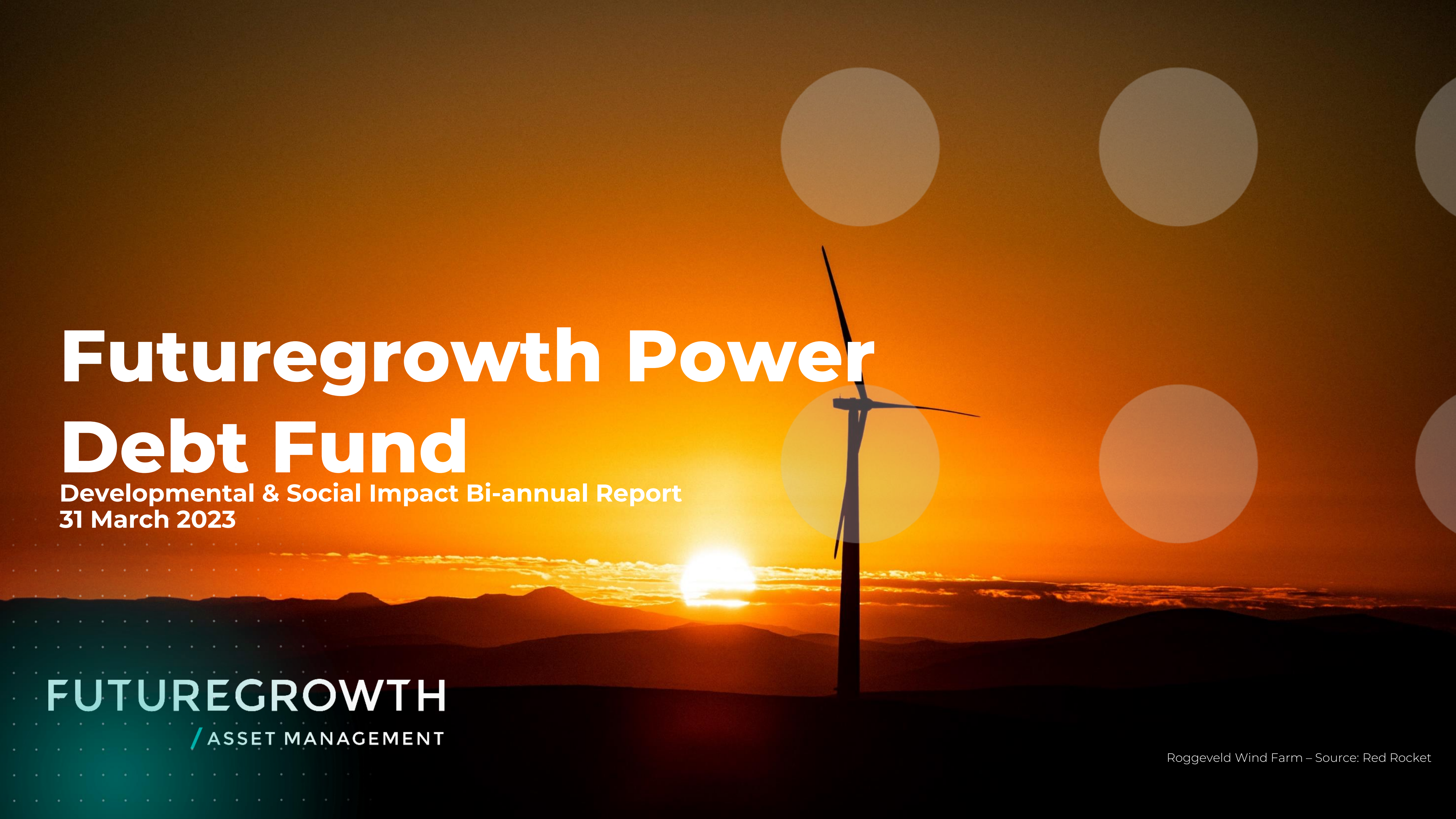


Futuregrowth Power Debt Fund

Developmental & Social Impact Bi-annual Report
31 March 2023

FUTUREGROWTH
/ ASSET MANAGEMENT

Roggeveld Wind Farm – Source: Red Rocket

THE PRIVATE SECTOR NEEDS TO FILL THE VOID

As South Africa grapples with increasing stages of loadshedding due to Eskom's inadequate power generation, the spotlight has fallen on the dire state of the utility's coal fleet.

Kruisvallei Hydro Plant – Source: Red Rocket

The capacity of the grid to accommodate new renewable energy is a concern


PHOTO: Kalkbult Solar PV

Whilst Eskom's generally aged and defective power plants are the predominant reason for our country's energy predicament, there has been some frustration about the apparent slowness by the private sector to fill the void and roll out large scale renewable energy. Privately produced power is widely acknowledged as a solution to help address Eskom's managed wind-down over the ensuing years.

Despite the intent and capacity of independent producers to move forward with constructing new energy plants, many are hamstrung by the inability of Eskom's infrastructure to keep up with the pace of new applications to connect to the national grid. This has resulted in bottlenecks and delays. The South African government responded to the energy crisis in 2019 with a plan to unbundle Eskom through a separation of its generation, transmission and distribution functions into three separate entities. However, progress has been curtailed by various challenges including union resistance, Eskom's financial difficulties and the impact of the COVID-19 pandemic.

To ensure that the roll out of large-scale power generation by the corporate, mining and industrial sectors is sustained, it is critical that Eskom upgrades some 2 900km of extra high voltage lines and dozens of transformers across the country. As is the case in many developed nations, the expectation that lots of new equipment will not be needed very quickly, is one of the legacies of a centrally planned and controlled national transmission network.

Most of the renewable energy plants that are currently connected to the national grid are located in the Northern Cape, Western Cape and Eastern Cape respectively. However, given the number of projects added over the past ten years, plus those private sector power sources that have registered projects with the government, the capacity of the grid to accommodate new connections of renewable energy is almost exhausted in these provinces, particularly in the Northern Cape and Western Cape.

In this report

In this eighth bi-annual report, we look more closely at Red Rocket, a successful renewable energy developer and investor in renewable energy projects in South Africa and Uganda. The projects are all operational and have a strong track record of supplying power to the national power grid. Futuregrowth has enjoyed a long and growing funding partnership with Red Rocket over the past eight years and has granted debt and equity finance investments in Red Rocket projects located in the Northern Cape, Western Cape and Free State provinces.

Paul Semple
Portfolio Manager

Fund facts

Specialising in renewable energy investments

Portfolio manager	Paul Semple
Benchmark	South African STeFI Composite Index (STeFI)
Performance target	STeFI + 2.75% per annum before the deduction of taxes and fees, with income reinvested
Reg 28 classification	Debt instruments, predominantly unlisted instruments of unlisted entities
Investment focus	Debt and fixed income in energy related industries and sectors
Minimum investment	R50 million (at the manager's discretion)
Asset class	Fixed & variable rate debt instruments
Current structure	Pooled, open-ended
Fund start date	January 2013
Total Fund assets	R10.411 billion
Termination period	12 months (size dependent)

The Futuregrowth Power Debt Fund specialises in energy-related industries and sectors, and forms part of Futuregrowth's suite of developmental investments.

The Fund may invest in a wide range of debt instruments including those issued by government, parastatals and corporates, as well as securitised assets. The inclusion of assets is subject to credit committee approval.

The Fund is largely invested in renewable energy deals that form part of the Department of Energy's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). All projects under the REIPPPP enter into an off-take purchase agreement with Eskom for the power they will produce during the next 20 years and these revenue streams will be used by the projects to repay the debt finance.

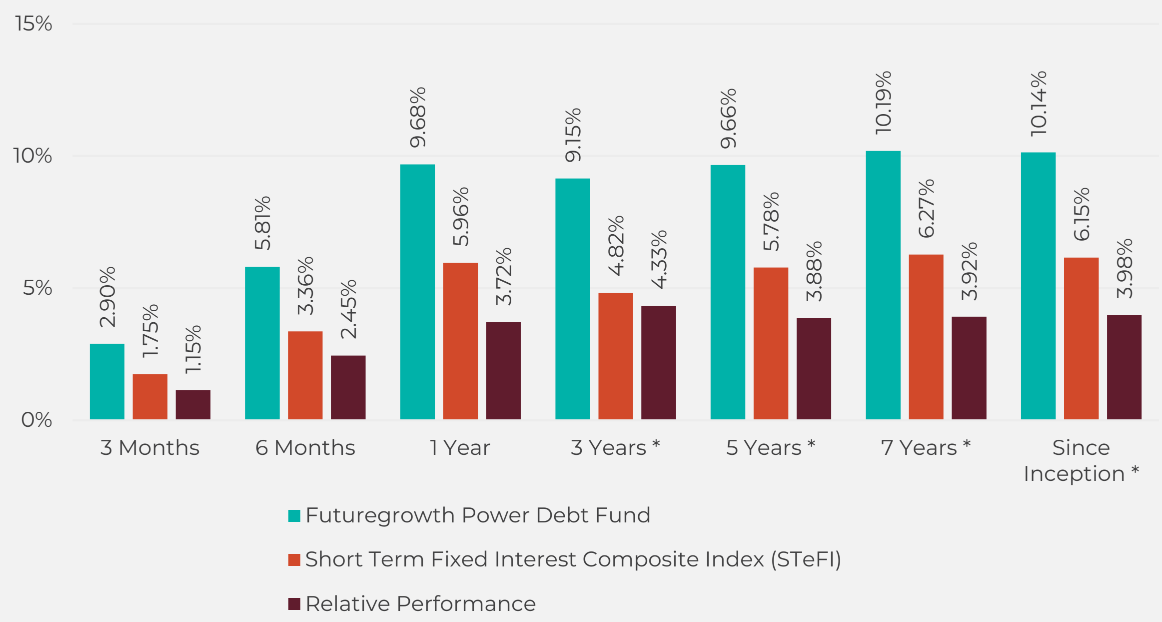
The Fund aims to provide investors with a vehicle that facilitates infrastructural, social, environmental and economic development in southern Africa through investments in energy-related businesses and sectors. These include electricity generation from renewable, alternative and traditional sources, power distribution and reticulation, and supporting industries and sectors.

The Fund delivers on a variety of social impact requirements such as: job creation through employing local labour to build and maintain the plants, SMME development through employing contractors, mentorship and skills transfer from international developers, meeting BEE equity requirements , investment by the projects into local socio-economic infrastructure and services, and compliance with the international Equator Principles.

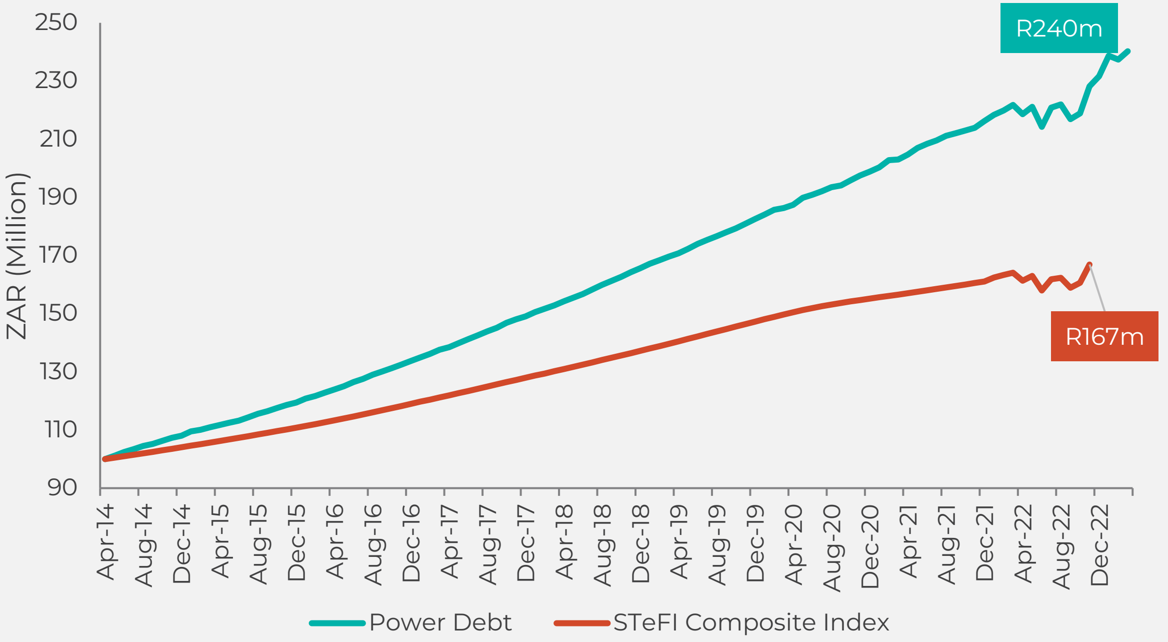
Investment performance

Credit spread accrual continues to be the main contributor

Futuregrowth Power Debt Composite



Cumulative performance



Data as 31 March 2023 // Since inception date (GIPS Composite): May 2014
Fund start date: December 2012 // Source: Futuregrowth // *Annualised

The Power Debt Fund performance was attributed to the interest rate position of the Fund and credit spread accrual earned mainly on the debt deals secured over renewable energy projects awarded under the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP). There was no credit revaluation of the debt instruments in the Fund in the quarter. The nominal and real interest rate position of the Fund contributed positively to performance as interest rates moved lower during the quarter. Notwithstanding the deceleration of consumer price inflation, the inflation carry on real interest rate investments held by the Fund enhanced the quarterly relative returns. Over the past year, there has been a contraction in the average yield enhancement due to the refinance of debt deals at reduced interest margins by eleven REIPPPP projects investments held by the Fund. The performance of these projects is now largely established, with most evidencing at least seven years of operations. The refinanced debt reflects the improved risk profile and the shorter remaining term to maturity, compared to the original debt profiles.

Key qualifying criteria for projects under the REIPPP programme

The REIPPPP was born in 2012 out of a need and desire to procure alternative, sustainable energy, while simultaneously contributing to social and economic development in South Africa. It allows Independent Power Producers (IPPs) to submit competitive bids to design, develop and operate large-scale renewable energy power plants across South Africa. As a pre-requisite for submitting bids to the REIPPPP, IPPs must show how their project will deliver social and economic development for South Africans.

Bid tariff

- +/- 70% of the bid evaluation weighted towards the bid tariff.
- Tariffs awarded in later rounds of the programme have dropped significantly compared to the first round.

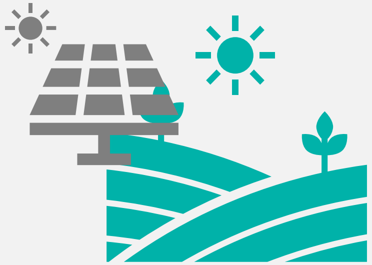
Local procurement

- Minimum of 50% of staff must be RSA citizens, with target of 80%.
- At least 45% of the project's construction materials and services must be procured in SA.

Black & community ownership

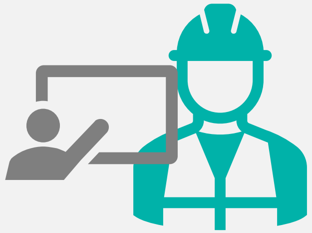
- At least 30% BEE shareholding requirement for the IPP.
- At least 2.5% must be held by a trust representing the local community.

Clean & renewable generation



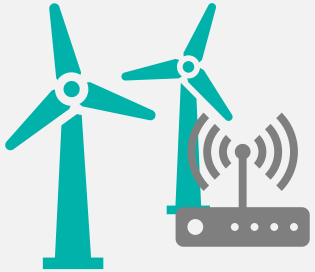
- Environmental Impact Assessment of the proposed site and impact of the project required.
- Renewable energy projects do not use fossil fuels, create toxic emissions or hazardous waste.

Employment & skills transfer



- Many international developers have partnered with local firms to develop projects, resulting in a high level of mentorship and skills transfer from the international developers.

Infrastructural investment & empowerment



- Many of the projects are constructed in remote arid areas where access roads are required for the construction and operation of the project.
- BEE requirements result in local community empowerment.

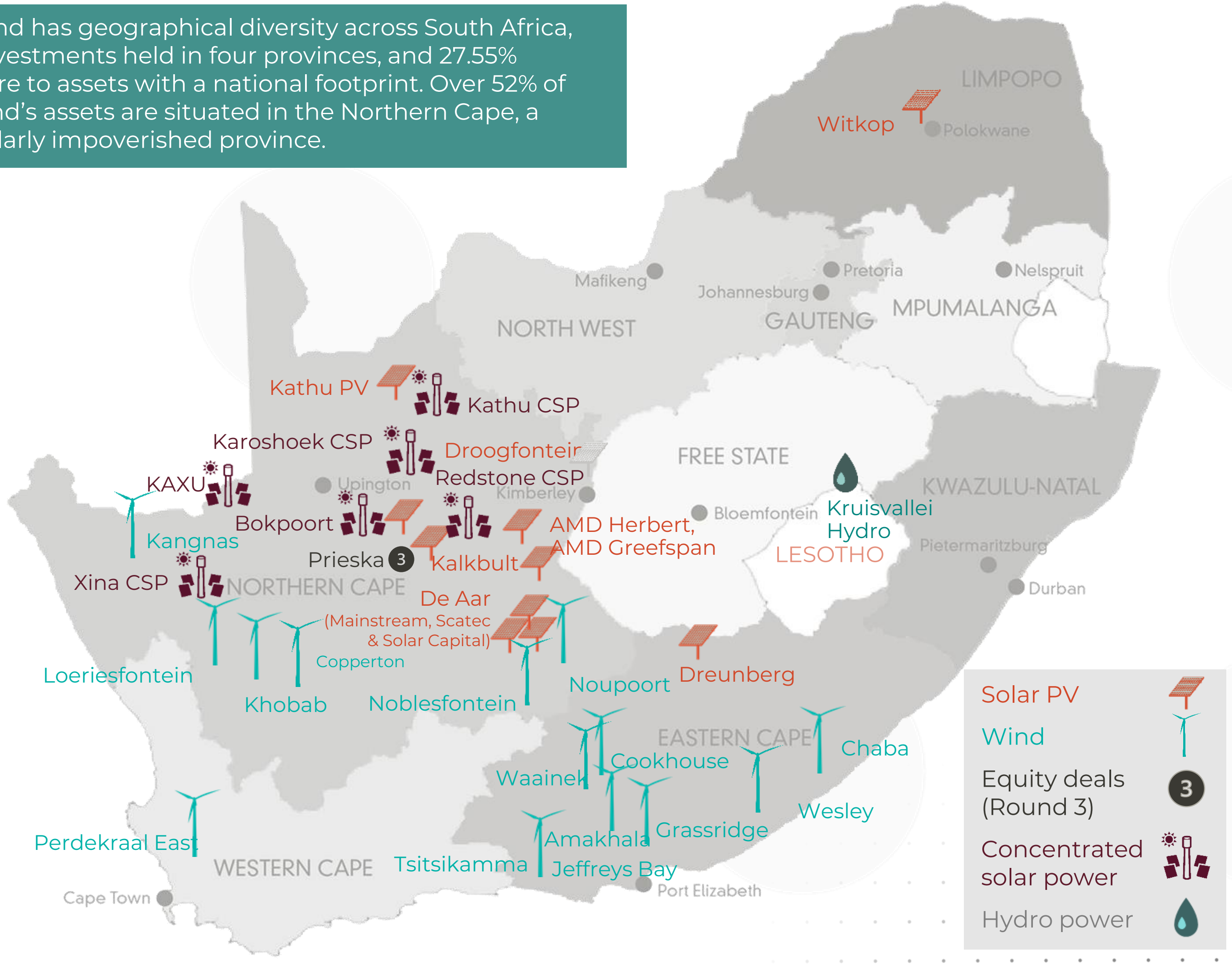
Geographic diversity & technology capacity

The Fund is invested in a diversity of renewable energy deals, with **R8 billion** in committed deals across 31 projects (out of 117 awarded PPAs under REIPPPP Bid Windows 1 - 5).

Wind R4.2bn	**1 429 MW**
Solar PV R1.3bn	**462 MW**
Solar CSP R2.2bn	**550 MW**
Small Hydro R0.5bn	**3.8 MW**

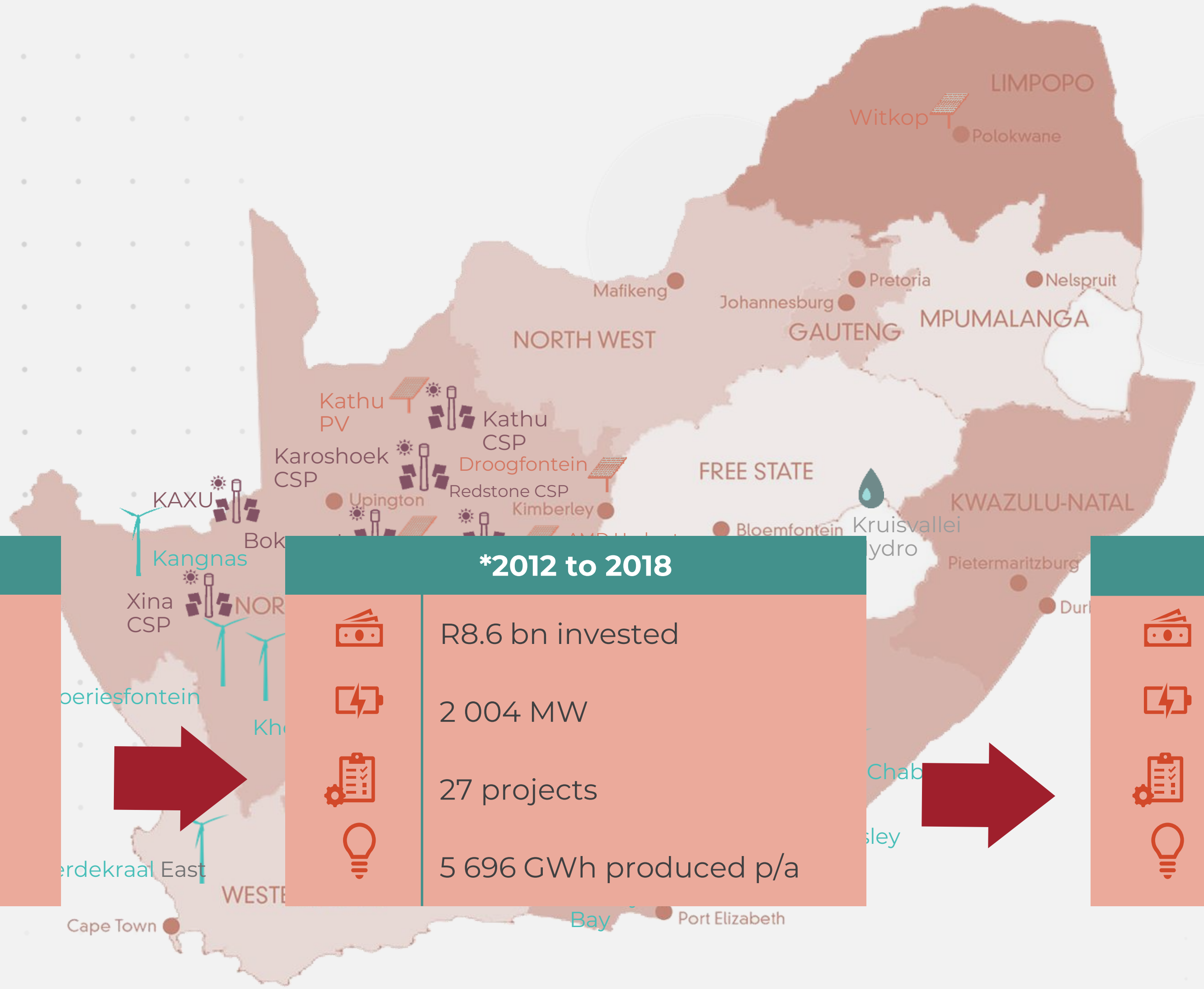
Region	% exposure
Northern Cape	52.09%
Eastern Cape	14.28%
Western Cape	4.72%
Limpopo	0.78%
Lesotho	0.57%
National	27.55%
Total	100%

The Fund has geographical diversity across South Africa, with investments held in four provinces, and 27.55% exposure to assets with a national footprint. Over 52% of the Fund's assets are situated in the Northern Cape, a particularly impoverished province.



FUTUREGROWTH / ASSET MANAGEMENT

Transitioning to a green economy through renewable energy



*2012 to 2015	
	R6.5 bn invested
	1 546 MW
	22 projects
	4 157 GWh produced p/a

*2012 to 2018	
	R8.6 bn invested
	2 004 MW
	27 projects
	5 696 GWh produced p/a

*2012 to 2022	
	R9.7 bn invested
	2 445 MW
	31 projects
	7 393 GWh produced p/a

*** Cumulative rands invested since 2012**

Our developmental investment philosophy

Developmental product suite

Futuregrowth has a 25-year-plus track record of investing in developmental assets. Our funds provide finance to institutions that may not typically receive support from the traditional banking or lending process. In addition to providing finance (credit), we also invest in equity and retail property with a developmental nature.

Our developmental funds are part of our broader responsible investment strategy and reflect the intention of our clients to do good by investing consciously to make a positive impact on society and the broader environment, and thereby to safeguard our collective future.

Our suite of developmental funds consists of:

- **Fixed Income** (Infrastructure & Development Bond Fund, Power Debt Fund, Inflation-Linked Debt Fund);
- **Unlisted equity** (Development Equity Fund, Agri Funds);
- **Unlisted retail property** (Community Property Fund); and
- **Fund of funds** incorporating our suite of development funds as building blocks (Developmental Balanced Fund).

Futuregrowth is dedicated to the development and empowerment of South Africa and its people. We are constantly looking for opportunities that will yield optimal financial returns for investors while making a meaningful difference. As such, we have become a reliable channel for investor savings and promoting national development.

We define developmental investing as financing that a) provides investors with commercial returns and b) produces a social and developmental impact. In South Africa the primary focus is on the provision of basic services and improvement of infrastructure development.

In order to achieve sustainable, long-term, benchmark-beating performance, we apply a responsible investment filter when screening and analysing new deals for our developmental funds. This is supported by a robust credit process that considers both financial and non-financial risks.

Global contribution

We are also aligned with the UN's Sustainable Development Goals (SDGs), thus contributing to this global "blueprint to achieve a better and more sustainable future for all". The SDGs are covered in detail later in this report, where we link the activities of each deal featured to these global targets.

(See: www.un.org/sustainabledevelopment/sustainable-development-goals/)

How we measure and manage impact

Futuregrowth actively measures and manages for impact. Our impact measurement and management approach is aligned with both global and local development frameworks.

National Development Plan (NDP)

This is a long-term development framework for the elimination of poverty and reducing inequality in South Africa by 2030.

UN Sustainable Development Goals (SDGs)

These goals represent the globally agreed 2030 agenda and are a call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

Principles for Responsible Investing (PRI)

Futuregrowth is a signatory to the Principles for Responsible Investment (PRI), which is an international network of signatories contributing to developing a more sustainable global financial system by incorporating six defined Principles for Responsible Investment into investment practice.

The Futuregrowth Power Debt Fund

Making a meaningful impact

Khobab Wind Farm: creating future engineers

Droogfontein solar PV plants : Supporting daycare centres

KaXu CSP: supporting local education

Loeriesfontein wind farm: creating jobs for the local community.

De Aar solar PV plants: supporting local small businesses.

Cookhouse: supporting community initiatives.

Case Study: Red Rocket Energy

Futuregrowth's Partnership in Renewable Energy Projects

Futuregrowth has a longstanding partnership with Red Rocket Energy (Pty) Ltd (Red Rocket), a South African developer of renewable energy projects and investment holding company.

The partnership started in 2012-2014 with a senior debt investment of R376 million by Futuregrowth in the REISA Kathu Solar PV plant developed and partly owned by Red Rocket. Futuregrowth has subsequently advanced equity finance and senior debt investments to other Red Rocket developed and owned projects, including the Kruisvallei Hydro plant and the Roggeveld Wind plant. In mid-2022, Futuregrowth approved a R589 million equity finance facility to Red Rocket, consolidating the equity facilities in underlying Red Rocket project SPVs. Additionally, Futuregrowth is considering the opportunity to participate as a senior lender to the Roggeveld Wind plant.

- **Kathu Solar PV plant**, a preferred bidder under Round 1 of the South African Government's Renewable Energy Independent Power Producers Procurement Programme (REIPPP), is located near the Northern Cape town of Kathu. There are 343 200 solar modules generating 179 GWh of clean renewable energy annually, sufficient to power approximately 73 000 homes and thereby avoid some 125 000 tons of carbon emissions per year.
- **Kruisvallei Hydro plant**, a preferred bidder under Round 4 of REIPPP, is located near the town of Clarens in the Free State and along the Ash River, which forms part of the Lesotho Highlands Water Project comprising a regulated and contractual flow of water between Lesotho and South Africa. The plant is majority-owned by Red Rocket and is one of only four small hydro projects that have been awarded a preferred bid under the REIPPPP. It generates approximately 24 GWh of electricity annually, sufficient to power approximately 1 900 homes.
- **Roggeveld Wind Farm**, a preferred bidder under Round 4 of REIPPPP, is partly owned by Red Rocket and is located near Laingsburg in the Western Cape Province. It generates around 613 GWh of renewable energy annually, satisfying the energy needs of approximately 49 200 households, while avoiding some 502 900 tons of carbon emissions per year.

The Red Rocket Energy case study demonstrates Futuregrowth's commitment to investing in a low carbon economy that supports SDG 7: "Ensuring access to affordable, reliable, sustainable and modern energy for all to affordable, reliable and modern energy services, doubling the rate of improvement in energy efficiency, and promoting investment in energy infrastructure and clean energy technology". Investing in renewable energy projects is essential for promoting energy infrastructure and clean energy technology - and in the process, create a positive impact on society and the environment.


PHOTO: Turbines at Roggeveld Wind Farm

Futuregrowth Power Debt Fund / **Key features**

R10.411bn
Fund size

Commercial
risk-adjusted
returns

Investments in
electricity generation from renewable and alternative sources

Active in
4 provinces

Job creation

- Employing local labour to build and maintain the plants;
- Short- and long-term job creation; and
- SMME development through employing contractors.

Over 82% of the Fund is invested in rural areas

Skills transfer

- High level of mentorship and skills transfer from international developers; and
- International developers partnering with local firms.

Supports **five Sustainable Development Goals**

Futuregrowth Power Debt Fund as at 31 March 2023

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