IN CONVERSATION WITH CLARA MOUYSSET

Tikehau Green Assets Strategy

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What is Tikehau Green Assets ("the Fund") and how can it help investors?

Tikehau Green Assets is a real assets impact fund designed to support the urgently needed transition towards a net carbon-neutral economy by 2050.

It aims to achieve this by investing in distributed 'green assets' or equipment to decrease the carbon footprint of end-users. This equipment includes heat pumps, boilers, LED lighting, cooling systems, EV chargers or electric vehicles, i.e., existing proven technologies with scalable potential.

Tikehau Green Assets: Examples of underlying assets

- PV - Photovoltaic
- CHP - Combined heat and power
- HVAC - Heating, ventilation, air conditioning

Source: Tikehau Investment Management, Feb 2022

The strategy focuses on improving the energy efficiency of buildings and industrial sites, promoting low-carbon mobility, clean energy generation and supporting circular economy projects as well as sustainable agriculture.

How does Tikehau Green Assets provide an opportunity for institutional investors?

When we think of green assets, we typically think of wind farms and solar farms. The energy generation sector is actually already well engaged in its transition to renewables and the investment needs are well addressed in the market.

Tikehau Green Assets, on the other hand, provides exposure and access to sectors that have previously been overlooked and now need institutional investment to accelerate their transition.

The Fund aims to provide institutional investors with a decarbonisation investment solution delivering both predictable contractual income and the potential for higher returns.

To that end, we will partner with businesses who are reliable sector experts to identify and invest in small, distributed assets and build and manage large, diversified portfolios.

How does Tikehau Green Assets generate the potential for investor returns?

The Fund acquires these assets and offers them free of charge to the end-user through long-term service contracts in which the end-user pays a fixed or performance-based fee over 3 to 12 years. This ‘Asset-as-a-Service’ solution relieves the end-user from the burden of the acquisition cost and from technical performance risk, thereby helping to accelerate their adoption of these green assets.

The CO2 reduction is measured, monitored and reported throughout the duration of the investments, and the revenues of Tikehau Green Assets are based on the real performance of the underlying assets.

For example, when Tikehau Green Assets provides a heat pump to a customer to reduce its energy consumption (thereby reducing its carbon footprint), the customer will pay back to the Fund a part of the real amount saved on its energy bill thanks to the new heat pump. This evidences the impact objective of Tikehau Green Assets, which lies at the heart of its investment philosophy.

Is there anything similar available to investors elsewhere?

In the global transition towards carbon neutrality, we observed that Tikehau Green Asset’s focus sectors had been historically overlooked because there was no existing financing solution available to enable the financing of these small, distributed decarbonising assets. Tikehau Green Assets aims to address this financing gap with direct investments in these assets. In that context, it is possible to see how the Fund shares many characteristics of a typical infrastructure fund with elements of both private equity and private debt to be able to address the challenges of financing small and distributed assets including, but not limited to, multiple clients and sites, tailor-made and varied technologies, small investment amounts, etc.

This hybrid approach relies on the team’s extensive investment experience in the infrastructure and energy sectors and leverages Tikehau Capital’s[1] proven track record in private equity and private debt investment, as well as its deep understanding of the energy transition. The Tikehau Green Assets investment team is well equipped to deliver comprehensive research analysis and tailor-made investment solutions to accelerate the deployment of decarbonising assets in the economy.

Tikehau Green Assets and T2 Energy Transition Fund: our Private Equity success story

The launch of Tikehau Green Assets follows the success of our private equity T2 Energy Transition Fund (“T2”), which exceeded its original fundraising goals with a final close of more than €1.1bn.

T2 and Tikehau Green Assets complement each other. They share the same target of reducing CO2 emissions but operate differently. T2 supports companies creating a shift towards a decarbonised economy while Tikehau Green Assets invests in the assets and equipment developed by those companies. Tikehau Green Assets can benefit from the market knowledge, expertise and network acquired by our T2 investment team.

The Fund expands the breadth of our impact platform to address multiple market needs and investor requirements with appropriate investment solutions.

> The Fund’s objective is to decrease the carbon footprint of end-users through the use of green assets
>
> CLARA MOUYSSET

What is the impact strategy of Tikehau Green Assets?

Tikehau Green Assets is an impact fund as defined by Article 9 under SFDR.

The Fund’s objective is to decrease the carbon footprint of end-users through the use of green assets. The strategy focuses on improving the energy efficiency of buildings and industrial sites, promoting low-carbon mobility and supporting circular economy projects as well as sustainable agriculture. In the process of acquiring any assets to help achieve this goal, an independent advisor assesses the expected CO2 emissions to be induced and avoided given a full lifecycle analysis. Thereafter, Tikehau Green Assets specifies a baseline annual objective for each asset and we monitor and report on the CO2 performance of the assets annually. To ensure Tikehau Investment Management is aligned with the goal of reducing the overall carbon footprint, it will invest part of the carried interest in a non-profit organisation, the missions of which shall include the protection of the environment in case the CO2 emission objectives are not largely met.

Tikehau Green Assets impact investing strategy seeks to contribute to environmental objectives included in the EU Taxonomy, in particular to climate change mitigation and adaption, but also to the sustainable use of water, to the transition to circular economy, to pollution prevention and to the protection and restoration of biodiversity and ecosystems. As we create vehicles fully dedicated to investing in green assets, we can reasonably expect a significant part of our investments to be eligible to the EU Taxonomy.

In this context, we will start by addressing and disclosing the share of our AUM eligible to the EU Taxonomy, while deploying best efforts to cover alignment requirements in the following years.

Our strategy also pursues a direct contribution to the Sustainable Development Goals (SDGs), namely the fight against climate change (SDG 13) by supporting clean energy and energy efficiency (SDG 7). Our investments may also have an indirect impact on the sustainable industrialisation and innovation (SDG 9), the development of sustainable cities (SDG 11) and preservation of biodiversity (SDG 15) through sustainable agriculture.

[1] Tikehau Investment Management, the main platform of the Tikehau Capital Group dedicated to asset management, is the management company of Tikehau Green Assets.

What risks should investors be aware of and how are these managed?[2]

First, the Fund is exposed to the technical performance of the asset as the revenues of the Fund are derived from it. This risk should however be mitigated as:

– The Fund only invests in technology with a proven track record (no innovative technology and no pilot phases).

– Technical due diligence is performed during the investment process to ensure that the expected performance is realistic.

– On top of that, the Fund benefits from guarantees from the equipment suppliers (when applicable and relevant).

The Fund will also request a minimum technical performance guarantee from its business partners. We expect this to correspond to a minimum gross return of 2-4% for the Fund.

Secondly, the Fund will be exposed to counterparty risk. This should also be mitigated as:

- The investment team assesses the end-user risk and implements adequate cover (e.g. valuable securities or credit insurance).
- In the unlikely event of a defaulting counterparty, Tikehau Green Assets, as the owner of the assets, should be entitled to take the assets and could sell these on the secondary market. The recoverable value of the assets is assessed for each investment beforehand. As with any real assets fund, Tikehau Green Assets has collateral.

Finally, the Fund may be exposed to various external risks such as currency risk and regulatory risk. Consequently, Tikehau Green Assets aims to be invested 85% or more into EUR-denominated investments and at 75% or more into OECD (Organisation for Economic Co-operation and Development) countries.

What differentiates the Tikehau Green Assets team?

The key differentiating factor is that all team members worked for many years for project developers who are typically the Fund's business partners today. Therefore, the team has acquired a deep understanding of its counterparties allowing the building of transparent partnerships and the design of realistic solutions. These hands-on experiences build long-lasting relationships of trust, which are key to making successful investments in the long run.

In terms of background, the investment team has deep sector knowledge, experience and understanding of the Fund's ecosystem due to an extended track record in asset financing (equity, equity bridge, senior debt, mezzanine debt) and project agreement negotiations.

Last but by no means least, all team members are firmly convinced of the urgency to act on the climate crisis and the relevance of the investment thesis of the Fund in the current context.

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[2] This list of risks is not exhaustive and any decision to invest in Tikehau Green Assets must be based exclusively after a careful and precise review of the legal documentation relating to Tikehau Green Assets and the advice of a professional, and not on the basis of this article which does not constitute an investment recommendation.

What makes Tikehau Green Assets a unique opportunity for investors?[3]

Tikehau Green Assets can offer investors a range of share classes with different return profiles depending on their appetite for risk.

- A shares are senior shares with priority over distribution and collateral before B shares. They will receive all distribution until they get to a net preferred return of 3.5%. The return should be backed by: 1) the contracted revenues of the service contracts, 2) the minimum gross return of 2–4% guaranteed by our business partners, 3) the risk of first loss borne by B-shares, and 4) first-rank right on collateral.

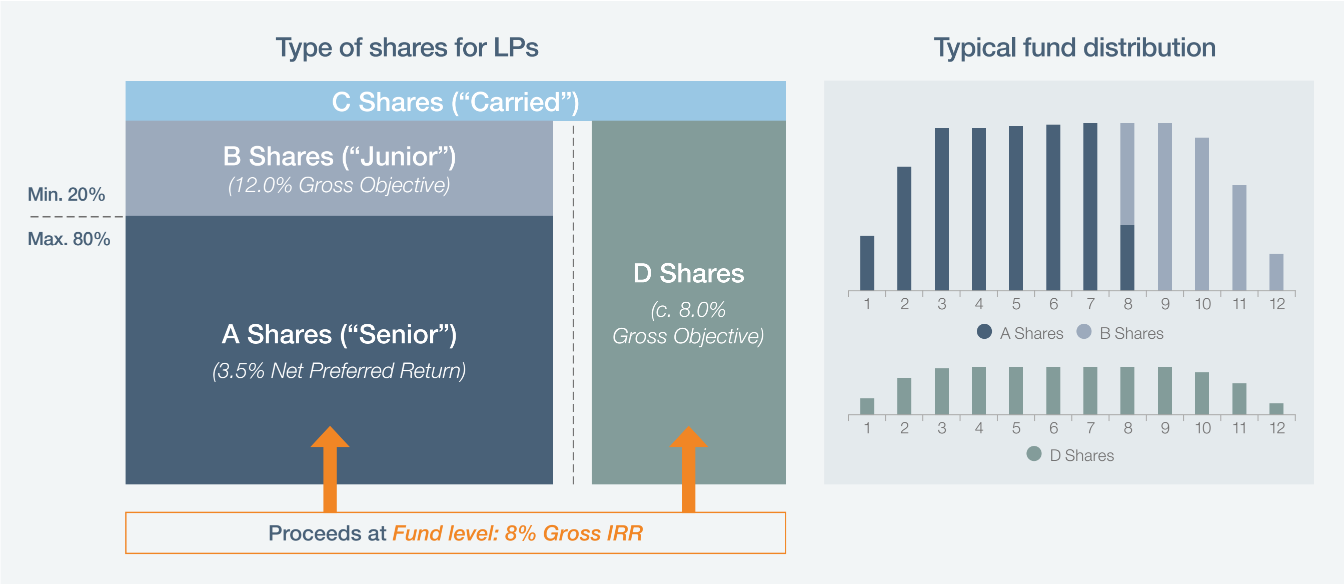
  As a result, we can expect a shorter investment maturity for these shares and a reduced SCR under Solvency II.[4]

- B shares are junior shares which receive distribution once A shares have reached their preferred return of 3.5%. We target a gross return of 12%, thanks to the leverage induced by the A shares. Their return should be backed by: 1) the contracted revenues of the service contracts, 2) the minimum gross return of 2–4% guaranteed by our business partners and 3) second rank right on the collateral. Tikehau Capital will invest 10% of the size of the Fund with a minimum of €30m and up to a maximum of €50m in B shares to ensure a full alignment of interests between Tikehau Capital and our investors.

- D shares target a gross return of circa 8% in line with Fund performance. Its distribution stream is separate from the A/B distribution stream, pro rata their size, in the Fund's size. Their return is backed by 1) the contracted revenues of the service contracts, 2) the minimum gross return of 2–4% guaranteed by our business at portfolio level and 3) first rank right on the collateral.

Several Share Classes Offered to investors

Offering various risk / return profiles, depending on LP investment strategy



Source: Tikehau Investment Management – Target structure to date

[3] There is no guarantee that investment objectives will be achieved. Gross returns will lower on a net basis. Cash distributions cannot be guaranteed.
[4] This list of risks is not exhaustive and any decision to invest in Tikehau Green Assets must be based exclusively after a careful and precise review of the legal documentation relating to Tikehau Green Assets and the advice of a professional, and not on the basis of this article which does not constitute an investment recommendation.

How does the opportunity address Solvency II requirements?[5]

An independent study by Deloitte concluded that shareholders of A shares can treat Tikehau Green Assets as an *amortisable collateralised debt product* under Solvency II. These shares should benefit from reduced Solvency Capital Requirements (SCR) for two main reasons: first, a shorter investment duration due to priority on the cash distribution and secondly the value of a collateral that exceeds the exposure of the A shareholders after a couple of years (inducing an over-collateralisation of the A shares).

This means that Tikehau Green Assets would represent a capital efficient investment for insurers investing in A shares who should benefit from reduced Solvency Capital Requirements under Solvency II (SCR is estimated at 3.6% on average over the investment duration by Deloitte).

Summarise the opportunity in three words

An agile solution that aims to accelerate the deployment of decarbonising assets.

Clara Mouysset

Clara joined Tikehau in 2021 as Investment Director. Prior to joining the firm, Clara spent ten years working for project developers and asset managers within the energy and infrastructure space. She started her career at TotalEnergies working across finance, capital markets and solar project financing. She then worked for Velocita Energies where she managed the financing and divestment of windfarms, and more recently for Eiffel Investment Group where she managed an equity bridge fund dedicated to the energy transition. Clara holds a Masters Degree in Management from ESCP Europe majoring in Finance.

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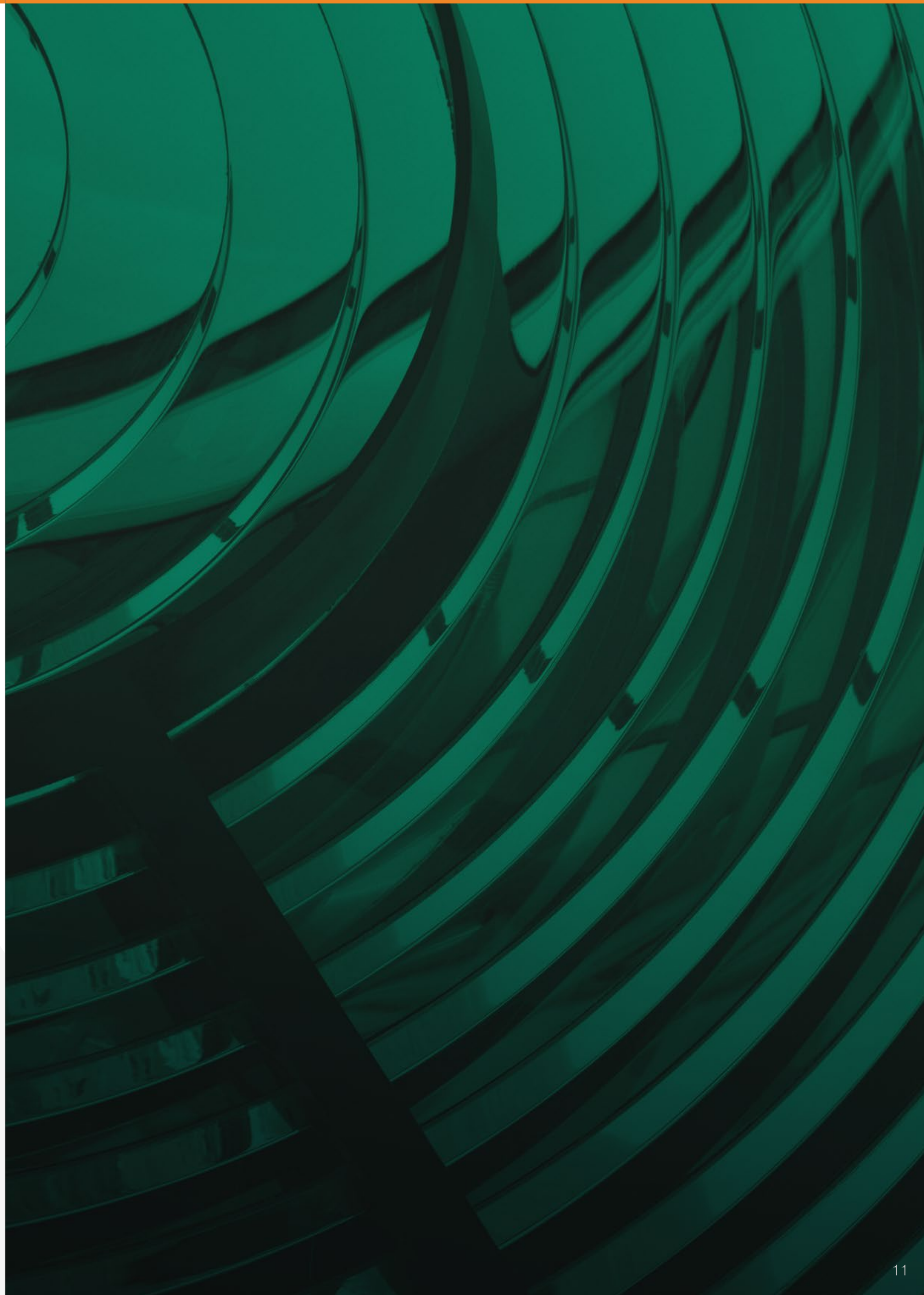

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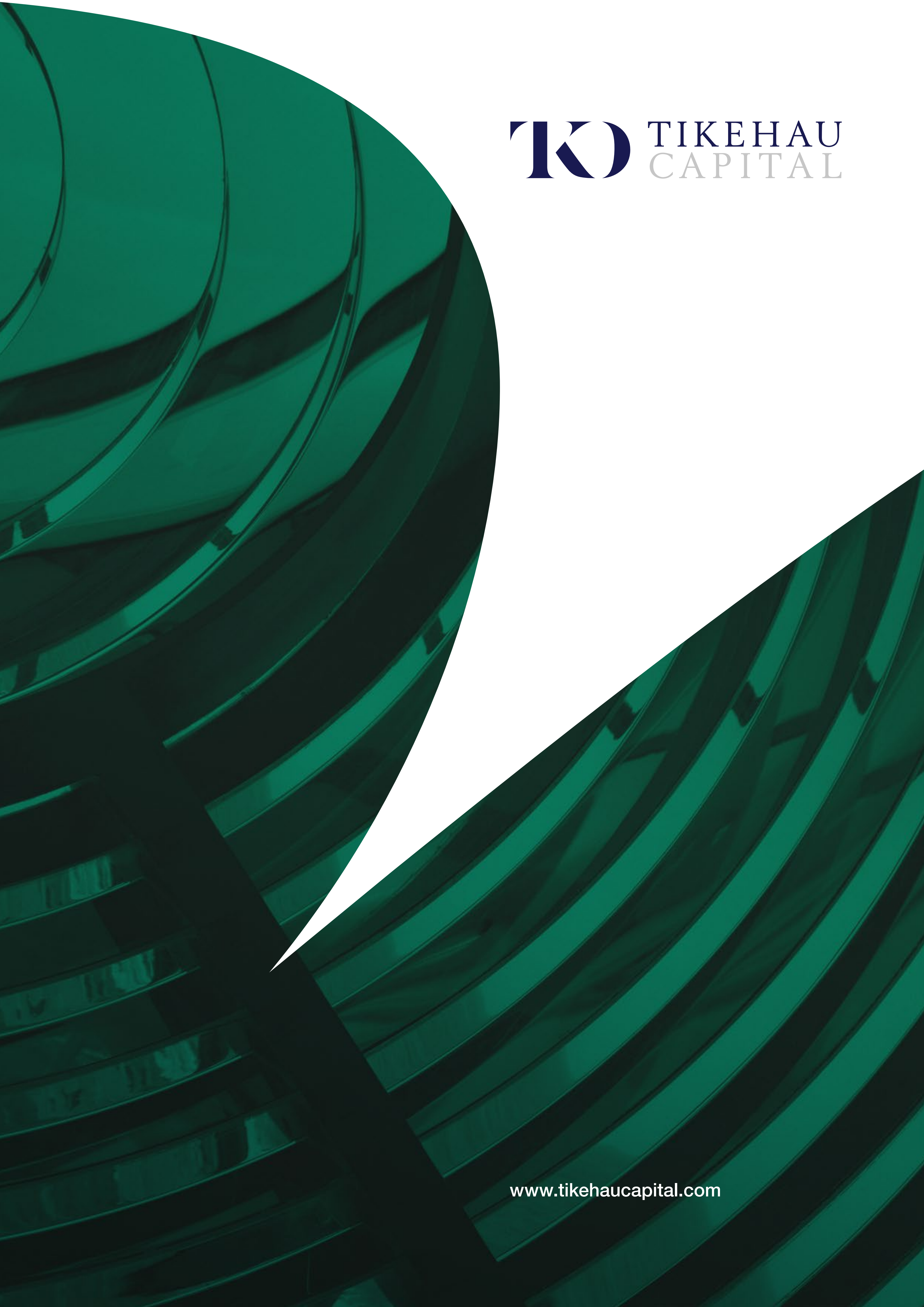

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