US Solar Fund

Attractive and sustainable returns from US solar power

Quarterly Update | 30 September 2019

Third Quarter Update

USF Quarter Highlights

- **July 2019**: US Solar Fund (**USF**) executed an acquisition agreement and subsequently, in September, closed the acquisition of the 128 megawatt (**MWDC**) utility-scale solar project Milford Solar Project (**Milford**). Milford has commenced construction and is expected to be operational in late 2020.
- **September 2019**: USF announced its first interim dividend of 0.41 cents per ordinary share (to be paid on 8 November 2019). This represents an annualised dividend yield of 2% when measured against the initial issue price of $1 per share.
- **September 2019**: As of 30 September 2019, the Investment Manager's pipeline included 4,219 MWDC of assets with $3.7 billion cash equity value and an average Power Purchase Agreement (**PPA**) term of 14.3 years.
- **October 2019**: After the end of the period, USF announced it had entered exclusivity to acquire an approximately 39MWDC operating utility-scale solar power portfolio consisting of eight projects located in North Carolina (**Greenbacker**).

During the quarter, USF closed on its first acquisition, Milford, a 128 MWDC utility scale solar project. Milford is located in Utah and has a 25-year power purchase agreement with PacifiCorp (S&P rating: A) commencing in the second half of 2020.

Construction on Milford began in September and, in early October, the Investment Manager had an initial site meeting with the developer, Longroad Energy Partners and the engineering, procurement and construction contractor, McCarthy Building Companies to confirm progress of construction. Milford is expected to be operational in late 2020.

In September, USF announced its first dividend of 0.41 cents per ordinary share for the period ending 30 June 2019. This dividend is expected to be paid on 8 November 2019 to shareholders on the register as at the close of business on 18 October 2019.

As of 30 September 2019, the Investment Manager's pipeline of opportunities included 4,219 MWDC of assets with $3.7 billion cash equity value and an average PPA term of 14.3 years. At 30 June 2019, the Investment Manager disclosed a pipeline of 3,613 MWDC of assets with $2.8 billion cash equity value and an average PPA term of 16 years. The growth over the quarter has been partially driven by developers fast-tracking projects to be construction-ready prior to the initial step-down of the 30% Investment Tax Credit (**ITC**) at the end of this year. The pipeline continues to be weighted more toward construction ready assets.

On 16 October, after the end of the quarter, USF announced that it had entered exclusivity with Greenbacker Renewable Energy Corporation, a leading investor and product sponsor focusing on income-producing renewable energy projects, to acquire an approximately 39MWDC operating utility-scale solar power portfolio consisting of eight projects located in North Carolina.

All projects have long-term PPAs with investment-grade offtakers and are currently operating and selling electricity under their respective PPAs. These operating assets would generate revenue for USF upon acquisition and would be complementary to USF's existing asset, Milford, which is under construction and the assets under exclusivity with Cypress Creek Renewables, which would commence construction at final close.

USF continues to work through due diligence on both of the assets currently under exclusivity: Greenbacker and the Cypress Creek portfolio. Subject to the completion of appropriate due diligence and documentation, USF expects to complete both acquisitions prior to the end of the calendar year 2019 and looks forward to sharing more information at that time.

Due diligence of additional pipeline opportunities is ongoing and USF expects to announce further investments in due course.

Third Quarter Update

US Solar Market Update

Q2 2019 UTILITY-SCALE SOLAR MARKET UPDATE[1]

The US utility-scale solar photovoltaic (**PV**) market rapidly grew over the second quarter of 2019, with the pipeline of solar projects now at a record high. The total contracted pipeline of US utility-scale solar projects (signed but not yet installed) reached 37.9 gigawatts (**GWDC**) at the end of Q2 2019, signaling a promising future for solar energy development.

During Q2 2019, 1 GWDC of utility-scale projects was installed in the US, representing:

- a 7% decrease compared to Q2 2018
- a 42% increase compared to five years prior, and;
- 19% year on year cumulative capacity growth.

Although installation in Q2 was down compared to the prior year period, the record-high of 8.7 GWDC of projects currently under construction indicates that utility-scale installations are on track for a strong year.

The 14.5 GWDC of utility solar contracts announced during the first half of 2019 is also an all-time high and suggests that we could see over 20 GWDC of solar contracted by year's end.

The growth in the industry during the first half of the year has been partially driven by the increased demand by developers looking to safe-harbor equipment to qualify for the 30% ITC in 2019. The ITC has promoted a 52% average annual solar growth since it was enacted in 2006. It begins to phase-down after 2019, stepping down to 26%, 22% and 10% in annual increments. The ITC will remain at 10% from 2022.

On 25 July 2019, a bipartisan group of US lawmakers introduced companion bills proposing to extend the 30% ITC for five years. At this stage, the Trump administration has not provided any indication of an extension. Given the fact that solar, along with wind, are today the two cheapest forms of new build generation in the US the extension of the ITC is not necessary for solar to remain an attractive industry in the US.

An increasing portion of utility-scale solar demand is now being driven by corporate, non-utility off-takers, with corporate procurement driving 17% of all new projects announced in the first half of 2019. This figure is forecasted to further rise to 20% from 2019 through 2024 as different states transition towards their renewable targets and more companies commit to 100% renewable power.

Thirty-seven US states have either a renewable portfolio standard or a voluntary renewable target and many continue to increase their targets. However, voluntary procurement (not dependent on subsidies) remains the largest driver of US utility PV at 55% of total announcements. This is based on economic competitiveness driven by the low cost of utility solar PV.

The unprecedented levels of procurement combined with lower costs have driven US utility solar forecasts for 2019-2024 to grow by 6.7 GWDC or 11% over forecasts released last quarter.

US-CHINA TRADE WAR

While trade tensions between the US and China have existed for many years, the US-China trade war became heightened over the quarter. Multiple bilateral tariffs were imposed between the countries on various imported goods, some of which apply to Chinese solar modules, cells, and inverters. Alongside this, the Section 201 Trade Act enacted in January 2018 remains intact, subjecting solar cells above an annual 2.5GWDC quota and all solar modules imported into the US to a 30% tariff which steps down 5% annually over four years. This tariff applies to all countries except for certain developing nations.

In October 2019, the Trump administration revoked the tariff exemption for bifacial modules, a type of module that uses both sides of the panel to generate electricity resulting in potentially higher generation volumes compared to standard, or mono-facial, modules. During the period the exemption was in place bifacial sales volumes increased however still represented a small share of overall module sales.

While we are yet to see the effect of this latest development, it is important to note that the US solar market has been subject to tariffs since 2012 and it has continued to expand consistently, including with a record level of H1 capacity installed during H1 2019, despite the tariffs.

[1] Wood Mackenzie/SEIA Q3 2019 U.S. Solar Market Insight®. The Q3 2019 report provides data through Q2 2019.

Fact Sheet

Fund Overview

US Solar Fund plc's investment objective is to provide investors with attractive and sustainable dividends, with an element of capital growth, by investing in a diversified portfolio of solar power assets in North America and other OECD countries in the Americas.

US Solar Fund listed on the LSE in April 2019, following its successful IPO which raised $200m.

The US is a leading global solar market and is expected to experience continued strong growth, largely driven by the improving cost competitiveness of solar PV and supportive state and federal policy schemes.

US Solar Fund is aiming to deliver:

- an annual dividend yield target of 5.5% once all solar power assets acquired with the proceeds from the Initial Placing (**Solar Power Assets**) are operational with an average growth rate of 1.5 –2.0% per annum (on a fully invested and geared basis)
- initial target annual dividend yield of 2-3% until all Solar Power Assets are fully operational
- target net total return over the life of the Solar Power Assets of at least 7.5% per annum
- initial proceeds are expected to be invested or committed within six to nine months of Admission, with most plants expected to be operational within the following 12 months

US Solar Fund is managed by New Energy Solar Manager (**NESM**). NESM was established in 2015 and also manages New Energy Solar (www.newenergysolar.com.au) which has committed over $800m to 16 solar power projects (14 of which are in the US).

NESM is owned by Walsh & Company, the funds management division of Evans Dixon, an ASX listed company (ASX: ED1) with over A$18 billion of funds under advice and management.

KEY FINANCIAL FACTS AT 30 SEPTEMBER 2019

Ordinary Shares Issued	200,000,000	
Ticker	USF ($)	USFP (£)
Share Price	0.985	0.8025
NAV ($)[2]	195m	
NAV/share ($)[2]	0.98	
Premium to NAV[2]	1.0%	
Market Cap ($)	197m	
Ongoing Charges[2,3]	1.44%	
Target Dividend Yield[4,5]	5.5%	
Next Dividend	8 Nov 2019[6]	
Target Net Total Return[5,7]	Min 7.5%	

COMPANY INFORMATION

Listing:	London Stock Exchange Premium Segment
SEDOL	BJCWFX4 ($) BHZ6410 (£)
ISIN	GB00BJCWFX49
Registered Number:	11761009
Ticker:	LSE: USF ($)/USFP (£)
Dividend Payments:	Quarterly[6]
Financial Year End:	31 December
Website:	www.ussolarfund.co.uk

[2] Based on the unaudited NAV as at 30 September 2019.

[3] The ongoing charges ratio is calculated in accordance with the Association of Investment Companies ("AIC") methodology "The estimated total cost as laid out in the prospectus was 1.35% based on proceeds of $250 million. As total proceeds of the IPO were $200 million, this ratio is slightly higher than estimated at IPO.

[4] Once fully operational and on a fully invested and geared basis. An initial target annual dividend of 2-3% on the IPO issue price in respect of the period from listing until 31 March 2020 or, if later, when all the solar power assets are fully operational.

[5] The initial target annual dividend yield, target annual dividend yield and target net total return are targets only and are not profit forecasts. There can be no guarantee that these targets will be met and they should not be taken as an indication of the Company's expected or actual future results.

[6] First dividend to be paid 8 November 2019.

[7] Over the life of the solar power assets (expected to have a typical asset life of 30 to 35 years, and potentially up to 40 years) net of all fees and expenses but before tax, on the basis of the IPO issue price once the Company is fully invested.

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CORPORATE CALENDAR

Q3 Dividend	November 2019
Company Financial Year End	December 2019
Dividend, NAV and Trading Update	March 2020
Annual General Meeting	May 2020
Dividend, NAV and Trading Update	May 2020
Company Financial Half-Year	June 2020

DISCLAIMER

This Quarterly Update (**Update**) has been prepared by the Investment Manager (New Energy Solar Manager Pty Limited) of US Solar Fund. An investment in US Solar Fund is subject to various risks, many of which are beyond the control of its Investment Manager. The past performance of US Solar Fund is not a guarantee of its future performance. This Update contains statements, opinions, projections, forecasts and other material (forward-looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. Neither the Investment Manager nor US Solar Fund, their respective officers, employees, agents, analysts or advisers nor any other person named in this Update makes any representation as to the accuracy or likelihood of fulfillment of the forward-looking statements or any of the assumptions upon which they are based. Unless otherwise specified, all references to currency are to US dollars.