INVESTMENT PERSPECTIVES

Capital Dynamics
TRULY INVESTED.

JULY 2020

PORTFOLIO PROTECTION AND TAKING ADVANTAGE OF DISRUPTION IN THE POWER SECTOR

STABILITY AND DIVERSIFICATION

During periods of heightened volatility and greater uncertainty over macroeconomic conditions, long-term investors place a premium on stable, uncorrelated returns that can help protect their overall portfolios. Well-structured equity investments in renewable power projects that have long-term, fixed price power purchase agreements ("PPAs") with creditworthy offtakers can offer investors protection from macroeconomic shocks and commodity price fluctuations.

Renewable projects with long-term contracts that provide an essential service can deliver attractive cash yields and stable return streams to investors, leading to an investment profile with a low correlation to public markets, commodity prices, and even to GDP-sensitive infrastructure assets such as airports and toll roads. This type of investment profile can provide diversification and help dampen overall portfolio volatility. The power market in the U.S. is very complex, and gaining access to carefully structured renewable energy power projects requires partnering with an experienced and disciplined manager with extensive experience in the very fragmented power sector in the U.S. **Figure 1** summarizes benefits of renewable energy investments to investors.

FIGURE 1: IMPORTANT CHARACTERISTICS OF CONTRACTED RENEWABLE ENERGY PROJECTS

Feature	Benefit to investors
Long-term, fixed price power purchase agreements ("PPAs") with creditworthy offtakers	Stable returns through the life of the investment
Contracted returns	Downside protection
Attractive cash yields	Steady income generation, even in low interest rate environments, and muted j-curve
Low correlation	Project cash flows well insulated from macroeconomic shocks and volatile commodity prices
ESG	Greenhouse gas emission reduction, job creation, and other ESG benefits

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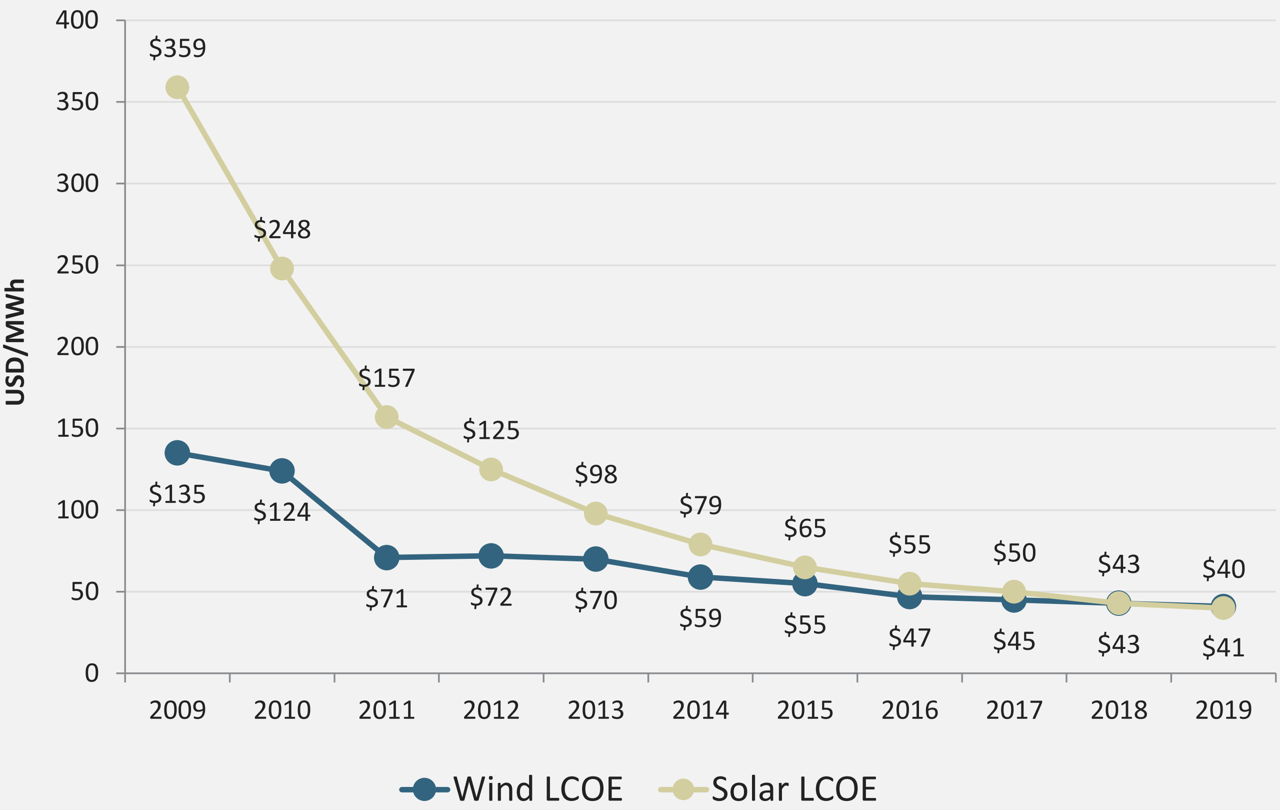
DISRUPTION AND SECULAR SHIFTS IN THE POWER MARKET

Technological advancements have continued to lower the price of renewable power, particularly solar and wind, to the point where it is now cost-competitive with coal and natural gas in many markets, even without government subsidies.

Existing coal and nuclear power plants continue to get retired for both economic and environmental reasons, and today, the U.S. consumes more energy from renewable sources than it does for coal. This is largely due to declining costs (**Figure 2**). By 2025, nearly every existing coal plant in the United States will cost more to operate than building replacement wind and solar within 35 miles of each plant. Solar panels in 1976 that cost USD 100 per watt now cost USD 0.23 per watt, a decrease of more than 99%[1].

> **"By 2025, nearly every existing coal plant in the United States will cost more to operate than building replacement wind and solar within 35 miles of each plant."**

FIGURE 2: UNSUBSIDIZED WIND AND SOLAR LEVELIZED COST OF ENERGY ("LCOE")[2]

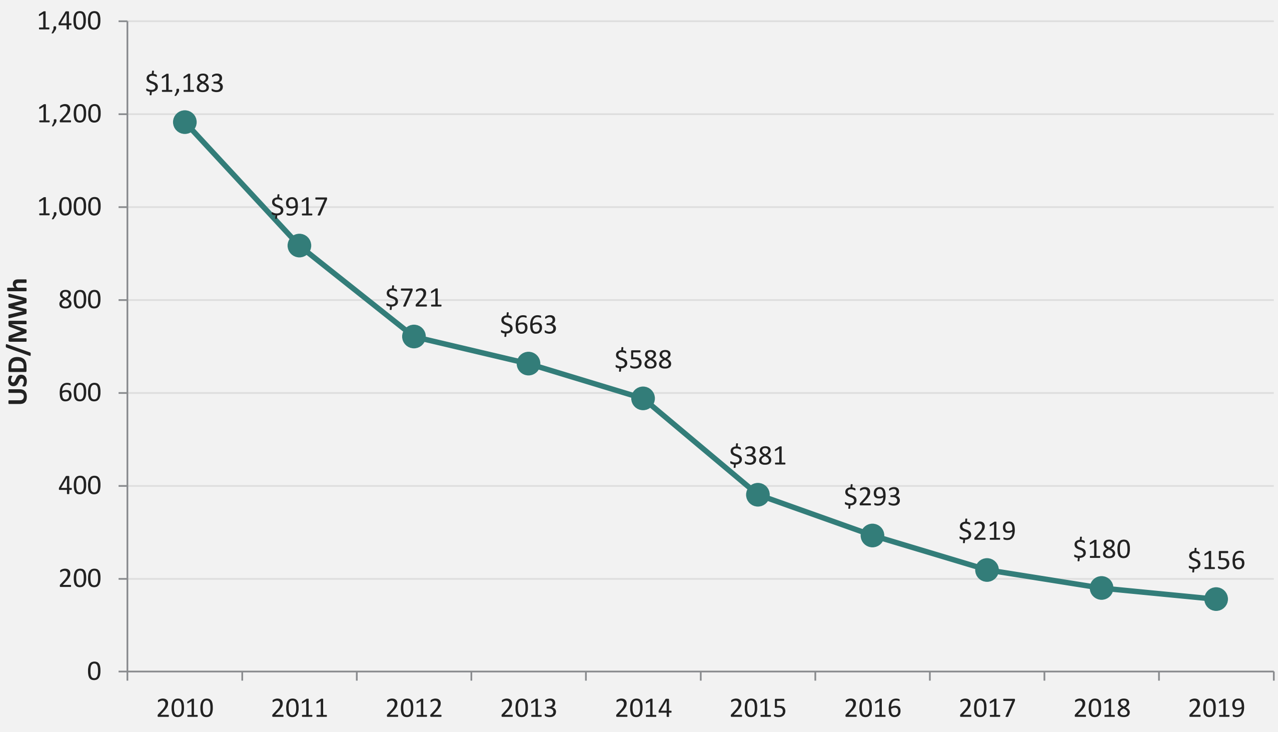


[1] Bloomberg New Energy Finance, December 2019.
[2] Lazard Levelized Cost of Energy, December 2019.

Battery storage technology also continues to improve at an exponential pace, and advancements in efficiency have been turbocharged by the growth in the electric vehicle industry, allowing renewable power projects to benefit from declining costs, as illustrated in **Figure 3**, and improved productivity in battery energy storage systems.

> **"TODAY, BATTERIES ARE NEARLY EIGHT TIMES LESS EXPENSIVE THAN TEN YEARS AGO."**

FIGURE 3: LITHIUM-ION BATTERY PRICE[3]



[3] Bloomberg Green. Summer 2020 issue. June 2020. Bloomberg LP.

In any industry, disruption creates opportunity, and we see potential upside for investors to take advantage of secular changes occurring in the power market, as summarized below, while also hedging themselves against risks associated with traditional energy exposures.

Opportunity set	• Renewable energy is the fastest growing sub-sector of infrastructure globally, and in 2019, renewable energy transactions constituted nearly half of all infrastructure transactions in North America, in terms of both volume and deal value[4].
Secular trends	• In 2021, renewable power will account for about 25% of all energy spending next year, up from 15% in 2014, and will surpass upstream oil and gas for the first time in history to become the largest area of spending in the energy industry. • The higher cost of capital for fossil fuel developments is leading to underinvestment, which could lead to higher oil and gas prices that in turn spur a faster energy transition[5].
Growth	• Between now and 2050, USD 13.3 trillion in new capital is needed to be invested to meet growing energy demand. Of that USD 13.3 trillion, 77%, or USD 10.2 trillion, is expected to be invested in renewable energy[6]. • Today, renewable energy accounts for roughly 10% of the global power mix, and is forecasted to account for 30% by 2040[7].

[4] Preqin.
[5] Goldman Sachs Investment Research, June 16 2020 report.
[6] Bloomberg New Energy Finance.
[7] Market Update: February 14, 2020. Goldman Sachs.

GREEN SHOOTS: JOB CREATION AND DECARBONIZATION

Prior to Covid-19, the U.S. Bureau of Labor Statistics forecasted that America's two fastest growing jobs through 2026 will be solar installer and wind technician[8]. While Covid-19 has taken a terrible toll on human health and has damaged the global economy, the renewable power sector could provide a silver lining to both the economic recovery and accelerate how we act to address climate change.

Covid-19 has not slowed the energy transition as global economics continue to become less dependent on traditional fossil fuels, and a potential change in administration with this year's election in the U.S. and a stimulus package that includes infrastructure spending could help propel the green economy even more and catalyze the opportunity set for renewable power investment even more. Many corporate leaders and investors are calling on governments to deliver a Covid-19 economic recovery plan that supports infrastructure, and specifically, renewable power.

Initial discussions among government and business leaders on how to emerge from the Covid-19 crisis have emphasized the benefits of investing in sectors that support the environment and create jobs to help foster the economic recovery while also decarbonizing the economy. Renewable energy is uniquely positioned to address critical ESG issues, such as job creation and climate change, and investors have the opportunity to help drive these positive changes while propelling the economy forward.

> **"Infrastructure investment is critical to the economic recovery resulting from the Great Lockdown. Importantly, renewable investment opportunities are not only socially and environmentally responsible but, due to the market dislocation, have the potential to deliver differentiated risk-adjusted returns."**

[8] U.S. Bureau of Labor Statistics. https://www.bls.gov/ooh/fastest-growing.htm.

CAPITAL DYNAMICS – CLEAN ENERGY INFRASTRUCTURE (CEI)

The CEI strategy was established to capture attractive investment opportunities in the largest and fastest growing sector of global infrastructure: proven renewable energy technologies.

Capital Dynamics' Clean Energy Infrastructure (CEI) is one of the largest renewable energy investment managers in the world with USD 6.5 billion AUM[9], and has one of the longest track records in the industry.

Capital Dynamics is deeply committed to Responsible Investing, and best practices in ESG are fully ingrained in our operations as a firm as well as across each of our strategies. Since the CEI platform's inception in 2010, over 15 million metric tons of greenhouse gas emissions have been avoided as a result of the firm's renewable investments[10]. This is equivalent to the power needed to supply more than 2 million homes or passenger vehicles for one year. In 2019, the CEI strategy received top rankings from GRESB (the ESG benchmark for real assets) for commitment to sustainability, and was awarded Global PE Energy Firm of the Year by Private Equity International.

Private Equity International
AWARDS 2019
Energy private equity firm of the year

GRESB
INFRASTRUCTURE
Sector Leader 2019

PRI Principles for Responsible Investment A+
Awarded in 2019 in "Strategy & Governance"

S&P GLOBAL PLATTS
GLOBAL ENERGY AWARDS
2019 WINNER

[9] Capital Dynamics as of March 31, 2020. Includes assets in renewable energy projects managed by Capital Dynamics, including USD 3.7bn assets under discretionary management and USD 2.4bn tax equity assets. Tax equity is a financing solution for renewable energy projects. Capital Dynamics makes no representation as to future size or growth of the CEI program.
[10] Environmental benefits are based on U.S. Environmental Protection Agency Greenhouse Gas Equivalencies Calculator.

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ABOUT CAPITAL DYNAMICS

Capital Dynamics is an independent global asset management firm focusing on private assets including private equity, private credit, and clean energy infrastructure. Capital Dynamics offers a diversified range of tailored offerings and customized solutions for a broad, global client base, including corporations, family offices, foundations and endowments, high net worth individuals, pension funds and others. The firm oversees more than USD 16 billion in assets under management and advisement[11]. Capital Dynamics is distinguished by its deep and sustained partnerships with clients, a culture that attracts entrepreneurial thought leaders and a commitment to providing innovative ideas and solutions for its clients.

Capital Dynamics' roots go back to 1988, the year our predecessor (Westport Private Equity) was founded in the UK. Our headquarters were established in Zug, Switzerland in 1999. The firm employs approximately 160 professionals globally and maintains offices in New York, London, Tokyo, Hong Kong, San Francisco, Munich, Milan, Birmingham, Dubai and Seoul.

In 2019, Capital Dynamics was awarded the highest corporate rating (A+) from the UN-supported Principles for Responsible Investment, while the firm's clean energy infrastructure platform received top rankings from GRESB (the ESG benchmark for real assets) for commitment to sustainability. For more information, please visit: www.capdyn.com

[11] As of March 31, 2020.

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