

FAST FACTS: CLIMATE CHANGE INVESTMENTS (CCI)



Trading volumes and prices in EU - ETS

Source: Pointcarbon/3C

Focus: a fund that invests in green house gas (GHG) emission credits compliant with the Kyoto Protocol and the EU Emissions Trading Scheme (EU ETS). CCI's aims to balance investment risks and rewards by combining its investment activities in a diversified portfolio of project based emission reduction certificates and, to a lesser extent, trading in carbon allowances.

Strength: 3C as investment advisors to the fund, specialises in providing consulting and risk management services for greenhouse gas emissions reductions. The firm helps more than 200 national and international corporations develop and execute strategies to meet the new needs related to emissions trading.

Weaknesses: suited to those with an investment horizon of 6 years

Opportunities: ETS are evolving - hence has market potential. Annual double digit growth rates in terms of traded volumes are predicted.

Threats: The CO2 markets are sensitive and tend to be influenced by political and legal developments.

Risk Assessment

☐ = low ☐ = low/moderate ☐ = moderate ☐ = moderate to high ☐ = high

The biggest risk: **delivery risk** posed by projects, which is dependent on running time, technological availability etc, but also hinges on approval from authorities. Depending on the initial risk assessment of the projects, CCI, will contract just part of the generated credits but hold the option to buy more in case more credits are generated.

Avg. cost of sourcing allowances and ability to secure the same at attractive levels: ☐☐☐☐☐

(Anticipated purchase price of EUR 7 - 9 /tonne - dependent on project, project developer and other circumstances)

Ability to identify and maintain "deal flow" : ☐☐☐☐☐

Ability to model/forecast GHS market value: ☐☐☐☐☐

Expertise in trading carbon allowances: ☐☐☐☐☐

Diversification achieved at:

Country basis: ☐☐☐☐☐

Primary focus (75 % of sourced credits): Latin America, South East Asia, India. Secondary focus: the CIS, North Africa and the Middle East

Technology basis: ☐☐☐☐☐ Strict Adherence to technology that has proven it self

Leverage and hedging related risk: ☐☐☐☐☐

CCI will hedge its exposure in the credit market through trading in the European Emission Trading Scheme, the most mature emission trading scheme globally

Market risk: ☐☐☐☐☐ The legal circumstances for the European Emission Trading Market and the underlying global Kyoto Protocol are fixed and politically well backed. The European market is designed to exist until 2012 and will most probably continue thereafter. CCI does not take on post- 2012 risk and will be liquidated by early 2013. Analysis for the 2008 - 2012 European Emission Trading market is bullish on prices.

Fine related risk: No physical emissions so fines for non-compliance are not relevant

Performance Parameters

☐ =insufficient ☐ =adequate ☐ = satisfactory ☐ = good ☐ = outstanding

Avg. no of positions to be held: 30 to 35 projects

Average duration of positions held for: long term 3 - 6 years

Allocation:

40% - project-based certificates 40% - in fungible certificates 20% cash - as collateral

Efficiency achieved in allocating capital: ☐☐☐☐☐

Presence of competition: moderate

Correlation to: stocks, bonds, hedge funds, commodities:

CO2 prices do correlate with European power; fossil fuel - coal and gas prices

Outlook

↑ upside potential ↗ upside to range bound ↔ range bound ↘ range bound to down ↓ downside

Fund's outlook on investing in the sector ↑

Ability to deliver targeted performance over the cycle of the project: ↑

Conditions that would lead to an out performance: a surge in CO2 prices

Conditions that would lead to an underperformance: delivery failure of a considerable part of the project portfolio

Barriers to entry: Expertise in the global CO2 market necessary

Current capacity: AuM: EUR 150mn

Investment Insights

Target audience: institutions, private investors

Level of complexity: moderate - basic knowledge of CO2 markets necessary

Fund offers: thematic diversification

Recommended avg. holding period: 6 yrs

Available: globally

Fund and base currency: EUR

Liquidity provided: daily liquidity

Transparency provide: high

Target Returns: 15% pre-tax IRR net of fees, expenses and carried interest

Fee: 2% management; 20% performance over a hurdle rate of 7% rate of return

Regulated by: CSSF (Luxembourg Financial Authorities)