Bluefield Solar Income Fund

Walking on sunshine

Faced with rising prices for secondary solar power projects, Bluefield Solar Income Fund (BSIF) has taken a strategic decision not to focus on growing its portfolio during the last couple of years. Instead, a focus on increasing operational efficiency, coupled with a 32.5% increase in the power price, has helped deliver a 16.2% year-on-year uplift in BSIF's underlying earnings for the year ended 30 June 2018 (from 8.32p per share to 9.67p per share).

BSIF has an annual dividend target that, after the repayment of debt, is linked to the retail prices index, which is 7.68p for the year ending 30 June 2019 - a 6.0% yield on the current share price. BSIF offers one of the highest yields in its sector.

Pure play large-scale UK solar photovoltaic assets

BSIF's aims to pay shareholders an attractive return, principally in the form of regular income distributions, by investing in a portfolio of large-scale, UK-based solar-energy infrastructure assets. BSIF is targeting long-life assets that are expected to generate stable renewable energy output over at least a 25-year life. Individual assets, or portfolios of assets, are held in special purpose vehicles (SPVs). BSIF can invest in these using both equity and debt.

Dividends are paid quarterly and, should the total dividend fall short of its RPI-linked target, the manager's fee is subject to a clawback (a performance fee is also earned if the dividend beats the target).

Year ended	Share price total return (%)	NAV total return (%)	Earnings per share (pence)	Dividend per share (pence)	Target dividend per share (pence)
30/06/14*	1.6	5.1	6.99	4.0	4.0
30/06/15	13.5	7.0	7.71	7.25	7.0
30/06/16	(2.6)	3.0	7.55	7.25	7.07
30/06/17	23.5	19.2	7.55	7.25	7.18
30/06/18	11.4	8.8	9.67	7.43	7.43

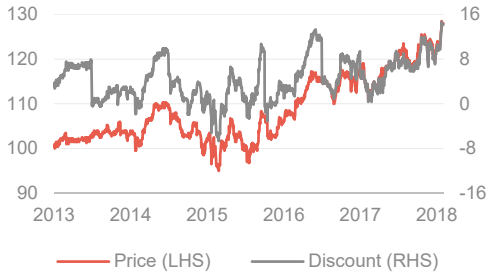
Source: Morningstar, Marten & Co *Note: Figures are for the first accounting period - 29 March 2013 to 30 June 2014.

Sector	Sector specialist – renewable energy
Ticker	BSIF LN
Base currency	GBP
Price	128.00p
NAV*	110.17p
Premium/(discount)	16.2%
Yield **	6.0%

* Morningstar estimate as at 30 January 2019, last published NAV is 114.10p at 30 September 2018. ** yield assumes that BSIF at least meets its target dividend of 7.68p per share for the year ending 30 June 2019.

Share price and discount

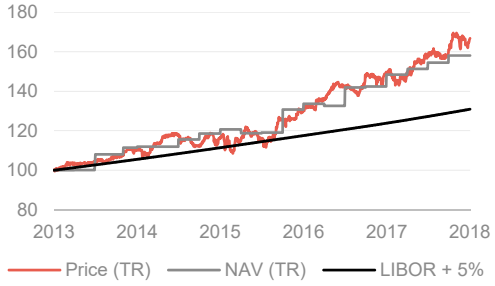
Time period 31/12/2013 to 30/01/2019



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/12/2013 to 31/12/2018



Source: Morningstar, Marten & Co

Domicile	Guernsey
Inception date	12 July 2013
Investment adviser	Bluefield Partners
Market cap	473.4m
Shares outstanding	369.8m
Daily vol. (1-yr. avg.)	499.9k shares
Net gearing	48.8%

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Fund profile

Stable sterling income from a portfolio of large-scale UK solar assets

Further information regarding BSIF can be found at the fund's website: www.bluefieldsif.com.

Bluefield Solar Income Fund (BSIF) is a Guernsey-domiciled fund. It has been listed on the main market of the London Stock Exchange (LSE) since 12 July 2013 and has a premium main market listing. While its portfolio has some exposure to small-scale assets, its focus is on the acquisition and management of a diversified portfolio of large-scale (utility scale) solar energy in the UK (its earnings are all in sterling). It targets portfolios on greenfield, industrial and/or commercial sites.

BSIF seeks to pay quarterly dividends. It has an RPI- linked annual dividend target.

BSIF's primary objective is to deliver long-term stable sterling income via quarterly dividends. The majority of its regulated revenues are linked directly to the retail prices index (RPI). Since its launch, BSIF has had an annual dividend target that increases in line with RPI each year. The investment advisers' fee incentivises it to beat the dividend target (7.68p for the year ending 30 June 2019). BSIF's exclusive focus on the UK is a differentiating factor against its wider peer group (see pages 21 and 22).

BSIF's investments are held through a wholly owned UK-domiciled subsidiary.

The underlying investments are held in SPVs (special purpose vehicles) which, in turn, are held through BSIF's wholly owned and UK-domiciled portfolio holding company, Bluefield SIF Investments Limited (BSIFIL) – see Appendix 2 on page 34 for further detail on BSIF's operating structure.

BSIF is designed for investors looking for a high level of income with regular distributions.

BSIF is designed for investors who are looking for a high level of income with regular distributions, want stable returns that do not move in line with traditional equity markets, wish to see their capital protected and would like some modest capital appreciation over the long term.

BSIF is designed to be suitable for retail investors.

With regards to the FCA's rules on non-mainstream pooled investments, BSIF's board says that it has been advised that the company would qualify as an investment trust if it was resident in the UK. BSIF says that it will make all reasonable efforts to conduct its affairs in such a manner that its shares can be recommended by independent financial advisers to UK retail (private) investors, in accordance with the FCA's rules relating to non-mainstream investment products.

Bluefield Partners LLP – an experienced investment adviser

Bluefield Partners LLP has been BSIF's investment adviser since launch.

Bluefield Partners LLP has been BSIF's investment adviser since launch. Bluefield partners was established in in 2009 as an investment adviser to companies and funds investing in solar-energy infrastructure. To date, it has led the acquisitions of, and currently advises on, over 50 UK-based solar assets that are located on sites that are agriculturally, commercially or industrially situated.

Bluefield Partners says that its team has been involved in over £1.6bn of solar photovoltaic funds and/or transactions in both the UK and Europe since 2008. This includes over £500m in the UK since December 2011 (see pages 10 and 11 for details of its investment process).

Abbreviation guide

KW = Kilowatt, one thousand watts, a unit of power

MW = Megawatt, a thousand kilowatts

GW = Gigawatt, a thousand megawatts

MWh = Megawatt hour, a megawatt produced or consumed over an hour

MWp = Megawatt peak, the output of a solar plant, in megawatts, when running at full power

The UK solar market

A subsidy increase in 2009 drove a sharp growth in new solar-power projects.

In terms of its installed capacity, the UK solar market was, at the end of 2017, the seventh largest in the world with some 12.7GW, placing it ahead of some other well-developed and perhaps sunnier destinations such as France, Australia, Spain and South Korea to name a few. Expansion in the UK has slowed in recent years, as subsidy regimes have changed, but the market grew strongly between 2009 and 2015 as the UK government sought to meet its targets for renewable energy generation. “For every 5MW installed, a solar farm will power 1,515 homes for a year and save 2,150 tonnes of CO2" (source: The Solar Trade Association).

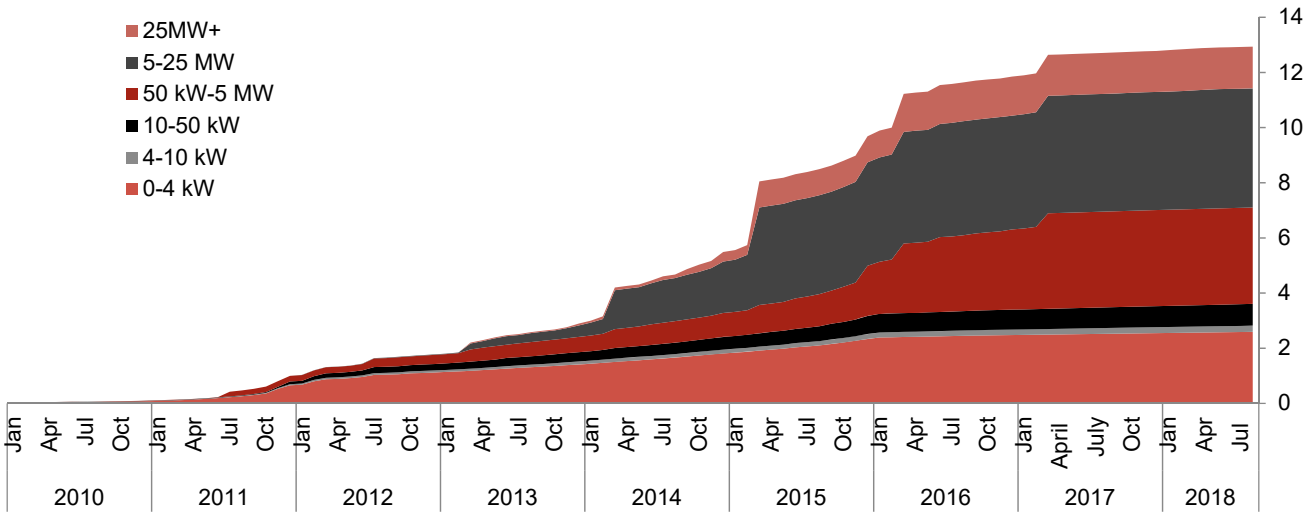
In 2009, subsidies for solar power production were increased in the UK and this market took off quickly (as illustrated in Figure 1 below) – so quickly in fact that the subsidies for new projects were cut repeatedly over successive years and then eliminated altogether (as illustrated in Figure 1, growth has slowed significantly since the beginning of 2017).

Prices in the secondary market for solar PV projects have increased significantly in recent years as competition has increased and new supply has decreased with the reduction in subsidies.

There now exists a healthy secondary (second hand) market in existing projects although competition, and a reduction in new supply coming to market, has driven up prices. BSIF’s manager says that, for private transactions, between 2013 and 2016, the average price was £1.27m/MW; for 2016-2018 this is £1.31m/MW. BSIF says that, for its listed solar peers the average transaction price has risen from £1.18m/MW to £1.26m/MW. BSIF’s average transaction price has remained significantly lower, moving from £1.15m/MW to £1.16m/MW. This is because, when faced with rising solar PV plant prices, BSIF’s advisors have chosen not to keep growing its portfolio (85% of BSIF’s existing portfolio was purchased between 2013 and 2016) and have instead focused on improving the operational performance of the existing assets. There has been some very modest expansion, but this has been conducted at prices more in line with those of its existing investments. As earnings improvements have come through, the board and advisors have also chosen to focus on paying down BSIF’s long-term debt, which should aid profitability over the longer term.

Silicon PV prices have been falling steeply and, in recent months, we have seen the emergence of subsidy-free projects in the UK. As discussed, on page 10, these may provide opportunities for portfolio growth in the future.

Figure 1: UK Solar development: by capacity (GW)



Source: Department for Business, Energy & Industrial Strategy

Solar – a stable and predictable energy source

Solar generation is impacted by climatic conditions, but these average out over the longer term.

BSIF's adviser highlights that solar is a stable and highly predictable energy source. In its words, solar irradiation (the power source of solar assets) comes on in the morning and goes off again at night, at very predictable times throughout the year. Solar generation is impacted by the level of irradiation, but these average out over the medium-to-long term. Bluefield says that, based on historic data, there is a 90% probability that solar irradiation will vary by +/- 7% across a year. Figure 2 provides an illustration of the consistency of the power source over time. Wind, for example, can be markedly more volatile.

UK baseload power prices appear to be on an upward trend.

Electricity produced by BSIF's projects is sold through purchasing power agreements (PPAs) either at fixed prices or based on prevailing spot prices (prices are set every half hour). As discussed on page 7, power prices increased meaningfully during 2018.

Solar irradiation in the UK – 2018 was a good year

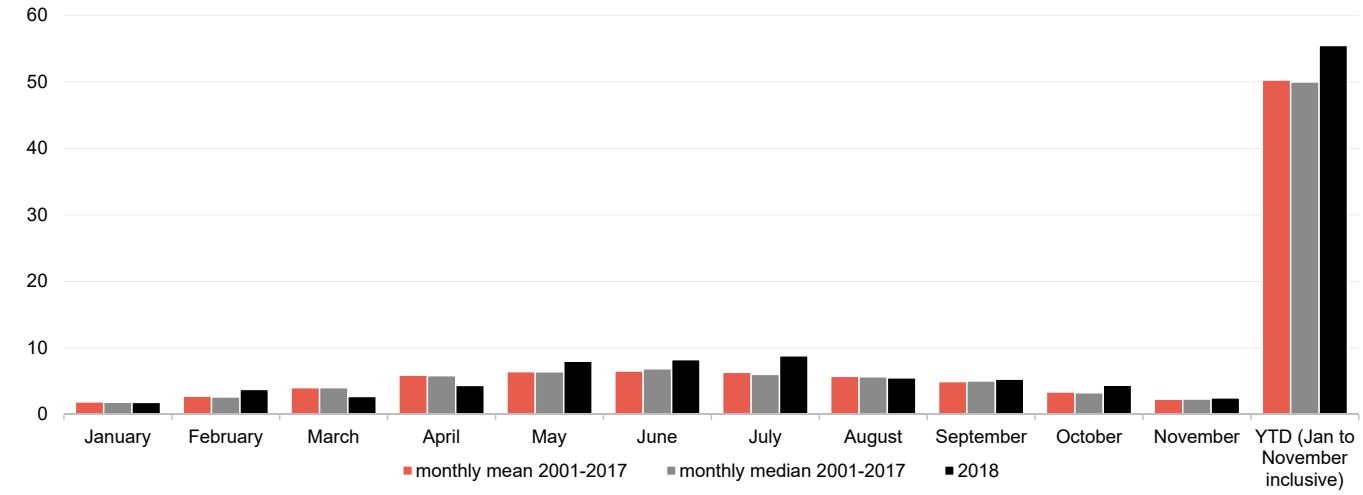
Figures 2 and 3 illustrate the positive impact that 2018's heatwave has had on solar irradiation and solar generation in the UK so far. Despite falling behind longer-term averages for March and April, weighted UK sun hours were markedly ahead of the long-term mean and median for February, May, June and July so that, cumulatively, weighted UK sun hours for January to November are 10.2% ahead of their 17 year mean and 10.9% of their 17-year median.

Figure 2: Average daily UK sun hours: weighted by location of UK solar PV resource

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Avg*	2018
Jan	2.4	1.5	2.3	1.7	2.0	1.7	2.1	1.6	2.0	1.9	1.7	2.1	1.6	1.8	2.2	1.7	2.0	1.9	1.8
Feb	3.1	2.9	3.6	2.9	2.6	2.3	2.5	4.2	2.0	2.1	1.8	2.6	2.4	3.3	3.1	3.0	2.2	2.7	3.8
Mar	3.0	3.8	5.5	3.7	2.6	3.2	5.0	3.8	5.0	4.0	4.3	5.3	2.5	4.7	4.4	4.0	4.0	4.0	2.7
Apr	4.7	6.6	6.7	4.8	5.1	5.6	7.3	5.3	5.7	6.9	7.3	4.4	6.0	5.3	7.1	5.7	6.0	5.9	4.4
May	7.7	6.2	6.4	6.9	7.2	5.7	5.4	6.5	6.9	6.9	6.7	6.1	6.3	5.8	5.9	6.5	6.4	6.4	8.0
Jun	6.8	5.8	7.2	7.0	6.6	8.0	4.8	7.1	7.0	7.9	6.9	4.3	6.1	7.3	7.5	4.4	6.3	6.5	8.3
Jul	6.4	5.7	5.9	5.6	5.8	9.3	6.0	6.4	6.2	5.2	6.0	5.4	8.5	7.5	6.1	6.3	6.0	6.3	8.8
Aug	5.9	5.5	7.0	5.7	6.9	5.1	6.5	3.9	5.9	4.9	4.8	5.3	6.3	6.3	5.2	6.9	5.6	5.7	5.5
Sep	4.0	5.4	6.1	5.4	5.1	5.3	5.0	4.1	5.0	4.5	5.1	5.5	4.3	4.6	5.7	4.4	3.8	4.9	5.3
Oct	3.6	3.1	4.3	3.3	2.9	3.2	3.6	4.0	2.9	3.6	3.7	3.0	2.9	3.2	3.0	3.6	2.6	3.3	4.4
Nov	2.4	2.0	2.3	1.6	3.1	3.3	2.4	1.8	2.3	2.2	2.0	2.3	2.5	2.0	1.3	2.7	2.6	2.3	2.5
Dec	2.4	1.2	1.7	1.8	1.9	1.6	1.6	2.1	2.0	1.4	1.6	1.8	1.8	2.3	1.1	1.6	1.9	1.7	
Avg	4.4	4.1	4.9	4.2	4.3	4.5	4.4	4.2	4.4	4.3	4.3	4.0	4.3	4.5	4.4	4.2	4.1	4.3	

Source: Department of Business, Energy & Industrial Strategy - Average daily sun hours and deviations from the long-term mean - 20 December 2018 report, Marten & Co
*Note: highlighted average is for individual calendar months, calculated over the years 2001 to 2017 inclusive.

Figure 3: Mean*, median* and 2018 average daily UK sun hours: weighted by location of UK solar PV resource



Source: Department of Business, Energy & Industrial Strategy - Average daily sun hours and deviations from the long-term mean - 30 August 2018 report, Marten & Co
*Note: monthly averages and medians are for the years 2001 to 2017 inclusive.

Power prices increased over 2018

The generation activities of BSIF (and its solar PV peers) have largely fixed costs (unlike coal or gas-driven power production, BSIF's cost of production is unaffected by commodity prices) and so, for the sales not tied to long-term PPAs, any increase in the wholesale power price feeds through to BSIF's bottom line (its profits). Furthermore, over the longer term, higher power prices in the spot market (for immediate delivery rather than in the future) lead to higher agreed prices for PPAs as they are periodically reset.

Figure 4: UK power baseload forward season 1 price (£/MWH)

Source: Bloomberg

Figure 5: UK NBP natural gas forward season 1 price (£/therm)

Source: Bloomberg

Power prices have increased meaningfully this year in the UK.

As illustrated in Figures 4 and 5, power prices increased meaningfully over the course of 2018, in the UK, so that they came close to 10-year highs. This seemingly surprised the market (this was also seen in continental Europe, for example in Germany and France, while power prices have also ticked higher in the US). Twelve months prior, when prices were much lower than their 2008 peaks, commentators were saying that, with an ever-increasing supply of renewables entering the market and increasing energy efficiency, power prices would be broadly on a downward trend hereafter. Power prices have since come off but remain higher than they were at the beginning of 2018.

It is therefore fair to question, what has been driving the improvement in power prices. Two key factors have emerged:

- Commodity prices (notably coal and natural gas – see Figures 5 and 6) have risen significantly, which has in part been attributed to strong Chinese demand.
- Reform of the EU's emission trading system (EU ETS) is expected to lead to a new scarcity of carbon credits. The carbon price has risen significantly in response (see Figure 7).

Figure 6: Europe Coal Forward Year 1 price (US$/metric tonnes)

Source: Bloomberg

Figure 7: Carbon price - ICE EXC Emission Index (€/metric tonne)

Source: Bloomberg

Rising commodity prices and a rising carbon price have contributed to rising power prices.

As illustrated in Figures 5 and 6, the prices of natural gas and coal have increased significantly (the oil price has also risen but the impact of this is much less significant than it was 15 years ago) and the carbon price, which had been fairly steady and below €10 per tonne for years, has also risen dramatically (from around €7 per tonne to €20 per tonne in the space of 18 months – see Figure 7) following reform of the EU ETS.

Launched in 2005, the EU ETS is the largest greenhouse gas emission trading system in the world, but it has suffered from an excessive issuance of certificates over the last 15 years. Previous efforts to reform the system had been repeatedly thwarted but, by agreeing to phase in the changes, the EU has managed to secure a reform. This has led to cancellation of carbon certificates, which has reduced their oversupply, created a scarcity effect and pushed up the carbon price and power prices meaningfully. As it was designed to, the change has incentivised countries to exit polluting technologies and it is possible that the carbon price could rise further from here.

BSIF benefits from a variety of subsidies

The complexity of the UK's subsidy regime reflects changing government priorities.

The subsidy regime in the UK has evolved over the years as new priorities have been emphasised by the government; consequently, it is quite complex. The subsidies are index-linked, predominantly to the retail price index (RPI).

ROCs were one of the main mechanisms for the provision of subsidies to new renewable energy projects between April 2002 and March 2017. The subsidies are paid for 20 years from the date of the commissioning of the project.

Renewables Obligation Certificates (ROCs) were one of the main mechanisms for the provision of subsidies to new renewable energy projects between April 2002 and March 2017. Electricity suppliers either bought ROCs from generators each year or paid a price per MWh set by the government who, in turn, passed the proceeds to the generators. All new projects got 1 ROC per MWh between 2002 and 2008 but, since then, the number of ROCs attached to a project has varied by type of generation. The intention was to encourage the development of certain forms of generation over others. For example, hydroelectric schemes attracted, routinely, lower subsidies than offshore wind. The subsidies are paid for 20 years from the date of the commissioning of the

project. Solar projects capable of generating more than 5MW ceased to attract ROCs from April 2015 (although projects with planning permissions at that time were 'grandfathered' into the scheme). Similarly, the scheme was terminated early, in April 2016, for new on-shore wind projects. The ROC buyout price is set by Ofgem (Office of Gas and Electricity Markets), it increases in line with RPI each year and so is relatively predictable. Figure 8 shows the buyout per ROC for the last 10 years.

Figure 8: Buy-out price per ROC for the obligation period 1st April - 31st March (£/MWh)

Heading	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Buy-out price	37.19	36.99	38.69	40.71	42.02	43.30	44.33	44.77	45.58	47.22

Source: Ofgem

By way of illustration, BSIF's West Raynham project in Norfolk generated 49,227.82MWh during the year ended 30 June 2018 (this was the largest amount of generation from any of BSIF's plants during the year). This plant is accredited for 1.4 ROCs. Using the 2018-19 ROC buyout price (in reality, the generation subsidy earned will have been partly at the 2017-18 price and partly at the 2018-19 price) this generation is worth £3.25m. This being 49,227.82MWh x 1.4 ROCs x £47.22 (buy-out price £/MWh).

Under the Feed-in-tariff (FIT) scheme, which is no longer available to new utility scale investments, projects attract a subsidy per KWh for electricity produced. FITs awarded before the end of July 2012 are paid for 25 years and, after 1 August 2012, for 20 years. These subsidies are index-linked but vary according to a range of criteria including technology type; for solar PV, the installation type; maximum and minimum capacity; energy efficiency rating; and, where applicable, tariff start and end dates. More information is available at **www.ofgem.gov.uk**. As illustrated in Figure 11, FIT payments account for 8.9% of BSIF's revenue and so is one of the smaller sources of income.

Click here to see Ofgem's tariff table with effect from 1 April 2018.

BSIF – focused on increased operational performance

BSIF's response to rising prices in a crowded UK solar market has been to slow down the growth of its asset base.

In contrast to some of its peers, BSIF's response to rising prices in a crowded UK solar market has been to slow down the growth of its asset base. As discussed on page 12, for the year ended 30 June 2018 BSIF added four new projects to its portfolio, which is equivalent to 4.26% of its generation capacity. This continues a trend of slow growth from the previous financial year as BSIF has instead focused its efforts on increasing operational performance. Through Bluefield Services' efforts (see page 17) the performance ratio (the ratio at which the power plant converts the solar irradiation to energy - often called the quality factor) for the portfolio was, at 82.1%; 0.7 percentage points ahead BSIF's budget of 81.5%.

It is worth noting that the actual performance ratio for the year ended 30 June 2018 is below the 83.4% delivered during the year ended 30 June 2017. Bluefield say that this is due to a combination of factors. First, there is the expected effects of degradation in the solar panels' performance (0.4% per annum being an industry standard rate). Second, there were the unexpected effects of several weeks of settled snow in March 2018 and higher than average ambient temperatures in May and June 2018, all of which depress generation and the performance ratio as a result. The year ended 30 June 2017 did not include periods with such severe weather effects.

Emergence of the unsubsidised renewable energy market in the UK

Recent months have seen the emergence of subsidy-free projects in the UK as the cost of production has reduced. This could be a source of portfolio growth in the future.

The rapid expansion of solar generating capacity in the UK was underpinned by the generous subsidy regime that reduced the cost and made this possible. However, in recent months, we have seen the emergence of subsidy-free projects in the UK. As the industry develops, the cost of producing electricity from solar has dropped dramatically (BSIF's adviser says from around £200/MW at BSIF's launch to around £60/MW in 2017). In 2017, the European Commission terminated the restriction on the sale of solar panels from China and, with increasing tariff barriers in the US, this is bolstering supply to Europe. This is helping to push these costs down further, particularly as China has reduced its own subsidy programme leading to a domestic glut of oversupply. BSIF's advisers say that, while they have paused on expanding the portfolio due to high prices in the secondary market, improving solar economics offer the prospect for unsubsidised portfolio projects and this could be a source of portfolio growth in the future.

Investment process

Bluefield Partners LLP has a formalised and repeatable investment process based on its extensive experience.

Bluefield Partners LLP has developed a formalised and repeatable investment process, based on its extensive experience, that it rigorously applies to all potential investments. As a significant investor in the space, the manager benefits from natural flow of potential opportunities from its network of advisors and partners. Despite its recent focus on improving operational efficiency, BSIF continues to benefit from an ongoing pipeline of portfolio candidates.

Following a concept review, the adviser seeks project exclusivity. This avoids incurring costs on transactions where it might otherwise be subsequently outbid.

Before any costs are incurred in preparing for a transaction, a 'concept review' of the project is undertaken by the adviser's managing partners. If, following this review, the partners consider the project should be progressed, a letter of interest or memorandum of understanding is then issued to the seller of the asset and the adviser will secure exclusivity on the asset. By securing exclusivity, the adviser avoids incurring transactions costs on projects in which it could be subsequently outbid.

Once Bluefield's managing partners have approved a concept review, the investment adviser issues a concept paper to BSIF's board. This concept review fixes a project evaluation budget as well as confirming the project proposal is in line with the BSIF's investment policy and strategy. Once approved, the project moves on to the due diligence stage.

As part of its due diligence, the adviser engages legal, technical and, where required, insurance and accounting advisers to undertake independent due diligence in respect of the project. This includes site visits and a detailed survey of the site to highlight any potential issues. Where specialist expertise is required due to project specifications, the adviser has experience in identifying relevant experts and, in addition to this, it applies its own direct commercial experience in executing solar PV project acquisitions and managing operational solar plants. Assuming that a project passes through the due diligence stage, a detailed investment paper is prepared and submitted to the investment committee for approval.

The investment committee reviews the paper and makes an investment recommendation for the board. The investment committee operates on the basis of unanimous consent and the adviser says that it has a record of making detailed evaluations of project risks. The investment paper discloses all interests which the adviser and any of its affiliates may have in the proposed transaction.

Following approval by the investment committee, recommendations are issued by the adviser for review by the boards of the company and BSIFIL. Both the company and the BSIFIL board undertake detailed review meetings with the adviser to assess the project prior to determining any approval. Both board approvals are required in order for a transaction to be approved.

If the boards of the company and BSIFIL approve a transaction, the adviser is authorised to execute the transaction in accordance with the recommendation and any condition stipulated in the boards' approval. The board is kept aware of the adviser's pipeline of potential new investments.

Prior to executing the transaction, the adviser completes a closing memorandum confirming that the final transaction is in accordance with the terms presented in the investment paper to the investment committee; detailing any material variations and outlining how any conditions to the approval of the investment committee and/or board approval have been addressed. This closing memorandum is countersigned by an appointed member of the investment committee prior to completing the transaction.

Key features of the investment process

Having worked with a range of legal, technical, insurance and accounting advisers to execute transactions in the UK market, the adviser says that it has developed an understanding of key areas of competence for the specialist advisers in the space. It uses this to identify specific individuals who are expert in advising on specific detailed technical aspects of a project both during and following a transaction.

The adviser has developed standardised contract terms with specific protections for the recovery of revenue losses for underperformance and the correction of defects.

Contract terms are specifically negotiated and tailored for each individual project but, based on its transaction and project operational experience, the adviser has also developed standardised terms. These have specific protections from the construction contracts regarding recovery of revenue losses for underperformance and obligations for the correction of defects. Underlining their value, these contractual protections have, at times, been exercised by the adviser to the ultimate benefit of BSIF's shareholders.

Investment restrictions

BSIF is permitted to use non-recourse debt at the SPV level to finance specific solar energy infrastructure assets, or portfolios of assets, provided that at the time of investment, total non-recourse financing within the portfolio does not exceed 50% of BSIF's gross asset value.

BSIF may also use short-term borrowings at the holding company level to facilitate the purchase of investments, but such short-term debt (when taken together with the debt taken at the SPV level) is not permitted to exceed 50% of its gross asset value.

At the time of acquisition, no single investment in a solar energy infrastructure asset (excluding any third-party funding or debt financing in such asset) will represent more than 25% of BSIF's net asset value.

BSIF is not permitted to invest more than 10% of its gross asset value, at the time of investment, in other closed-ended investment funds which are listed on the FCA's Official List.

Portfolio

As illustrated in Figure 9 (and Figures 33 and 34 in Appendix 3 on pages 36 and 37), as at 30 June 2018, BSIF's portfolio comprised 86 solar PV projects, grouped into 49 distinct projects. This breaks down as:

- 45 large-scale sites;
- Three projects that collectively comprise 39 microsites. These are:
  - Butteriss Downs (a collection of 19 microsites installed on water treatment plant sites in Oxfordshire and Gloucestershire that are owned by Thames Water Utilities);
  - Promothames (nine micro sites installed on water-treatment plant sites that are located to the south and west of London that are owned by Thames Water Utilities); and
  - Goshawk (11 microsites, 10 of which are installed at water treatment plant sites owned by Thames Water Utilities in the south east of England plus another that is installed at a biogas plant owned by Adnams Bio Energy; and
- Two rooftop sites (Corby and the Millennium Seedbank at Wakehurst Place, Sussex). The Corby project is located on a large industrial building. For reporting purposes, the installation at the Millennium Seedbank forms part of the Butteriss Downs Project.

Four new additions during the last financial year

BSIF's current 49 projects represents an increase of four over the 45 projects that it held at 30 June 2017. The four new projects are all large-scale ground-based assets that are 100% owned by BSIF (through BSIFIL) and benefit from subsidies of 1.2 ROC. All four have panels supplied by Kinko Solar and have Vogt Solar as the EPC contractor. They are:

- Clapton Farm, a 5.0MWp plant located near Cucklington in Somerset;
- Holly Farm, a 5.0MWp plant located near Overmoigne in Dorset;
- East Farm, a 5.0MWp plant located near Overmoigne in Dorset; and
- Galton Manor, a 3.9MWp plant located near Overmoigne in Dorset.

The four additions (these are split out at the bottom of Figure 9) add 4.26% to BSIF's overall generating capacity and, based on actual generation for the 2018 year (see Figure 9), the new assets accounted for 3.43% of the actual output of the portfolio excluding the new assets. (Note: BSIF did not hold these assets for the entirety of the financial year ended 30 June 2018 and so did not derive the full benefit of their generation during this period. However, it should derive the full benefit for the current financial year, ending 30 June 2019, and beyond.)

Figure 9: BSIF's portfolio as at 30 June 2018

Project	Location	Total commitment (£m)	Installed capacity (MWp)	Actual generation 2017/18 (MWh)	Com-missioning date	Subsidy type
Sheppey	Kent	12.0	10.6	10,952.48	Jun 2014	1.4 ROC
Pentylands	Wiltshire	21.4	19.2	18,008.95	Mar 2014	1.6 ROC
Goose Willow	Oxfordshire	19.0	16.9	16,479.29	Mar 2014	1.6 ROC
Durrants	Isle of Wight	6.4	5.0	5,394.60	Jul 2011	FIT
Hardingham*	Norfolk	22.7	20.1	19,390.09	Dec 2013	1.6 ROC
Hill Farm	Oxfordshire	17.3	15.2	14,560.01	Feb 2014	1.6 ROC
North Beer	Cornwall	9.3	6.9	6,595.47	Mar 2013	2.0 ROC
Hall Farm	Norfolk	13.4	11.4	11,038.52	Mar 2014	1.6 ROC
Saxley	Hampshire	7.0	5.9	5,779.00	Mar 2014	1.6 ROC
Betingau	Glamorgan	11.2	10.0	8,755.87	Mar 2014	1.6 ROC
Hoback	Hertfordshire	19.0	17.5	16,391.85	Nov 2014	1.4 ROC
Capelands	Devon	8.6	8.4	7,890.12	Mar 2014	1.4 ROC
Redlands	Somerset	6.4	6.2	6,323.14	Mar 2014	1.4 ROC
Goshawk	Surrey, Oxon and Suffolk	2.0	1.1	1,150.36	Jul 2012 to Apr 2013	FIT
Roves	Wiltshire	14.0	12.7	11,874.88	Mar 2014	1.4 ROC
Ashlawn	Somerset	7.6	6.6	6,607.95	Mar 2015	1.4 ROC
Elms	Oxfordshire	32.8	28.9	26,599.79	Mar 2014	1.4 ROC
West Raynham	Norfolk	55.9	50.0	49,227.82	Mar 2014	1.4 ROC
Trethosa	Cornwall	5.8	4.8	4,674.26	Sep 2015	FIT
Salhouse	Norfolk	5.6	5.0	4,881.69	Oct 2015	FIT
Butteriss Downs	Oxon, Berks, W.Sussex	2.3	0.8	615.30	Mar 2012 to Jul 2012	FIT
Promo Thames	Berks, Surrey, Hamps. Wilts.	1.3	0.4	303.81	Sep 2012	FIT
Bunns Hill	Norfolk	5.3	5.0	4,900.58	Feb 2016	1.3 ROC
Folly Lane	Lincolnshire	5.3	4.8	4,596.52	Feb 2016	1.3 ROC
Frogs Loke	Norfolk	5.6	5.0	4,817.51	Dec 2015	1.3 ROC
Southwick	Hampshire	61.0	47.9	46,101.21	Mar 2015	1.4 ROC
Littlebourne	Kent	22.0	17.0	16,474.82	Oct 2014	1.4 ROC
Pashley	Sussex	15.4	11.5	12,301.24	Feb 2015	1.4 ROC
Molehill	Kent	23.1	18.0	18,253.81	Mar 2015	1.4 ROC
Rookery	Norfolk	5.2	5.0	4,765.47	Feb 2016	1.3 ROC
Tollgate Farm	Leamington Spa	4.6	4.3	3,981.17	Mar 2016	1.3 ROC
The Grange	Gloucestershire	5.4	5.0	4,266.41	Mar 2016	1.3 ROC
Oulton	Norfolk	5.3	5.0	4,828.66	Mar 2016	1.3 ROC
Romsey	Hampshire	5.8	5.0	4,942.54	Mar 2016	1.3 ROC
Burnaston	Derbyshire	14.4	4.1	3,675.78	Jul 2011	FIT
Kislingbury	Northamptonshire	5.0	5.0	4,707.22	Mar 2017	1.2 ROC
Willows	Staffordshire	4.6	5.0	4,605.27	Mar 2017	1.2 ROC
Court Farm	South Wales	5.5	5.0	5,171.76	Mar 2017	1.2 ROC
Corby	Northamptonshire	2.3	0.5	402.47	Dec 2011	FIT
Gypsum	Leicestershire	4.4	4.5	4,216.52	Mar 2017	1.2 ROC
Barvills	Essex	3.3	3.2	3,310.69	Mar 2017	1.2 ROC
Old Stone	Devon	5.7	5.0	4,835.49	Mar 2017	1.2 ROC
Place Barton	Devon	5.5	5.0	4,956.85	Mar 2017	1.2 ROC
Langlands Farm	Devon	3.1	2.1	2,099.27	Feb 2017	2.0 ROC
Kellingley	Yorkshire	5.0	5.0	4,330.18	Jun 2017	1.2 ROC
Subtotal (existing projects)		523.8	441.5	426,036.58		
Projects that became operational or were acquired during the year ended 30 June 2018						

Project	Location	Total commitment (£m)	Installed capacity (MWp)	Actual generation 2017/18 (MWh)	Com-missioning date	Subsidy type
Clapton	Somerset	6.3	5.0	3,667.43	Dec 2017	1.2 ROC
Galton Manor	Dorset	5.5	3.8	2,996.64	Mar 2018	1.2 ROC
Holly Farm	Dorset	7.2	5.0	4,005.07	Mar 2018	1.2 ROC
East Farm	Dorset	7.2	5.0	3,950.36	Mar 2018	1.2 ROC
Subtotal (new projects)		26.2	18.8	14,619.50		
Total (new and existing projects)		550.0	460.30	440,656.08		

Source: Bluefield Solar Income Fund, Marten & Co. *Note: Figures for Hardingham comprises both the original Hardingham plant and Hardingham X. Hardingham X accounts for 5.2MWp and Hardingham accounts for 14.9 MWp. Hardingham X was commissioned in February 2015 and is accredited for 1.4 ROC, while the original Hardingham plant was commissioned in December 2013 and is accredited for 1.6 ROC.

Regional diversification

BSIF's portfolio has a bias towards southern England.

As illustrated in Figures 9 and 10 and Figures 33 and 34 in Appendix 3, BSIF's portfolio is well-diversified in terms of the location of its assets. BSIF's investment remit covers the entire UK but, arguably reflecting the higher irradiation levels available, there is a bias towards southern England (the most northerly project is BSIF's 5.0MWp Kellingley plant at Beal in North Yorkshire) and all of BSIF's installations are at locations in England and Wales. The largest exposure to a single county is Norfolk at 23.2%.

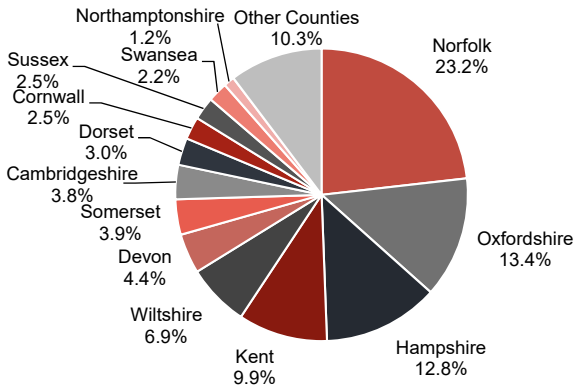
BSIF's advisors say that while there are other markets beyond the UK that they like, for example Australia, they do not think that the risk profile is appropriate to BSIF, as a sterling income fund. There are therefore no plans to look beyond the UK at the current time. Future growth of the asset base is likely to come from the non-subsidised market in the UK.

Revenue diversification

Just over half of BSIF's revenue is derived from ROC buy-out. This increases in line with RPI each year.

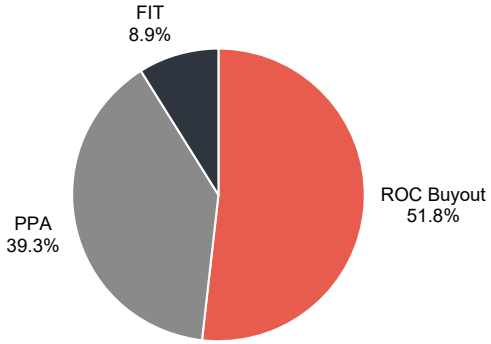
As illustrated in Figure 11, just over half of BSIF's revenue is derived from ROC buy-out (51.8%) which, as discussed on page 9, increases in line with RPI each year. Close to 40% of BSIF's revenue comes from purchasing power agreements. These vary in length and can be up to 25 years. BSIF has some 15-year PPAs in place and is exploring longer term contracts but, for individual assets not covered by long-term contracts, the manager seeks to fix the sale price of power for periods between one and three years. It says that the majority of contracts are for a minimum of 18 months (this is the average required under the company's long-term financing agreement). To lessen the impact of seasonal price fluctuations and short-term events, the manager seeks to fix prices evenly throughout the year. While counterparties are selected on a price-competitive basis, the manager also seeks to diversify BSIF's counterparty risk. It is noteworthy that some 20% of the portfolio (around 95MWp) has PPAs with floor prices; BSIF's manager says that this, in combination with its PPA renewal strategy, means that around 62% of BSIF's revenues are guaranteed over the next 15 years.

Figure 10: Portfolio allocation by region (%)



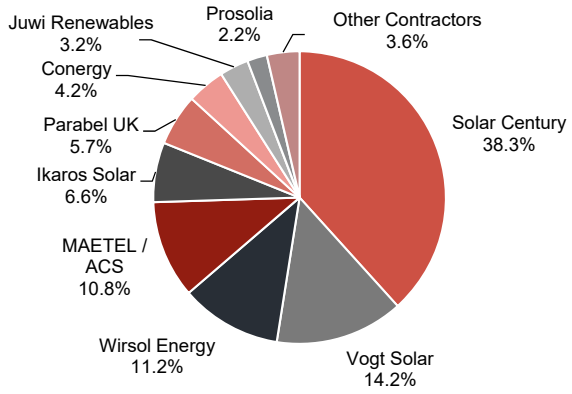
Source: Bluefield Solar Income Fund

Figure 11: Portfolio allocation by revenue type (%)



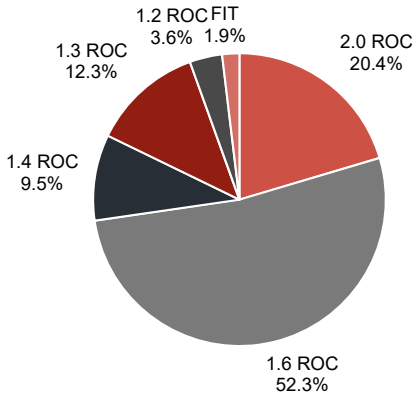
Source: Bluefield Solar Income Fund

Figure 12: Portfolio allocation by EPC contractor (%)



Source: Bluefield Solar Income Fund

Figure 13: Portfolio allocation by subsidy tariff type (%)



Source: Bluefield Solar Income Fund

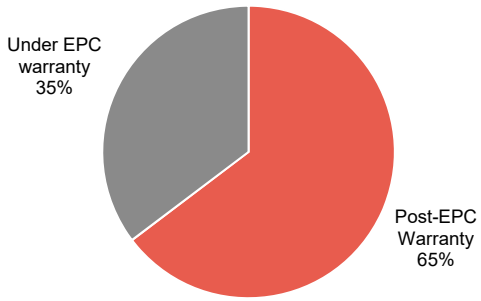
As illustrated in Figure 13, a large proportion of the portfolio (72.7%) is accredited at 1.6 ROCs or above. As illustrated in Figure 12, 60.7% of BSIF's revenues are regulated (are derived from the sale of ROCs and FITs).

Diversified by EPC contractor and panel supplier

Figures 14 and 15 illustrate that BSIF's portfolio is well-diversified in terms of both EPC contractor and panel supplier. Not surprisingly, given that BSIF has one of the more mature portfolios in what is a relatively young sector, some 64.7% of its assets are beyond their EPC warranty period (see Figure 14). However, this is not a material concern in the manager's view.

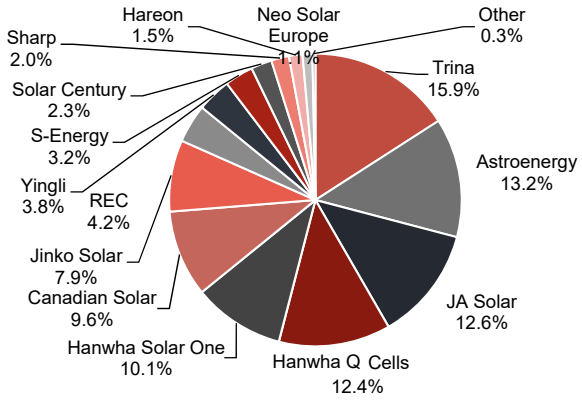
In most cases, solar panels come with a 25-year manufacturer's warranty (this means that electrical production is guaranteed at 90% of the panel's rated power at 10 years and 80% after 25 years) but BSIF's managers say that their experience of panel degradation is that it is far slower than this. The manager considers that a degradation rate of 0.4% per annum is more realistic given their experience and, using this assumption, QuotedData estimates that after 25 years a panel can still produce at 90.5% of its rated power output.

Figure 14: Portfolio allocation according to EPC warranty (%)



Source: Bluefield Solar Income Fund

Figure 15 Portfolio allocation by panel manufacturer (%)



Source: Bluefield Solar Income Fund

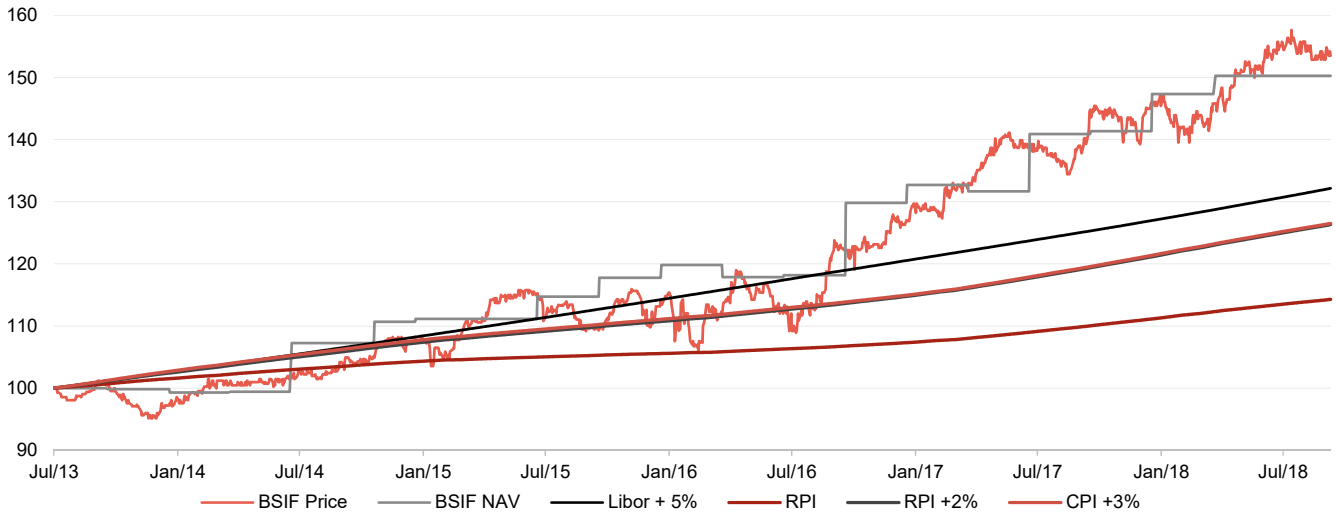
Performance

Performance since IPO in July 2013

Since its launch, BSIF has beaten the averages of its peer group's NAV and share-price total returns by significant margins.

BSIF listed on the London Stock Exchange following its initial public offering (IPO) in July 2013. As at 30 June 2018, it had provided an NAV total return of 50.3% and a share-price total return of 54.5% (using Morningstar data). As illustrated in Figure 16, both its NAV total return and share-price total return have been markedly ahead of inflation (as measured by both RPI and CPI) and what could have been achieved by investing at Libor (for the purpose of comparison, we have used RPI, RPI + 2%, CPI+3% and Libor + 5% but, in each case, BSIF's performance comfortably surpasses these). The NAV has seen a relatively stable evolution and, while there has been greater variability in BSIF's returns (both share price and NAV), it has provided superior long-term performance. It is also noteworthy that, since its launch, BSIF has beaten the averages of its peer group's NAV and share-price total returns by significant margins (see Figure 17).

Figure 16: BSIF NAV total return, BSIF share price total return since launch (rebased to 100)



Source: Bloomberg, Morningstar, Marten & Co

Figure 17: Cumulative total return performance to 30 June 2018

	6 months (%)	1 year (%)	2 years (%)	3 years (%)	4 years (%)	Launch* (%)
BSIF NAV	4.1	8.8	29.8	33.7	43.0	50.3
BSIF share price	5.7	11.4	37.6	34.0	52.1	54.5
Peer group NAV	4.9	7.8	20.9	26.2	33.5	41.8
Peer group share price	2.7	5.8	26.6	26.5	39.1	42.8
RPI	2.0	4.0	6.7	8.0	10.1	13.4
RPI + 2%	3.0	6.0	10.8	14.4	19.0	24.8
CPI + 3%	2.9	6.0	10.7	14.2	18.8	25.0
Libor + 5%	2.7	5.5	11.2	17.4	23.9	30.5

Source: Morningstar, Marten & Co. *Note: BSIF launch is treated as its listing date on 12 July 2013.

Results for the year ended 30 June 2018

Underlying earnings has increased dramatically during the last two financial years (2018: 16.2% year-on-year; 2017: 13.7%).

As illustrated in Figure 18, underlying earnings has increased dramatically during the last two financial years (2018: 16.2% year-on-year; 2017: 13.7%). A significant driver of this has been the marked improvement in power prices that has occurred since the beginning of 2016 (see pages 7 and 8), although BSIF's focus on operational efficiency has also helped drive portfolio income upward. A key focus of the adviser is ensuring that the solar plants are available. During the 2017-18 financial year, its technical arm, Bluefield Services, spent over 5,400 hours analysing the performance of the plants, 300 hours assessing performance calculations for milestone payments and 1,750 hours inspecting the solar farms in the portfolio (reviewing the condition of the equipment and the operational status of the sites).

Group operating costs have remained steady during the last three years.

Importantly, group operating costs have remained steady during the last three years, reflecting the significant degree of operating leverage that is present in the business. As portfolio income has increased, the bulk has dropped through to the bottom line driving an improvement in underlying earnings. Initially, the board and advisors have accelerated BSIF's debt amortisation, rather than boosting the current year dividend. The new additions to the portfolio have resulted in a higher interest cost for 2018 over 2017. However, this should serve to bolster BSIF's profitability and cash generation in the future, all things being equal.

Figure 18: Portfolio earnings for years ended 30 June

Heading	2015	2016	2017	2018
Portfolio income (£m)	23.5	36.5	49.2	57.9
Interest costs (£m)	(1.6)	(7.8)	(12.1)	(13.6)
Portfolio Income after interest costs (£m)	21.9	28.7	37.1	44.3
Group operating costs (£m)	(3.1)	(3.9)	(4.2)	(4.3)
Group third-party interest costs (£m)	(0.8)	(3.2)	(4.4)	(4.2)
Underlying earnings (£m)	18.0	21.6	28.5	35.8
Underlying earnings (pence per share)	7.10	7.32	8.32	9.67
Debt amortisation (pence per share)	0.31	0.23	1.00	2.24
Total dividend (pence per share)	7.25	7.25	7.25	7.43
Dividend reserves (pence per share)	0.41	0.23	0.30	0.30
Net asset value (pence per share)	103.6	99.4	110.5	113.3
NAV total return (%)*	7.0	3.0	19.2	8.8
Share price total return (%)*	13.5	(2.6)	23.5	11.4

Source: Bluefield Solar Income Fund *Note: calculated using Morningstar data.

NAV and portfolio valuations

BSIF publishes NAVs on a quarterly basis based on portfolio valuations prepared by the adviser. The NAV calculations are approved by the board prior to publication.

Portfolio valuations are produced on a six-monthly basis (as at 31 December and 30 June each year) and BSIF has committed to providing a review by an independent expert at least once every three years (most recently, this was done for the 30 June 2018 valuation).

NAVs are based on discounted unlevered project cashflows at the WACC. Any project level debt is then deducted, new projects are added at cost and period end working capital is also added.

There is no publicly quoted price for the projects in which BSIF invests, so the projects are valued by discounting the net forecast cash flows before deducting any project related debt over the life of each project (after deducting any taxation). To clarify, irrespective of whether a project has been financed using debt, the approach discounts all of the net cash flows from a project and not just those that are due to BSIF, through BSIFIL. Since June 2016, the discount rate used is a portfolio-weighted average cost of capital (WACC). Prior to this it was calculated using a risk-free rate plus a market risk premium calculated by the investment adviser (based upon its judgement of market pricing within the UK solar PV sector).

Figure 19: Year-end directors' portfolio valuations (all figures in £m)

Year ended 30 June	2014	2015	2016	2017	2018
Portfolio unlevered cash flow DCF value (EV)	131.8*	282.3	479.7	558.6	592.5
Deduction for project level debt	0.0	0.0	(13.9)	(13.2)	(12.5)
Amount invested in new projects (valued at cost)	-*	0.0	0.0	5.0	0.0
Project net current assets (working capital)	4.3	14.5	17.9	23.0	24.2
Directors' portfolio valuation	136.1	296.8	483.7	573.4	604.2
WACC (%)	7.8	7.5	6.6	6.15	5.65

Source: Bluefield Solar Income Fund *Note: for the first period of account to 30 June 2014, the entire portfolio was valued using the DCF valuation method. No project level debt was present (this did not enter the portfolio until September 2014 when Durrants was acquired). The £131.8m = DCF valuation comprises an initial investment amount of £127.3m plus a DCF valuation uplift of £4.5m. For years beyond the initial period, new investments are valued at cost and are subsequently valued using the DCF approach.

However, for the current methodology, the rationale is that discounting the unlevered project cash flows at the WACC establishes a 'willing buyer – willing seller' enterprise valuation or 'EV' for the individual projects. These are summed to arrive at a total EV and, where project-level debt exists, this is then deducted. Additions are also made for any new projects that have been made (at cost) and for period-end working capital. This gives the directors' portfolio valuation. Figure 19 shows the directors' year-end portfolio valuations since launch. The advantage of this approach is that it avoids individual asset valuations from being distorted by their financing arrangements (different debt levels) and the rate at which any debt is repaid.

The directors' portfolio valuations and thus BSIF's NAV calculations depend on a number of key assumptions regarding the discount rate, inflation rate, taxation, power prices, the energy yield from the portfolio and project terminal values. These are discussed below.

Discount rate

Portfolio valuations are based on discounting net unlevered cash flows.

As the directors' portfolio valuations are based on discounting net unlevered cash flows (see above), it is appropriate to use a weighted average cost of capital (WACC - the average rate that a company is expected to pay to all its security holders to finance its assets) as the discount rate. (Were the approach to discount the cash flows solely due to BSIF, then an equity discount rate should be used). Since launch, BSIF has

published the discount rate used in its portfolio valuations and since June 2016 it has published the associated implied cost of equity. These are summarised in Figure 19.

In determining the WACC, for the year ended 30 June 2018, the advisors have applied a cost of equity of 7.26%, a cost of debt of 2.7% and leverage of 35% to yield a WACC of 5.65%. This is a reduction over the 5.90% used in the December 2017 valuation, itself a reduction from the 6.15% used for June 2017. The latest reduction reflects an increase in both short-and-long-term debt (BSIF's RCF was drawn to the tune of £24.3m as at 30 June 2018 and the valuation assumes that BSIF will replace 70% of this with long-term debt paid off at an interest rate of 3.50%). It is possible that rising interest rates may lead to a higher cost of debt and discount rate in the future.

Figure 20: WACC used to calculate BSIF's directors' portfolio valuations

	Jun 2014	Dec 2014	Jun 2015	Dec 2015	Jun 2016	Dec 2016	Jun 2017	Dec 2017	Jun 2018
WACC (%)	7.8	6.8	7.5	7.5	6.6	6.6	6.15	5.90	5.65
Implied cost of equity (%)	N/A	N/A	N/A	N/A	7.5	7.1	7.4	7.02	7.26

Source: Bluefield Solar Income Fund

The portfolio valuation assumes an RPI inflation rate of 2.75% per annum flat for the full life of the discounted cash flows.

Inflation rate

The portfolio valuation assumes an RPI inflation rate of 2.75% per annum flat for the full life of the discounted cash flows. Prior to the December 2016 valuation, the inflation-rate assumption was 2.5% for the full lives of the projects. However, it was adjusted following a revision of market expectations with respect to long-term inflation rates. The adviser says that a like-for-like analysis that assumes a higher inflation rate should also assume a higher discount rate (thereby offsetting the valuation impact of the inflation assumption to some extent). That is higher inflation should be expected to feed through to higher interest rates, in their view.

Taxation and interest shielding

The portfolio valuation assumes that each investment is subject to full UK corporate taxation at the prevailing rate. Historically, it has been assumed that any tax shield is limited to the relevant capital allowances available from the company's SPV investments (that is, from third-party loans). This also included interest shielding from BSIF's 1- year fully amortising facility provided by Aviva (see pages 28 and 29). BSIF says that the average EBITDA interest-tax shield, from this long-term debt, is 6.8% over the life of the loan (it is 14.3% in 2019 and falls thereafter as the debt is amortised).

However, following the passing of the Finance Bill in November 2017, BSIF is also permitted to include interest shielding from intercompany loans (shielding is permitted up to a maximum of 30% of EBITDA). BSIF has approximately £80m of intercompany loans in the form of eurobonds between itself and BSIFIL and so its portfolio valuation has been amended to include this additional benefit. BSIF says that the average tax shield (from both the third-party, long-term debt and the intercompany loans combined is 17.7% over the life of the loan (26% in 2019 and falling thereafter as the debt is amortised).

The power price used to forecast project cash flows is a 50/50 blend of two independent forecasters' estimates.

Power prices

Since the directors' valuation of 31 December 2016, the power price used to forecast project cash flows has been a 50/50 blend of two independent forecasters' estimates (prior to this just one was used). The discounted cashflow (DCF) calculation for each project uses the contractually fixed power price applicable to each solar PV asset until

the end of the fixed period, where this applies and, thereafter, it uses the blended independent forecast price. Figure 21 shows the enterprise value for the portfolio from each of the independent forecasts as well as the blended enterprise value used.

Figure 21: Enterprise values of BSIF's directors' portfolio valuations (all figures in £m) from each independent forecaster and the blended valuation used

	Jun 2016	Dec 2016	Jun 2017	Dec 2017	Jun 2018
Forecaster 1	479.7	500.5	553.9	566.1	594.3
Forecaster 2	N/A	520.4	563.7	570.9	590.8
Blended 50/50	479.7	510.5	558.6	568.5	592.5

Source: Bluefield Solar Income Fund *Note: for the first period of account tom 30 June 2014, the entire portfolio was valued using the DCF valuation method. No project level debt was present (this did not enter the portfolio until September 2014 when Durrants was acquired). The £131.8m = DCF valuation comprises an initial investment amount of £127.3m plus a DCF valuation uplift of £4.5m. For years beyond the initial period, new investments are valued at cost and are subsequently valued using the DCF approach. Power prices estimates from Forecaster 1 were used solely for all portfolio valuation up until 30 June 2016. Thereafter a second power price forecaster was introduced and a 50/50 blend of the two forecasts has been employed.

Energy yield

The energy yield of a solar photovoltaic asset is the amount of energy that it produces. This is dependent on three key factors:

- The irradiation captured by the power plant;
- The ratio at which the power plant converts the solar irradiation to energy (the performance ratio);
- The availability of the power plant (days per year available as a percentage of the total possible).

BSIF's investment adviser uses independent technical advice from what it describes as "one of the leading solar PV technical advisers in the UK market" as a basis for its energy-yield assumptions, or where applicable, the performance ratio warranted by the contractor (against which the contractor has penalty obligations and make good obligations if the plant does not perform).

Irradiation forecasts are supplied by the technical adviser and are formed from a number of long-term irradiation databases that use both ground and satellite-based measurements. A weighted average is formed based on the quality of the dataset, with outliers excluded. The base case yield is also referred to as the P50 value, that is there is a 50% probability that the actual yields will exceed this (and conversely a 50% probability that the yield will fall short of the estimate.

In addition to providing a base case P50 energy yield, the technical adviser also provides two other yield estimates:

- The P90 yield is a lower energy-yield estimate, which is reflective of a leaner than average output year. It assumes a 90% probability of exceedance (in other words, it is the energy yield that there is just a 10% probability of it not being reached). The P90 yield will be less than the base case P50 yield.
- The P10 yield is a higher energy yield estimate, which is reflective of a higher than average output year. It assumes a 10% probability of exceedance (in other words, it is the energy yield that there is a 90% probability of it not being reached). The P10 yield will be greater than the base case P50 yield.

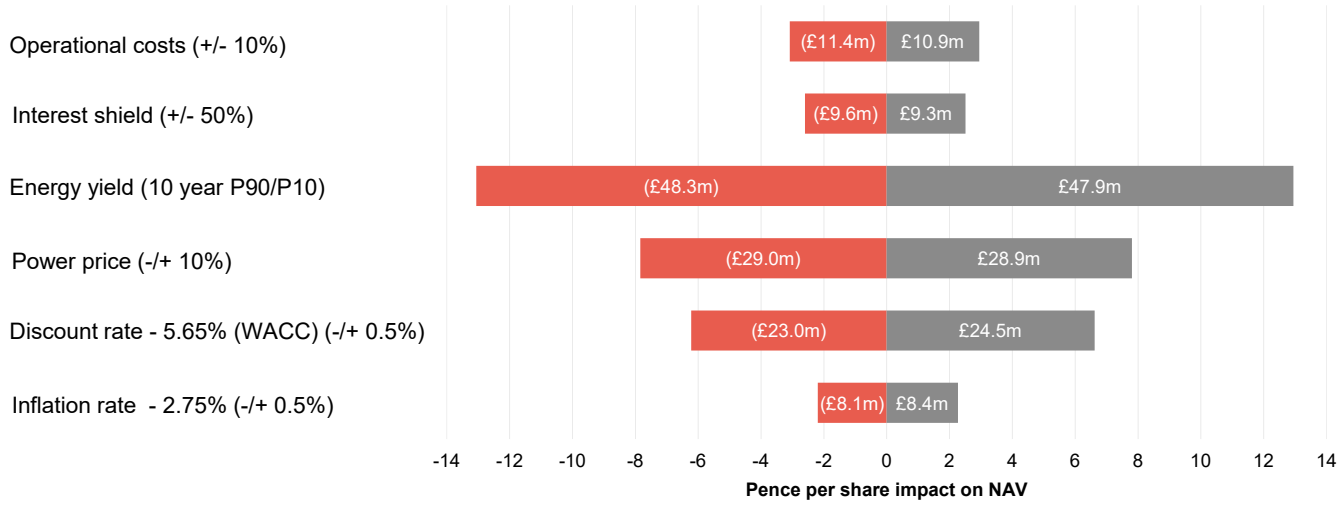
Project lives and terminal values

Asset are assumed to have no value after an operational life of approximately 25 years from commissioning.

In computing the discounted cash flows to arrive at the EV for each project, it is assumed that each asset has no value at the end of its life (approximately 25 years from commissioning). However, it should be noted that the investment adviser has an active programme of working to extend asset lives (both through planning and lease amendments), which may justify use of a longer asset lives in the future.

Sensitivity analysis

Figure 22: NAV sensitivity to various key factors



Source: Source: Bluefield Solar Income Fund, as at 30 June 2018

Peer group

BSIF sits within the AIC's renewable energy sector, which, including BSIF, has nine constituents. Within this group, three of the funds are focused exclusively on solar PV assets (BSIF, Foresight Solar and NextEnergy Solar); Greencoat Renewables and Greencoat UK Wind are focused on wind generation; The Renewables Infrastructure Group holds both wind and solar farms; Gore Street Energy Storage Fund (launched in May 2018) and Gresham House Energy Storage Fund (launched in November 2018) are focused on battery storage. John Laing Environmental Assets Group (also a client of Marten & Co) has a diverse portfolio including solar, wind, anaerobic digestion and water and waste projects. Of all of the funds, BSIF is the only fund to focus solely on UK solar assets.

BSIF is the only fund to focus solely on UK solar assets.

You can access up-to-date information on the peer group at www.quoteddata.com

Figure 23 compares the performance of the funds (excluding the battery funds, which are recent entrants to the sector) while Figure 24 highlights some of the key differences between them. To a large extent, variations in performance between the funds reflect differences in the asset mix. It should also be noted, when reviewing the performance analysis overleaf, that the sector is still relatively young and it may still be too early in the life of some of these funds to make concrete conclusions from this analysis. That said, BSIF is one of the oldest members (the first fund to launch was Greencoat UK Wind in March 2013, which pre-dates BSIF by about three-and-a-half months) and it therefore benefits from having one of the longest track records. In this regard, BSIF has

provided the second greatest NAV total return (using Morningstar data) over the five years to 31 December 2018, some 58.1%.

Figure 23: NAV total return peer group performance over periods ending 31 December 2018

	6 months (%)	1 year (%)	2 years (%)	3 years (%)	4 years (%)	5 years (%)
BSIF	2.4	6.5	18.3	31.0	41.2	58.1
Foresight Solar	4.0	5.4	18.4	26.9	34.3	42.3
Greencoat UK Wind	11.2	17.4	27.6	41.0	50.5	63.7
Greencoat Renewables	3.3	7.7				
John Laing Environmental Assets	1.5	6.0	11.1	23.5	26.3	
NextEnergy Solar	1.4	4.4	13.3	25.0	30.5	
TRIG	4.4	16.4	20.9	32.4	36.1	45.0
Peer group average	4.0	9.1	18.3	30.0	36.5	52.3
BSIF Rank	5	4	4	3	2	2

Source: Morningstar, Marten & Co

Figure 24: Peer group comparative data as at 29 January 2018

Fund	Launch date	Market cap (GBPm)	Premium/ (discount) (%)	Dividend yield (%)	Ongoing charges (%)
BSIF	12 July 2013	473	14.2	6.0	1.04
Foresight Solar	29 October 2013	629	8.3	5.7	1.16
Gore Street Energy Storage	25 May 2018	29	(2.6)	2.1	N/A
Greencoat Renewables	25 July 2017	397	9.4	6.8	1.94
Greencoat UK Wind	27 March 2013	1,537	10.3	4.9	1.53
Gresham House Energy Storage	13 November 2018	103	5.1	N/A	N/A
John Laing Environmental Assets	31 March 2014	544	10.1	5.9	1.34
NextEnergy Solar	25 April 2014	666	10.7	5.8	1.30
The Renewables Infrastructure Grp	29 July 2013	1,390	11.5	5.6	1.06
Sector average		640.9	8.6	5.4	1.34
BSIF Rank		6	1	2	1

Source: Morningstar, Marten & Co.

BSIF has one of the highest yields in the sector. Its dividend is well covered by underlying earnings.

Figure 24 shows that BSIF ranks sixth of eight funds by market cap. It also has the lowest ongoing charges ratio (although NextEnergy Solar and The Renewables Infrastructure Group are close behind). BSIF has effectively paused on expansion for now but, with the emergence of the non-subsidised market (see page 10), if it were to return to expanding its size, this could reduce its ongoing charges further (by spreading its fixed costs over a larger base). With the exception of Gore Street Energy Storage, all of the funds in the peer group trades at a decent premium to NAV (BSIF's premium is the largest in the sector). This may reflect investors' desire for yield from assets with a low correlation to equity markets and, in this respect, BSIF offers one of the highest yields. Also noteworthy is that, BSIF's entire dividend is well covered by its operating profit and this appears to be highly sustainable. This may explain why, on average, the market has placed it at a premium to its peer group (see Figure 25).

Discount / premium

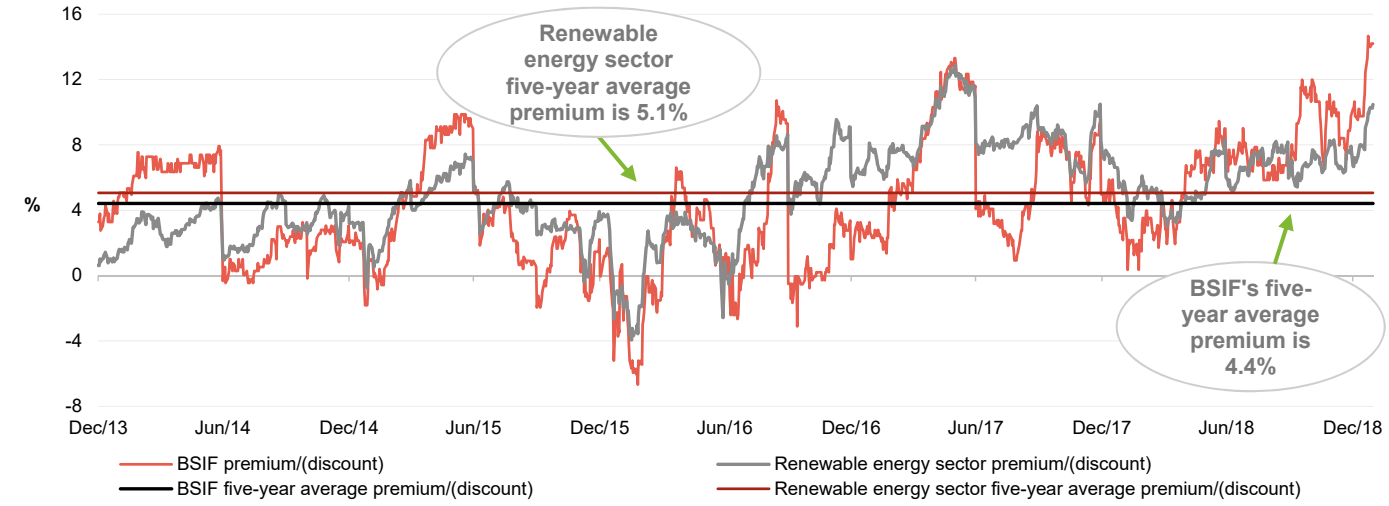
Persistent premium indicates strong demand for BSIF's strategy

BSIF has predominantly traded at a premium during the last five years.

As illustrated in Figure 25, BSIF has predominantly traded at a premium to net asset value during the last five years (an average of 7.5%), which suggests strong demand for the company's strategy. As at 5 February 2019, BSIF was trading at a 12.2% premium to its most recently published NAV of 114.10p per share as at 30 September 2018 (30 June 2018: 113.28p). This is towards the upper end of its recent trading range (between a premium of 0.4% and 14.7% during the last year). It is also clear from Figure 25 that BSIF's premium (an average of 4.4% during the last five-years) is modestly narrower than the sector average (5.1%). Figure 25 also illustrates that both BSIF and the renewable energy sector are trading above their five-year average premiums.

BSIF's board has mechanisms to moderate any premium or discount

Figure 25: Premium/(discount) since over five years



Source: Morningstar, Marten & Co.

BSIF has the authority to issue up to 10% of its issued share capital and repurchase up to 14.99% of its issued share capital, which gives it mechanisms through which it can moderate its premium or discount. However, with the exception of new shares issued to the investment adviser in settlement of its variable fee (see pages 26 and 27), BSIF has not issued any new ordinary shares since October 2016 when 60m were issued following a placing and offer (raising £60.6m). Similarly, reflecting the consistent demand for BSIF, it has not repurchased any shares since its launch in 2013.

Any repurchases must be NAV accretive to remaining holders.

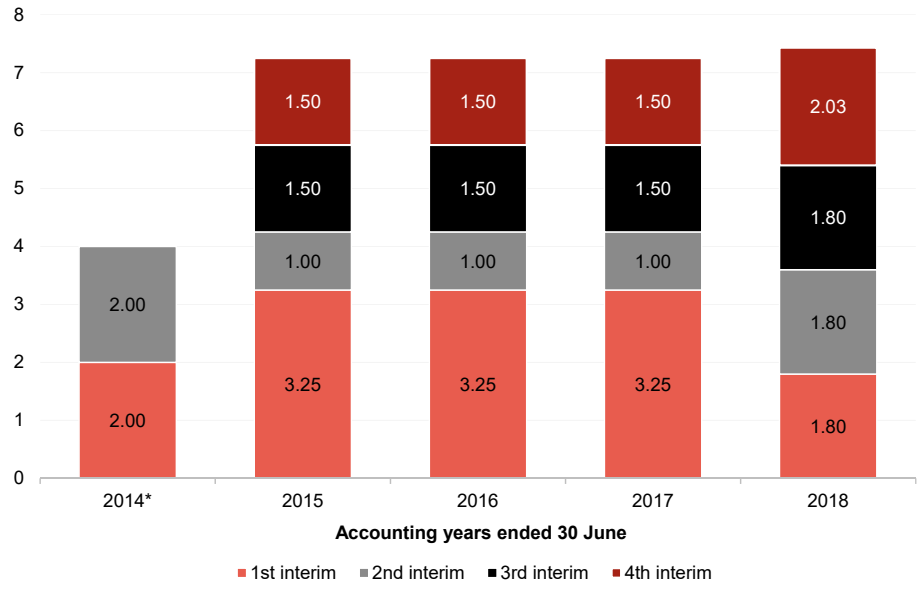
BSIF's board says that it may seek to limit the level and volatility of any discount to NAV at which the ordinary shares may trade but there is no formal discount target and no formal discount control mechanism in place. Furthermore, any repurchases would only be made, through the market for cash, at a discount to NAV which, which enhances NAV for remaining shareholders.

Catalysts for changing premium

BSIF's strong current above-average premium level may be due to a combination of its attractive inflation-linked yield, consistent performance from its underlying portfolio, a lack of new share issuance (which might otherwise moderate the premium) and the prospects of strong returns for the current year. The premium has continued to prevail in an environment of nominally rising interest rates and a market that is focused on growth, rather than the steady absolute returns that BSIF offers. It seems reasonable that, should markets continue to grow strongly, or market rates of interest rise more significantly, BSIF could find itself less in favour but this works both ways. Especially given that many commentators argue that the global economy faces a downturn. It is also possible that the board could look to share issuance to fund additional portfolio build out as, with falling costs, these become economically viable in the absence of subsidies (see page 10 for discussion of the emergence of the non-subsidised market).

Quarterly dividend payments

Figure 26: Quarterly dividend history



Source: Bluefield Solar Income Fund, Marten & Co *Note: 2014 was BSIF paid two interim dividends in its first accounting period (from 29 March 2013 to 30 June 2014).

BSIF pays quarterly dividends. For a given financial year, the first interim dividend is paid in February with the second, third and fourth interims paid in May, August and November respectively (dividends are usually declared the month before payment). Figure 27 provides a comparison of BSIF's revenue income versus the total dividend paid, since its launch in 2013.

RPI linked distribution target – 7.68p for the year ending 30 June 2019

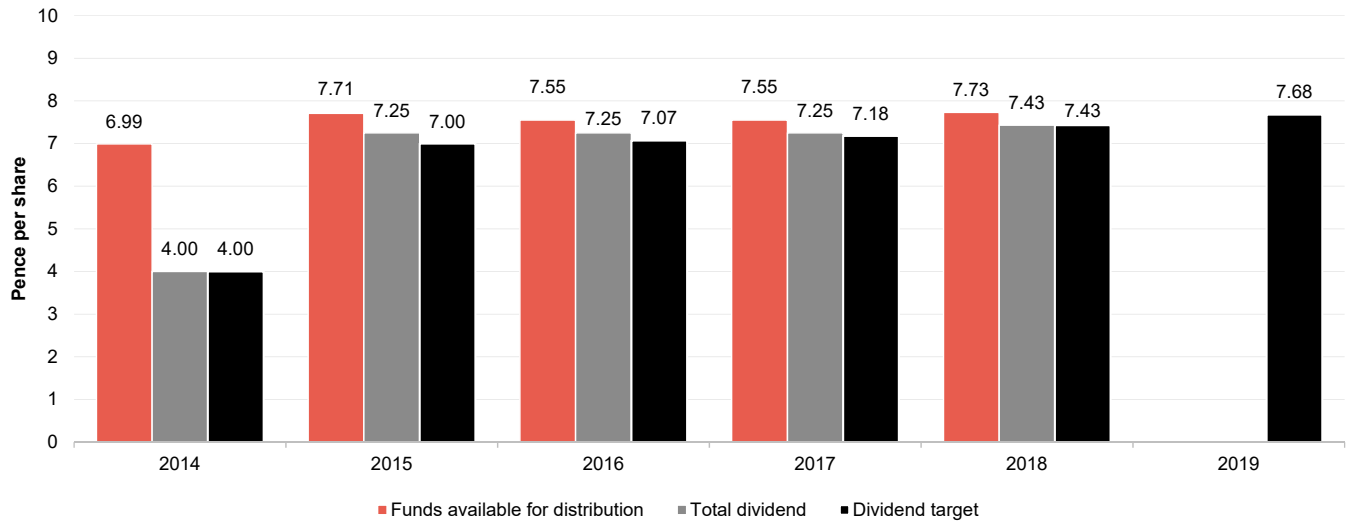
Since its launch in July 2013, BSIF has had an annual distribution (i.e. dividend) target and the manager earns a variable fee based on whether the target is achieved (see pages 26 and 27). For its first accounting period, ending 30 June 2014, the distribution target was set at 4p per share (reflecting the fact that it takes time to become fully

invested) rising to 7p per share for the year ended 30 June 2015. Thereafter, the annual target increases in line with RPI.

Revenue earnings for the year ended 30 June 2018 increased by 28.1% year-on-year.

The target for the year ended 30 June 2018 was 7.43p per share and, with the announcement on the 27 September 2018 that BSIF has declared the fourth interim dividend at 2.03p per share, taking the total dividend for the year to 7.43p per share, BSIF has hit its target precisely. However, as discussed below, underlying earnings for the 2018 year have increased markedly (from 8.32p per share to 9.67p – an increase of 16.2% year-on-year). This means that, from its underlying earnings, BSIF has the capacity to increase its dividends, but the fund has taken the opportunity to amortise (pay down) a significant amount of its long-term financing from Aviva. In the short term this has the effect of absorbing some of the funds that would have otherwise been available for distribution but, over the long term this will support profitability and the stability of distributable earnings, all things being equal. As discussed below, the revenue outlook for the current financial year is also strong.

Figure 27: BSIF funds available for distribution, total dividend paid and dividend target by financial year



Source: Bluefield Solar Income Fund

The dividend targets, earnings available for distribution and the target dividend, by financial year, are shown in Figure 27. It can be seen that, for every year since its launch, BSIF's total dividend paid has at least achieved the target dividend for that year. Where the dividend paid exceeds the target, the manager earns a performance fee. As the dividend paid for the year ended 30 June 2018 equalled the target, the manager did not earn a performance fee for the year but has done so in previous years. For example, it was 0.02% of NAV for the year ended 30 June 2017 – see page 27.

BSIF has paid fully covered dividends.

Figure 27 also illustrates that, for every year since launch, the dividend paid has been fully covered by earnings. This has allowed BSIF to build up a buffer of retained earnings (£50.9m or 13.8p per share; 2017: £40.6m or 10.98p per share) before payment of the third and fourth interims for the year (2018: 3.83p combined; 2017: 3.0p combined). These could be used to smooth dividends in the event that there was an earnings shortfall. BSIF's retained earnings as at 30 June 2018 were equivalent to 1.86x the total dividend paid for the year and 1.79x the target dividend for the year ending 30 June 2019. The dividend for the year ended 30 June 2018 was covered 1.30x by earnings during the year (2017: 1.04x).

It should be noted that while BSIF's dividend may be fully covered by earnings, and that is also has retained earnings on which it can draw, BSIF will also need access to sufficient cash to make its dividend payments. BSIF's statement of cashflows, for the

year ended 30 June 2018, offers some comfort in this regard. Receipts from investments held at fair value through profit or loss (largely income from BSIF's solar plants) are £24.9m. These broadly match BSIF's dividend payment of £24.8m.

2018 – Summer heatwave was very good for UK solar power generation

As discussed on page 6, 2018 with its summer heatwave has been a very good if not a record year for UK solar-power generation. Given the above-average UK sun hours reported so far for 2018, and the lack of material reported operational issues with BSIF's plants during the year, it seems reasonable that BSIF will experience an above-average power generation and subsidies for calendar year 2018. Given that much of this fell into the first three months of the year ending 30 June 2019, it also seems reasonable that this could also be a very good year in terms of revenue generation and, all things being equal, BSIF would appear to be well-placed to meet its dividend target for the year ended 30 June 2019. Assuming that BSIF is at least able to achieve the 7.68p per share target, this is equivalent to a forward yield of 6.0% on the share price of 128.00p as at 5 February 2019.

Fees and expenses

Tiered base management fee – subject to clawback based on BSIF's distribution target

BSIF pays a tiered base management fee of 1.0% on the first £100m of its total NAV, 0.8% on the next £100m and 0.6% thereafter.

Under the terms of its investment advisory agreement, with Bluefield Partners LLP, BSIF pays a base annual management fee of:

- 1.0% per annum of BSIF's total NAV, up to £100m;
- 0.8% of the total NAV above £100m and below £200m; and
- 0.6% of the total NAV above £200m.

The base fee is paid quarterly in arrears, in cash, and is subject to clawback provision as described in the next section. The agreement includes a variable or performance related element (as discussed below). The agreement is terminable on 12 months' notice by either side.

Variable base management fee – subject to both a clawback and a shares-based bonus

In the event that BSIF fails to achieve its distribution target (see pages 24 and 25 – 7.68p per share for the year ending 30 June 2019) the adviser is required to repay its base fee in the proportion by which the actual annual distribution is less than the target distribution. This repayment is subject to a maximum repayment of 35% of the base fee for the year and is split equally across the four quarters in the following financial year. The repayment is offset against the quarterly management fee payable to the adviser in that following financial year.

In the event that BSIF exceeds its distribution target, the adviser is entitled to a variable fee equal to 30% of the excess, subject to a maximum variable fee in any year equal to 1.00% of the total NAV as at the end of the relevant financial year. As discussed on page 25, for the year ended 30 June 2018, BSIF's total dividend of 7.43p equals the

distribution target for the year exactly; in this circumstance the adviser has not earned a performance fee but neither has it been subject to a clawback.

Figure 28: Base management fee and performance fee by financial year

	2014*	2015	2016	2017	2018
Base management fee (£m)	1.205	2.008	2.832	2.997	3.169
Base management fee as a percentage of closing NAV	0.81	0.70	0.80	0.73	0.76
Performance fee (£m)	N/A	0.209	0.167	0.078	Nil
Performance fee impact on NAV (%)	N/A	0.07	0.06	0.02	Nil
Ongoing charges ratio excluding performance fee (%)	1.29	1.27	1.11	1.08	1.04
Ongoing charges ratio including performance fee (%)	1.29	1.34	1.17	1.10	1.04

Source: Bluefield Solar Income Fund *Note: Figures are for the first accounting period - 29 March 2013 to 30 June 2014.

Where the adviser earns a performance fee, this is satisfied by the issue of ordinary shares at an issue price equal to the latest published NAV per ordinary share. Shares issued for this purpose are subject to a three-year lock-up period, with one-third of the relevant ordinary shares becoming free from the lock-up on each anniversary of their issue. The board has discretion to issue new issue ordinary shares, sell treasury shares or make market purchases of ordinary shares to satisfy this obligation.

The variable element of the adviser's fee did not apply for the first year of account (the year ended 30 June 2014 - the year in which the initial portfolio was established) but has applied every year since. As illustrated in Figure 28, the impact on BSIF's NAV from the performance fee has been small (between 0.07% and 0.00% of NAV so far) and has been on a declining trend. The performance fee is settled in shares, rather than cash, and these shares are subject to a three-year lock up period. The lock up period for the first set of shares issued to the adviser, in relation to the performance fee for the year ended 30 June 2015, has recently expired. The variable fee for 2015 was £208,813 which was settled by the issue of 214,541 ordinary shares.

Secretarial and administrative services

Heritage International Fund Managers Limited (Heritage) provides administrative and company secretarial services to BSIF. Heritage's fee, for these services, is calculated on a sliding scale based on BSIF's total net assets with a floor of £100,000 per annum. Heritage also receives annual fees of £5,000 and £2,500 for the provision of a compliance officer and money laundering reporting officer respectively. For the year ended 30 June 2018, Heritage was paid a total fee of £294,156 (2017: £262,226).

Ongoing charges ratio

BSIF's ongoing charges ratio has been on a declining trend.

BSIF's ongoing charges ratio, for the year ended 30 June 2018, was 1.04% (both including and excluding the performance fee element). The ongoing charges ratio, for the year ended 30 June 2017, was 1.08% excluding the performance fee and 1.10% including the performance fee. As illustrated in Figure 28, BSIF's ongoing charges ratio has declined every year since launch. This has been through a combination of increasing scale and greater operational efficiencies driving improvements in BSIF's NAV. Compared to its peers, BSIF has the lowest ongoing charges ratio in the group, as illustrated in Figure 24 on page 22.

Capital structure and fund life

Simple capital structure

BSIF has one class of ordinary share in issue. It can gear up to 50% of its gross assets although 35% is a more realistic upper limit.

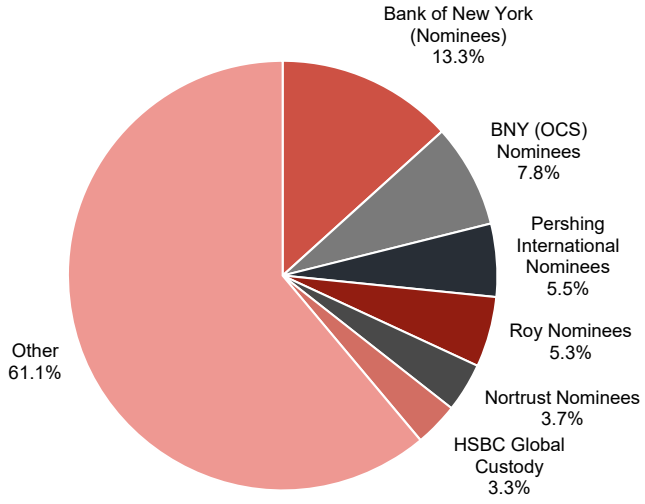
BSIF has a simple capital structure with one class of ordinary share in issue. Its ordinary shares have a premium main market listing on the London Stock Exchange and, as at 5 February 2019, there were 369,811,281 in issue with none held in treasury.

BSIF is permitted borrowings of up to 50% of its gross assets and has both a long-term financing agreement with Aviva Investors and a three-year revolving credit facility (RCF) with RBS. Both the Aviva debt and the RCF are held by BISIFIL (i.e. at the portfolio holding company level). BSIF says that this structure is a deliberate approach to maximise both transparency and portfolio management flexibility. It says that the structure provides the lowest cost of capital in the renewable sector (a blended debt cost of the facilities of 3.1% as at 30 June 2018). As at 30 June 2018, BSIF had gross and net gearing of 48.9% and 48.8% respectively. Average gross gearing for the sector, using the most recently published information for the individual funds is 53.2%.

Share register has a strong retail presence

Figure 29 provides a snap shot of BSIF's shareholder base as at 20 September 2018, the date of the publication of the Report & Accounts. As evidenced by the presence of the large nominee accounts, BSIF's share register has a strong retail presence, but is well diversified.

Figure 29: BSIF shareholder base as at 20 September 2018



Source: Bluefield Solar Income Fund

Since 20 September 2018, Sarasin & Partners LLP has disclosed that it holds 4.47% of BSIF; Gravis UK Infrastructure Income Fund holds 4.88%; Legal & General Group holds, directly and indirectly, 6.36% of BSIF; and entities affiliated with Standard Life Aberdeen Plc hold 5.06%.

Long-term borrowing provided by Aviva Investors; short term revolving credit facility provided by RBS

BSIF's agreement with Aviva Investors covers both a £121.5m fixed price loan, which incurs interest at a rate of 2.875% per annum, and a £65.5m index linked loan, which incurs interest at a rate of RPI + 0.7% per annum. Both of these loans are fully-amortising over 18 years. The £30m revolving credit facility matures in September 2019 and incurs interest at a rate of Libor +2% per annum.

Both the RCF and the long-term financing agreement are secured upon a selection of BSIF's assets, but both offer the ability to substitute the reference assets.

As at 30 June 2018, borrowings under the long-term financing agreement with Aviva Investors amounted to £180.6m (£114.9m under the fixed price loan and £65.7m under the index linked loan), while borrowings under the RCF amounted to £24.3m (out of a potential £30m).

Project level debt

BSIF has a relatively small project finance loan (£12.5m as at 30 June 2018) secured against its Durrants project (a 5 MWp FIT plant located on the Isle of Wight). The facility was provided by Bayern Landesbank and is fully amortising with a final maturity of 2029. BSIF says that this particular facility has not been refinanced as it has onerous break costs associated with early loan prepayment.

Unlimited life with a continuation vote at the 2023 AGM

Shareholders are offered a vote on continuation every five years.

BSIF has been established with an unlimited life, but its articles of association require that it offer its shareholders a vote on whether the company should continue every five years. The first discontinuation vote took place at the company's AGM on 30 November 2018 and was overwhelmingly rejected (by 99.5% of shares voted). The next vote is scheduled for the company's AGM in 2023.

Financial calendar

BSIF's year-end is 30 June. The annual results are usually released towards the end of September (interims in February) and its AGMs are usually held in November of each year. As discussed on pages 24 and 25, BSIF pays quarterly dividends in February, May, August and November of each year.

The board

BSIF's board comprises four independent non-executive directors.

BSIF's board comprises four directors (details of their individual experience are provided below); all members are non-executive and considered to be independent of the investment manager. Three of the four directors were appointed at the fund's launch with John Scott being appointed shortly thereafter.

Two of BSIF's directors, John Rennocks and John Scott are directors of BSIF's wholly owned subsidiary BSIFIL (see page 4 of this note as well as Appendix 2 on page 34). For the year ended 30 June 2018, they both received remuneration of £5,000 as directors of BSIFIL.

All board members stand for re-election annually.

BSIF's articles of association require that all board members offer themselves for re-election at three-yearly intervals. However, in accordance with corporate governance best practice, it is the board's policy that all directors stand for re-election annually. BSIF's articles do not specify a total limit for directors' fees.

Figure 30: Board member - length of service and shareholdings

Director	Position	Date of appointment	Length of service (years)	Annual director's fee (GBP)	Share-holding*	Years of fee invested*
John Rennocks	Chairman	12 June 2013	5.6	62,100**	316,011	6.5
Paul le Page	Chairman of the Audit Committee	12 June 2013	5.6	39,900	137,839	4.4
John Scott	Senior independent director	12 June 2013	5.6	39,400**	452,436	14.7
Laurence McNairn	Director	1 July 2013	5.6	34,200	441,764	16.5
Average (service length, fee, shareholding, fees invested)			5.6	43,900	422,951	10.5

Source: Bluefield Solar Income Fund, Marten & Co. *Note: shareholdings as per BSIF's annual results for the year ended 30 June 2018 adjusted for company announcements up until 5 February 2019. Years of fee invested based on BSIF's ordinary share price of 128.00p as at 5 February 2019. **Note: the annual directors' fees for John Rennocks and John Scott both include £5,200 that they each receive in relation to their positions as directors of BSIFIL.

BSIF's board members do not have any other shared directorships. All members have personal investments in the fund.

Other than BSIF's board and its subsidiaries, its directors do not have any other shared directorships and, as illustrated in Figure 30, all of the directors have significant personal investments in the fund. This is favourable in our view, as it shows commitment to the fund and helps to align directors' interests with those of shareholders. The average length of service is 5.6 years.

John Rennocks (chairman)

John Rennocks has broad experience in emerging energy sources, support services and manufacturing. He is a Fellow of the Institute of Chartered Accountants of England and Wales. He is also chairman of Utilico Emerging Markets (an investor in infrastructure and related assets in emerging markets) and AFC Energy Plc (a developer and manufacturer of alkaline fuel cells).

Mr Rennocks has previously served as a non-executive director of Greenko Group Plc (a developer and operator of hydro and wind power plants in India), a non-executive deputy chairman of Inmarsat Plc and a non-executive director of Foreign & Colonial Investment Trust Plc, as well as several other public and private companies. He has also served as executive director-finance for Smith & Nephew Plc, Powergen Plc and British Steel Plc/Corus Group Plc.

Paul le Page (chairman of the audit committee)

Paul le Page has extensive knowledge of, and experience in, the fund management and the hedge fund industry. He is responsible for managing hedge fund portfolios at Financial Risk Management (FRM), a subsidiary of Man Group Plc, and is a director of a number of FRM funds. Prior to joining FRM, Mr le Page was an associate director at Collins Stewart Asset Management from January 1999 to July 2005, where he was responsible for managing the firm's hedge fund portfolios and reviewing fund managers. He is currently a director of, and audit committee chairman for, Thames River Multi Hedge PCC Limited and was previously a director of, and audit committee chairman for, Cazenove Absolute Equity Limited.

Mr le Page graduated from University College London in Electrical and Electronic Engineering in 1987. He then spent 12 years in industrial research and development, latterly as the research and development director for Dynex Technologies (Guernsey) Limited, where he qualified as a Chartered Electrical Engineer. He completed his MBA in July 1999.

John Scott (senior independent director)

John Scott is a former investment banker who spent 20 years with Lazard. He has considerable experience as an investment trust director. Mr Scott has been chairman of Impax Environmental Markets Plc since May 2014, was appointed chairman of Jupiter Emerging and Frontiers Income Trust in May 2017 and, in June 2017, he retired as chairman of Scottish Mortgage Investment Trust Plc after eight years of service.

In addition, Mr Scott has been chairman of Alpha Insurance Analysts since April 2013m and, until the company's sale in March 2013, he was deputy chairman of Endace Ltd. of New Zealand. In November 2012, he retired after 12 years as a non-executive director of Miller Insurance. Mr Scott has an MA in Economics from Cambridge University and an MBA from INSEAD. He is also a Fellow of the CII and of the CISI.

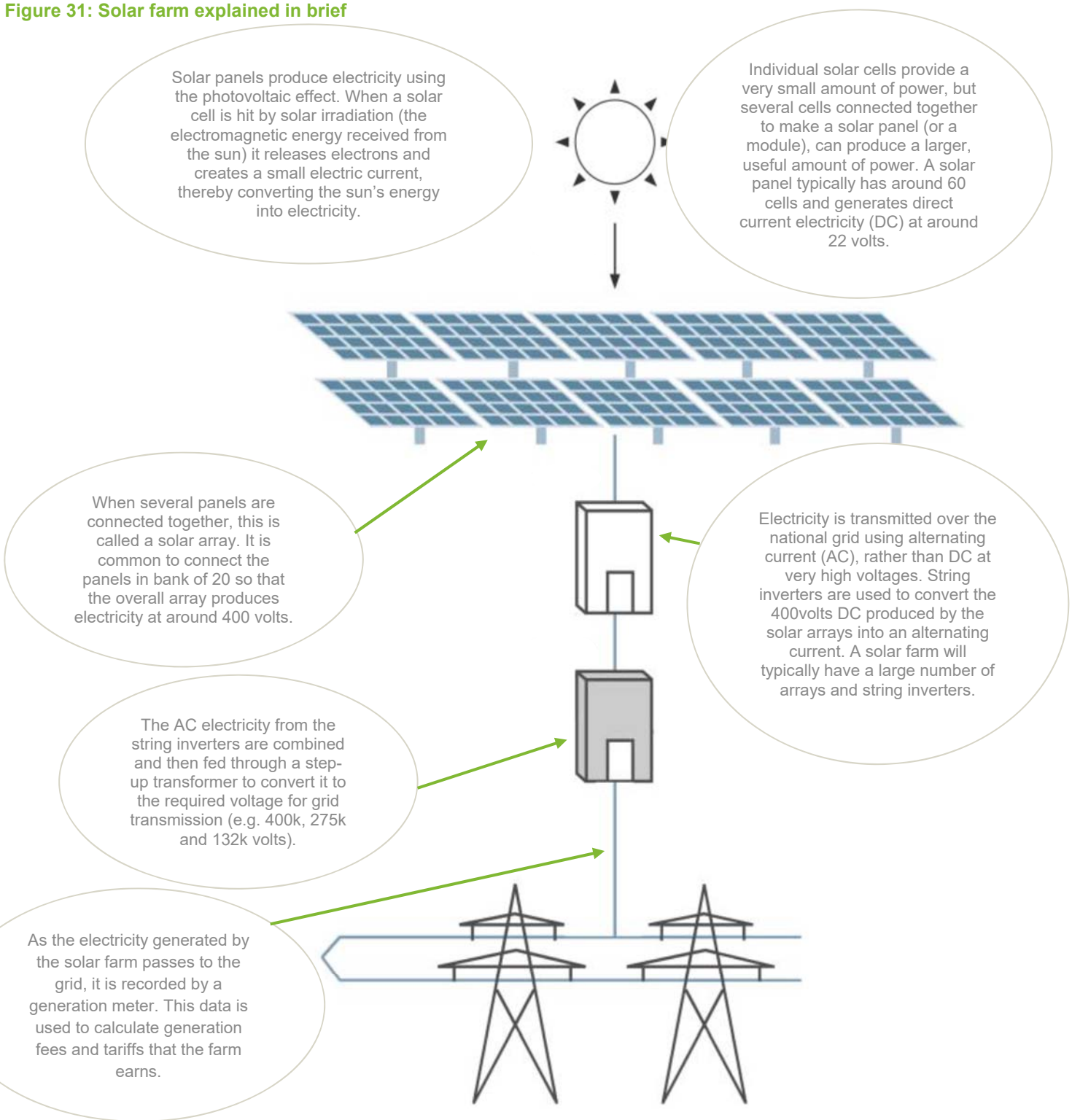
Laurence McNairn (director)

Laurence McNairn is an executive director and indirect shareholder of the fund's administrator and company secretary, Heritage International Fund Managers Limited. Mr McNairn joined the Heritage Group in 2006 and, prior to this, worked for the Baring Financial Services Group in Guernsey from 1990. He holds board positions with a number of fund groups and has extensive experience with listed vehicles, particularly with regard to audit committees.

Prior to working in fund administration, Mr McNairn was the finance director of an industrial electronics manufacturing company which was part of a UK plc and also worked in professional practice with KPMG. He is a member of The Institute of Chartered Accountants of Scotland.

Appendix 1 – how does a solar photovoltaic plant work?

Figure 31: Solar farm explained in brief



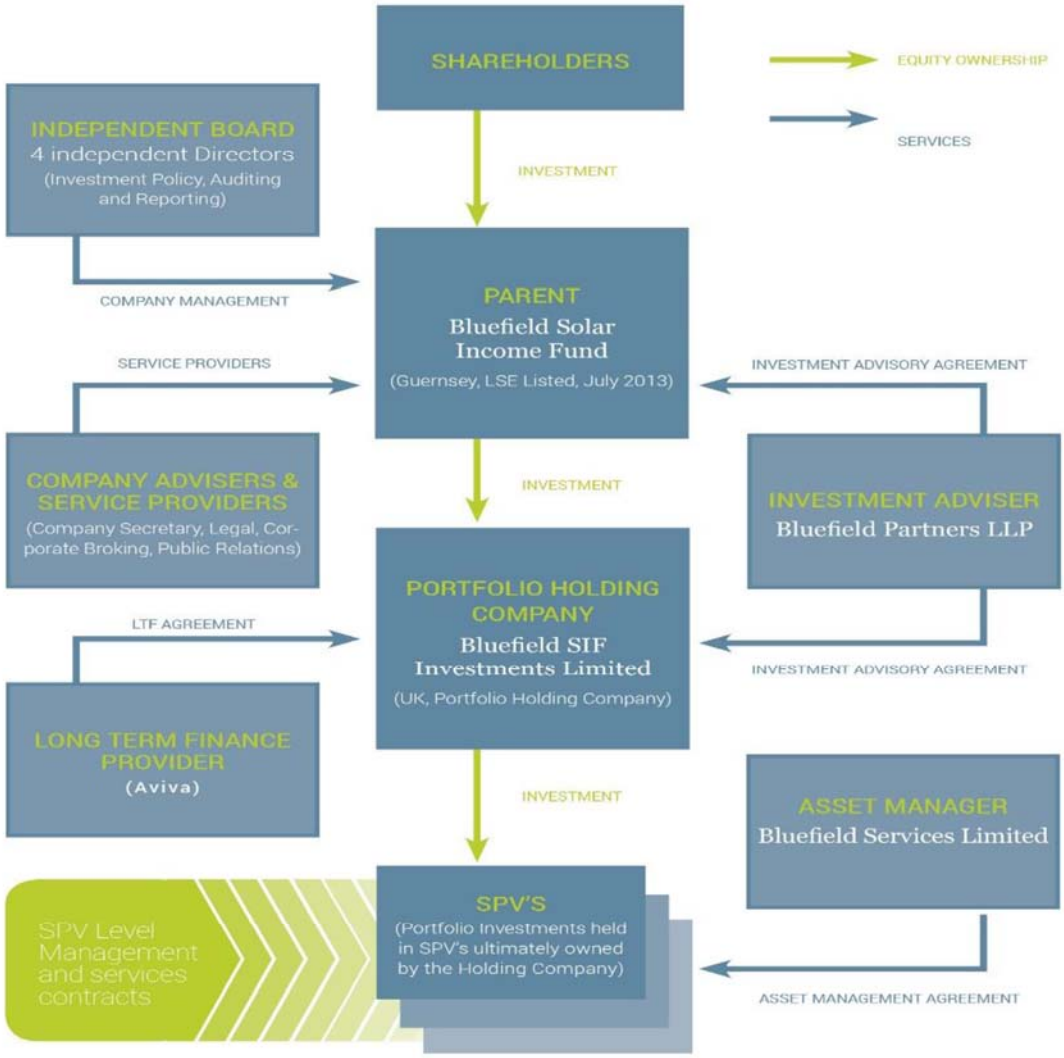
Source: Bluefield Solar Income Fund, Marten & Co

Key considerations:

- Although seasonal, solar irradiation is a very consistent energy source and is therefore highly predictable. Bluefield says that, based on historic data, there is a 90% probability that solar irradiation will vary by +/- 7% across a year.
- Solar irradiation (effectively a solar farm's feedstock) may be a very consistent energy source but, for a plant to provide a consistent output, its performance must also be consistent. The output of the individual plant is warranted by the contractor. Output expectations are set by the technical adviser for each plant. These are based on an analysis of both the plant design and expected losses.
- Bluefield Partners also has a team continually monitoring BSIF's farms to confirm they are running as they should and, where problems occur, bringing them promptly to the contractors' attention and chasing for a resolution, with the aim of minimising lost production.
- Solar farms receive revenues for both power generation and for subsidies that relate to this.
- Power revenues are based on long-term power purchasing agreements (PPAs – a legal contract between an electricity generator, or provider, and a power purchaser or buyer – typically a utility or other large power buyer/trader).
- Renewables obligations certificates (ROCs - certificates issued to operators of accredited renewable generating stations for the eligible renewable electricity they generate. Operators can trade ROCs with other parties. ROCs are ultimately used by suppliers to demonstrate that they have met their obligation) and feed-in-tariffs (FITs - payments to ordinary energy users for the renewable electricity they generate) are fixed upon commissioning of a solar farm and run for 20-25 years from commissioning.

Appendix 2 – BSIF's corporate structure

Figure 32: BSIF's operating model



Source: Bluefield Solar Income Fund

Key considerations:

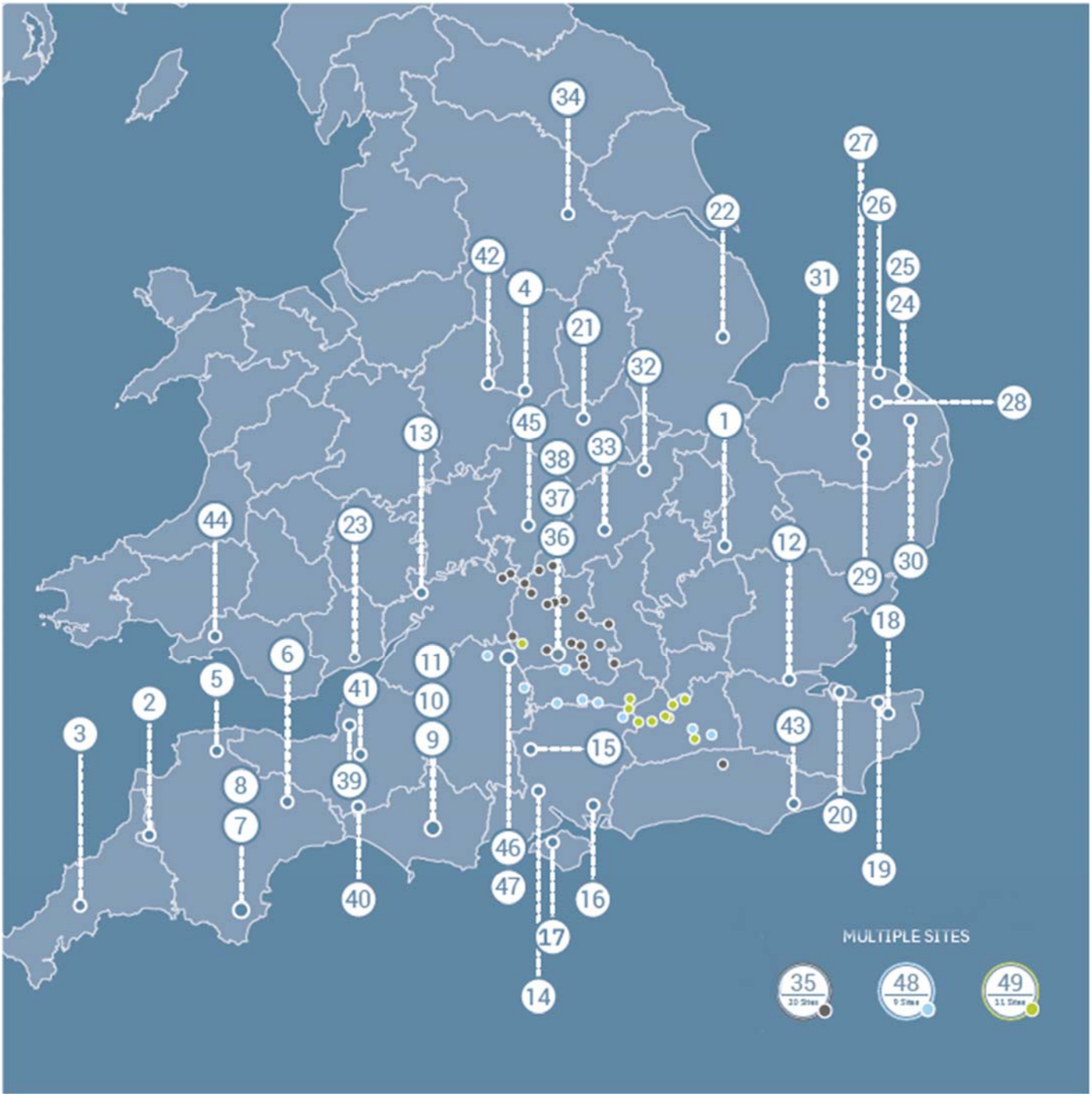
- BSIF is the parent company. It is Guernsey domiciled and has been listed on the London Stock Exchange (LSE) since 12 July 2013.
- The underlying solar assets are held in SPVs (special purpose vehicles). These may be single-asset SPVs or an SPV may hold a portfolio of assets.
- All of BSIF's investments in the SPVs are held through its single, wholly owned subsidiary, Bluefield SIF Investments Limited (BSIFIL). BSIFIL is the portfolio holding company. It is domiciled in the UK.
- BSIF typically seeks legal and operational control through direct or indirect stakes of up to 100% in the SPVs. However, it may participate in joint ventures or take

minority interests where this enables it to gain exposure to suitable assets (i.e. that meet its investment policy) that it would not otherwise be able to acquire on a wholly-owned basis.

- The investment adviser is Bluefield Partners LLP. It provides services to both the parent company, BSIF, and the portfolio holding company, BSIFIL. The services to BSIF are covered by the investment advisory agreement, while the services to BSIFIL are covered by a technical services agreement between it and the investment adviser (it provides technical consultancy services to the SPVs). However, there is a 'a base fee offset arrangement agreement' whereby the technical services fee is offset against the base management fee.
- Should the investment adviser be required to make a rebate to BSIF under its variable fee, the adviser still has to make the payment in full; there is no offset in regard of the technical services fees.
- BSIF may, at the holding company level, use both short-term debt and long-term structural debt to finance the purchase of investments.
- Total debt, both at the holding company level and at the SPV level is not permitted to exceed 50% of BSIF's gross asset value (equivalent to 100% of total net assets).
- At the time of investment, no single asset is permitted to exceed 25% of BSIF's total net assets.
- At the time of investment, no more than 10% of BSIF's gross asset value, can be invested in other closed-ended investment funds that are listed on the LSE.

Appendix 3 – BSIF's portfolio map

Figure 33: BSIF's portfolio map (map key overleaf)



Source: Bluefield Solar Income Fund

Figure 34: Portfolio map key

Project number/name		Location	Installed capacity (MWp)
Cambridgeshire			
1	Hoback	Royston	17.5
Cornwall			
2	North Beer	Launceston	6.9
3	Trethosa	St Austell	4.8
Derbyshire			
4	Burnaston	Burnaston	4.1
Devon			
5	Capelands	Barnstaple	8.4
6	Langlands	Ashill	2.1
7	Old Stone	Totnes	5.0
8	Place Barton	Totnes	5.0
Dorset			
9	East	Overmoigne	5.0
10	Holly	Overmoigne	5.0
11	Galton Manor	Overmoigne	3.8
Essex			
12	Barvills	East Tilbury	3.2
Gloucestershire			
13	The Grange		5.0
Hampshire			
14	Romsey	Romsey	5.0
15	Saxley	Andover	5.9
16	Southwick	Fareham	47.9
Isle of Wight			
17	Durrants	Newport	5.0
Kent			
18	Littlebourne	Canterbury	17.0
19	Molehill	Herne Bay	18.0
20	Sheppey	Isle of Sheppey	10.6
Leicestershire			
21	Gypsum	Sileby	4.5
Lincolnshire			
22	Folly Lane	Boston	4.8
Newport			
23	Court Farm	Llanmartin	5.0
Norfolk			
24	Bunns Hill	North Walsham	5.0
25	Frogs Loke	North Walsham	5.0
26	Hall Farm	East Beckham	11.4
27	Hardingham	Wicklewood	14.9
27	Hardingham X	Wicklewood	5.2
28	Oulton	Oulton	5.0
29	Rookery	Attleborough	5.0
30	Salhouse	Norwich	5.0
31	West Raynham	West Raynham	5.0
Northamptonshire			
32	Corby	Corby	0.5
33	Kislingbury	Kislingbury	5.0
North Yorkshire			
34	Kellingley	Beal	5.0
Oxfordshire			
35	Butteriss Downs	20 Sites	0.8
36	Elms	Wantage	28.9
37	Goosewillow	Steventon	16.9
38	Hill Farm	Abingdon	15.2
Somerset			
39	Ashlawn	Axbridge	6.6
40	Clapton	Cucklington	5.0
41	Redlands	Bridgwater	6.2
Staffordshire			
42	Willows	Uttoxeter	5.0
Sussex			
43	Pashley	Bexhill on Sea	11.5
Swansea			
44	Betingau	Swansea	10.0
Warwickshire			
45	Tollgate	Lemington Spa	4.3
Wiltshire			
46	Pentylands	Highworth	19.2
47	Roves	Sevenhampton	12.7
Berkshire / Hampshire			
48	Promothames	9 Sites	0.4
Oxfordshire /Surrey / Sussex			
49	Goshawk	11 Sites	1.1

Source: Bluefield Solar Income Fund

QuotedData

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