

Interview with Craig Reeves
Founder & CEO Prestige Funds

OpenTalks

Private Debt For a
Greener World



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OVERVIEW

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WHAT IS OPENTALKS?

OpenTalks is a periodical publication by OpenFunds, in which we interview investment managers of funds that we distribute or believe to be somehow unique. The idea is to share with our existing and future clients the challenges and opportunities these managers see in their field and beyond.

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TOPIC

Private Debt and Climate Change: experience from the UK agri-food sector.

Are financing the agri-food chain and climate change linked to each other? How can financing the players in the agri-food have an overall positive climate effect and what role does a finance arranger play in this process? This interview gives an insight on how financing a strategically important sector like agriculture has changed in the last decade .



INTRODUCTION



Farmers are on the front line of climate change - vulnerable to changes in temperature and rainfall, as well as increasingly frequent extreme weather events. At the same time they face criticism, in particular over greenhouse gas (GHG) emissions from the meat and dairy industries. Agriculture is currently responsible for about 9% of the UK's greenhouse gas emissions, mostly from methane. The National Farmers' Union, which represents 55,000 UK farmers, has set a target of net-zero emissions in British farming by 2040. Beyond minimising the agri-food chain greenhouse gas emissions as far as possible, the ambition is to create a balance using 'negative emissions' from a variety of sources across the whole of agricultural production and land use by 2040. To do so the agricultural industry in the UK is asking to the government and other stakeholders to act or helping the farming community to deliver this ambitious project with the aim of building a sustainable, competitive and profitable UK farm sector.

A combination of policies and practices focused on three key areas are necessary to achieve these targets:

1. Improving farming's productive efficiency
2. Targeted measures to increase and manage carbon storage on UK farms
3. Boosting production of land-based renewable energy, including bioenergy for processes coupled to carbon capture, storage and utilisation, to generate credits for GHG emissions avoided and GHG removal.

The last point is in sync with what the Food and Agriculture Organization of the United Nations ('FAO') is promoting, namely the importance of boosting the production of land-based renewable energy. In their paper "FAO's work on climate change Energy" published in 2015 FAO wrote "Energy, agriculture and climate change, are intricately linked. Energy is required at each step of the food value chain to produce food and to meet the growing demand for food.

Agricultural food systems currently rely heavily on fossil fuels to operate. The increasing use of fossil energy in agriculture leads to increasing greenhouse gas emissions from the agricultural sector, which in turn impacts on agricultural production itself. At the same time, access to modern energy is inadequate in many parts of agri-food chains in developing countries. Change is possible through improving access to energy, more efficient use of energy and increased use of renewable energy in agriculture, including sustainable bioenergy from agri-food systems. This can have the dual benefit of providing sustainable energy input to agriculture thereby increasing productivity while limiting contributions to climate change."

In this context of higher efficiency and utilisation of land-based renewable energy companies like Prestige play a vital role.

The group's dedicated, specialist agri finance business which, started 19 years ago as a broker operating principally in rural asset finance leasing has evolved dramatically over time, in particular in the aftermath of the great financial crisis which saw most banks exiting the space of lending to the farming community.



What initially were transactions as simple as financing the acquisition of a tractor, today is the financing of large scale biomass plants. Privilege Asset Finance and Privilege Project Finance, both part of the Prestige group of companies, count as the leading private lenders in the agri-food chain in the UK. Over the past decade Prestige has spent significant time and resources in developing expertise in a fast-growing sector, namely on-farm renewable energy. Related finance projects range from solar, wind, biomass and biogas installations to “waste to energy” related finance projects. These areas of lending often also involve government backing in the form of tax incentives and / or long term guaranteed agreements to purchase energy (often in the form “feed in” tariffs), making these particularly interesting for lenders and ultimately for the financial investors backing those lenders. There is a clear opportunity for companies like Prestige and its dedicated, specialist finance businesses combine the best of two worlds. End investors can take advantage of this deep understanding of this space in the form of two open ended alternative investment funds which between them have raised over USD 1 billion dollars for this strategy and provided hundreds of millions of dollars in lending representing thousands of individual transactions. This track record is almost unprecedented in this space.

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Q: ESG (Environmental-Social-Governance) factors are gaining more and more popularity with investors. What's behind sustainable investing and this recent paradigm change ?

C: The world's climate is entering a more perilous phase: every week we hear of more climate-related disasters around the world. The fires in the Amazon rain forest last summer are the starkest reminder that more needs to be done. The response from the mutual funds industry has been to enhance its ESG criteria, for example by further scrutinising the environmentally unfriendly activities of companies in fund managers' portfolios. But questions are already being raised about just how effective this approach is, as it involves screening companies already in the portfolio rather than a more proactive approach. On January 14, 2020 Blackrock - the largest asset manager globally - through the yearly letter of his CEO Larry Fink in which BlackRock announces its "green plans". Using the words of Matt Levine in his Bloomberg article of the same day "BlackRock is pushing for sustainability because it rationally concluded that its clients want it to push for sustainability. This isn't BlackRock's idea; BlackRock is the messenger for the preferences of the people whose money it manages." A few days later another leading asset manager, the 30bn USD activist hedge fund TCI, through its founder Sir Christopher Hohn, has entered the discussion by asking the companies that they invest in to disclose their carbon dioxide emission. Failure to do so would lead TCI to punish the directors of such companies. Mr. Hohn added that "Investing in a company that does not disclose its pollution is like investing in a company that does not disclose its balance sheet.

Q: Can you tell us who are your target customers?

C: We lend to small and medium sized businesses in the UK, privately held operations that are no longer being properly served by commercial banks. They turn to our lending operations for the vital capital they require to continue to develop and grow. As banks have exited the credit finance market, farm groups and food processing groups have experienced difficulty in obtaining the loans they need, including to improve

infrastructure on farms and on site (e.g. investment in specialist equipment, machinery and renewable energy generation). At Prestige we have developed considerable expertise in lending to smaller businesses in the UK farming sector. Many of these face the challenge of making themselves more efficient at a time when electricity prices are rising and the government is imposing more taxes on landfill waste disposal. On the upside, the UK has also committed itself to meeting the Paris Agreement clean energy objectives putting considerable economic weight behind these goals, including the way in which it will distribute subsidies to farmers after Brexit.

Q: What part can private debt funds play in the battle against climate change?

C: A good example is the world's largest offshore wind farm which in April 2019 broke its own record for running for the longest sustained period without recourse to coal - over 90 hours. Projects like these are more and more often financed by private debt funds. Private debt is making an immediate and direct impact on the ways farms and their surrounding communities generate and consume energy. Not only this, but many of the projects Prestige Funds are helping to fund are also contributing to the wider efficiency of the UK's clean energy generating capacity.



Q: Can you tell us how much Prestige has deployed in energy projects and since when?

C: In the case of Prestige we lend to farming, food and agri businesses to help them develop on-farm clean energy from the resources available to them, be they wind, solar or biomass. Since around 2010 we have loaned more than GBP 500 million to this type of projects in the UK, most of it to Anaerobic Digestion ('AD') plants. This has made us one of the leading providers of finance to the UK's AD sector, helping to bring clean energy to more than 120,000 British homes. We have also developed in-house consulting expertise that enables us to work with biogas providers to help them to make their businesses efficient and sustainable. We want to see the plants we lend to succeed.

Q: You talk about AD: why has this form of land renewable energy gained so much popularity with the agri-food community?

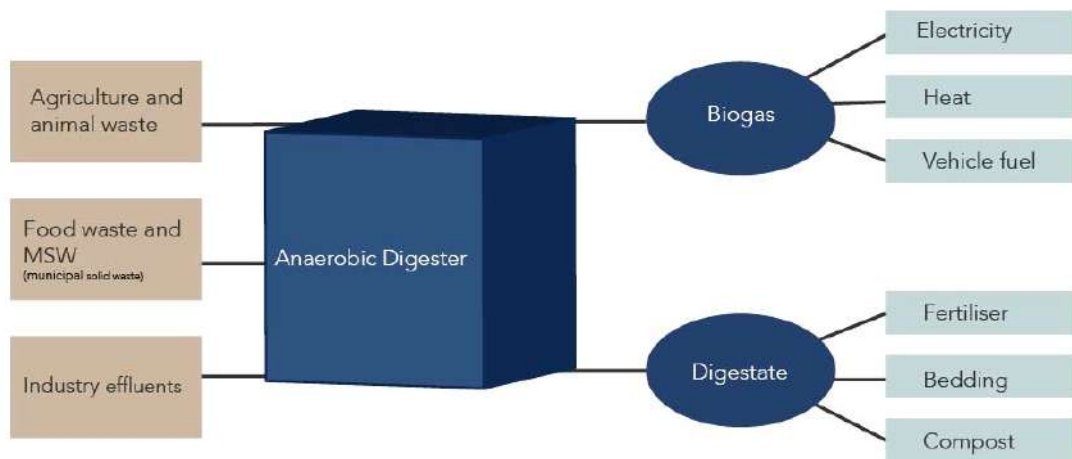
C: Farmers and food groups have been finding that waste disposal via landfill is becoming economically challenging: on top of normal landfill rates - UK taxes on landfill have risen from GBP56 per ton at the standard rate in 2011, to GBP 94 per ton from 2020 onwards. UK agricultural waste tends to be active and priced at the higher end of the market (compared with inactive waste like concrete), hence cost-effective alternatives are starting to look far more attractive.

Q: What is anaerobic digestion and how does it help the environment?

C: Anaerobic digestion, or AD, involves processing farm waste and food waste into energy and fertiliser. The UK is expanding its network of biogas plants and has become a recognised global leader in the provision of this technology to other countries. There are now more than 500 AD plants operating in the UK, delivering more than 861MW to the UK grid, according to the Anaerobic Digestion and Biogas Association (ADBA). These plants are playing an important role in helping the UK to achieve its net zero emissions target by 2050.

Q: How can global greenhouse gas emissions be reduced by AD and biogas?

C: According to the World Biogas Association, AD and biogas can help reduce global greenhouse gas emissions by 10-13% and, in some of the hardest sectors, to de-carbonise. Currently only 2% of the organic feedstock consumed by these plants is being used.



Source: OpenFunds Investment Services

Q: What importance do innovative technologies have?

C: New technologies that operate as additions to existing biogas plants are being brought to the fore, with the aim of making existing plants more efficient, and profitable. In addition, there is also a major rural economic opportunity for a deregulated gas network, which could provide a much-needed boost to community energy. In May 2019 Prestige closed a GBP 15 million funding deal that is helping to expand the generating capacity of an AD plant in Somerset, England. Not only will the plant be increasing its scope to a 6MW gas-to-grid facility, but it is also a pioneer project in the UK's Project CLoCC (Customer Low Cost Connections). This is intended to make it easier for rural biogas producers to feed their energy into the UK National Grid. To ensure the future viability of the AD industry, more collaboration and uptake of innovative technologies is needed. We are already seeing significant technological developments enabling methane to be upgraded, while also capturing and utilising the CO₂, which will inevitably make the system more viable.



Q: Can private capital make a positive impact?

C: We are but one firm, but with the support of our clients we have already been able to achieve a positive impact using private capital, lending almost GBP 100 million to the UK's AD sector during 2019. We can demonstrate to our investors immediate results from the lending activities we have carried out, results that can be measured in MWs of clean energy fed into the grid. This is not an investment model that relies on passive screening to ensure compliance with ESG criteria, this is an investment model that is actively funding and supporting the change in the UK's energy generation and waste consumption habits. The fact that this energy is also originates from the farming industry is, we are certain, helping to make the case for private debt as a leader in ESG investing. It is also interesting to see larger groups such as Blackrock announcing in that they intend to focus on 'sustainable investing' after criticism that the company has failed to use its clout to combat climate change. This is important for several reasons. Not only does the firm manage over USD 7 trillion dollars, but its asset allocation models are used by many institutional investors globally, representing approximately USD25 trillion dollars. This also demonstrates that the mainstream investment management industry is finally waking up to the fact that in this area at least many of them have been behind the curve in terms of consensus opinion of many underlying environmentally-socially conscious clients.

CRAIG REEVES



Craig is the Founder of Prestige Asset Management Limited and is a Director of Prestige Capital Management Limited, Prestige Fund Management Limited, Prestige Asset Distribution Limited and Prestige International Marketing Services Limited and is a Board Director of various international Prestige Funds. He is also a Director of Nucleus Holdings Limited and is a co-founder and non-executive director of OpenFunds Investment Services Limited. He has over 25 years of experience in financial services as a professional investment manager, trader and investor of alternative investments.



Founded in 2007, Prestige consists of several companies under common ownership and control focusing on investment management / operation / administration / marketing and direct lending businesses with offices in UK, Malta, Luxembourg and Cayman.

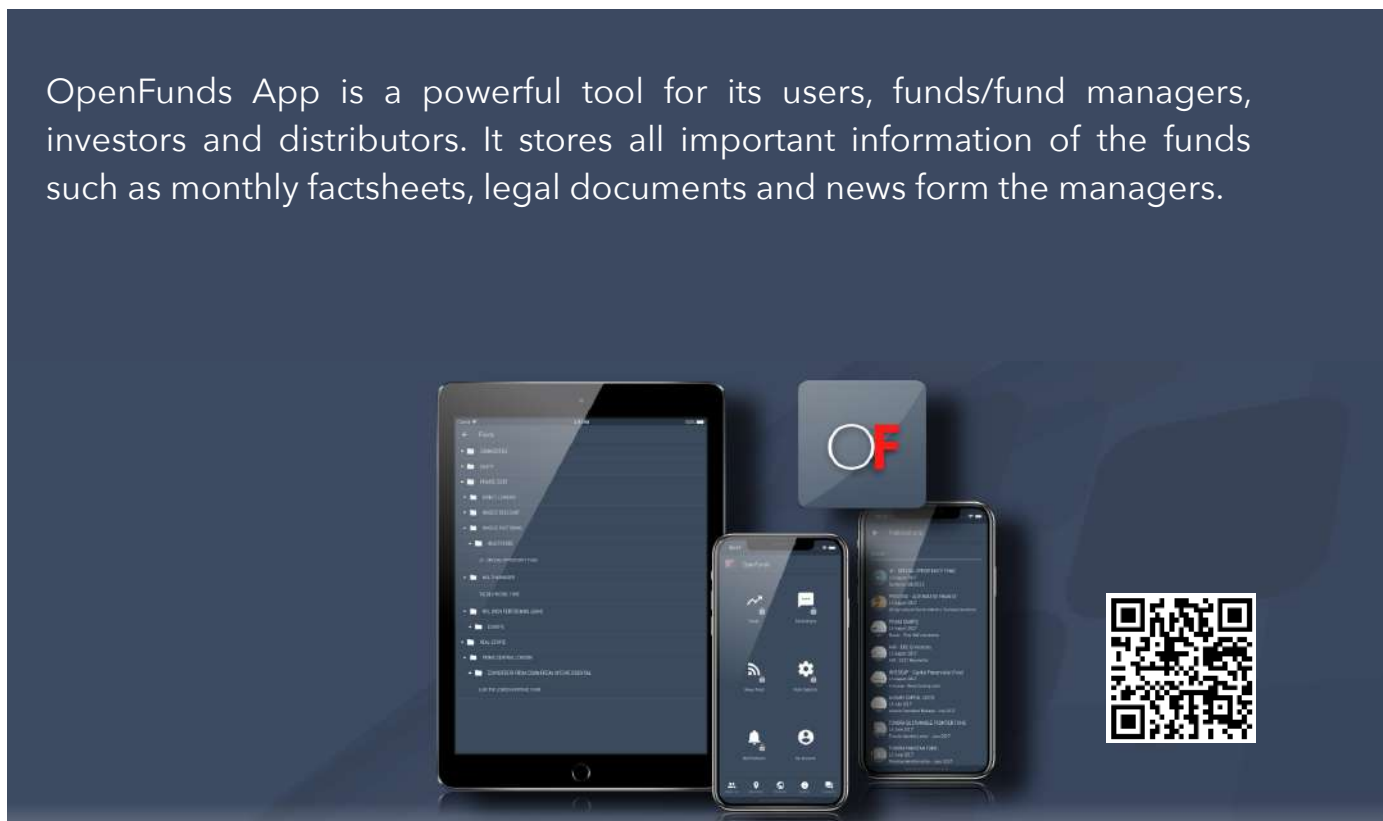
Prestige specialises in direct lending to small businesses in the United Kingdom. It owns equity stakes in several "Finance Arrangers", amongst these Privilege Finance, which has existed since 2001, having lent approximately GBP 1 billion to over 7,000 customers representing approximately 16,000 transactions. Financing areas include asset finance, project finance, invoice finance and specialist commercial finance. Prestige manages approximately USD 1.1 billion of assets for approximately 300 international financial advisory and institutional investor groups.

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