth Quarter Update

## US Solar Market Update

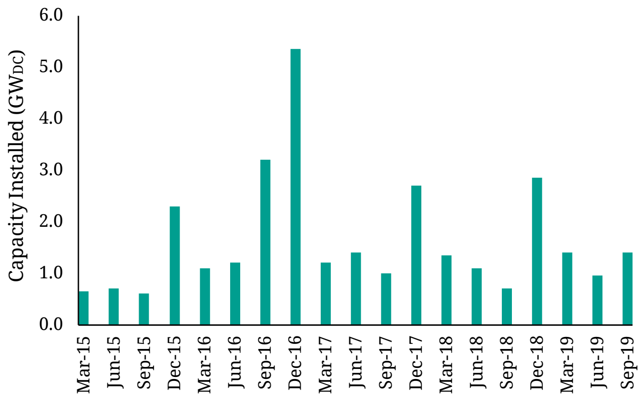
### Q3 2019 UTILITY-SCALE SOLAR MARKET UPDATE[2]

The US utility-scale solar photovoltaic (**PV**) market experienced a strong third quarter across the contracted pipeline, installation and construction data points. The contracted pipeline for utility-scale PV solar (the total capacity of utility-scale PV solar with a PPA signed and in place) reached a record high of 45.5 GW$_{DC}$. During Q3, US utility scale PV installations remained as the largest share of total US solar PV installed capacity. Between Q1 to Q3 2019, solar accounted for 39% of new US electricity-generating capacity additions, second only to natural gas which had 42% of capacity additions.

Over the quarter, 1.4 GW$_{DC}$ of utility-scale PV was installed in the US, representing:

- a 103% increase compared to Q3 2018
- a 69% increase compared to Q3 five years prior, and;
- 19% year on year cumulative capacity growth.

**Figure 2: US utility-scale PV capacity installed by quarter[2]**




Projects under construction also reached an all-time high of 10.4 GW$_{DC}$, with 38% of projects expected to be completed during Q4 2019 and the remaining 62% to be completed in 2020 and 2021. Based on 3.7 GW$_{DC}$ of capacity installed between Q1 and Q3 2019, estimates project we will see roughly 8.0 GW$_{DC}$ of installed utility-scale PV for the full year. This would be the second highest annual volume of installed capacity to date and further emphasizes the substantial growth expected in the upcoming years.

Utilities and developers are driving some of this growth as they safe-harbour projects for 2019 in order to qualify for the 30% ITC. The ITC begins to phase-down after 2019, stepping down to 26%, 22% and 10% in annual increments and remaining at 10% from the end of 2022.

Even as the ITC steps down, the demand for utility PV remains strong. During Q3, Wood Mackenzie revised their forecast for US utility PV from 2019–2024, increasing the estimate by 9.2 GW$_{DC}$. The increase is driven primarily by utilities procuring or planning to procure more utility-scale solar than expected for their integrated resource plans. The economic cost-competitiveness of utility PV makes it a compelling source for utilities seeking additional energy capacity, and those who need to meet their renewable portfolio standard (**RPS**) or policy mandate.

### PUBLIC UTILITIES REGULATORY POLICIES ACT

On 19 September 2019, the Federal Energy Regulatory Commission (**FERC**) released a notice to propose changes to FERC's Public Utilities Regulatory Policies Act of 1978 (**PURPA**). PURPA was passed to encourage the development of generation facilities not owned directly by a utility, called Qualifying Facilities (**Qualifying Facilities**). The goal was to promote competition for the wholesale electricity industry by mandating utilities to buy power from the independent facilities at a rate equal to the utility's avoided-cost (the cost the utility would incur if they were to source power from another facility, including their own). The Act has created 6.2 GW$_{DC}$ of utility PV currently in operation, which makes up 16.3% of total capacity as of Q3 2019.

The changes proposed allow states to set and potentially reduce avoided-cost rates, thereby diminishing the competitiveness of Qualifying Facilities. Secondly, it will become more difficult to become a Qualifying Facility as the changes would allow states and utilities to have a say in which facilities are eligible to become a Qualifying Facility. The outcome on the proposed changes is expected to be finalised in 2020.

If the changes go through, the impact on the utility scale solar industry would likely be negative but limited. Voluntary (non-mandated) procurement of utility-scale solar PV has continued to be the primary driver of solar development; accounting for 51% of utility-scale solar capacity additions in 2019. Solar continues to be the cheapest form of new-build power generation and the market is expected to continue its expansion for the foreseeable future.

### CORONAVIRUS OUTBREAK AND THE SOLAR SUPPLY CHAIN

The 2019 Novel Coronavirus (**2019-nCoV**) outbreak occurred after the quarter ended. As a reaction to the outbreak, the Chinese government implemented several controls to minimise the spread of the virus. Within the solar industry, there is concern that these controls may disrupt the international solar supply chain.

[2] Wood Mackenzie/SEIA Q4 2019 U.S. Solar Market Insight®. The Q4 2019 report provides data through Q3 2019.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The key risks anticipated revolve around module production and delivery interruption. Some solar manufacturers have halted operations under central and provincial governments' guidance, raising concerns around delayed module delivery. Additionally, ground transportation and shipping from China has been disrupted due to government restrictions.

USF's portfolio has sourced panels and other materials from a variety of countries. Of the total 37 projects in the current portfolio, there are seven projects that are yet to be constructed, all of which have met safe-harbouring conditions to qualify for the ITC. To meet these conditions, the construction materials for the assets have been purchased ahead of 2020.

The solar panels for the six in-construction projects in North Carolina have been imported and delivered and are being stored in various warehouses across the US. The rest of the materials required for construction are either on site or have been procured from various international suppliers overseas and are still scheduled to be delivered on-time. The majority of the construction materials for the project in Utah have already been delivered to the US. The Investment Manager has received confirmations from the vendors that there is currently no delay expected for the remaining materials to be delivered. As such, the Investment Manager believes that the outbreak will have minimal impact on the construction process for the portfolio.

The Investment Manager continues to work with Engineering, Procurement and Construction contractors to assess and consider alternative risk mitigation strategies as more details develop.

## KEY FINANCIAL FACTS AT 31 DECEMBER 2019

| | | |
|---|---|---|
| Ordinary Shares Issued | 200,092,323 | |
| Ticker | USF ($) | USFP (£) |
| Share Price | 1.05 | 0.8050 |
| NAV ($)[3] | 194m | |
| NAV/share ($)[3] | 0.97 | |
| Premium to NAV[3] | 8.1% | |
| Market Cap ($) | 210m | |
| Ongoing Charges[4] | 1.44% | |
| Target Dividend Yield[5,6] | 5.5% | |
| Next Dividend | 7 February 2020 | |
| Target Net Total Return[6,7] | Min 7.5% | |

## COMPANY INFORMATION

| | |
|---|---|
| Listing: | London Stock Exchange Premium Segment |
| SEDOL | BJCWFX4 ($)<br>BHZ6410 (£) |
| ISIN | GB00BJCWFX49 |
| Registered Number: | 11761009 |
| Ticker: | LSE: USF ($)/USFP (£) |
| Dividend Payments: | Quarterly |
| Financial Year End: | 31 December |
| Website: | www.ussolarfund.co.uk |

[3] Based on the unaudited NAV as at 31 December 2019.

[4] The ongoing charges ratio is calculated in accordance with the Association of Investment Companies ("AIC") methodology "The estimated total cost as laid out in the prospectus was 1.35% based on proceeds of $250 million. As total proceeds of the IPO were $200 million, this ratio is slightly higher than estimated at IPO.

[5] Once fully operational and on a fully invested and geared basis. An initial target annual dividend of 2-3% on the IPO issue price in respect of the period from listing until 31 March 2020 or, if later, when all the solar power assets are fully operational.

[6] The initial target annual dividend yield, target annual dividend yield and target net total return are targets only and are not profit forecasts. There can be no guarantee that these targets will be met and they should not be taken as an indication of the Company's expected or actual future results.

[7] Over the life of the solar power assets (expected to have a typical asset life of 30 to 35 years, and potentially up to 40 years) net of all fees and expenses but before tax, on the basis of the IPO issue price once the Company is fully invested.


## Portfolio Overview

| Status | Asset | Capacity ($MW_{DC}$) | Location | Acquisition Date | Energy Offtaker | Remaining PPA Length (Years) | COD[8] |
|---|---|---|---|---|---|---|---|
| ● | Milford | 127.8 | Utah | Aug 19 | PacifiCorp | 25.0 | *Nov 20* |
| ● | Benson | 5.7 | North Carolina | Dec 19 | Duke Energy | 13.1 | *Aug 20* |
| ● | Eagle Solar | 5.6 | North Carolina | Dec 19 | Duke Energy | 13.1 | *Aug 20* |
| ● | Lane II | 7.5 | North Carolina | Dec 19 | Duke Energy | 13.2 | *Jul 20* |
| ● | Pilot Mountain | 7.5 | North Carolina | Dec 19 | Duke Energy | 13.1 | *Aug 20* |
| ● | Tate | 6.5 | North Carolina | Dec 19 | Duke Energy | 13.2 | *Jul 20* |
| ● | Willard | 6.0 | North Carolina | Dec 19 | Duke Energy | 13.1 | *Aug 20* |
| | **Total** | **166.6** | | | | **22.2[10]** | |
| ● | Faison | 2.3 | North Carolina | Dec 19 | Duke Energy | 10.3 | Jun 15 |
| ● | Four Oaks | 6.5 | North Carolina | Dec 19 | Duke Energy | 10.8 | Oct 15 |
| ● | Nitro | 6.2 | North Carolina | Dec 19 | Duke Energy | 9.9 | Jul 15 |
| ● | Princeton | 6.5 | North Carolina | Dec 19 | Duke Energy | 10.8 | Oct 15 |
| ● | Sarah | 6.3 | North Carolina | Dec 19 | Duke Energy | 10.5 | Jun 15 |
| ● | S. Robeson | 6.3 | North Carolina | Jan 20 | Duke Energy | 7.6 | Jul 12 |
| ● | Progress 1 | 2.5 | North Carolina | Jan 20 | Duke Energy | 12.3 | Apr 12 |
| ● | Progress 2 | 2.5 | North Carolina | Jan 20 | Duke Energy | 8.0 | Apr 13 |
| ● | County Home[9] | 2.6 | North Carolina | Jan 20 | Duke Energy | 11.7 | Sep 16 |
| ● | Mariposa[9] | 6.4 | North Carolina | Jan 20 | Duke Energy | 11.7 | Sep 16 |
| ● | Freemont[9] | 6.4 | North Carolina | Jan 20 | Duke Energy | 11.6 | Dec 16 |
| ● | Sonne Two[9] | 7.0 | North Carolina | Jan 20 | Duke Energy | 11.6 | Dec 16 |
| ● | Cotten[9] | 6.8 | North Carolina | Jan 20 | Duke Energy | 11.9 | Nov 16 |
| ● | Monroe Moore[9] | 6.6 | North Carolina | Jan 20 | Duke Energy | 11.6 | Dec 16 |
| ● | Red Oak[9] | 6.9 | North Carolina | Jan 20 | Duke Energy | 12.0 | Dec 16 |
| ● | Schell[9] | 6.9 | North Carolina | Jan 20 | Virginia Electric & Power | 12.0 | Dec 16 |
| ● | Sedberry[9] | 6.2 | North Carolina | Jan 20 | Duke Energy | 11.6 | Dec 16 |
| ● | Siler 421[9] | 6.9 | North Carolina | Jan 20 | Duke Energy | 11.6 | Dec 16 |
| ● | Tiburon[9] | 6.7 | North Carolina | Jan 20 | Duke Energy | 11.6 | Dec 16 |
| ● | Granger[9] | 3.9 | California | Jan 20 | San Diego Gas & Electric | 16.7 | Sep 16 |
| ● | Valley Center[9] | 3.0 | California | Jan 20 | San Diego Gas & Electric | 16.9 | Dec 16 |
| ● | Turkey Hill[9] | 13.2 | Oregon | Jan 20 | PacifiCorp | 11.8 | Dec 17 |
| ● | Merrill[9] | 10.5 | Oregon | Jan 20 | PacifiCorp | 11.8 | Jan 18 |
| ● | Lakeview[9] | 13.7 | Oregon | Jan 20 | PacifiCorp | 11.8 | Dec 17 |
| ● | Dairy[9] | 14.0 | Oregon | Jan 20 | PacifiCorp | 11.8 | Mar 18 |
| ● | Chiloquin[9] | 14.0 | Oregon | Jan 20 | PacifiCorp | 11.8 | Dec 17 |
| ● | Tumbleweed[9] | 14.0 | Oregon | Jan 20 | PacifiCorp | 11.8 | Dec 17 |
| ● | Davis Lane[9] | 7.0 | North Carolina | Jan 20 | Virginia Electric & Power | 13.0 | Dec 17 |
| ● | Jersey[9] | 7.0 | North Carolina | Jan 20 | North Carolina Electric | 8.0 | Dec 17 |
| ● | Gauss[9] | 7.0 | North Carolina | Jan 20 | Virginia Electric & Power | 13.6 | Oct 18 |
| | **Total** | **215.8** | | | | **11.6[10]** | |
| **Portfolio Total** | | **382.4** | | | | **16.2[10]** | |

**KEY** ●Operational ●Under construction

[8] Commercial Operation Date, dates italicised indicate estimated dates.
[9] Acquired after 31 December 2019.
[10] Capacity weighted average remaining PPA term.


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## CORPORATE CALENDAR

| | |
|---|---|
| Company Financial Year End | December 2019 |
| Dividend, NAV and Trading Update | March 2020 |
| Annual General Meeting | May 2020 |
| Dividend, NAV and Trading Update | May 2020 |
| Company Financial Half-Year | June 2020 |

## DISCLAIMER

This Quarterly Update (**Update**) has been prepared by the Investment Manager (New Energy Solar Manager Pty Limited) of US Solar Fund. An investment in US Solar Fund is subject to various risks, many of which are beyond the control of its Investment Manager. The past performance of US Solar Fund is not a guarantee of its future performance. This Update contains statements, opinions, projections, forecasts and other material (forward-looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. Neither the Investment Manager nor US Solar Fund, their respective officers, employees, agents, analysts or advisers nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfillment of the forward-looking statements or any of the assumptions upon which they are based. Unless otherwise specified, all references to currency are to US dollars.