EDISON

Triple Point Energy Transition

Pitching TENT – a diversified energy transition story

Investment companies
Renewable energy infrastructure

Triple Point Energy Transition (TENT) invests in a portfolio of energy transition technologies aimed at reducing CO2 emissions in power generation, storage and consumption. We view dividends as fully covered by cash flow in FY23 and forecast that dividend cover will reach 1.2x by FY25. NAV return for the 9M to December 2022 was 7.8% and we see scope for growth in NAV/share given TENT is still rolling out its portfolio of cash-generative assets, all else being equal. Its existing investments include run-of-river hydropower assets in Scotland, a debt provider to a rapidly growing portfolio of battery energy storage systems (BESS) and combined heat and power (CHP) plants co-located with food producers. Led by Jonathan Hick, TENT's team focuses on specific high-return/less commoditised niches in the energy transition sphere. In our view, the fund is trading at an unwarranted discount to NAV with an attractive dividend yield of nearly 9%.

	FY21*	FY22	H123	H223e	FY23e	FY24e	FY25e
DPS	2	5.5	2.75	2.75	5.5	5.5	5.5
Dividend cover			0.98	1.02	1.00	1.07	1.2

Source: Edison Investment Research. Note: *Year of IPO. FY end is March.

Several technologies, several strategies

TENT has a diversified portfolio of debt and equity investments in a variety of energy transition technologies that are either already sustainably cash generative (run-of-river hydro, CHP) or being deployed in the short term (BESS). We see scope for further growth in the UK and internationally as TENT deploys its relatively agile business model. TENT is developing a diversified range of partners and options for further growth. The fund targets five areas of diversification including product sold, technology, counterparty, stage of development and geography.

The analyst's view

TENT may appeal to investors due to its high dividend yield and discount to NAV, as well as the underlying inflation linkage of many of its investments. 90% of TENT's income is contracted under long-term agreements and pricing is therefore relatively secure and inflation resistant (c 45% of the fund's income is contractually linked to the Retail Price Index, RPI). TENT's debt portfolio is invested with partners whose revenues are naturally correlated with energy prices (and in turn, inflation).

Valuation: Discount to NAV and high dividend yield

TENT is trading at a 37.6% discount to NAV with a dividend yield of 8.9% and, while discounts are common, this level is surprising as the portfolio is well diversified by technology and investment type. We expect the 5.5p dividend to be fully covered by cash flow in FY23 and see capacity for either dividend growth or continuing redeployment of capital to high-yield options, providing NAV uplift. TENT's discount may reflect its relatively new status and the continued roll-out of its investment portfolio, although both of these factors should diminish with time.

27 April 2023

Price		**61.5p**
Market cap		**£62.5m**
AUM		**£98.2m**
NAV*		99.53
Discount to NAV		37.6%
Yield		
Ordinary shares in issue		100m
NAV*		99.53
Code/ISN		TENT/GB00BMCBZL07
AIC Sector		Renewable Energy Infrastructure
52-week high/low	92.8p	60.5p
NAV* high/low	100.3p	95.6p

*Including income.

Net gearing*	0%

*As at 30 September 2022

Fund objective

Triple Point Energy Transition (TENT) aims to invest in assets that support the transition to a lower-carbon, more efficient energy system. It targets predominantly UK assets and seeks to generate an attractive, long-term income stream with a positive impact for its shareholders.

Bull points

- TENT is offering a high dividend yield and is trading at a significant discount to NAV, offering an attractive entry position.
- We see dividends as being fully covered by cash flow and underpinned by inflation-linked equity investments and continued drawdown of senior debt in BESS investments.
- TENT is focused on high-return subsegments of energy transition, with scope to grow.

Bear points

- TENT is a relatively new fund so has a shorter dividend track record than some peers.
- TENT's investments are still being deployed.
- Regulation of returns is possible, but not applicable to TENT at present due to its scale.

Analysts

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Triple Point Energy Transition is a research client of Edison Investment Research Limited

Fund Profile: Energy transition from multiple angles

Triple Point Energy Transition (TENT) was listed on the Specialist Segment of the London Stock Exchange in October 2020 and moved to the Premium Segment of the Main Market in October 2022. The trust aims to invest holistically across the energy transition sector, focusing on the three thematic areas of energy generation and efficiency, storage and distribution and reducing energy demand. When it launched, the fund was primarily focused on UK assets (and its current portfolio is 100% UK). However, in August 2022 its mandate was broadened, with shareholder approval, to allow for investments in line with its other policies in Europe (up to 30% of the portfolio).

TENT looks to generate an attractive, long-term income source with a positive impact for its shareholders through targeting assets with high-quality counterparties. It invests across multiple technologies through a combination of debt and equity, with each portfolio having a separate focus. TENT targets five areas of diversification: product sold, technology, counterparty, stage of development and geography. The company changed its name from Triple Point Energy Efficiency Infrastructure in August 2022 to better reflect the broad nature of its investment policy. The fund is a constituent of the Association of Investment Companies (AIC) Renewable Energy Infrastructure sector.

TENT's diversified portfolio consists of the more niche, or less common technologies and infrastructures outside the major players, in the energy transition space, to achieve greater return rates. These technologies currently include CHP, hydroelectric, BESS and LED lighting. In April 2023, it added its first investment in solar, a £5m debt investment in Innova Renewables, a predominantly solar renewables firm, with growing interests in BESS.

TENT targets a net asset value (NAV) return of 7–8% per year (in Q323 it reported a 7.8% NAV return). The group's NAV has demonstrated great resilience, considering the lower long-term power price forecasts and recent government policy changes, demonstrating the strength of its portfolio diversification and asset quality.

The fund manager: Jonathan Hick and team

TENT is classed as an alternative investment fund and managed by Triple Point Investment Management. The lead fund manager, Jonathan Hick, joined in April 2021 and leads the wider investment team's strategy in asset management and acquisition. The details of the key team members' backgrounds are as follows:

Jonathan Hick has a 13-year track record in investment in the energy transition sector, from origination through to execution and asset management. His previous experience was as an investment director at Armstrong Capital (and investment management in the clean energy sector) and prior to that companies including KPMG, Social and Sustainable Capital and PwC. He holds a degree in Management with Chinese from Nottingham University, a master's in finance from London Business School and is a chartered accountant.

Christophe Arnoult joined TENT in June 2022 as portfolio director. He is an experienced portfolio director in the renewable energy sector covering all major technologies and has a strong background in the waste and bioenergy industry, ranging from operation to development, design and construction. He was previously head of projects at enfinium, senior asset manager at Equitix Energy Efficiency Fund and Energy Saving Investment and delivery coordination manager at the Cornwall Energy Recovery Centre for Vinci.

Ariane Brunel joined TENT as an investment director in October 2022. She has been working in the banking industry for 16 years, including 11 years at the European Bank for Reconstruction and Development (EBRD), where she was a senior banker in the energy sector (part of the EBRD Sustainable Infrastructure Group).

Jan Libicek joined TENT as an investment director in November 2022. He has 14 years' experience in the energy sector. Jan previously worked at Bluefield Partners, overseeing European investments, and spent five years working on strategy and investments in Asia at TerraForm Power and at Canadian Solar.

The manager's view

TENT's aim is to invest in assets that support the transition to a more efficient, low-carbon energy system and assist the UK in achieving net zero. The aim is to select high-quality counterparties that can provide long-term income while having a positive impact on carbon footprints. The aim is to have a total NAV return of 7–8% per year (7.8% in the nine months to 31 December 2022, 9M22).

TENT believes the investment opportunity in energy transition has three main (and interlinked) drivers. Firstly, the need to find lower-carbon sources of energy production/transmission and use them to support the long-term transition to net zero. Secondly, the role that renewables and alternative sources of energy play in energy independence and security – a particularly notable theme following Russia's invasion of Ukraine in 2022. Lastly, TENT is attracted to the competitiveness of renewable and non-fossil fuel-based energy solutions in a world where higher cost sources of energy (such as natural gas) often set power prices. This can enable the opportunity for increasingly higher margins for renewable energy sources.

TENT's team has a broad network in the energy transition sector and focuses on specific areas, particularly those which are slightly lower profile, and often less commoditised in terms of financial returns, than large-scale wind and solar. There are three broad areas of focus: distributed energy generation, energy storage and distribution, and onsite energy and consumption.

The current portfolio is UK focused but, given the change in investment mandate – allowing for up to 30% of the portfolio to be in Europe – this is likely to become more diverse over time. Some new members of the investment team are focused on evaluating non-UK opportunities, with an approach similar to that employed successfully in the UK so far, ie to examine a broad range of potential energy transition technologies (generation, storage, transmission and use) filtered for return and fit rather than scale.

The UK remains a highly attractive market for further energy transition projects. For example, the UK policy environment remains focused on the accelerated transition to zero-emission vehicles (ZEVs); in March 2023, the government confirmed a target of 22% ZEV penetration in 2024 (up from 15% in the 12 months to June 2022), rising to 80% in 2030 and 100% in 2035. For vans, the target is 10% in 2024, rising to 70% in 2030 and 100% in 2035. This transition will require a significant investment in charging and associated infrastructure, which is struggling to keep pace with current ZEV demands. The confirmation of mandated targets should give potential infrastructure providers additional confidence, and TENT has identified charging infrastructure as an area of particular interest.

TENT's investment approach has been flexible in terms of debt/equity mix and the team has been happy to accept equity-like returns for debt investments. At March 2023, the portfolio mix was 44.6% debt and 55.4% equity, but the debt proportion is likely to grow in the next 12 months as the full drawdown of the BESS portfolio is completed. The longer-term goal is a mix of 30% debt and 70% equity, and so the team's bias is towards equity investments in the nearer term, but this will be dependent on the investment terms available.

TENT seeks to be diverse in terms of asset management (eg it does not seek to hold in-house specialist technical teams to build or run assets). TENT believes this lowers technical management risk and increases flexibility (eg it does not have an in-house team with a bias towards a particular technology). TENT has been focusing on smaller-scale projects rather than highly capital-intensive industries like offshore wind. This is to target less mature markets with higher returns and fewer large-scale incumbent investors.

Current portfolio positioning

TENT's first investment was completed in March 2021, via its holding company TENT Holdings (formerly TEEC Holdings), providing a total of £21m in senior debt finance to Harvest Generation Services (Harvest) and Glasshouse Generation (Glasshouse), both of which have CHP assets supplying electricity, heat and CO_2 to one of the UK's largest tomato growers, APS Salads (APS). In May 2021, TENT entered into a £8m fixed-rate senior debt investment in Spark Steam, which also owns and operates a CHP asset. In November 2021, the group acquired six operational run-of-river hydroelectric power projects in Scotland for an aggregated equity value of £26.6m and a further three in December for an equity value of £19.6m (both excluding costs). 89% of the recurring revenues from the hydro portfolio have government-supported, long-term feed-in tariffs (with 12–13 years left), which are index linked and can also engage in power purchase agreements with utility counterparties.

In March 2022, the group signed contracts to provide a debt facility to a subsidiary of Virmati Energy (trading as Field Energy) to commission a 110MW portfolio of four BESS assets across the UK. This resulted in total investment of £45.6m and carries a fixed interest rate. TENT entered into an agreement to fund its first energy-efficient lighting opportunity in June 2022 by committing £1m (and a further £1.1m at end 2022) to a lighting solutions provider, bringing total exposure of £2.2m.

Total capital of £128.5m had been committed to TENT's portfolio at 31 December 2022 (to date, executed investment has been funded largely by its £100m IPO proceeds, with further growth coming from the drawdown of its revolving credit facility, RCF), with its NAV valued at £99.5m and the portfolio at £88.6m. The average weighted project life of the portfolio is 31 years, as it is underpinned by strong financial cash flows.

As at March 2023, TENT has a 44.6%/55.4% split in debt/equity investments across the portfolio respectively (Exhibit 2). The breakdown of its technology exposure in the portfolio is 34.6% CHP, 55.4% hydro, 7.4% BESS and 2.6% LED (Exhibit 1).

The combination of TENT's assets has meant that in the year ending 30 September 2022, a total of 2,778MWh energy was saved, 8,783 tonnes of CO_2 was avoided and 4,893MWh of renewable energy was generated. On 3 April 2023, TENT announced an agreement to provide a £5m debt facility to Innova Renewables to help fund its developmental pipeline of solar and battery storage across the UK.

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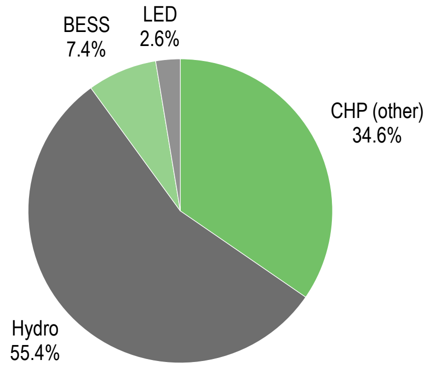
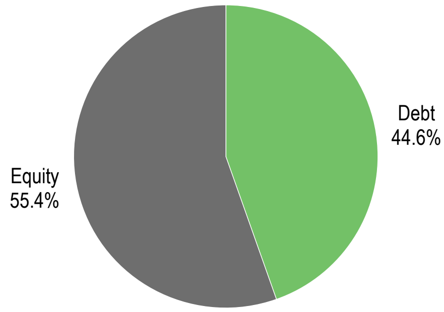
Exhibit 1: Technology exposure



Source: TENT, Edison Investment Research (March 2023). Note: Percentage of deployed capital.

Exhibit 2: Investment type



Source: TENT, Edison Investment Research (March 2023).

Exhibit 3: Portfolio of assets

Technology/portfolio	Asset name	% of portfolio*	Location	Capacity (MW)	Commissioning status	Ownership status	Investment commitment (£m)	Investment type
Combined heat and power (CHP)		**26.7**		**25.3**			**29**	
	Glasshouse	10.1	Isle of Wight	11	Operational	100%	21	Fixed rate senior debt
	Harvest	9.6	Isle of Wight	11	Operational	100%		Fixed rate senior debt
	Spark Steam	7.0	North England - Teesside	3.3	Operational	100%	8	Fixed rate senior debt
Hydroelectric (run-of-river)		**59.3**	**Scottish Highlands**	**6.6**			**47**	
	CAB	5.2	Scotland		Operational	100%		Equity
	ELM	3.8	Scotland		Operational	100%		Equity
	LAD	9.1	Scotland		Operational	100%		Equity
	LUA	5.3	Scotland		Operational	100%		Equity
	PHO***	10.0	Scotland		Operational	100%		Equity
	ACHNA**	25.9	Scotland		Operational	100%		Equity
Battery Energy Storage Systems (BESS)		**6.6**		**110**			**45.6**	
	BESS asset 1		North England – Oldham	20	Operational	100%		Fixed rate senior debt
	BESS asset 2		Scotland – Auchteraw	50	Target COD**** – H224	100%		Fixed rate senior debt
	BESS asset 3		Wales – Newport	20	Target COD**** – H224	100%		Fixed rate senior debt
	BESS asset 4		South East England – Gerrards Cross	20	Target COD**** – H224	100%		Fixed rate senior debt
Lighting solutions		**2.2**					**c 2.2**	
	Lighting solution provider							Fixed rate senior debt
Total							**128.4–128.5***	

Source: TENT and Edison Investment Research. Note: As at 31 December 2022; difference in total value may be due to rounding. *Reported total value. This includes cash. **ACHNA is a combination of three individual assets (DUB, CHE and LB). ***PHO includes the LAR site, and this brings the total to nine individual hydro assets. ****Target completion date.

Performance, revenue and future prospects

Exhibit 4: Five-year discrete performance data

12 months ending	Total share price return (%)	Total NAV return (%)	CBOE UK All Companies (%)	MSCI World High Dividend Yield Index (%)	MSCI AC World (%)
31/03/19	--	--	6.2	14.5	11.1
31/03/20	--	--	(19.1)	(7.4)	(6.2)
31/03/21	--	--	26.6	23.1	39.6
31/03/22	(12.9)	5.0	13.2	15.6	12.9
31/03/23	(20.9)	9.5	3.8	3.8	(0.9)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

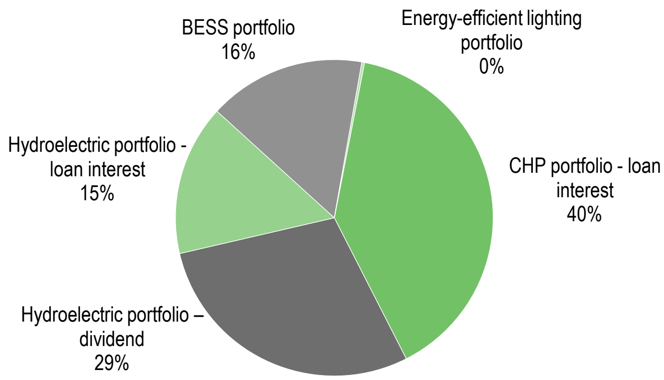
TENT publishes its NAV on a quarterly basis with the latest available figures at end December 2022. On a total return basis, TENT's NAV returned 7.8% in 9M23, and a cumulative 14.4% since inception (as of 31 March 2023). However, the total cumulative return on TENT's share price since inception is lower, which may be a reflection of the extremely tough market conditions seen over the recent period, which follows the same trend as the CBOE UK All Companies Index. At end March 2023, TENT produced a negative total share price return since IPO of 29.1%.

The decrease in TENT's NAV over the three-month period to 31 December 2022 to 99.53p/share from 100.26p/share at 30 September 2022 mainly reflected the one-off expenditure of TENT's admission to trading on the Premium Segment of the Main Market of the London Stock Exchange in October 2022. The adjusted NAV return (excluding this one-off expenditure) would have resulted in an 8.4% NAV return.

In terms of TENT's performance relative to the market, it does not have a formal benchmark and its assets are very different from conventional financial instruments. However, for the purposes of a general comparison, we have used the CBOE UK All Companies Index as a proxy for the UK equity market and the MSCI AC World Index as a broad international comparator. Exhibit 4 also includes the MSCI World High Dividend Yield Index given TENT's focus on providing investors with an attractive dividend. As can be seen in Exhibit 6, TENT's one-year total NAV performance relative to all three indices was better, demonstrating the growth and strength of its assets. We will publish an update on TENT's performance for the year ending 31 March 2023 following the release of its annual report in June 2023.

As shown in Exhibit 5, revenues at the end of September 2022 (latest available figures) were split predominantly between the CHP and hydroelectric portfolios (40%/44% respectively). The BESS portfolio contributed 16%, but will soon increase when the remaining three BESS assets become operational in H224. The lighting portfolio accounted for less than 1% of revenue. The majority of revenue comprised loan interest payments from debt investments (loan interest from CHP plants and the first BESS plant).

Exhibit 5: TENT portfolio split of operating income received from investments – as at end September 2022

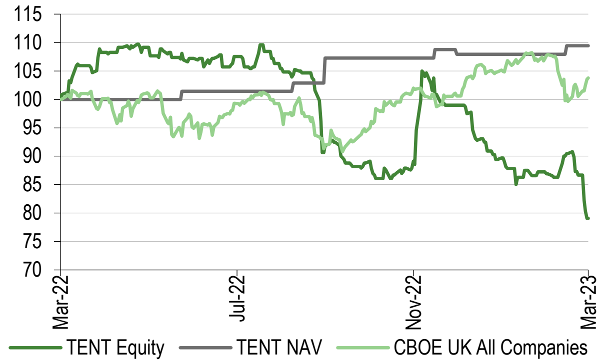


Source: TENT and Edison Investment Research. Note: Values rounded to nearest percentage.

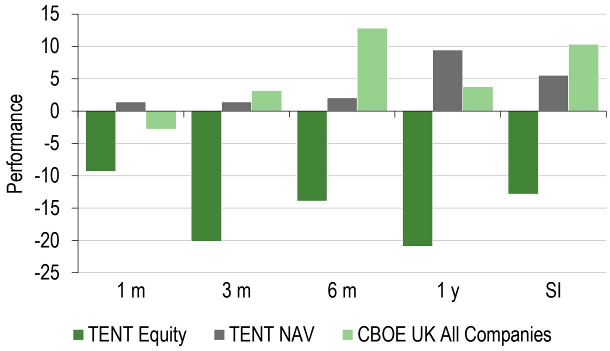
However, another significant consideration for investors is the prospect of an increase in TENT's NAV growth. As the remaining BESS assets become operational, they will each be revalued from book value, in accordance with TENT's valuation policy. TENT's NAV growth is likely to increase further with the announcement on 3 April 2023 of its £5m debt facility to Innova Renewables, to help fund its developmental pipeline of solar and battery storage across the UK.

Exhibit 6: Investment trust performance to March 2023

Price, NAV and benchmark total return performance, one-year rebased to 100 from 12 months previously (not absolute)



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: One-year and since inception (SI) performance figures annualised.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

	One Month	Three months	Six months	One year	Since inception
Price relative to CBOE UK All Companies Index	(6.7)	(22.6)	(23.7)	(23.8)	(49.4)
NAV relative to CBOE UK All Companies Index	4.3	(1.7)	(9.6)	5.5	(18.3)
Price relative to MSCI World High Dividend Yield Index	(9.6)	(19.5)	(18.4)	(23.8)	(47.0)
NAV relative to MSCI World High Dividend Yield Index	1.1	2.3	(3.2)	5.5	(14.5)
Price relative to MSCI AC World Index	(10.2)	(23.6)	(19.2)	(20.2)	(43.7)
NAV relative to MSCI AC World Index	0.4	(3.0)	(4.3)	10.5	(9.2)

Source: Refinitiv, Edison Investment Research. Note: Share price and benchmark data at end March 2023, NAV at 31 March 2023.

Peer group comparison

TENT is a member of the AIC Renewable Energy Infrastructure sector, which has 22 constituents invested across a variety of renewable energy infrastructures. Most aim to provide investors with a regular income stream. Like TENT, many have been established recently on the back of the UK government's goal of achieving net zero by 2050. The majority of the sector is currently trading at a discount. This may correspond to a rising interest rate environment and the market assumption of a rise in discount rates (there was an 8.0pp decrease in NAV across the renewable energy infrastructure sector from 31 December 2021 to 18 November 2022). The renewable energy infrastructure sector is not alone as 37 of the 38 AIC sectors are currently trading at a discount.

Exhibit 8: Selected peer group performance to 31 March 2023*

Group/investment	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount/premium (cum fair)	Ongoing charge	Perf. fee	Net gearing	Div yield
Triple Point Energy Transition	61.8	8.1	-	-	-	(37.2)	1.4	No	100	8.91
Aquila Energy Efficiency Trust	76.0	1.5	-	-	-	(20.4)	1.4	No	100	2.96
Aquila European Renewables	323.5	16.9	22.4	-	-	(15.2)	1.1	No	100	6.29
Atrato Onsite Energy	130.8	(0.3)	-	-	-	(6.1)	1.4	No	100	4.90
Bluefield Solar Income Fund	848.7	19.2	54.1	77.0	162.1	(2.7)	1.0	No	100	5.91
Downing Renewables & Infrastructure	199.8	12.6	-	-	-	(8.9)	1.4	No	100	4.62
Ecofin US Renewables Infrastructure	87.7	9.0	-	-	-	(16.8)	1.4	No	100	8.82
Foresight Solar	675.8	14.6	57.2	65.1	121.0	(12.6)	1.1	No	100	6.36
Gore Street Energy Storage Fund	482.4	12.0	46.0	-	-	(11.6)	1.6	Yes	100	6.99
Greencoat Renewables	1,120.9	9.7	16.6	42.2	-	(0.2)	1.2	No	130	6.26
Greencoat UK Wind	3,738.7	1.5	26.1	50.0	118.1	(3.7)	0.9	No	129	4.70
Gresham House Energy Storage	864.4	20.5	79.7	-	-	2.5	1.2	No	100	4.38
Harmony Energy Income Trust	256.1	25.5	-	-	-	(9.8)	1.8	No	100	1.77
HydrogenOne Capital Growth	65.3	5.0	-	-	-	(47.9)	1.2	No	100	0
JLEN Environmental Assets Group	804.4	13.6	55.0	72.4	-	(1.7)	1.2	No	100	5.73
NextEnergy Solar Fund	619.8	13.4	50.1	59.8	-	(13.2)	1.0	No	123	6.99
Octopus Renewables Infrastructure	562.7	10.5	25.9	-	-	(9.2)	1.1	No	100	5.20
Renewables Infrastructure	3,203.8	19.1	39.2	74.4	138.4	(4.3)	0.9	No	100	5.29
SDCL Energy Efficiency Income	973.2	3.3	26.6	-	-	(17.3)	0.9	No	100	6.62
ThomasLloyd Energy Impact Trust	156.4	9.2	-	-	-	8.5	1.8	No	100	1.48
US Solar Fund	213.7	10.5	11.1	-	-	(16.1)	1.4	No	100	8.64
VH Global Sustainable Energy Opp	419.1	5.3	-	-	-	(8.4)	1.4	No	100	3.78
Simple average (22 constituents)	**722.0**	**10.9**	**39.2**	**63.0**	**134.9**	**(11.5)**	**1.2**	**-**	**-**	**5.48**
TENT rank in peer group	**22**	**16**	**-**	**-**	**-**	**21**	**4**	**-**	**-**	**1**

Source: Morningstar, Edison Investment Research. Note: *Performance to 31 March 2023 based on ex-par NAV. Ordinary shares only. TR = total return. TER = total expense ratio. Net gearing is total assets less cash and equivalents as a percentage of net assets.

In our view, TENT has no single direct competitor but has multiple competitors across the AIC Renewable Energy Infrastructure sector. However, the closest comparison is JLEN Environmental Assets Group. JLEN has two run-of-river hydro facilities in its portfolio, resulting in maximum capacity of 3.8MW, whereas TENT has nine run-of-river hydro facilities resulting in 6.6MW capacity. JLEN and TENT both have BESS assets within their retrospective portfolios, where JLEN's investment is through equity and TENT's are through debt. Both have a well-diversified portfolio with regard to technology exposure but, where JLEN has large commitments to solar and wind (major segments in the energy transition space), TENT focuses on more niche technologies (such as run-of-river hydro), with the aim of being able to produce higher returns. However, on 3 April TENT announced its first investment in the solar sector of £5m to fund a development pipeline rather than operational assets.

Another way of comparing TENT with some of its competitors is via its technology exposure and focus areas: energy generation and efficiency, storage and distribution, and reducing energy demand. Another competitor of TENT's hydro portfolio is Downing Renewables & Infrastructure, whose portfolio comprises 40% hydro (in Sweden), with the remainder being solar and wind. TENT's closest competitor in relation to its energy storage portfolio assets is Gresham House Energy Storage, whose entire portfolio consists of BESS assets. SDCL focuses on delivering onsite power, heating and energy efficiency solutions, which corresponds with both CHP and lighting in TENT's portfolio.

As discussed earlier, the combination of TENT's assets in its portfolio and the investment mix of debt and equity are not closely related to any single competitor in the renewable energy infrastructure sector, but spans multiple segments. Hence we describe TENT as having no single main competitor. It is this diversification of technology and asset class across its portfolio that puts TENT in a strong position within the sector, ensuring it is not reliant on any one technology.

Dividends: Attractive dividend yield and covered

TENT pays an annual dividend of 5.5p/share in four equal quarterly instalments (1.375p/quarter). It paid 5.5p/share for FY22 and is on track to repeat this in FY23. In its half year report (for the six months ending 30 September 2022), TENT reported that its dividends were substantially covered (0.98x) by cash flows generated from the portfolio, net of cash expenses and cash finance costs for the group. We believe the dividend should be covered 1x by the same measure for the full 12-month period ending 31 March 2023 (assuming a 5.5p/share dividend) as the BESS portfolio continues to come on stream (see table on page 1).

Management intends to grow the dividend and adopt a progressive dividend policy but, given TENT's relatively short track record, the immediate priority is to ensure comfortable dividend coverage. We believe this will be achieved in FY23. We have assumed that dividends are maintained at 5.5p/share for the next two years, but there is scope for further growth (we see dividend coverage at 1.2x in FY25) based on conservative assumptions for inflation-linked tariff growth for hydro assets and reinvestment of debt capital repayments at target returns.

Broadly speaking, a £100m (£1/share) fund fully deployed with a 7–8% return rate (comprising an equity return on investments and debt interest payments, discussed in detail below) and a less than 2% cost base should be able to fully cover a 5.5p/share dividend with cash generation. We believe a cash generation return of at least 7.5% from the asset base is achievable in FY23 and this underpins our forecast for dividend cover of 1x in FY23.

Further cash flow growth will come from two sources: full drawdown of the debt facility for the BESS portfolio and RPI-linked tariff increases in power generation. If an additional £40m in leverage (the broad scope of the current debt facility) at a 6% cost is deployed at similar return rates (7–8%, so margins of 1–2%), an additional 0.4–0.8p/share can be added.

We forecast that dividend coverage will grow by 20% from 1.0x in FY23 to 1.2x in FY25 (we assume constant dividends of 5.5p/share). The drawdown in the BESS debt portfolio alone would provide 7–14% growth based on the 0.4–0.8p/share uplift described above, with the balance coming from inflation-linked tariff rises in its power-generating assets. We have not included any allowance for recycling capital returned to TENT; as a debt investor, it will receive capital repayments. TENT sees potential for higher returns and this, or any prolonged period of inflation driving tariffs higher, could further lift cash generation per share.

TENT intends to have a progressive dividend policy and we see further scope for investment growth, but a key priority for management is to prove the company's track record of reporting dividend cover, which we believe is likely in the year ending 31 March 2023, and then sustainable as the current investment portfolio is fully deployed.

The fund is relatively new and in the process of building a track record in both dividend cover and growth. The fund launched via IPO in October 2020, raising £98m in net proceeds. Of this, £21m was invested as at 31 March 2021 (CHP: Harvest and Glasshouse) and an additional £54m was invested in the year ending 31 March 2022. The roll-out of the BESS investments and associated senior debt drawdown by TENT's equity partner Field Energy is key to near-term growth in cash generation.

We see cash generation of c £8m from assets in 2023 (reflecting TENT's target returns), which underpins our view of TENT reaching dividend coverage in FY23 and building from that base in the following years. Our understanding of the major sources of near-term cash generation are outlined below.

BESS portfolio roll-out

Only £6.2m of the planned £45.6m investment in the BESS portfolio was deployed at the end of December 2022, and the continued roll-out of this portfolio will boost cash generation as 2023 progresses. This first investment in Oldham, Greater Manchester, was successful and was rated as one of the top 10 performing BESS assets in the UK in December 2022. With capacity of 20MW, the asset helps to balance periods of volatile demand and supply.

This is the first and smallest of the four assets planned (the next project is based in Gerrards Cross). TENT's partner Field Energy is targeting three sources of revenue: ancillary services (frequency response and grid balancing services such as dynamic containment), wholesale trading (eg trading in the intraday market) and the capacity market (providing reserve power during peak demand). Its four projects are distributed across England, Scotland and Wales, which provides a natural geographic hedge.

Assuming the BESS portfolio is built out according to Field Energy's plans, we estimate that annual cash flow from these investments (mostly interest payable, but also some debt arrangement fees) should rise from £1.4m (1.4p/share) in the year to 31 March 2023 to £2.6m (2.6p/share) in the year to 31 March 2024. We estimate that Field/BESS battery storage investments will rise from 16% of asset cash generation in the year to 31 March 2023 to 26% of asset cash generation in the year ending 31 March 2024.

Run-of-river hydro earnings

We estimate that TENT's run-of-river hydro assets should generate c 55–60% of revenue in FY23 and c 45–50% of revenue in FY24 (falling in share as BESS ramps up, and revenue should remain static at approximately £4.5m/year).

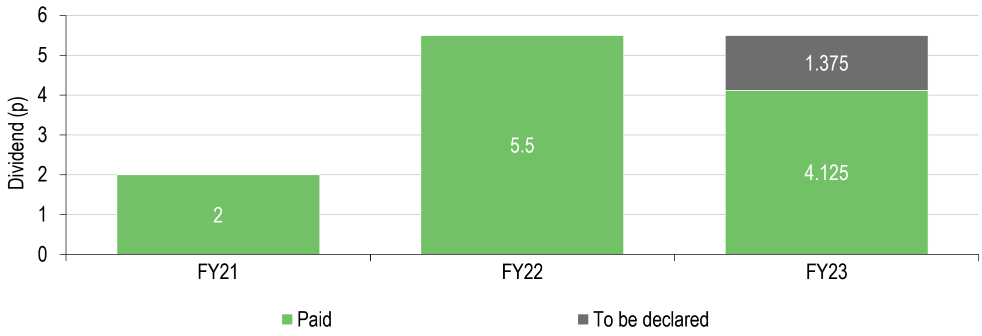
TENT acquired a portfolio of six run-of-river hydro projects (total installed capacity of 4.1MW) in Scotland on 29 November 2021 for an aggregate consideration of £26.6m and added a further three projects (total installed capacity of 2.5MW) for an additional £19.6m on 13 December 2021. These projects are underpinned by government-supported, long-term feed-in tariffs (89% of revenue) which are RPI linked, a particularly attractive feature when UK RPI inflation is high. The feed-in tariffs have a remining duration of 12–13 years with high-quality utility counterparties. Run-of-river hydro generates power all year round (capacity is 19.9GWh/year with an additional 1.1GWh/year possible through optimisation of the Loch Blair asset). Generation levels are naturally higher during the winter months, which also coincides with peak seasonal demand.

On 20 December 2022 the UK government published details on its Electricity Generator Levy, which will apply to 'exceptional receipts' from 1 January to 31 March 2023. The levy provides an allowance for the first £10m/year in excess generation receipts that will not be subject to the levy, and a de minimis threshold, meaning the levy will only apply to companies or groups of companies generating more than 50GWh per year (reduced from 100GWh). TENT's assets do not qualify for this levy on either ground. TENT's power generation capacity is well below this scale and therefore there is significant headroom before organic growth is constrained, and BESS assets are not included in the UK Energy Generator Levy.

CHP plants

TENT's inaugural investment of £29m in senior debt in CHP+ plants (described in more detail in the Appendix) should provide it with at c £2m/year (2p/share) in interest revenue at its target return rate of 7–8%. This will decline over time as capital is repaid, although we see continued scope for redeployment at these rates of return or higher. CHP+ plants combine electricity production, the use of waste heat and the supply of carbon dioxide for agricultural purposes. TENT's partner APS is responsible for one-third of the UK's tomato production and has more than 65 years' experience.

Exhibit 9: Dividend history since inception



Source: TENT, Edison Investment Research

Discount: 37.6% discount to NAV

TENT is trading at a significant discount to NAV. Most investment companies have seen a decline in their premium/a widening of their discount as a result of the rising interest rate environment and an implied rise in discount rates. TENT's significant discount of 37.6% is the second largest in the peer group (AIC Renewable Energy Infrastructure sector) and more than double the peer group average (11.5% discount).

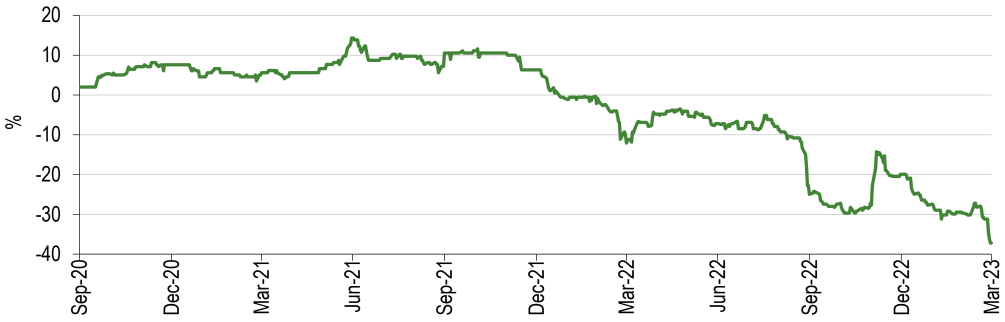
Given the nature of its investments, this seems surprising to us. TENT's current portfolio is invested in long-life, cash-generative assets, and its equity investments in run-of-river hydro have tariffs that are linked to RPI. We see dividends as fully covered by cash flow as full drawdown of the BESS senior debt facility which TENT is providing to Field Energy is achieved.

Some of the discount may relate to TENT's relatively short track record and the continued roll-out of its investment portfolio, both of which factors we see as easing with time. The trust's wide discount to NAV, covered dividend yield and scope for further growth in a relatively high-return niche portfolio may provide an opportunity for investors to increase their exposure to TENT at an attractive price.

The investment manager is responsible for carrying out a fair market valuation of TENT's assets. TENT has engaged Mazars as its external, qualified and independent valuer to comment on discount rates used in determining fair value. None of TENT's current assets are traded on the market and, as such, valuation is based on a discounted cash flow methodology and adjusted to comply with the International Private Equity and Venture Capital Valuation Guidelines in accordance with IFRS 13 and IFRS 10, given the specialised nature of the portfolio.

For the six months to September 2022, the weighted average discount rate was 6.41% (ranging from 5.5% to 8.25%), up from 6.11% at 31 March 2022. TENT advised that if the BESS portfolio was fully drawn, the average portfolio discount rate would have been 7.1%. Discount rates have risen in general for investment company portfolio valuations to reflect rising interest rates and TENT's assumptions, as discussed above, are verified by an independent valuation consultant. TENT uses Office for Budget Responsibility assumptions for near-term inflation and a long-run assumption of 3% for RPI.

Exhibit 10: Premium/discount since inception



Source: Refinitiv, Edison Investment Research

Investment process

The investment manager undertakes initial due diligence/analysis of the investment opportunities, while the board has overall responsibility for the management of the company, overseeing compliance with its investment objective and policy.

TENT's investment strategy, across both equity and debt, enables its portfolio to reap rewards from equity returns when markets are on a high, and fall back on market standard downside protections, covering any debt investments when markets are low. These protections may include, but are not limited to, cash reserve amounts, security and robust contractual and covenant protections.

The £5m investment in solar April 2023 means that TENT has fully deployed its capital, notwithstanding the drawdown in the BESS debt facility as those projects are built. At present, the equity partner in the BESS portfolio, Field Energy, has built and commissioned one of the four planned assets, a 20MW BESS facility in Oldham, with another under construction, and the roll-out of this construction should mean drawing down this loan over the next 12 months.

TENT's near-term uplift in cash generation and earnings is likely to come from the continued drawdown of the BESS debt facility over the near year. Its assets are highly cash generative, and income, interest and capital repayment should provide dividend cover as well as a platform for redeploying capital.

Investment policy

TENT's investments are made in the interests of creating a diversified portfolio of energy transition assets via the acquisition of equity in or provision of debt financing to the relevant investee company. TENT's objective is to generate a total return for investors comprising sustainable and growing income and capital growth. TENT aims to achieve this through investing in a range of assets contributing towards the energy transition to lower, or zero, CO_2 emissions via electricity, heat generation, distribution and end-user consumption, which meet the following criteria.

- contribute towards demonstrable energy and financial savings;
- are already established technologies;
- provide long-term contracts based predominantly on availability, government subsidy or savings-based contracts with high-quality industrial, governmental and corporate counterparties; and
- entitle the company to receive stable, predictable cash flows over the medium to long term in developed countries.

All of TENT's investment restrictions are related to the adjusted gross asset value (the aggregate value of total assets determined using accounting principles when necessary to adjust for the inclusion of any third-party debt funding drawn, or available to any unconsolidated holding entity).

The company may invest in opportunities across the UK (including the Crown Dependencies) and Europe, ensuring at least 70% of the group's portfolio value comprises UK-based investments. TENT invests predominantly in operational single assets or portfolios of multiple energy transition assets. Subject to the investment restrictions in place, it may also invest in assets that are in the development or construction phase, either directly or through funding a third-party developer to deliver an attractive risk-adjusted return.

No individual debt commitment/investment or equity investment will represent more than 20% of adjusted gross asset value, except where TENT has control over an investee company holding multiple assets, where each asset has its own standalone economic operations allowing risk to be separated accordingly.

Maximum exposure to any one counterparty is limited to 20% of the fund's adjusted gross asset value (where the relevant exposure of an asset's revenue derived from multiple sources is calculated from the proportion of revenues received from the counterparty, rather than any other source).

Aggregate maximum exposure to assets in the development or construction phase within the portfolio will not exceed 25% of adjusted gross asset value. Within this limit, assets in the development stage will not exceed 5% and exposure to any one developer will not exceed 10%. These restrictions do not apply to assets in the construction phase where onsite commissioning is expected to be completed within three months (on the basis that any equipment is sufficiently insurance wrapped).

TENT's policy also includes the provision that it will not invest more than 5% of its adjusted gross asset value in the acquisition of minority stakes in other related companies and will only proceed with those investments if appropriate minority protections are in place. This is because the company likes to be strategically active within its assets. Neither the group nor any of its investee companies will invest in any UK-listed, closed-ended investment company and will not partake in any trading activities which are significant in relation to the group as a whole.

Sustainability and ESG considerations

TENT's focus is on facilitating and progressing the UK's markets, and in future the wider European markets, in the transition to renewable, low-carbon energy sources to achieve net zero by 2050. Through its current assets, TENT looks to reduce CO_2 emissions by increasing the efficiency of CHP facilities, the storage of energy through BESS assets close to end-users and generating energy from its run-of-river hydro assets.

According to TENT's calculations, for the year ending 31 March 2022, its portfolio generated 9,425MWh of renewable energy and saved a total of 7,113MWh of energy, ensuring an estimated 17,074 tonnes of CO_2 emissions were avoided. TENT's impact will continue to increase as it looks to further develop its pipeline and portfolio. To put these numbers into perspective, based on the average UK household's annual electricity consumption, the combined MWh of renewable energy generated and energy saved by TENT last year would be enough to power 5,335 homes for a year.

In addition to contributing to the transition to net zero, TENT's investment manager has ensured that the company's approach to ESG has been integrated and embedded at each stage of the investment process.

This sustainability risk analysis covers the following three key areas:

- Energy transition alignment and avoided carbon screen: all projects must align to a nationally recognised energy transition pathway and avoid carbon when compared to a robust counterfactual scenario.
- Climate change analysis: investigating the physical and transitional risks which may affect the project's success. The asset will be tested against multiple scenarios, adjusting for any financial risk accordingly.
- ESG analysis: consideration of ESG factors through its risk and opportunity review, with a framework of 13 topics, on which each individual asset is assessed depending on the asset type in question. The framework takes a materiality approach to ESG integration.

TENT's ESG analysis covers the following core ESG themes:

- **Environmental:** energy generation type, use and intensity; water use and pollution; waste generation and disposal; raw material sourcing and supply chain sustainability; and impact on biodiversity and habitats and carbon analysis.
- **Social:** employment, health, human rights, safety and well-being.
- **Governance:** accountability, oversight and ethics.

TENT discloses information according to the Sustainable Financial Disclosure Regulation as Article 8 and the Task Force on Climate-related Financial Disclosure, details of which are included in its annual report.

Gearing

The group's target gearing is up to 40% of gross asset value (GAV) and a maximum value that will not exceed 45% of GAV at the time of drawdown. At 30 September 2022, the company had not drawn on its arranged debt facilities (£40m RCF) so had no gearing on the last reported date, but this is likely to be drawn down in FY24 as the BESS portfolio is completed.

In March 2022, TENT entered into a loan facility agreement for £40m with TP Leasing. TP Leasing is an established private credit and asset leasing business owned by the investment manager, and the arrangement was treated as a related party transaction, so the company obtained a fair and reasonable opinion by a qualified independent advisor. The RCF was established with a two-year term (expiring in March 2024) with an interest rate of 4.5% (based on the sterling overnight index rate average two-year fixed rate of 2% and a margin of 2.5%).

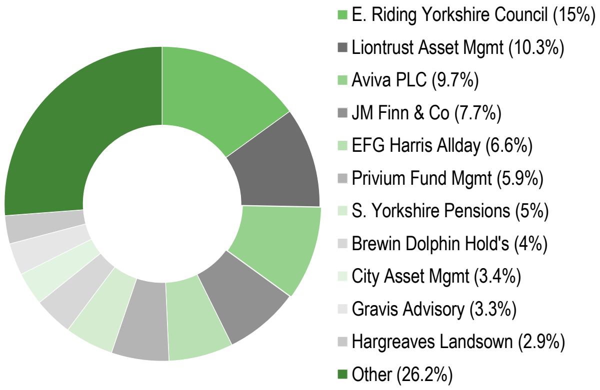
On 14 March 2023, the RCF was extended from a two-year tenor to three years, with the maturity pushed out to March 2025. For the second and third year of the tenor, the annual coupon was increased from 4.5% to 6%, with a review to be held at the start of the extension year (ie in March 2024) for the last year to either keep the rate at 6% or lower it to reflect the interest rate environment.

Capital structure, life of the company and ownership

TENT was launched in October 2020 via an IPO that raised £100m at the cost of 100p per share. Investment management services are provided by Triple Point Investment Management, which is wholly owned by Triple Point. Founded in 2004, Triple Point is one of the UK's leading purpose-led investors, with more than 10 years' experience investing in energy efficiency, low-carbon and decentralised energy generation projects. Triple Point provides funds, direct investments and tailored investment solutions across a highly differentiated alternative strategy including social housing, digital infrastructure, energy, private credit and venture capital. TENT is a structured, closed-ended investment company.

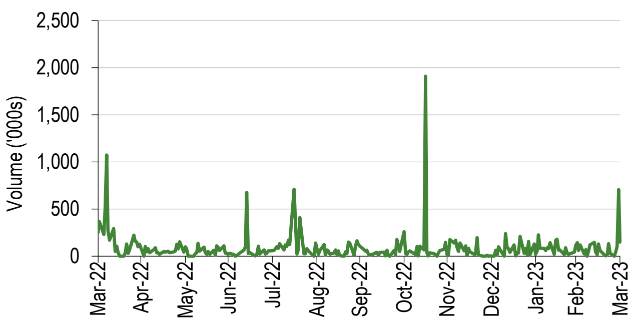
Shareholders have the right to receive notice of, attend and vote at general meetings of the company and, in a poll, to one vote for each ordinary share held.

Exhibit 11: Major shareholders



Source: Bloomberg, as of 28 March 2023

Exhibit 12: Average daily volume (ordinary shares)



Source: Refinitiv, as of 28 March 2023

Fees and charges

The Investment Management Agreement states that the investment manager was appointed to act as the company's alternative investment fund manager, with incremental annual management fees of 0.9% of NAV, where NAV value is up to and including £650m and 0.8% of NAV above £650m. No annual management fee will be received on undeployed cash funds arising from net proceeds of ordinary shares or C shares until 75% or more of these shares have been deployed.

For the six months to 30 September 2023, the ongoing charge ratio (OCR) was 1.89% The main driver for the OCR was that management fees were charged on full NAV. However, this was not the case for the six months to 30 September 2021, due to the Investment Management Agreement stated above, resulting in an OCR of 1.38%.

The board

Exhibit 13: TENT's board of directors

Board member	Date of appointment	Remuneration for six months to 30 September 2022	Shareholdings at 31 March 2023
Dr John Roberts, CBE (chairman)	23 June 2020	£37,500	40,000
Rosemary Boot	23 June 2020	£22,500	40,000
Dr Anthony White, MBE	23 June 2020	£20,000	40,000
Sonia McCorquodale	23 June 2020	£20,000	10,000

Source: Triple Point Energy Transition

Appendix

Technology

TENT's core investments are in established technologies, with little technical risk. The majority of its investment are producing, established assets with little construction risk. A brief summary is below.

Scottish run-of-river hydroelectric systems

Hydroelectricity production is an established method of generating electricity (converting potential energy of water at elevation and converting it to power as it runs to lower elevation). The technology of water driving power turbines is well established.

90.1% of TENT's hydroelectric portfolio's income is inflation protected. The valuation of these assets is based on tariffs that are contractually linked to inflation and wholesale power prices, which the sensitivity assumes will move with inflation. The valuation assumptions released by TENT indicate average long-term inflation across the portfolio of 3.00% for RPI from 1 October 2023 to 2030 and 2.40% thereafter, 2.25% for CPI from 1 October 2023. TENT also models a power curve indexation set at 3.00% from 2023.

Exhibit 14: Run-of-river hydro schemes

Source: TENT

Combined heat and power (CHP)

A CHP plant typically generates electricity via the use of fossil fuels through a reciprocating engine or turbine. Instead of allowing waste in the form of heat, produced by the combustion reaction, to be exhausted into the atmosphere, CHP systems recover wasted heat and convert it to steam or hot water, increasing the efficiency of the plant from 35–40% to greater than 70%. These facilities then recover and reuse the waste CO_2 to enhance crop yields by up to 40%, replacing the need for purchasing CO_2 from third-party supplies and preventing waste carbon that would have otherwise entered the atmosphere.

The Harvest and Glasshouse assets are based on the Isle of Wight and serve one of the UK's largest tomato growers, APS. APS is responsible for one-third of the UK's tomato production and has more than 65 years' experience. The sites comprise four 5.5MWe Rolls-Royce gas engines totalling 22Meh in generation capacity.

The Spark Steam asset also serves APS and is based in Teesside. This power generation facility uses two 3.3MWth, state-of-the-art Jenbacher gas engines and heat/CO_2 recovery and distribution systems.

TENT is a senior debt provider to the owners of the assets. These assets generate revenue through an Energy Supply Agreement to supply heat and power to APS, in which the per-unit rate is uplifted annually by RPI. Any remaining electricity is sold via wholesale markets.

Exhibit 15: CHP plants

Source: TENT

BESS

Battery energy storage provides flexibility and stability to electricity grids. An increase in electricity grid system volatility is expected as markets shift from fossil fuels to intermittent renewables to meet net zero targets and battery storage will be essential in complementing this implementation of renewables. The battery storage sector benefits from rising volatility in the electricity market by charging batteries when electricity prices are low and releasing to the grid when prices are high. BESS typically has three revenue sources: ancillary services (frequency response and grid balancing services), wholesale trading and capacity markets (providing spare capacity when required). Market conditions can determine which of these are the dominant source of revenue. The UK market remains underserved by BESS systems at present, which will be increasingly needed for power infrastructure as renewables continue to gain market share.

TENT provides debt to Field Energy, which develops BESS systems. For a detailed discussion of BESS systems, please see our thematic report published on 1 February 2023.

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