

Sustainability Outlook

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Sustainability Reporting

Extended Producer Responsibility

Financing Sustainable Infrastructure

Green Leap needed to shape global leadership



Moving from operating defensively,
to capturing advantage

SHAPING INVESTMENT IN SMALL-SCALE DECENTRALIZED RENEWABLE ENERGY PROJECTS



Sustainability Outlook spoke to Andrew Affleck, Managing Partner of Armstrong Asset Management

“Small-scale projects have certain inherent advantages that appeal to investors, such as relatively lower capital intensity, reduced footprint and shorter construction times”

What has been Armstrong Asset Management's role in the Cleantech space? Could you elaborate on your new fund?

The Armstrong South East Asia Clean Energy Fund is a US\$150 million private equity fund with a dedicated focus on small-scale renewable energy, typically less than 10MW each, and resource efficiency projects in Southeast Asia's emerging markets, principally Indonesia, Malaysia and Thailand.

Members of the Armstrong team have aggregately been involved over the last ten years in investing and developing more than 50 clean-technology and clean energy infrastructure companies or projects. The Armstrong South East Asia Clean Energy Fund is the first fund by Armstrong Asset Management. It's also the first operational clean energy fund dedicated to Southeast Asia, and it's completely focused on infrastructure development where any technology risk is minimal.

The Armstrong fund seeks to provide a gross investor return of 20% along with significant development impacts. The strategy is driven by the region's high energy demand and strong market fundamentals and further differentiated by its mandate to support early stage projects and take development and construction risks.

With the recent first closing of US\$65m, the fund is aiming to complete 1-2 deals this year. Discussions are underway with developers of solar projects, which is a priority sub-sector along with wind and hydro. Up to US\$12 million in equity from the fund can be invested in each deal.

Small scale renewable energy is considered to be a challenging sector with unpredictable returns; where do you see the value being created by the new Armstrong fund?

In the last few years, our target markets have implemented policy initiatives that are supportive of the growth of small-scale renewable energy project development. By example, these include fiscal measures such as feed-in tariffs (FIT) that lead to predictable cash-flows, and the standardization of PPAs that facilitate reduced legal costs. Currently, we see the key opportunities for Southeast Asia being in small-scale solar and mini hydro where individual project returns are in the high teens if executed properly.

The Armstrong fund is in a position to invest equity in the construction of the projects or installation costs, effectively taking on pre-revenue risk which banks are either unwilling or unable to do in early stage within the emerging renewable space, much less for small-scale developments.

One reason often cited for the lower investor enthusiasm for Southeast Asia, particularly when compared with markets like China and India, is the non-uniform nature of the energy market, lack of available operational assets, and generally smaller scale of projects. However, Armstrong's differentiated model addresses these issues precisely by building out and aggregating small scale projects, working with highly capable local teams and strong operational partners, and to create an attractive portfolio of operational assets that meet international standards.

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This is a strategy which the Armstrong team members have employed in Europe before and we are bringing this model to Southeast Asia. We envisage the region will become a highly attractive market for small-scale renewable energy projects.

Strategy aside, small-scale projects have certain inherent advantages that appeal to investors, such as relatively lower capital intensity, reduced footprint and shorter construction times.

What are the future plans for growing the Armstrong Clean Energy Fund?

Following the initial close of US\$65 million, we are aiming for a second close in fourth-quarter this year, then a final close to achieve our target fund size of US\$150 million by July 2013.

European development finance institutions GEEREF and DEG are among the LPs in first close. They recognized the role that the Armstrong fund has in filling critical infrastructure-spending gaps. For a high-growth potential region underpinned by good fundamentals, this would help catalyze investments in private sector clean energy projects and improve energy security and economic prospects.

What are your views on the potential for clean energy investments in India?

We believe the potential for clean energy in India is substantial. A number of dedicated funds have already been launched that focus on this sector in India, or at least include India. Consequently, we expect competition for deals to be keen.

Given that the Armstrong strategy is to focus on small-scale distributed energy solutions, Southeast Asia is better suited for our first fund. The team has extensive operating experience in Southeast Asia and our strategy is to enter in partnerships with local professional and experienced developers. In fact, we find that our exclusive focus on the region has been a strong draw for LPs. To our knowledge, the Armstrong fund remains the only operational renewable energy fund with available capital that's dedicated to South East Asia.

From our experience, we find that most governments in Southeast Asia are keen to encourage the development of renewable energy, especially where this favorably impacts energy security and reduces expensive fuel imports. Certain challenges they face include implementing effective, transparent frameworks

that are attractive to private investors, providing appropriate funding for FIT programs, and unifying roles and responsibilities across multiple government bodies and departments.

It is imperative that the policy is transparent, cost sustainable and implemented with good governance. Increasingly, non-financial incentives such as standard form off take agreements, standard procedures and processes which help reduce upfront risk and cost are emerging as important factors in attracting investments.

What are your views on Responsible Investing? How is it integrated in Armstrong's strategy?

As a responsible investor, we believe integrating sustainable, environmentally friendly practices into our day-to-day activities delivers tangible benefits, creates additional opportunities, benefits society and reduces risk. We believe that such an ethical approach leads to follow-on opportunities and improved financial returns, especially when the true costs of increasingly scarce natural resources are considered.

We have a dedicated Social and Environmental management system based on IFC Performance Standards which is integrated within our investment management process, from screening through investment monitoring and ultimately exit planning. A dedicated ESG officer in-house leads the team in this regard. The firm is signatory to the UN Principles for Responsible Investment and Melissa Brown from the UN PRI advisory council also advises the Armstrong team as our external expert panel.

“Potential for clean energy in India is substantial”

Andrew Affleck is Managing Partner of Armstrong Asset Management. As managing partner, Andrew Affleck leads the investment team. In July this year, the firm launched the US\$150m Armstrong South East Asia Clean Energy Fund, the only operational clean energy fund exclusively focused on the Southeast Asia region. He has also been the CEO of Low Carbon Investors Ltd, a dedicated global clean energy fund management group with over US\$300m under management.