



Acuity Environmental VCTs

“Contracted revenues and tax-free yield”

Overview

- A fund established to invest in environmental infrastructure projects, focusing on organic waste recycling in the UK.
- Investment will be secured on contracted revenues, targeting a tax-free yield of 10% p.a.
- Early return of capital and equity upside through structured exits, principally from debt refinancing.
- Each investment to comprise low risk proven technology and to be backed by long term supply contracts with local authorities or companies.

What is Anaerobic Digestion?

Anaerobic Digestion (AD) is a biological process that happens naturally when bacteria breaks down organic matter in environments with little or no oxygen. It is effectively a controlled and enclosed version of the anaerobic breakdown of organic waste in landfill which releases methane. The AD process produces a digestate which can be used as a soil fertiliser and a biogas which can be burned to produce electricity.

“A great opportunity to participate in an environmental fund that offers an attractive tax-free yield”

David Eades
Chairman

Market Opportunity

The EU Landfill Directive came into effect in 1999 to prevent or reduce the adverse effects of the landfill of waste on the environment, in particular on surface water, groundwater, soil, air and human health. It requires significant reductions in the quantity of biodegradable municipal waste which is disposed of through landfill. Failure to meet the Landfill Directive targets will result in the UK facing substantial fines from the EU.

The UK currently produces over 100m tonnes of organic material per year. The government estimates that up to 20% of this organic material comes from the municipal sector, the majority of which is landfilled. As part of the drive to comply with the EU Landfill Directive, the UK Government has prioritised anaerobic digestion as a key technology to help meet the waste recycling and renewable energy targets for 2020.

The UK Government has set national targets and established the Landfill Allowances Trading Scheme (LATS) to ensure that local authorities reduce the amount of biodegradable municipal waste sent to landfill. A key feature of the scheme is that local authorities will face penalties for failure to meet the set targets.

In order to further support the EU Landfill Directive the UK Government also introduced a landfill escalator tax which increases the cost of landfill by an additional £8 per tonne per annum. This will increase the overall cost of landfill and ensure that waste recycling plants such as Anaerobic Digestion are now competitively priced versus landfill.



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Investment Strategy

The aim is to invest in 8-12 sites in total to provide appropriate diversification of risk. Each site is backed by at least a 10 year contract with a local authority or company establishing a fixed volume of waste at a set price (including penalty clauses). The building and commissioning process will take up to 12 months after which each site will be cash positive thus enabling payment of dividends to investors in year two. No investment will take place without a signed supply contract and the granting of planning permission. An anaerobic digestion plant will derive revenues from gate fees agreed on fixed price, long term contracts with local authorities and Renewable Obligation Certificates issued by the government for electricity produced from the biogas.

Investment Pipeline

As at December 2009, the pipeline comprised 18 sites of which 3 have received planning permission. The total tonnage involved in all sites is over 500,000 tonnes of feedstock. Obtaining contracts for a number of these sites is subject to the local government procurement process and therefore not all will be successful. However the pipeline will continue to expand as local authorities seek to procure treatment facilities for their organic waste. The majority of these opportunities are for Anaerobic Digestion Facilities.

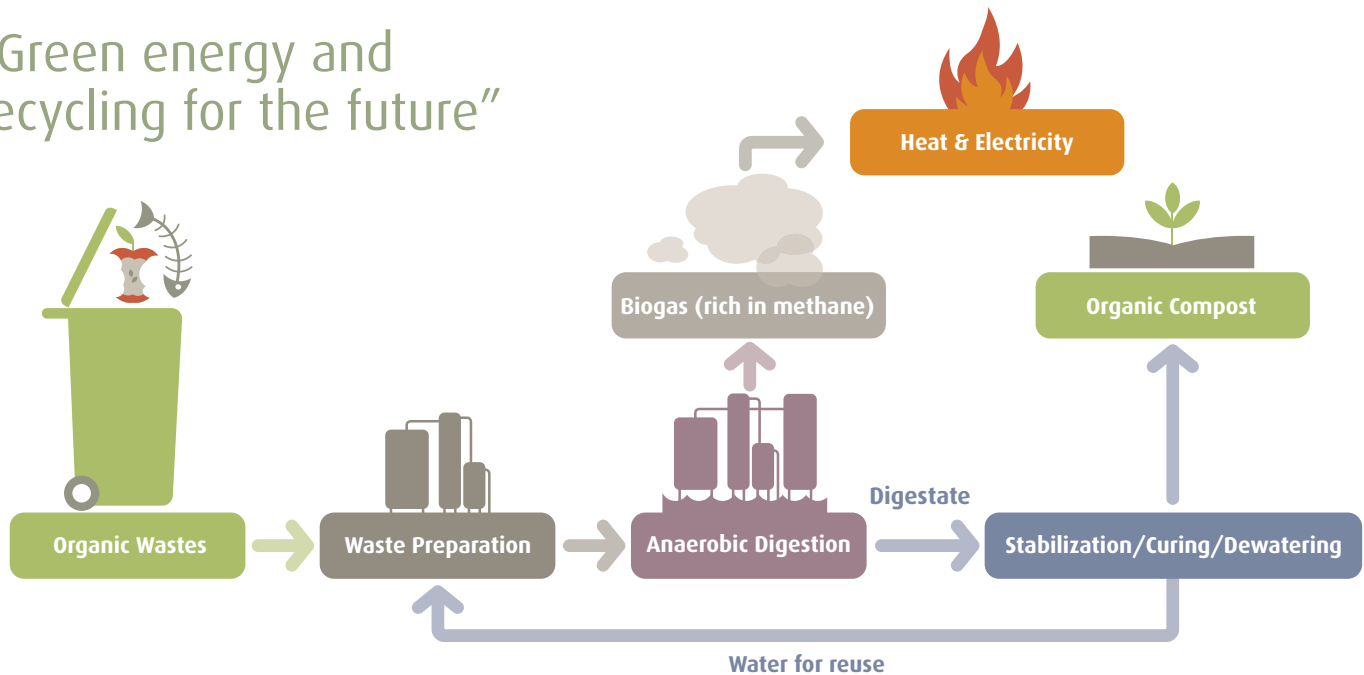
Experienced Management Team

Acuity Capital: A management buyout from Electra Partners Group in February 2008, is an experienced VCT investment team, with a successful track record. The fund manager is responsible for sourcing operating partners, negotiating terms of investment, monitoring performance, exiting investments and investor relations

Envar is the waste management subsidiary of ADAS, which is one of the largest independent environmental consultancies providing services to the public and private sectors. The company has over a 50 year heritage having originally been established as a government organisation advising on agricultural development. It is chaired by a leading bio-energy expert, Valentin von Massow, whilst the Chairman of its waste management subsidiary Envar, Bill Elliot, has over 30 years of experience in the waste management industry. Envar has been selected by the investment manager as the Preferred Operating Partner and is initially responsible for sourcing site projects, negotiating with local authorities and operating the plants.

Anaerobic Digestion plants have been widely and successfully used on the Continent for a number of years. The Envar team has therefore selected the leading European Plant manufacturers to ensure that each plant is utilising proven technology and is purpose-built for the waste it is contracted to handle and that it is built on time and to budget.

“Green energy and recycling for the future”



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