EDISON

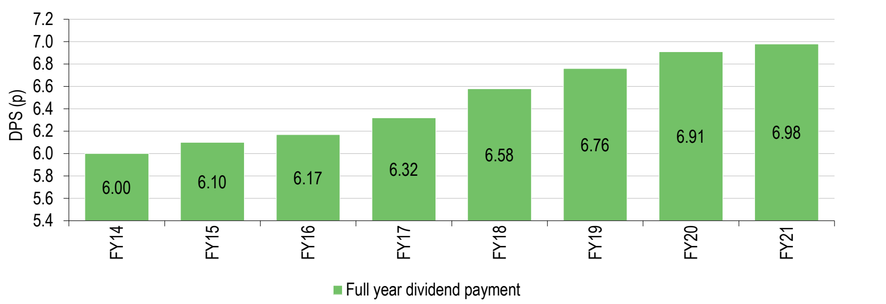
Foresight Solar Fund

Growth ambitions

Investment trusts
Renewable energy equities

Foresight Solar Fund (FSFL) is the largest solar investor listed in the UK by total net peak capacity of c 1.07GW (when operational). We believe that the global and UK climate change policies will remain renewable energy friendly, creating further solar and battery storage growth opportunities for FSFL. FSFL provides investors with a covered, sustainable and growing dividend (even in 2020 amid depressed power prices). It is focused on further strengthening its dividend cover (1.21x in FY21, targeting a minimum of 1.5x in FY22) over the next four years. FSFL has recently secured further exclusive positions in ready-to-build battery storage projects totalling c 60MW targeted for completion in the coming months. FSFL expects these to be accretive to the portfolio NAV and target yields.

FSFL's dividend



Source: FSFL, Bloomberg, Edison Investment Research

Why invest in FSFL?

FSFL targets a net shareholder total return (TR) of 7–8% per year and distributes consistently growing income (c 6% dividend yield) from operating solar plants, battery storage and selling generated electricity to grids. The manager Foresight Group believes that the recent amendment to the investment policy, adding an option to invest up to 5% of GAV in development-stage assets, will enhance FSFL's risk-adjusted TR. The bulk of typical annual revenues (c 70–80%) are fixed, giving FSFL a high degree of protection against power price fluctuations, reducing long-term revenue volatility and providing protection to the dividend target and cover. Its strategy also includes consistently maintaining a relatively high proportion of short-term (merchant) energy sales (c 20–30% pa), aiming to benefit from increases in electricity prices and thereby differentiating itself from peers (NextEnergy Solar Fund and Bluefield Solar Income Fund, see our last report for details).

The analyst's view

Rising commodity prices in 2021 and H122 led to higher power prices, allowing FSFL to enter new short- and medium-term fixed contracts at attractive prices. This resulted in higher merchant revenues and NAV. The manager believes the dividend cover will strengthen over the next four years, at the current contract levels. In H122 and FY21, the UK portfolio (72% of total installed capacity) performed strongly and ahead of budget. While the Australian assets (16% of capacity) held FSFL's electricity generation back during FY21, the managers expect the Australian portfolio to make an improved operational contribution in FY22.

NOT INTENDED FOR PERSONS IN THE EEA

22 August 2022

Price		**121.8p**
Market cap		**£743m**
AUM		**£743m**

NAV*		123.8p
Discount to NAV		1.6%
*Including income. At 30 June 2022.		
Yield		5.8%
Launch date		29 October 2013
Ordinary shares in issue		610.0m
Benchmark		MSCI World High Div Yield Index
Code/ISIN		FSFL/JE00BD3QJR55
Primary exchange		LSE
AIC sector		Renewable Energy Infrastructure
52-week high/low	125.4p	98.4p
NAV* high/low	123.8p	95.6p
*Including income		
Total gearing*		41.7%
*At 30 June 2022, (total long-term debt)/GAV		

Fund objective

Foresight Solar Fund's (FSFL) investment objective is to provide investors with a sustainable and progressive quarterly dividend underpinned by investments in a geographically diverse portfolio of assets. FSFL aims to preserve and, where possible, enhance capital value. It acquires large-scale solar power plants, identifying solar opportunities in the UK and overseas markets (to 25% of gross asset value). FSFL can also invest in battery storage systems (BSS) up to a limit of 10% of gross asset value (GAV) and in solar or BSS assets in development stage up to a 5% of GAV.

Bull points

- Solid track record, as illustrated by fully cash-covered and growing dividends to date.
- FSFL is a 'one-stop shop' with expertise in the solar and battery storage sectors.
- FSFL's valuation is close to NAV, at a small discount, which suggests a buying opportunity.

Bear points

- Power price volatility.
- High NAV sensitivity to power price, inflation and discount rates.
- Share price performance has only recently caught up with the increase in NAV, since launch.

Analyst

Victoria Chernykh +44(0)20 3077 5700

investmenttrusts@edisongroup.com

Edison profile page

Foresight Solar Fund is a research client of Edison Investment Research Limited

The manager's view: Going 'green' amid higher power prices

With very high commodity and power prices persisting, and being pushed up further by the war in Ukraine, many governments have prioritised the decarbonisation process. FSFL believes the process of moving towards renewable energy sources will accelerate, bringing further growth opportunities in the solar and battery storage spaces.

The manager expects continuing surging commodity prices to further support investment in subsidy-free assets. The FSFL team actively manages its exposure to power prices as part of its strategy. During 2021, this contributed materially to the trust's strong performance.

FSFL's management believes that climate change initiatives and the UK government's net-zero targets will continue to support the solar and other renewable energy infrastructure markets, creating further investment opportunities. The windfall tax on oil and gas companies announced by the UK government on 26 May 2022 failed to cause a sell-off reaction in the renewables equity market segment and broader equity market, arguably for two reasons. Firstly, firms that invest in oil and gas exploration and production in the UK could be eligible for relief. Secondly, renewable energy companies are, so far, excluded. The UK government's policy paper, published in April 2022, British energy security strategy,[1] contains a 10-point plan for a 'green industrial revolution'. It expects a fivefold increase in solar deployment from the 14GW in solar capacity currently powering close to two million UK homes by 2035. These ambitions are facilitated by the cost of solar falling by around 85% over the past decade (see our initiation report for details).

In response to the hardships and global energy market disruption caused by Russia's invasion of Ukraine, the European Commission presented REPowerEU in May 2022. REPowerEU is the European Commission's plan to make Europe independent from Russian fossil fuels before 2030. REPowerEU sets out a series of measures to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition, while increasing the resilience of the EU-wide energy system. It is based on supporting the development of the clean energy industry, diversifying energy supplies and saving energy.

The 26th UN Climate Change Conference (COP26), which took place in November 2021, was the most recent key global strategic event setting out the United Nations' green policy targets. Ahead of the conference, the UK government published its strategy, including its commitment to delivering a fully decarbonised power system by 2035.

The FSFL team remains focused on UK acquisitions and is currently reviewing a number of opportunities. For 2022, these include projects at an advanced stage of development in the UK, where the investment manager has preferential rights. The investment manager believes the economic case for subsidy-free solar power in the UK has strengthened, encouraging developers to bring forward a significant pipeline of projects. There is currently more than 18GW of solar sites in planning, with a large volume at the 'ready to build' stage, due to come to the market in 2022. FSFL has preferential rights to a pipeline of projects in excess of 500MW, once they reach 'ready-to-build' status. The team believes geographical diversification benefits shareholders over the longer term. FSFL is diversifying both geographically, investing in solar assets in Australia and Spain, and segmentally, currently into battery storage.

The company is also reviewing an attractive pipeline of investment opportunities that includes development-stage assets following the recent change in investment policy.

[1] British energy security strategy, last updated in April 2022.

The team has ambitions to grow the number of its projects and capacity in the battery storage space further to a targeted 10% of GAV in the foreseeable future. It is aware of a large pipeline of late-stage development projects coming to the battery storage market in the next few years. Solar photovoltaic (PV) technology only generates energy at certain times and requires solar irradiation, hence renewable infrastructure companies are introducing battery storage to achieve grid stability for the periods when energy is not being generated.

UK solar market in 2021 and outlook for 2022

Power prices

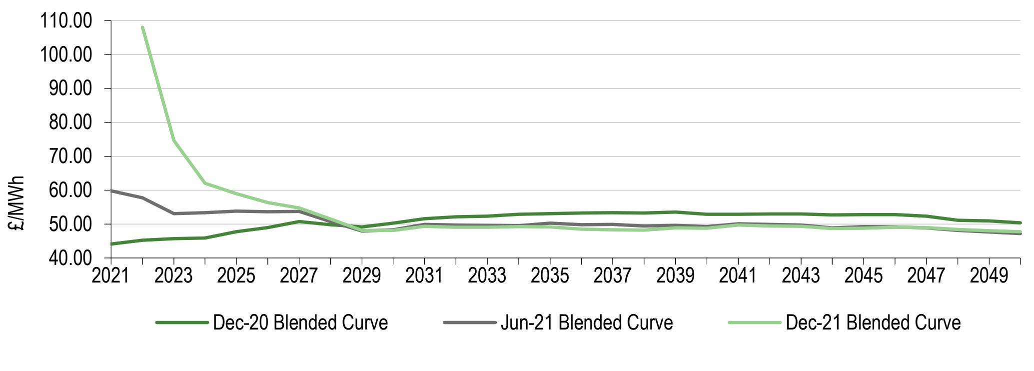
We believe that in a subsidy-free world, as long as power prices remain higher than the costs of solar operators with a gradually widening margin over the long term, solar businesses could continue to distribute growing income to investors with the ability to sustain cash coverage on progressively growing dividends. Power price forecasts feed into the FSFL team's discounted cash flow (DCF) assumptions for solar assets; higher forecasts increase solar valuations.

The management team highlights that wholesale power prices in 2021 were the strongest since the inception of the fund, reaching record levels in the fourth quarter. FSFL applies a blended average, with adjustments for expected price discounts for solar generation and fixed-price contracts. Increased forward power prices (highly influenced by consultants' forecasts) have enabled FSFL to secure higher fixed contract prices for 2021 compared with 2020. The average power price achieved across FSFL's UK portfolio during FY21 was £67.93/MWh versus £37.05/MWh in FY20, an increase of 83% year-on-year. Commodity prices have sharply increased this year, driving higher electricity price forecasts, particularly over the short term.

A strong recovery in power price forecasts in the short and medium term was the main external driver of FSFL's increased NAV to £660.0m at 31 December 2021 (£582.2m at 31 December 2020) and the 12.9% (12.4p) increase in NAV per share to 108.2p (31 December 2021: 95.8p). The December 2021 forecast was on average 5.0% higher than December 2020.

Historically, power prices in the developed world have been determined by the marginal cost of natural gas, the form of generation typically used to plug the gap between demand and supply once renewable and nuclear supply is accounted for. Despite higher carbon prices, the price of gas (driven by the oversupply of liquified natural gas (LNG) in particular) has been under pressure for several years until recently.

Exhibit 1: UK wholesale power price forecasts



Source: FSFL at end-May 2022

During 2021, rising commodity prices (gas prices in particular) and higher CO_2 emission costs have led to higher power prices. The price of gas has increased to around five times the average price of c 35p/therm in 2019 to c 175p per therm at the start of November. When the war in Ukraine broke out, the price briefly went up to more than 500p/therm, and since then has been volatile. It dropped during Q122 and since April climbed up to a still historically high price of more than 350p/therm at the end of August. These high prices have allowed FSFL to continue securing contracts at prices much higher than management previously expected.

At the same time, increasingly cheap, intermittent renewables (wind is also an important factor, particularly in the UK) running at zero marginal cost, as well as the impact of COVID-19, have continued to exacerbate pressure on long-term power prices. Beyond 2030, industry consultants have set long-term power prices at around £50MWh (see Exhibit 1).

FSFL's management team values the company and its forecast cash flow revenue streams using a DCF model. NAV is derived from DCF and is based on a wide range of assumptions and current operational metrics (see our initiation note for details). The company's assumptions are revised quarterly, based on a blended average of forecasts provided by three third-party consultants (undisclosed) and updated on a quarterly basis for each market. FSFL publishes power price curves in its reports twice a year.

Outlook for 2022

FSFL believes that while long-term power prices are difficult to predict, demand for electricity continues to rise, and there is greater evidence of prices remaining above current forecasts in 2022 and in the medium term. In addition, supply-demand imbalances and the impacts of greater geopolitical uncertainty can be expected to increase upward pressure on UK and European power prices in the short term.

Fund profile: A solar and battery energy storage fund

FSFL is a London Stock Exchange-listed investment trust focused on solar and battery storage investments, launched on 29 October 2013. Its investment objective is to pay sustainable and progressive quarterly dividends. FSFL aims to preserve and, where possible, grow capital through reinvesting excess cash flows not required for paying dividends. It does not use an investment performance benchmark and has a total return focus.

FSFL's investment strategy is to acquire large-scale solar power plants and battery storage assets, principally in the UK. Up to 25% of the GAV of FSFL and its subsidiaries can be invested outside the UK. The current portfolio (at end July 2022) consists of 60 assets with 1.068GW total installed generation capacity. 50 solar assets are in the UK (72% of generation capacity), with four solar assets in Spain (12%) and Australia (16%), respectively, and two battery storage assets (each representing 75MW).

Up to 25% of GAV can be invested in construction assets (no development risk, payment in stages on completion). In February 2021, FSFL amended its investment policy, allowing up to 10% of GAV to be invested in utility-scale battery storage systems (BSS). It made its first investment in May 2021, with the acquisition of a 50% stake in the 50MW Sandridge battery storage project for c £12.7m. Another investment policy change, proposed by the board on 25 March 2022 and approved by the shareholders at the annual general meeting (AGM) on 15 June, allows the company to invest up to 5% of GAV in development-stage assets.

The company targets a TR to investors equivalent to a levered internal rate of return of 7–8% after accounting for fees and expenses. It seeks to achieve these returns through active management of its solar power plants and battery storage assets in accordance with its investment policy and will look to grow its investment portfolio through additional asset acquisitions.

Dividends and dividend cover

FSFL follows a progressive dividend policy, which aims to grow its dividend over time. It has met all dividend targets since IPO. From FY14 to FY21 the compound annual growth rate (CAGR) of the dividend payments was 2.2%. FSFL paid four dividends for FY21 of 6.98p in total. It targets a 7.12p per ordinary share dividend for FY22, representing a 2.0% increase year-on-year. The first interim dividend of 1.78p per share, announced on 16 June, is scheduled to be paid on 26 August 2022.

Dividend cover for FY21 was 1.21x, higher than the company's expectations of a minimum of 1.10x (published in FSFL's H121 results). FSFL stated in its FY20 annual report that dividend cover remained above 1.0x, even as power prices dived to a multi-year low during 2020, based on contracted revenues alone. Given the ongoing sharp surge in power prices, which started in H221, strong operational performance and further price fixes, FSFL is optimistic about its healthy dividend cover and intends to strengthen it further within the next four years.

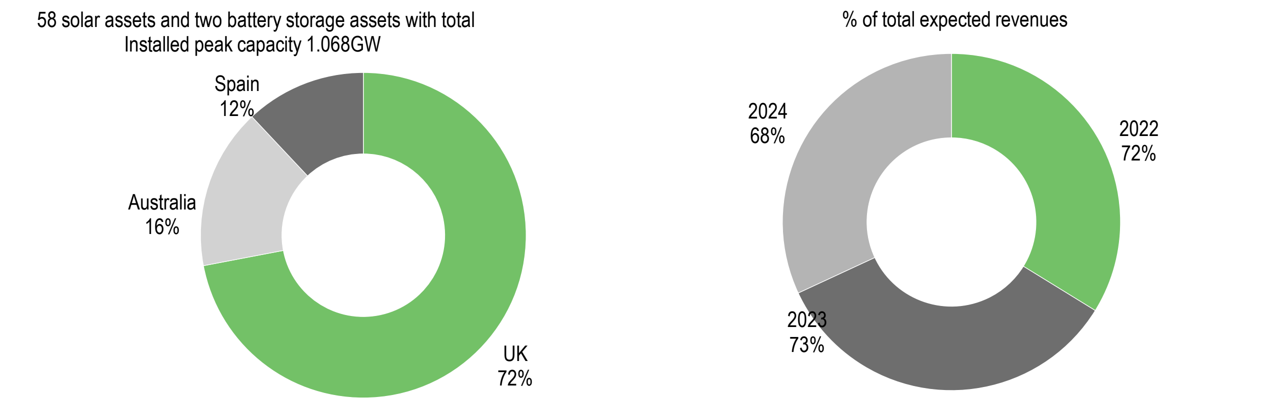
Portfolio

Current portfolio positioning

Exhibit 2 presents FSFL's portfolio comprising 60 assets (58 solar and two battery storage assets). Following the change in investment policy in February 2021, FSFL acquired a 50% stake in the 50MW Sandridge battery storage project in May 2021 for c £12.7m. The asset is adjacent to the company's Sandridge solar park, offering operational savings without affecting solar operations. FSFL believes that battery storage assets diversify the portfolio and provide grid stability.

Exhibit 2: FSFL portfolio

Portfolio geographic split* | **Contracted revenues across the portfolio****



Source: FSFL, Edison Investment Research. Note: *At 31 July 2022. **At 30 June 2022.

The Sandridge battery storage project has experienced delays to construction due to a programme interruption in the grid connection and, to a lesser extent, increased lead times for battery components. While this means that operations will likely now commence in 2023 rather than in Q422, as previously expected, the effects of delayed completion are expected to be offset by the improved market outlook for large-scale battery assets.

The assets in the current portfolio (end July 2022) are based in the UK, Australia and Spain, with installed capacity of c 1.07GW, once fully operational.

During FY21, FSFL acquired the remaining 51% interest in the Oakey1 and Longreach projects in Australia. Subsequently, three of the four Australian assets (except for Bannerton, where FSFL owns a 48.5% stake) are in full ownership of the company. All Australian assets are operational. Foresight expects the Spanish assets to contribute strongly to total production, when they begin operating (see page 7 for details). The company's investments outside the UK represent c 17% of GAV (at 31 December 2021). Around 50% of each UK asset's annual total revenues were fixed by subsidies and 24% were fixed by power purchase agreements (PPAs).

FSFL seeks to fix revenues via binding contracts, in addition to subsidised revenues. Implementing a policy of subsidised revenues and rolling contracts for each financial year, FSFL's team has fixed projected FY22–24 revenue at 78%, 73% and 65%, respectively. This was primarily a result of the active power price management strategy, followed by the investment manager and the new fixed electricity price arrangements entered into by some of the UK portfolio assets.

Acquisition of a 50MW BSS project

In August, the company announced that it acquired a 50% equity stake in Clayfords Energy Storage (CESL) from Intelligent Land Investment Group. CESL holds the development rights to construct a 50MW lithium-ion battery energy storage plant based in Buchan, Aberdeenshire, UK. The investment has been made alongside JLEN Environmental Assets Group (a company that appointed Foresight Group as its investment manager in January 2022). JLEN will also acquire a 50% equity stake, and FSFL will invest up to £14.1m. The project has received full consent, construction-ready and expected to start commercial operations in Q424.

CESL is FSFL's second investment into standalone battery storage systems, adding to the Sandridge battery project in Wiltshire, UK, which was acquired in May 2021. Additionally, FSFL continues to analyse a strong pipeline of battery storage projects, similar to CESL, to provide vital support to the National Grid by reducing system imbalance and enhancing the grid's ability to harness a greater level of intermittent renewables on the system.

Portfolio performance

During H122 the company's portfolio posted global revenues more than 18% above budget (Q122, more than 30% and Q222 – more than 20%). The key drivers were higher than forecast UK production (while Australia production lagged due to lower irradiation) and merchant power price sales. Electricity generated by the Global portfolio was 2.8% above base case for the six-month period (to end-June 2022), driven by strong operational performance.

Strong power prices resulted in FSFL's FY21 total revenues and EBITDA to end-December being 16% and 22% ahead of budget, respectively. This was achieved even as FSFL's global portfolio generation was 5.3% below its budget for 2021 across the 54 operating assets, generating approximately 903MWh of clean electricity.

This compares with FY20 generation of 969MWh, 8.4% above budget. In FY21, lower than forecast total generation was primarily attributable to outstanding issues with the Australian assets (see page 7 for details), while strong production and high power prices in the UK resulted in financial performance significantly above budget for the whole portfolio.

Despite weaker than budgeted operational performance, revenues from the sale of electricity booked for FY21 (both merchant and longer-term contracts) benefited strongly from rising power prices and increased short-term forward power prices across all three markets.

UK portfolio performance (748MW, 72% of total installed capacity, 76% of FY21 total electricity production)

During FY21, the UK portfolio contributed 76% to FSFL's total electricity production (748MW). The UK portfolio outperformed expectations during the period, with electricity generation 1.0% above base case, reflecting annual irradiation 0.6% above base case. The impact on the operation of the portfolio due to the COVID-19 pandemic remained negligible.

FSFL is continuing its asset optimisation efforts with a greater focus on areas like repair times and string monitoring to enhance performance. String monitoring allows for the electrical monitoring of strings on solar modules, combined in solar arrays. The monitoring provides gradual detail on the overall condition and performance of the plant, enabling faults to be detected and remedied quickly and more efficiently, leading to an improved performance of a solar plant.

FSFL has been negotiating its lease extensions across the portfolio and this approach will continue in 2022, with the aim of realising the value of these extensions in the valuation of the assets.

Australian portfolio performance (170MW, 16% of total installed capacity, 24% of FY21 total electricity production)

The Australian portfolio experienced challenges. Low irradiation, curtailment of electricity generation resulting from grid connectivity issues and negative pricing, resulted in electricity generation from Australian assets to end the year 20.7% below budget. FSFL expects the situation to improve in 2022 as the specific grid issues are resolved.

The majority of the assets are now meeting operational expectations, excluding the external network issues. The Australian state, the contractor responsible for the affected assets, has promised to fix the interconnector issue during 2022 which, according to the managers, will enable FSFL's Australian portfolio to operate more smoothly and at fuller capacity.

Three of the four assets in the Australian portfolio benefit from long-term PPAs (between 17 and 20 years), which provide protection against power price volatility for the next few years. Despite the negative pricing experienced as a result of the network issues, the average power price achieved across the portfolio during the period, including fixed-price arrangements, was up 20% year-on-year to A$57.6/MWh (A$47.8 in FY20).

Spanish portfolio (125MW, 12% of total installed capacity, not yet operational)

According to FSFL's annual report for FY21, construction of the assets was substantially completed in Q421. The company recently reported a good progress towards commencing operations on the Spanish portfolio of four assets. The 98.5MW Lorca solar portfolio in Granada energised across all three sites in early July and became fully operational on 9 August. The 26MW Virgen del Carmen solar park in Huelva has now completed all necessary commissioning and is awaiting a final energisation date from the Spanish grid operator.

FSFL has already signed a 10-year fixed price PPA for its Lorca portfolio (represents 99MW). The PPA provides the portfolio with a long-term hedge for c 70% of its annual production and increases FSFL's revenue visibility. Following this agreement, all Spanish assets are under 10-year fixed price PPAs.

FSFL notes that due to the significant number of projects reaching completion in Spain, there is currently a backlog of grid applications awaiting approval by the authorities. This has the potential to affect the wider market, but the operational and management teams are monitoring the situation.

Performance: Robust

FSFL's performance

As shown in Exhibits 3 and 4, FSFL has performed competitively with the MSCI World High Dividend Yield and MSCI World indices. Its NAV materially outperformed both indices over one year (to end-July 2022). FSFL's performance during the past 12 months has been boosted by the positive effect of increasing power prices and short- and medium-term power price forecasts on its reported NAV numbers.

During H122, the 15.6p NAV increase to 123.8p per share, since 31 December 2021 (14.4% increase) was primarily due to the increase in power prices. In Q222, inflation also played a role, accounting for a 3.4p increase in NAV.

Arguably, power prices are the key external, highly fluctuating factor affecting the company's NAV.

Exhibit 3: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	Benchmark* (%)	MSCI AC World (%)
31/07/18	4.9	6.8	4.0	12.1
31/07/19	11.7	12.3	8.3	10.9
31/07/20	(2.0)	(6.4)	(12.3)	0.5
31/07/21	(0.4)	9.7	15.1	26.3
31/07/22	30.8	34.4	8.1	2.7

Source: Refinitiv. Note: All % on a TR basis in pounds sterling. *Benchmark is MSCI World High Dividend Yield Index.

Exhibit 4: Share price and NAV TR performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	Since launch
Price relative to MSCI World High Div Yield Index	4.3	10.1	23.1	22.7	18.4	26.6	40.3
NAV relative to MSCI World High Div Yield Index	(0.8)	7.9	15.2	26.3	28.8	42.5	47.4
Price relative to MSCI AC World	5.5	11.0	26.4	26.6	20.5	30.1	52.6
NAV relative to MSCI AC World	0.4	8.9	18.6	30.2	30.8	46.1	59.7

Source: Refinitiv, Edison Investment Research. Note: Data to end-July 2022. Geometric calculation.

Relative performance and fund characteristics

Exhibit 5 illustrates the competitive performance and fund characteristics of FSFL relative to its two UK peers listed on the London Stock Exchange.

During Q122, FSFL re-rated to trade at a small premium (it traded at a discount during Q321 and Q421, see Exhibit 6) and has a comparable yield to its solar peers. Following the Q222 NAV announcement, FSFL is trading at a small discount, after the rapid growth in NAV during H122. NextEnergy Solar Fund (NESF) and Bluefield Solar Income Fund (BSIF) trade at a single digit premiums. We note that both NESF and BSIF are still due to announce their Q222 results and NAVs, and NESF's share price has gone up materially in anticipation, following the strong set of Q222 results from FSFL. Over one-, three- and five-year periods to end-July 2022, FSFL ranks first. It ranks second after BSIF since launch, with 110.2% NAV TR versus 123.4% for BSIF.

Exhibit 5: Solar funds peer group at 31 July 2022

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR SI FSFL*	Discount (cum-fair)	Ongoing charge	Perf. fee	Gearing**	Dividend yield
Foresight Solar Fund	742.9	35.0	38.6	66.6	110.2	(1.0)	1.1	No	41.7	5.7
Bluefield Solar Income Fund	822.4	15.4	32.7	60.5	123.4	6.6	1.1	No	35.0	4.8
NextEnergy Solar Fund	700.1	23.5	25.5	49.9		5.5	1.0	No	42.0	6.4
Simple average	**246.0**	**25.6**	**9.3**			**(9.1)**	**1.5**	**No**	**N/A**	**5.8**
FSFL rank in peer group	**2**	**1**	**1**	**1**	**2**	**3**	**1**		**2**	**2**

Source: Morningstar, Edison Investment Research. Note: TR = total return. Gearing is total long-term debt including all revolving credit facilities and subsidiaries' debt as a percentage of gross assets. *SI = since inception, 29 October 2013. ** Gearing for FSFL, BSIF and NESF at 30 June 2022, 31 December 2021 and 31 March 2022, respectively.

We believe that FSFL's last 12-month NAV performance has considerably improved as it has benefited from its relatively high share of contracted revenues (c 25% of GAV).

FSFL's 41.7% gearing is comparable to that of its peers (we note that both peers are yet to report gearing at 30 June 2022). Gearing fluctuates between reporting periods, as companies use their revolving credit facilities (RCFs).

Capital structure and discount

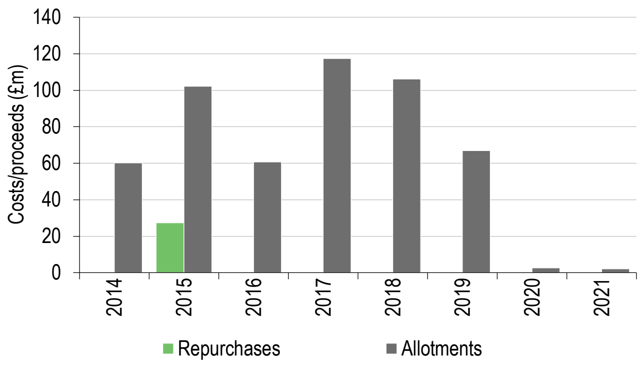
FSFL has an annually renewed resolution authorising it to buy back up to 14.99% of its ordinary shares in issue per year. At 31 December 2021, FSFL had 610.0m ordinary shares in issue. During FY21, it issued 2.3m shares for a total consideration of £2.2m (FY20: 2.5m for £2.6m). No shares were bought back in FY21.

The trust currently trades at a 1.6% discount to cum-income NAV, below its three-year average of 5.5% premium. During FY21 and FY22 to date, the trust has mostly traded at a premium.

Exhibit 6: Premium/discount over three years

Source: Refinitiv, Edison Investment Research

Exhibit 7: Buybacks and issuance



Source: Morningstar, Edison Investment Research

There is no continuation vote. There is a discount control mechanism, whereby a shareholders' vote is triggered if the average discount to NAV (published by the company) is wider than 10% during any financial year (see our initiation note for details).

There is no difference between the weighted average ordinary or diluted number of shares.

Leverage

At 30 June 2022, the total outstanding debt of the company and its subsidiaries, including RCFs, amounted to £540.0m (December 2021: £512.0m). Total debt represented 41.7% of GAV (£1,294.9m: 43.7% of £1,172.0m at December 2021). All long-term debt is secured by solar assets and has agreed covenants on its operational and financial position.

Following the release of the FY21 annual report on 9 March 2022, FSFL completed two debt refinancing agreements. On 29 March, it announced that it had reached completion on a €28.0m senior debt facility for the 98.5MW Lorca portfolio in Granada, Spain. On 11 April, it announced that it had reached final approval for the portfolio refinancing of Oakey 1 Solar Farm and Longreach Solar Farm with ANZ and Deutsche Bank for a term facility of c A$59m plus a debt service reserve facility of c A$1m. According to the investment manager, both refinancing agreements were completed on more favourable for the company debt terms.

Fees and charges

The investment manager receives an annual fee of 1% of FSFL's NAV up to £500m and NAV in excess of this is charged at 0.9% pa. This is payable quarterly in arrears and is calculated based on the published quarterly NAV. The ongoing charges ratio for FY21 was 1.14% (FY20: 1.18%).

Change to the investment policy

At the 15 June AGM the shareholders approved the change to FSFL's investment policy, proposed by the board on 25 March 2022. The amended policy allows FSFL to invest up to 5% of GAV in development-stage assets, either solar or BSS opportunities, which are pre-construction and may not have secured grid connection rights or planning consent at the date of investment. Such investments may include direct investment in projects or investment via corporate development funding structures.

The board believes that the amended investment policy will have the following benefits for shareholders:

- Create access to a further pipeline of investment opportunities in which the company has had active oversight of the development process.
- Provide the company with an enhanced ability to secure fully consented projects through either direct acquisition of development stage assets or acquisition rights under the terms of joint venture agreements (or other similar structures). As a result, the company may be able to acquire project development rights or projects that are construction-ready at more competitive rates than those being brought to the market at the 'ready-to-build stage'.
- While investment in the earlier stages of project development is not without risks, it can allow the company to benefit directly from enhanced returns on a modest level of investment. This represents an attractive option for investment of surplus cash currently generated by the operational portfolio.
- Partnering with experienced developers may present opportunities to enter new markets with instant access to a pipeline of scale.
- The chance to develop investment opportunities and realise additional value within the fund's existing portfolio through proprietary development.

The board

Exhibit 8: FSFL's board of directors

Board member	Date of appointment	Remuneration in FY21	Shareholdings at end-FY21
Alex Ohlsson (chairman)	16 August 2013	£70,000	25,000
Chris Ambler	16 August 2013	£48,890	36,162
Peter Dicks	16 August 2013	£45,000	77,062
Monique O'Keefe	1 June 2019	£45,000	0
Ann Markey	4 September 2020	£51,110	0

Source: company reports

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