

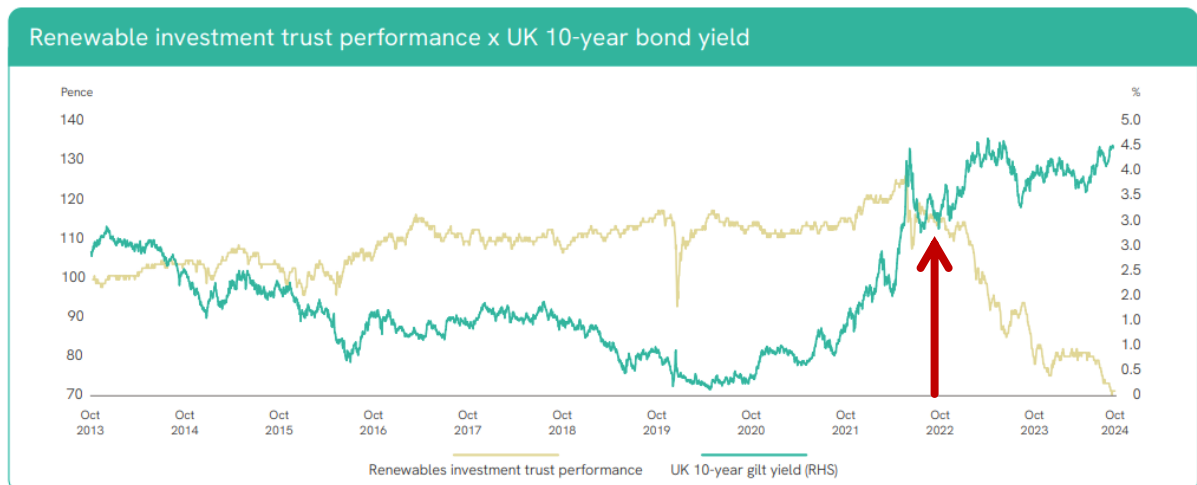
Further Thoughts on Development Risk

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Capital Markets: Risk-Free Benchmarking and Yield Compression

- In an [NPM podcast](#), Ross Driver of Foresight Group described how the Foresight Solar Fund (FSFL) has evolved its strategy in response to rising interest rates, pivoting from stable operational assets to including higher-risk development-stage investments in search of alpha
- In the zero-rate era, listed renewable investment trusts like FSFL offered attractive dividend yields relative to government bonds, positioning themselves as income-generating, low-risk assets
- Investors benchmark these vehicles against the UK gilt or U.S. Treasury yields and as long as there was a meaningful yield spread, demand for these equities remained strong
- Beginning in late 2022, central banks aggressively raised rates to combat inflation; as the 10-year yield climbed, the yield spread over FSFL and similar funds collapsed
- As performance data across various renewable investment trusts shows, rising rates led to share price declines for listed YieldCos—driving up dividend yields in an effort to remain competitive with the risk-free rate



Source: FactSet, Bloomberg. Renewables Investment Trusts: AERI, BSIF, DORE, FSFL, GRID, GRP, GSEO, GSF, JLEN, NESF, ORIT, SEIT, TRIG, UKW, USF

YieldCos: Structural Risks in a Higher-Rate World

- The share price decline of YieldCos like FSFL, CWEN, and NEP reflects more than just market sentiment—it marks the vulnerability of the “bond-like” renewable equity model in a higher-rate regime
- These vehicles, designed to generate stable, low-risk yield, were effectively repriced as bond proxies; as risk-free rates increased, the required return on YieldCos also increased, pushing valuations down

- Importantly, this revealed a core flaw in the conventional “de-risking” narrative: reaching COD does not eliminate exposure to capital market volatility
- What appeared to be a stable asset—once de-risked—became volatile when its yield failed to outpace a rapidly shifting benchmark

Strategic Pivot: Development Risk as a Source of Alpha

- In response, FSFL shifted its strategy to move further out on the risk curve. In 2021, there was no mention of development in its public materials; by 2024, “growing proprietary development pipeline will be the engine room for long-term NAV growth”
- To generate alpha, YieldCos must take earlier-stage risk
- This represents a reallocation of capital, away from stabilized assets and toward development, with the goal of capturing value before becoming yield-constrained
- This trend is visible across the listed renewables space, with U.S. entities like CWEN and NEP facing similar challenges and making comparable adjustments.

Income and growth: Indicative returns

Strategy combines steady yield from operational portfolio with growth opportunities from development



¹Illustrative development growth and target cumulative return based on current NAV and base case assumptions for development platforms secured to date. Not a forecast
²Requires continued investment to avoid NAV decline



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Source: Foresight Solar Fund Limited FY 2024 Results

Reframing Risk: From “De-Risking” to Enduring Volatility

- This underscores a key insight from the “Enduring Volatility” essay: while operating assets may be perceived as de-risked, they are not immune to external market shocks.
- These assets, previously valued like bonds, began to behave like distressed equities once the macro rate environment turned. The idea that risk simply “declines over time” through development milestones fails when yield compression at the terminal end (i.e., operating phase) undermines the economics assumed at financial close.