Gresham House Energy Storage Fund plc

Quarterly update for the three months ended 30 September 2021

Gresham House
Since 1857
Specialist asset management

Summary

Gresham House Energy Storage Fund plc (GRID or the Fund) seeks to capitalise on the growing intraday supply and demand imbalances caused by Great Britain and Ireland's ever-increasing reliance on renewable energy.

The Fund aims to provide investors with an attractive and sustainable dividend by investing in a portfolio of utility-scale Battery Energy Storage Systems (BESS) located in Great Britain and Ireland, which primarily use batteries to import and export power, accessing the multiple revenue sources available in the power market. As of 30 September 2021, the Fund owned 425MW of operational capacity across 17 projects in Great Britain.

The Fund targets a Net Asset Value (NAV) total return of 8.0%+ per annum, before leverage and net of Fund expenses, and a target dividend of 7.0p per annum per Ordinary Share.[1] Returns are not correlated to the absolute level of wholesale power prices and are not dependent on any government subsidies.

Financial highlights

- NAV increased to £490.0m, or 111.91p per share, up 2.02p per share in the quarter
- From the IPO in November 2018 to the end of September 2021, the Fund has delivered a share price total return of 42.7% compared with 16.5% for the FTSE All Share and a NAV total return of 31.2%
- Dividend cover remained healthy at 1.2x notwithstanding the increased cash balance following £100m equity fundraising in July
- The portfolio achieved a record EBITDA performance during the quarter with Dynamic Containment generating over 50% of revenues. Increased power price volatility during September led to a record monthly EBITDA, driven by trading
- Power price volatility, which is remaining high in Q4 2021, is driving continued record revenue levels, therefore trading is expected to achieve a larger share of revenues going forward
- ***Review of weighted average discount rates (WADR):*** as highlighted in the Interim Results, the Fund has completed a review of the discount rates used for valuation purposes. The Board and Manager, in consultation with its Independent Valuer, have agreed that a 0.25% reduction in discount rate applied to merchant cashflows[3] from 11.10% to 10.85% is appropriate. There is no change to the discount rate applied to contracted cashflows
- Accordingly, the WADR for operational assets as at 30 September 2021 has therefore dropped to 10.5% from 10.7% at the end of June
- ***Review of valuation methodology for in-construction assets:*** following the Investment Policy change in November 2020[4] the Fund has acquired several projects at the pre-construction stage from its target pipeline and is currently putting these projects into construction
- The Board and the Manager have determined that the appropriate approach is to revalue projects in construction using a discount rate of WADR+0.5% so long as they are projected to commission within nine months. Post-commissioning, the WADR is applied. This approach will ensure that the revaluation of projects takes place gradually as they are de-risked and major milestones are achieved
- As at 30 September 2021, the blended WADR across all operational assets (425MW) and in-construction assets (100MW) combined is 10.7%
- ***Commentary on changes to the NAV:***
  During the quarter, the most significant changes to NAV per share included:
  - +3.39p due to revaluation of 100MW of projects under construction (Enderby and West Didsbury)
  - +2.25p from cash generated by the portfolio
  - +1.32p from the reduction in the discount rate on merchant cashflows of 0.25%
  - +0.41p from raising £100m in July 2021 at 112p, a premium to the prevailing NAV
  - -1.75p from the payment of dividends
  - -1.93p due to lower revenue forecasts. The Fund's third party consultants revised down Dynamic Containment pricing forecasts following National Grid moving to contracting in four-hourly blocks in mid-September and announcing reduced demand during certain blocks, impacting rest-of-2021 and 2022 price and volume forecasts. Higher trading revenue assumptions offset some of the reduction although overall forecasts remain below currently-achievable levels

Key facts as at 30 September 2021

Share price (closing price):	**124.5p**
NAV per share:	**111.91p**
Market capitalisation:	**£545.1m**
Net assets:	**£490.0m**
Mgt. fee:	**1.0% net assets <£250m 0.9% net assets from £250m-£500m 0.8% net assets >£500m**
Ongoing Charges[2]:	**1.26%**
2021 target dividend per share:	**7.0p**
Ordinary Shares in issue:	**437,842,078**

	Q3 2021	YTD 2021	Since inception*
Share price total return	4.7%	15.9%	42.7%
NAV total return	3.3%	13.7%	31.2%

*Since inception - November 2018

Key information

Ticker:	**GRID**
Listing:	**LSE Specialist Fund Segment**
ISIN:	**GB00BFX3K770**
Dividend frequency:	**Quarterly**
Year end:	**31 December**

Fund Manager

Gresham House Asset Management Ltd (GHAM)

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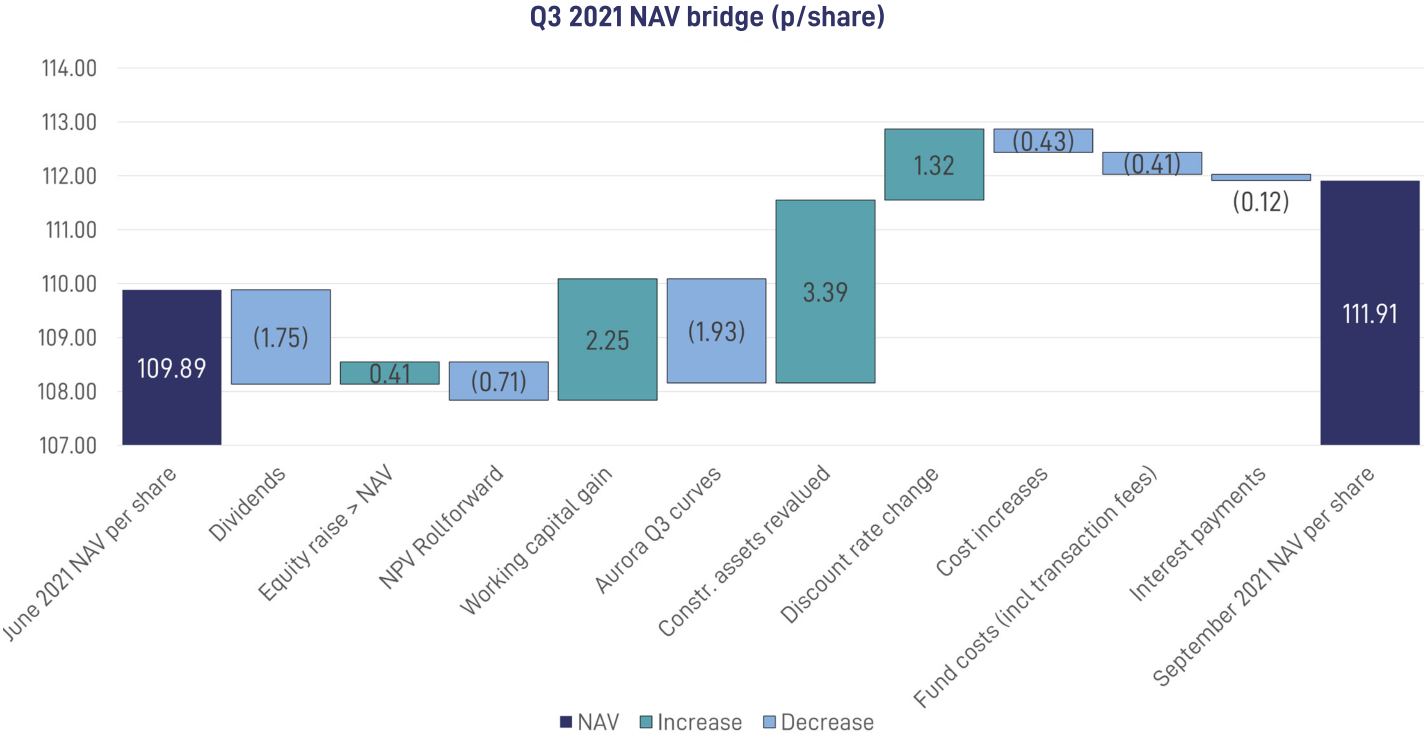
GRID website >>

1. This is a target only and not a profit forecast. There can be no assurance that this target will be met or that the Fund will make any distributions at all. This target return should not be taken as an indication of the Fund's expected or actual current or future results. The Fund's actual return will depend upon a number of factors, including but not limited to the Fund's net income and the Fund's ongoing charges figure. Potential investors should decide for themselves whether or not the return is reasonable and achievable in deciding whether to invest in the Fund
2. As at 31 December 2020
3. The discount rate applied to all merchant cashflows includes short term Enhanced Frequency Response (EFR), Firm Frequency Response (FFR) and Dynamic Containment (DC) revenues, while the discount rate applied to contracted income is applied only to Capacity Market contracts at this time
4. The Fund can now take construction risk of up to 10% of Gross Asset Value (GAV) which is in addition to an existing permission to make equipment loans to its project companies for up to a further 15% of GAV

Portfolio activity & market outlook

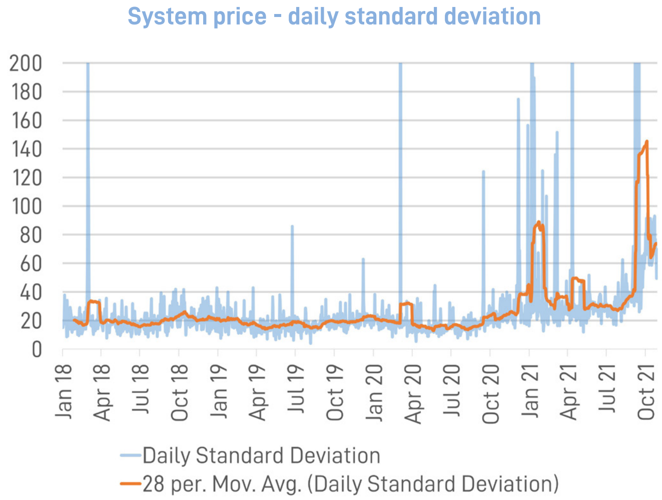
- The Fund has seen a lot of activity in the third quarter of 2021 both in terms of transactions and market backdrop
- The Fund successfully raised equity of £100m before expenses at 112p in early July. This was in addition to the £120m raised in November 2020
- In September, the Fund signed a £180m debt facility which consists of a £150m capex facility and a £30m RCF. The facility carries a cost of 300bps over SONIA on amounts drawn and has a term of five years allowing the Fund financial flexibility in the prudent utilisation of this facility
- The Fund put four projects into construction: Coupar Angus, Arbroath, Enderby and West Didsbury, totalling 175MW. A further 190MW are expected to follow in Q4 and over 200MW in Q1 2022
- The Fund continues to develop its pipeline which currently stands at 852MW. The Investment Team is focused on scaling up through adding new pipeline opportunities to the current batch of projects
- The market environment has been developing as expected in terms of rising volatility due to the increasing penetration of renewables; in the Manager's opinion, this feature of the market is here to stay and is expected to continue to evolve as more renewables are deployed, resulting in more supply side intermittency.
- Natural gas and carbon prices have risen significantly with the former having the greater impact on electricity prices. We do not expect these very high prices to last more than a few months. It is also not expected that a reversal in gas prices will result in much lower power price volatility – for example we witnessed similar volatility in December 2020 and January 2021 of last winter despite much lower gas prices
- As mentioned above, we are seeing lower Dynamic Containment service procurement by National Grid. In moving to four-hourly contracting in mid-September, National Grid can procure less during those times of the day when they need less grid support services. The result is lower expected prices for Dynamic Containment due to oversupply, in line with the Manager's prior expectations

The net result of the developments above is that higher volatility is expected to underpin trading revenues while the frequency response market is now in saturation much of the time. As such, the Manager is expecting trading revenues to represent over 50% of revenues from 2022, with total revenues expected to remain robust. The Manager remains confident, given its strong technical capabilities and large-scale operating portfolio, to be able to capture revenues from this evolving market environment.

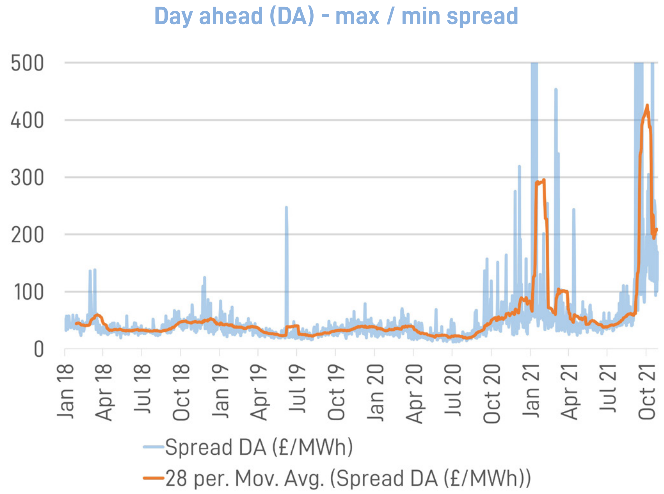


Source: Gresham House New Energy, 30 September 2021

Intra-day and day ahead power price volatility



Source: Gresham House New Energy, 28 October 2021



Source: Gresham House New Energy, 28 October 2021

Portfolio & pipeline

Current portfolio

Project	Location	MW	Status
1. Staunch	Staffordshire	20	Operational - 2018
2. Rufford	Nottinghamshire	7	Operational - 2018
3. Lockleaze	Bristol	15	Operational - 2018
4. Littlebrook	Kent	8	Operational - 2018
5. Roundponds	Wiltshire	20	Operational - 2018
6. Wolverhampton	West Midlands	5	Operational - Q3 2019
7. Glassenbury	Kent	40	Operational - Q4 2019
8. Cleator	Cumbria	10	Operational - Q4 2019
9. Red Scar	Lancashire	49	Operational - Q4 2019
10. Bloxwich	West Midlands	41	Operational - Q3 2020
11. Thurcroft	South Yorkshire	50	Operational - Q4 2020
12. Wickham Market	Suffolk	50	Operational - Q4 2020
13. Tynemouth	North Tyneside	25	Operational - Q1 2021
14. Glassenbury Extension	Kent	10	Operational - Q1 2021
15. Nevendon	Essex	10	Operational - Q1 2021
16. Port of Tyne	Tyneside	35	Operational - Q1 2021
17. Byers Brae	West Lothian	30	Operational - Q2 2021
Total portfolio		**425**	

Pipeline

Project	Location	MW	Commissioning
18. Enderby	Leicester	50	Q1 2022
19. West Didsbury	Manchester	50	Q1 2022
20. Melksham East & West	Swindon	100	H1 2022
21. Coupar Angus	Co. Perth	40	Q1 2022
22. Arbroath	Co. Angus	35	Q1 2022
23. Penwortham	Preston	50	H2 2022
24. Grendon	Northampton	100	H2 2022
25. Monet's Garden	North Yorkshire	50	Q1 2023
26. Lister Drive	Merseyside	50	Q1 2023
27. Project E2	West Yorkshire	150	Q1 2023
28. Stairfoot	South Yorkshire	40	Q1 2022
29. Project B	West Yorkshire	87	H2 2022
30. Project Y	York, N. Yorks.	50	H2 2022
Total pipeline		**c.852**	

Current pipeline

Subsequent pipeline

Contact information

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Important information