

Octopus Renewable Energy Opportunities Fund (OREO)

Manager Report for the period ending 30 September 2022

octopusinvestments

A brighter way

Octopus Renewable Energy Opportunities Fund ("OREO", or the "Fund") is an open ended unregistered wholesale Australian unit trust. The Fund focuses on providing investors with exposure to a diversified portfolio of Australian clean energy infrastructure assets through its investment in the Octopus Australia Master Trust ("OAMT") alongside the Octopus Australia Sustainable Investments Fund ("OASIS").

Highlights

- Fund launched 8 July 2022, first close \$5.8m. Together with OASIS, OAMT was funded for a total of \$235.8m.
- Seed asset Darlington Point Solar Farm (DPSF) acquired on launch for \$234.9m. DPSF is a 333MW operational solar PV located in NSW. The total enterprise value of the asset was \$438.7m.
- The valuation of OAMT as at 30 September 2022 was \$246.2m, the result of a 3.4% uplift over the acquisition price for DPSF, driven by cash generation from electricity sales. OREO's net asset value was \$5.9m, reflecting their share in OAMT. The OREO unit price has risen from \$1.00 at fund launch to \$1.0315 at period end.
- In the period to 30 September, the Fund has performed broadly in line with expectations, despite NSW experiencing severe weather conditions in the latter part of the period.
- The Manager has a pipeline of renewable assets across Australia. This includes 975MW of construction/development generation across multiple technologies under Octopus Australia management, plus an additional near term external pipeline of 1,569MW with an equity value of \$1.1bn.
- No distributions were made in the period, in line with fund expectations. The fund is on track to make distributions semi annually targeting an annualised 4-5% cash yield.
- Octopus is pleased to announce that Brenton Farr has joined the team as a Development Director. Brenton brings a wealth of development and energy experience, having previously worked at AGL, Transgrid, UK Power Networks and Energex.

OAMT Statistics



Total funds under management
\$246m



Total assets under management
\$450m



OREO unit price
\$1.0315



MW under management
333MW



Tonnes of CO₂ avoided
65,514tCO₂



Electricity generated
101,467MWh



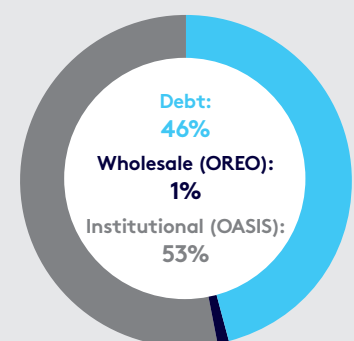
Equivalent number of homes powered
17,014 homes



OREO net returns since inception*
3.15%

*Not annualised.

Assets under management



Scan the QR code or click [here](#) to hear from our Directors

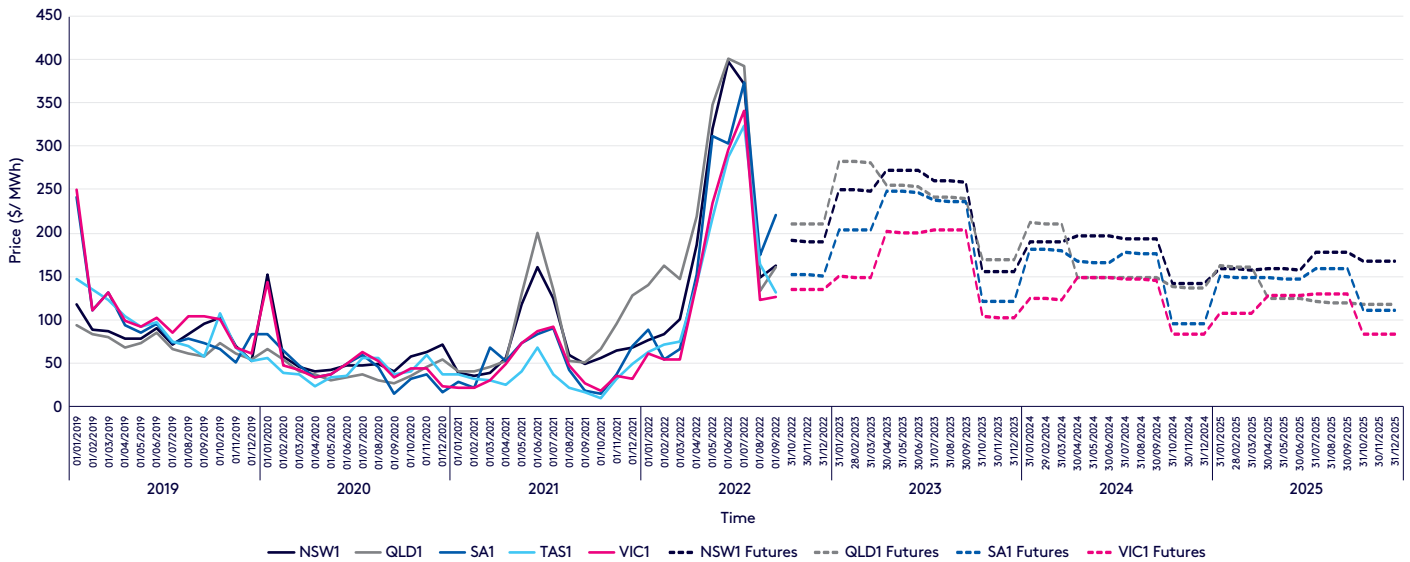


Energy market update

Global power markets saw significant turbulence year to date as global energy demand returned to pre-pandemic levels and was insufficiently matched by global energy supply due to supply chain issues exasperated by the conflict in Ukraine. Such macro factors placed upward pressure on Australian natural gas and coal prices, which combined with unscheduled coal plant downtimes led to a very tight domestic supply environment. Combined with higher-than-expected energy demand from a La Nina induced colder and wetter winter, energy prices in Australia were at record levels in Q2 2022.

As noted in the graph below, energy futures in the Australian National Energy Market indicate historically elevated energy prices continuing though slightly abating into the foreseeable future as constraints on supply and escalating demand are worked through.

Spot Market Prices by State



The high energy price environment in Australia is giving rise to further PPA opportunities for DPSF as retailers and large energy consumers are looking to secure supply for the foreseeable future. The Octopus team are considering and taking forward proposals for additional offtake which will be announced when finalised.

Portfolio summary

Technology	Country	Sites	Capacity (MW)	Average asset life remaining (years)	Status
Solar PV	Australia	1	333	33	Operational



333MWp
under management

55%
output contracted

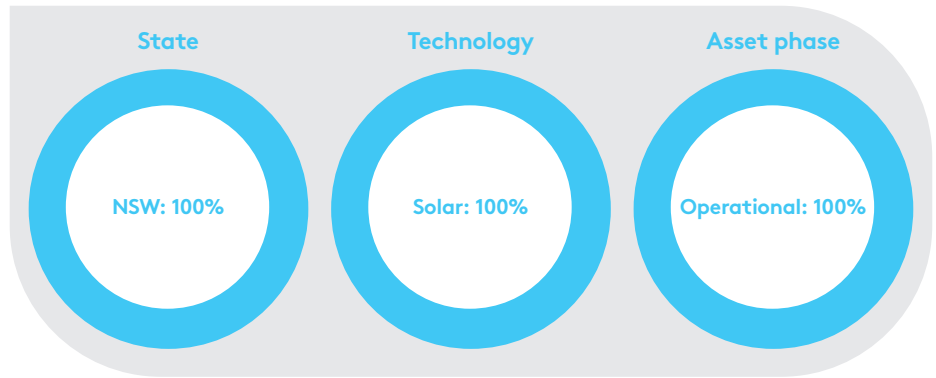
100%
operational

¹ Reuters, 2022, Australian power crisis eases as coal-fired plants crank up. <https://www.reuters.com/business/energy/australian-power-crisis-eases-coal-fired-plants-crank-up-2022-06-17/>

² ASX, 13/09/2022, Australian Power Futures. https://www.asxenergy.com.au/futures_au

Portfolio composition

Portfolio composition broken down by total assets under management.



Portfolio performance

Portfolio performance for the period saw a 3.2% return reflecting an upward valuation of OAMT. No distributions were made in the period, in line with fund expectations. The Fund remains on target to achieve an annualised 4-5% cash yield over the first year of the Fund.

Return for period	Return since fund launch	Cash yield for period	Cash yield since acquisition
3.15%	3.15%	0.00%	0.00%

Asset performance

DPSF was revalued upwards during the quarter, reflecting cash generated from energy sales since acquisition.

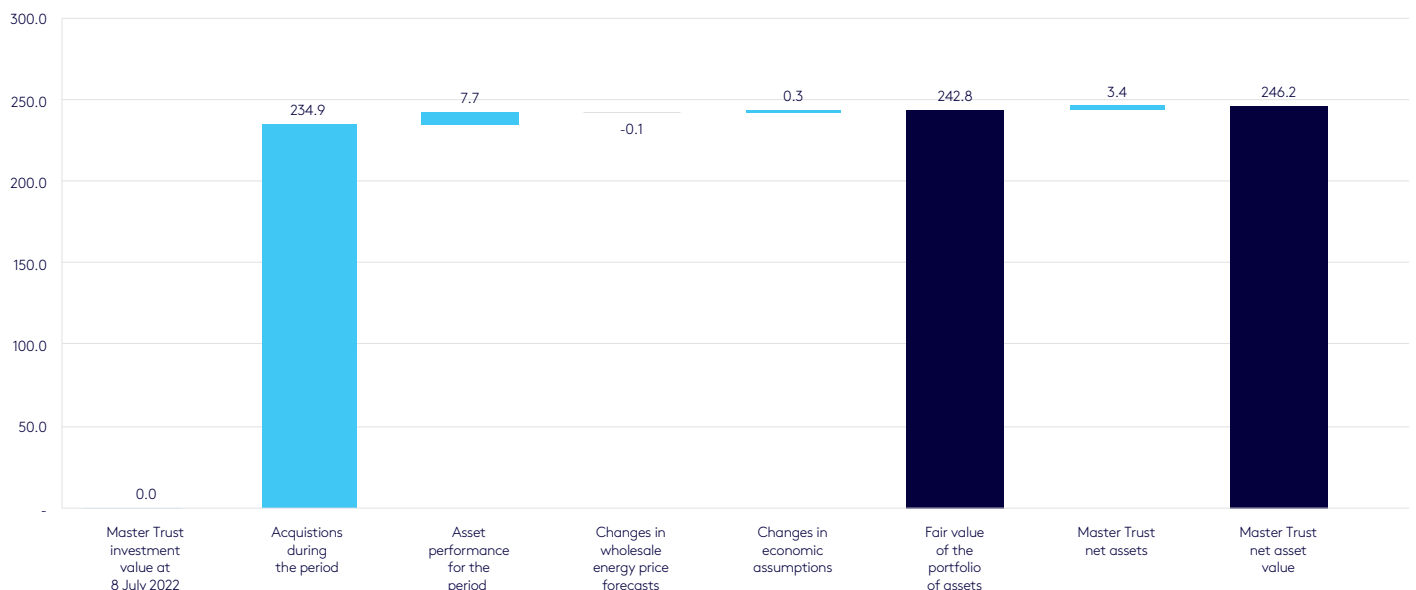
Grid, availability and plant performance have all been at or above our investment case.

However, energy generation was 23% below the investment case during the period due to the extreme weather events experienced in NSW that resulted in lower-than-expected irradiation.

The energy prices captured by DPSF for the period were 6% below investment case. While energy prices were above the investment case in July, from August pricing was below the forecast market futures, the result of lower than expected gas prices.

Valuation bridge

OAMT Equity Value Bridge \$m



Regular valuations are undertaken for the Fund's portfolio of assets. The process follows International Private Equity Valuation Guidelines using a discounted cashflow ("DCF") methodology. DCF is deemed the most appropriate methodology where a detailed projection of likely future cash flows is possible. Due to the asset class and available market data over the forecast horizon, a DCF valuation is typically the basis upon which renewable assets are traded in the market.

The graph above illustrates the total fair value of OAMT's portfolio of assets as at 30 September 2022 was \$242.8m, reflecting acquisitions and capital injections during the period of \$234.9m alongside changes to economic, wholesale energy assumptions, asset performance during the period and the return on the portfolio net of distributions. Including the Master Trust net assets, the total OAMT net asset value as at 30 September 2022 is \$246.2m.

Acquisitions in the period

Master Trust acquisitions in the period total \$234.9m. This comprises the acquisition of the seed asset, Darlington Point Solar Farm.

Asset performance for the period

Rolling forward the valuation from the acquisition date to 30 September 2022, adjusting for the asset performance for the period, has resulted in an uplift in the valuation of the portfolio of \$7.7m.

Changes in wholesale energy price forecasts

Unless fixed under PPAs or otherwise hedged, the power prices used in the valuations are based on market forward prices in the near term, followed by an equal blend of two independent and widely-used market consultants' technology-specific capture price forecasts for each asset. The acquisition of DPSF reflected the market consultants' forecasts at the time of acquisition. Since then, Australia has seen further increases in spot and short-term commodity prices, while long-term commodity prices remain softer based on global trends. Coupled with the continued above expectation uptake of rooftop solar, which has created downward pressure on solar capture prices (in the long term), the valuation reduced by \$0.1m.

Changes in economic assumptions

The main economic assumptions used in the portfolio valuation are inflation rates, interest rates and tax rates. In the current period, an increase in CPI forecasts, led to a \$0.3m upward movement in the value of inflation-linked revenues.

Master Trust net assets

The Master Trust net assets of \$3.4m consists primarily of cash from the initial investment less payables including transaction costs, establishment costs and abort fees totalling \$0.2m.

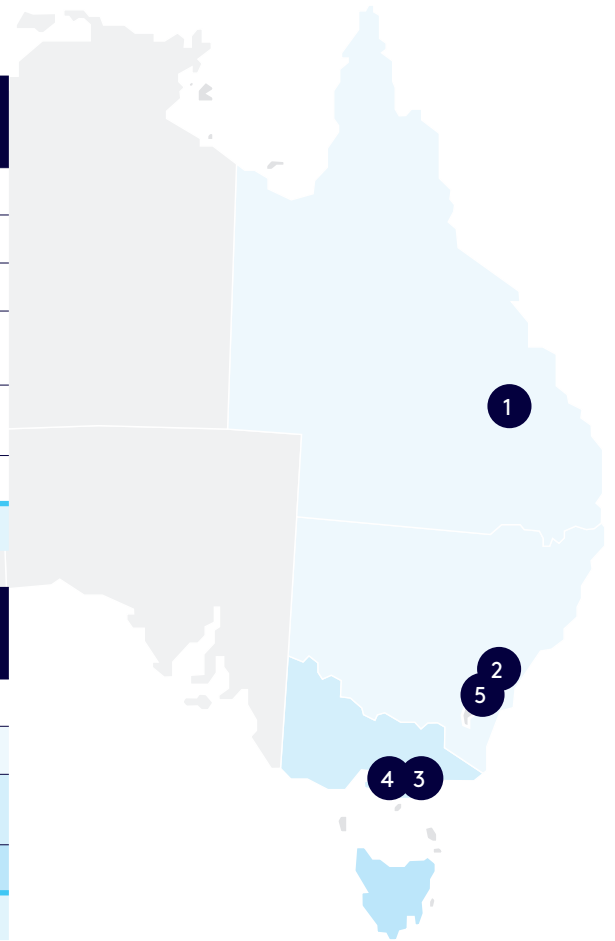
Fund valuation

OREO's share of the OAMT net asset value is \$6.0m. With the addition of Fund net debt, the total OREO net asset value as at 30 September 2022 is \$5.9m or \$1.0315 per ordinary unit.

Pipeline

Location	Technology	Generator Capacity (MW)	BESS Capacity (MW/MWh)	Current Stage
Current Octopus Australia Managed				
1 Dulacca	Wind	181	-	Construction
2 Blind Creek	Solar and BESS	314	250/500	Development
3 Fulham Solar Farm	Solar and BESS	80	64/116	Development
4 Gippsland Renewable Energy Park	Wind and BESS	400	TBC	Development
5 ACT Storage	Storage	-	14/15	Construction
Total		975	328/631	

Location	Technology	Generator Capacity (MW)	BESS Capacity (MW/MWh)	Equity Value (\$m)
Near Term External Pipeline				
NSW/Queensland	Solar and Wind	800	-	500
Victoria	Solar, Wind and BESS	625	95/190	475
Tasmania	Wind	144	-	150
Total		1,569	95/190	1,125



ESG and performance

Our impact goal: Transition to Net Zero

Our core impact goal is to accelerate the transition to net zero. Octopus wants to change the world for the better and strive to do business the “right” way. This means considering a wide range of stakeholders when making decisions, including our customers, shareholders, employees, the community, and the environment.

Our ESG approach: Performance, Planet and People

Octopus has developed a strategy which considers Environmental, Social and Governance (ESG) factors and impact through three pillars: Performance, Planet and People, reporting our impact in line with UN Sustainable Development Goals (SDGs).

People	Planet	Performance
 <p>Social considerations to mitigate risks for local communities, subcontractors, end-customers, and employees, keeping people safe and promoting a “Just Transition” to clean energy.</p>	 <p>Environmental considerations to mitigate risks associated with the construction and operation of assets, enhancing environmental potential where possible.</p>	 <p>Financial returns and ultimate investment success, mitigating the risk of losses through robust governance structures, rigorous due diligence and risk analysis and asset optimisation activities.</p>

The framework embeds ESG considerations into investment processes, asset management and reporting. Octopus mitigate ESG risks, as well as measure the positive impact the investments Octopus manage have on society, the environment and investors.

Case-study: Darlington Point Solar Farm Biodiversity Scheme

A condition of the DPSF development approval required DPSF to retire biodiversity credits to offset the solar farm development.

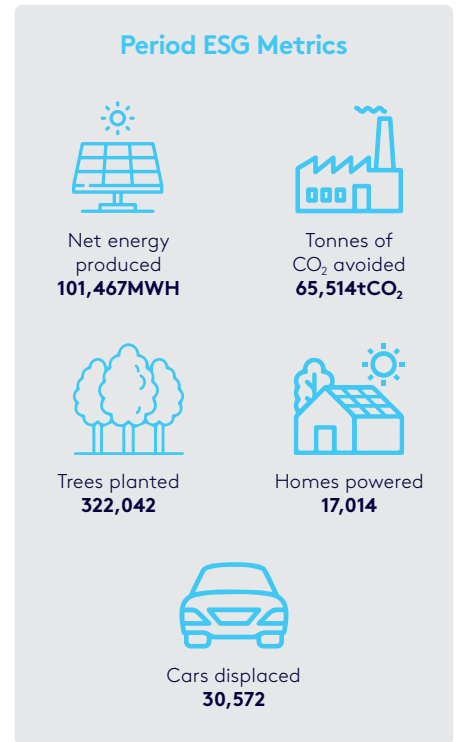
OSCAR, Octopus's asset management business, has undertaken a considerable amount of work over the preceding 3 years to establish a biodiversity stewardship scheme to generate the required credits. To our knowledge, DPSF is one of the first NSW utility scale solar developments to secure its biodiversity offset obligations via the establishment of a new physical stewardship site, independent of the solar farm site.

Establishing new stewardship sites is the preferred option for retirement of credits under the Biodiversity Conservation Act 2016 (NSW) (BC Act). In this case, the stewardship site was identified by OSCAR after extensive investigation and assessment work within the Riverina region. The site is located near Hay, NSW approximately 100km from the solar farm and comprises large areas of grazed native grasslands.

Since the OAMT acquisition OSCAR has now submitted the Biodiversity Stewardship Agreement application and is currently working with the Credit Supply Taskforce to assess and approve the scheme. The biodiversity scheme will generate sufficient credits to discharge all of DPSF's biodiversity credit obligations under its Development Approval.

The biodiversity stewardship scheme is a \$5.5m project and has taken 3 years of work (1,500+ hrs) to get to this stage. If DPSF were to buy biodiversity credits in current market now it would be at a cost of c\$30m.

OSCAR is optimistic that this will be a flagship project, both for DPSF and for the renewable energy industry in NSW and will be working closely with the NSW planning department, Biodiversity Conservation Trust and Credit Supply Taskforce to complete the project.



Darlington Point was chosen as one of six sites to be featured in an upcoming children's documentary titled "Six ways to save the planet". This short documentary will be aired at COP27 in Sharm El Sheikh, Egypt and featured a member of the Octopus team being interviewed by a local school boy, Romney.



Darlington Point featured in the Drive TV program showcasing electric vehicles.

Investment guidelines

- Target Returns **7.0%** net IRR (post annual management and performance fees, before tax).
- Target Yield **4-5%** per annum net yield.
- The Fund, via its investment in the OAMT, intends to invest in a geographically and technologically diversified spread of assets and, over the long term, expects that the following investment guidelines will be met:
 - Investment targets will include utility scale Australian solar PV farms, wind farms, storage and hydrogen opportunities;
 - Leverage will not, in aggregate across the portfolio, exceed 65% of the gross asset value of the Fund; and
 - At any one time, more than 50% of generation from sites within the portfolio will be covered by a fixed price contract (with a target of more than 60% under normal market conditions (as determined by the Manager, acting reasonably)).
- Quarterly liquidity on best endeavors basis.
- Investment manager **Octopus Aust OREO Manager Pty Ltd.**

Octopus Aust OREO Manager Pty Ltd (Manager)

Level 8, 627 Chapel Street
South Yarra VIC 3141

Apex Fund Services (Australia) Pty Ltd (Administrator)

Level 13, 459 Little Collins Street
Melbourne VIC 3000

OneVue Fund Services Pty Ltd (Share Registry)

Level 16, 385 Bourke Street
Melbourne VIC 3000

Equity Trustees Limited (Responsible Entity)

Level 1, 575 Bourke Street
Melbourne VIC 3000

Octopus Australia – who we are

Octopus Aust OREO Manager Pty Ltd (“the Manager”) is a subsidiary of Octopus Capital Aust Pty Ltd (ACN 627 019 096) (“OCA”), which employs over 25 energy professionals and renewables experts across wind/solar/storage development as well as construction, asset and fund management. The team have a deep knowledge of the Australian energy market and have extensive experience within the domestic renewable energy market.

OCA provide its team’s experience to the Fund via service contracts directly with the underlying assets (development and asset management) or with the Fund (fund management). Asset-level services relating to a project are carried out by OSCAR Management Aust Pty Ltd (“OSCAR”), a 100% subsidiary of OCA, unless otherwise determined by the Manager in respect of one or more projects. Such services represent the necessary costs associated with developing institutional grade assets designed to perform for 30+ years. Fund management services will be carried out by the Manager.

Glossary

AEMO	Australian Energy Market Operator	MW	Megawatt	OREO	Octopus Renewable Energy Opportunities Fund
BESS	Battery Energy Storage Systems	MWh	Megawatt hour	OSCAR	OSCAR Management Aust Pty Ltd
CPI	Consumer Price Index	OA	Octopus Australia	PPA	Power Purchase Agreement
DPSF	Darlington Point Solar Farm	OAMT	Octopus Australia Master Trust	PV	Photo Voltaic
IC	Investment Committee	OASIS	Octopus Australia Sustainable Investments Fund		
LGC	Large-scale Generation Certificate	OCA	Octopus Capital Aust Pty Ltd		

Key risks

An investment in OREO will place capital at risk. The value of investments, and any income, can go down as well as up, so investors could get back less than the amount invested.

Neither past performance nor any forecasts should be considered a reliable indicator of future results. Actual performance will, inter alia, depend on factors such as wholesale power prices, power purchase agreements, regulatory environment, government incentives, exchange rates, inflation, grid connections, asset concentrations and site performance.

OREO is investing in OAMT which is investing in construction and operational renewable energy assets and, therefore, may be exposed to certain risks, such as cost overruns, construction delay and construction defects, which may be outside OREO’s control.

Investment valuation is based on financial projections for the Fund’s relevant Renewable Energy Assets. Projections will primarily be based on the Investment Manager’s assessment and are only estimates based on assumptions made at the time of the projection.

For the full list of investment risks please refer to the OREO Information Memorandum.