Australian Ethical Infrastructure Debt AUD

Fund Profile - 30/09/2024

Australian Ethical

Australian Ethical is one of Australia's leading ethical fund managers. By investing responsibly in well-managed ethical companies, we deliver competitive financial performance to our clients and positive change to society and the environment. Since our inception in 1986, our Ethical Charter has guided all investment decisions and underpinned our business practices. Every year 10 per cent of our profits* are distributed to charitable organisations and social impact initiatives through The Australian Ethical Foundation.

Investment objective

The Fund aims to deliver returns of 2-3% above the RBA cash rate per annum (after fees and expenses) over 5-year periods.

Investment strategy

To provide exposure to a diversified range of loans to renewable energy projects (such as solar, wind, and battery assets), as well as loans for social infrastructure (such as schools and hospitals) and property projects with a social or environmental benefit (such as social housing). The Fund invests predominately in Australia but may also invest in foreign assets over time. These loans are typically privately originated and illiquid in nature.

Fund facts

Fund size:	$27.84m
Benchmark:	RBA Cash Rate
Asset class:	Infrastructure Debt
Inception date:	01/02/2024
Minimum investment timeframe:	5 years
Distribution frequency:	Quaterly
Typical number of loans:	13
Risk level:	Medium

Identifiers

ISIN code:	AU60AUG49611
APIR code:	AUG4961AU

Fees

Management costs:	0.85%
Minimum initial investment:	$100,000

A full explanation of all the fees and costs that you may be charged for investing in the Fund is provided in the Fund's Information Memorandum available from our website https://www.australianethical.com.au/managed-funds/investment-options/infrastructure-debt-fund

*(after tax, before bonus expense)

Performance (as at 30/09/2024)

	1m	3m	6m	1y	Since Inception (ann.)
Fund	0.6%	1.7%	3.6%	-	4.7%
RBA Cashrate	0.4%	1.1%	2.2%	-	2.9%
Excess Returns	0.3%	0.6%	1.5%	-	1.9%

Top 10 Portfolio holdings

Loan	Weight
Boco Rock Wind Farm	14.0%
Bright Energy Investment Portfolio	14.0%
Yarranlea Solar Farm	11.0%
Sentient Solar Asset Fund Portfolio	10.0%
RELA	8.0%
Energy Trade	8.0%
Dulacca Wind Farm	6.0%
GTL Renewables	6.0%
Ark Energy NT Solar Portfolio	5.0%
Royal Women's Hospital	5.0%

Total returns are calculated using the sell (exit) price, net of management fees and gross of tax as if distributions of income have been reinvested at the actual distribution reinvestment price. The actual returns received by an investor will depend on the timing, buy and exit prices of individual transactions. Return of capital and the performance of your investment in the fund are not guaranteed. Past performance is not a reliable indicator of future performance. Figures showing a period of less than one year have not been adjusted to show an annual total return. Figures for periods of greater than one year are on a per annum compound basis. The current benchmark may not have been the benchmark over all periods shown in the above chart and tables. The calculation of the benchmark performance links the performance of previous benchmarks and the current benchmark over the relevant time periods.

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Platform availability

- Hub 24
- Netwealth

Investment Statistics	Portfolio Loans	Duration (yrs)	Effective Maturity (yrs)
Current Portfolio	15	0.5 years	2.7 years

Sector allocation

Wind	34.0%
Solar	29.0%
Embedded Networks	13.0%
Property	8.0%
Social Infrastructure	7.0%
AE Income Fund	2.0%
Storage	3.0%
Cash	3.0%

Fund and Market Commentary

For the first quarter of the financial year, the wholesale class of the Australian Ethical Infrastructure Debt Fund (the Fund) returned 1.7% net of fees, compared to the benchmark return of 1.1 %. This represents an outperformance of +0.6% (or +2.7% on an annualised basis). Performance was driven predominantly by income from underlying loans and securities, while the RBA's Cash Rate Target remained constant over the quarter. Credit margins have remained reasonably steady over this quarter, with the credit position of all loans remaining strong.

The Fund has a specific objective of supporting Australian projects that generate positive, measurable social and environmental impact alongside a financial return. In the previous quarter, assets within the portfolio generated 373,629 megawatt hours of clean energy and helped avoid 224,124 tonnes of carbon emissions. This is the equivalent to powering more than 270,000 households over the quarter1.

Average electricity prices for the quarter were $118/MWh, which was lower than the previous quarter, but higher than the running 12-month average. Prices in September were lower than in July and August, as warmer weather (which reduced heating needs) led to operational demand approaching its lowest level of the year. Notably, minimum operational demand in NSW fell to its lowest level, at 3,281 MW. These low demand levels coincided with high rooftop solar generation periods and the curtailment of large-scale solar farms.

Spot prices for Large-scale Generation Certificates (LGC)2 remain stable at $42/LGC, while forward prices have edged downward as the market anticipates that the growth in LGC supply will outpace demand, driven by increasing voluntary surrenders by corporates.

The above market conditions broadly result in the merchant power generators in the portfolio, for example the Leeton and Fivebough solar farms in the Photon Energy Portfolio, having generated lower revenue than in the prior quarter, however all assets continue to meet their covenant requirements.

New Investments

During the quarter, the Fund acquired a stake in the Boco Rock Wind Farm senior debt facility. Boco Rock Wind Farm is a 67 turbine, 113MW wind farm located in the Snowy Monaro Regional Council (40km southeast of Jindabyne), New South Wales with about 10 years of operating history. The wind farm has a quality long-term power purchase agreement (PPA) offtake with Energy Australia that covers 100% of generation through to 2029. This offtake provides a significant hedge against merchant exposure in the portfolio and provides geographical diversification benefits to the portfolio as the only wind farm in NSW.

As noted in the last quarterly update, the Fund also provided senior debt financing for Green Tech Limited's (GTL Renewables) residential PPA portfolio in early July. This quarter GTL Renewables funded 85 new residential PPA systems in addition to its existing 2,000+ PPA in the portfolio.

Need Help?

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Project Updates

The portfolio continues to perform within expectations, with no credit downgrades or breaches of covenants to report. All projects within the portfolio are in the operating phase, except for one battery project, which has progressed in its commissioning program and is targeting completion in Q4 2024.

One of the small solar farms in the portfolio has been experiencing issues with its power plant controller, limiting the project's ability to dispatch at full capacity. The issue is currently being investigated and is expected to be rectified in the coming month.

Finally, as noted in the last quarterly update, a small grass fire had occurred at one of the solar farms resulting in the disconnection of one inverter. We remain confident the damage will be fixed with the lost power generation small relative to the overall project revenues, and therefore no concern from a credit standpoint.