

# The Acuity Environmental VCT

**The Acuity Environmental VCT stands out for us as being a first class offering within the Specialist VCT sector. It is a compelling proposition because it combines all the tax advantages of investing into VCTs yet taps into the renewable energy/food waste control arena. It is the first of its kind in this sector.**

This VCT is looking to raise £20 million offering to invest in environmental infrastructure projects with a focus on organic waste recycling in the UK. The VCT monies will be used to build and operate small power plants (Anaerobic Digestion Plants as described opposite) that take in food waste, convert it to fertilizer and in the process create energy that adds to the UK's power supply.

The Government has a target to encourage the building of some 450 of these power plants over the next 10 years, as part of meeting wider targets to cut the present burying of 10.5 million tones of food waste to 5 million tones by 2020.

We like the fact that through this VCT opportunity investors will hold physical assets. Each plant will be backed by long term contracted revenue and only use existing proven technology. Risk is reduced by the majority of the investment being secured on the operating plant through a loan note structure and this VCT targets a tax free running yield of 10% per annum once fully invested. This is equivalent to a gross yield of 14.8% a year.

## Investment Strategy

Each site or plant is estimated to require an investment of up to £5m and is to be backed by a 10-year contract with a Local Authority establishing an agreed volume of waste to be supplied at a set price (including penalty clauses). By this the Local Authority pays an ongoing income to the site operators to receive the waste.

A site takes up to twelve months to build and commission. Once established each site has low operating costs and should be very cash generative. There will be clustering of sites to help smooth input of food waste.

A utility company contracts to buy the energy produced at 3 times the normal supply price as it comes from a renewable energy source and this is fixed under a long term contract. Fertiliser produced is sold to the nation's farmers.

Sites will be placed near major conurbations and no investment will take place prior to planning permission being granted and contracts with Local Authorities and utility companies executed.

## Due diligence

Extensive due diligence is undertaken on each investment by the management team, the operating partner and by external consultants. The key objectives of the due diligence process are to ensure that the VCT only invests once a project has secured a long term commercial contract underpinning the commercial viability and has been awarded planning permission. In addition the investment team will ensure that each new plant is built by experienced manufacturers with penalty clauses should the manufacturing process overrun. An external consultant is used to assess the underlying waste supply contracts with the local authorities.

The viability of each project will be based on the location of the plant, the transport and grid network and the type and source of the waste to be recycled. Each project is initially evaluated by the operating partner before being assessed by the investment team.

## Features of the Acuity Environmental VCT

- A VCT focused on the environment, recycling of organic waste and generation of green energy with a low risk approach to investment using proven technology backed by long term contracts with local authorities.
- A high target annual tax free dividend yield of 10%.

## Investment Timing

It is arguably a good time to be investing in the VCT because there is a general shortage of investment and banking finance within the environmental infrastructure marketplace. This lack of competition will not last forever but currently provides the VCT with the opportunity to invest in the most attractive investment opportunities on more favourable commercial terms. This should ultimately lead to better rates of return to investors.

## Particular Risks

Particular risks with this VCT turn on the technology to be used, possible delays in plant construction, regulatory risk, contractual risks, waste tolerance as well as environmental and social risks. All these are set out in detail on pages 5 to 6 of the Acuity Environmental VCT prospectus along with steps the Investment Managers take to contain and mitigate such risks. We stress that this investment is designed to be held for a minimum term of 6 to 7 years.

**To look further into the case for investing in this VCT opposite are some questions Keith Taylor our Managing Director put to Nick Ross, Managing Partner of Acuity Capital. For help and guidance on investing in this VCT and to obtain a prospectus call us, return the enquiry form or visit our website.**

- The VCT is managed by a very experienced investment manager who has contracted with one of the leading waste industry operators.
- The VCT will seek to return capital to investors by refinancing the underlying assets with Bank finance. It is envisaged that once a plant has been operating for three years it will have a profitable and cash generative trading history that will be an attractive lend to a bank engaged in environmental infrastructure projects.

# Questions on the Acuity Environmental VCT

## **Q** *Who are Acuity Capital Management and what do you bring to the VCT arena?*

**A** Acuity Capital Management was formerly a subsidiary of Electra Partners Group one of the oldest private equity companies operating in London. In 2008 the Investment Team led a management buy-out and formed Acuity Capital Management with an investment focus on smaller unquoted companies in the UK. The Acuity investment team bring with them a high level of experience and a heritage of successful investments in unquoted companies. In addition the team manage three existing VCT's with combined net assets of £75m and a focus on small unquoted companies.

## **Q** *Why should an investor consider your VCT ahead of others available ahead of the 2009/10 tax year end?*

**A** The Acuity Environmental VCT offers investors a unique opportunity to invest in low risk organic waste recycling plant projects which once completed will be very cash generative and enable the VCT to pay an estimated 10% tax free dividend yield. The manager has partnered with Envar Ltd, one of the most experienced waste management consultancies in the UK. As a former governmental agricultural advisory body it is a widely respected and trusted environmental consultant. Envar currently has a strong pipeline of potential waste recycling contracts which it is seeking to finance with monies raised through the VCT. In particular two contracts are already signed and awaiting financing.

The market opportunity is being driven by legislation with both the European Union and the UK Government setting out waste recycling targets for the country. Historically the UK has sent the majority of its organic waste to Landfill which is environmentally unsustainable and damaging.

Therefore the UK government is promoting Anaerobic Digestion (a form of composting) as a solution to recycling organic waste. This process gives off a methane gas which is captured and burned to create green electricity and the end product is a compost rich in nutrients which can be used by our farmers as fertiliser on fields.

Anaerobic Digestion is a process widely used in Germany with over 4000 such plants already in operation dealing with food and farm waste. In order to meet its recycling targets the UK Government has estimated that over 450 such plants are required in the UK just to deal with household organic waste.

## **Q** *How unique is your approach compared to other VCTs?*

**A** The VCT has a unique structure which is designed to offer security to investors. The key to this is that each investment will be secured on long term revenues and on the physical operating assets of each Anaerobic Digestion Plant. Once planning permission and a long term contract has been secured a new company is established for each plant. This company will own the physical assets of the project and the commercial contracts. The VCT will invest in each company largely through a loan stock structure which carries a high coupon which will enable dividends to be paid to shareholders. In addition the VCT will own a % of the equity of each company which will provide the potential for significant capital appreciation.

## **Q** *What will be the investment and dividend policy?*

**A** The fund will seek to invest in approximately 10 plants, each of which is backed by a long term contract. Each plant will take approximately one year to build and commission and is forecast to be strongly cash generative in its second year. The investment manager is currently evaluating a substantial pipeline of investment

opportunities therefore it is estimated that the VCT will be fully invested after 2 years. On this basis the Investment manager is forecasting a dividend yield in year 3 of 10% once all of the plants have started operating. Thereafter the dividend is expected to remain at 10% until the assets are refinanced which will enable investor's original capital to be repaid. It is anticipated that refinancing will result in significant capital repayments in years 5-7.

## **Q** *What is the expected return from the Acuity Environmental VCT?*

**A** The VCT should be viewed as a long term investment therefore in order to maximise their investment shareholders should be prepared to hold it for at least a 6 year period. The investment manager is forecasting a tax free dividend yield of 10% pa once the fund is fully invested and an overall tax free total return of 2.5 times an investor's initial capital over an eight year period.

## **Q** *How much do the investment managers at Acuity expect to invest themselves into this VCT?*

**A** The Investment team at Acuity Capital Management has always invested in the funds that it manages as it believes that managing your own money is a key to better performance. To date the Investment Team and Directors have invested £150,000 in the fund.

## **Q** *What is the minimum investment that can be made and when will your VCT offer close?*

**A** The minimum investment is £5,000 and the VCT will be open for applications in the 2009/10 and 2010/11 tax year. It is however anticipated that the fund will close for applications on 31st May 2010 or sooner if the level of applications exceeds the maximum shares that can be issued.