Gresham House
Specialist investment

Gresham House Energy Storage Fund plc

31 March 2024

Fund manager

Ben Guest
Managing Director, New Energy

Overview

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

The Fund aims to provide investors with an attractive and sustainable dividend by investing in a portfolio of utility-scale Battery Energy Storage Systems (BESS) located in Great Britain and internationally, which primarily use batteries to import and export power, accessing the multiple revenue sources available in the power market.

The Fund targets an unlevered Net Asset Value (NAV) total return of 8.0%+ per annum[1] and levered NAV total return of 15% per annum net of Fund expenses. Returns are not correlated to the absolute level of wholesale power prices and are not dependent on any government subsidies.

Fund information

Ticker GRID

Listing LSE Specialist Fund Segment

ISIN GB00BFX3K770

Year end 31 December

Key facts as at 31 March 2024

Share price (closing price) 41.8p

NAV per share 130.58p

Market Capitalisation £238.6mn

Net assets £745.2mn

Mgt. fee 1.0% net assets <£250mn
0.9% net assets from £250mn-£500mn
0.8% net assets >£500mn

Ongoing charges[2] 1.19%

Ordinary Shares in issue 570,701,073

Total return

	YTD	1 yr to date	3 yr to date	Since inception (Nov 2018)
Share price total return	-61.65%	-71.79%	-57.79%	-46.27%
NAV total return	1.17%	-12.91%	42.02%	73.45%

Financial highlights

- As of 31 March 2024, NAV per share increased 1.17% to 130.58p
- Operational portfolio reached 740MW on 31 March 2024 vs 690MW on 31 December 2023 and has subsequently increased to 790MW
- During the quarter, the most significant changes to NAV per share included:
  - +1.13p from portfolio cashflow generation
  - +0.92p from West Didsbury and York being revalued as operational projects
  - +0.51p from new one-year, T-1 Capacity Market (CM) contracts awarded in February 2024
  - +0.39p from the buyback of 2,743,621 shares at an average price of 48.01p
  - +0.07p from updated revenue forecasts
  - -0.35p relating to Fund costs, including transaction fees
  - -0.47p relating to interest and other debt-related costs
  - -0.69p for other items including model roll-forward and movement in fair value of interest rate swaps
- No changes to inflation assumptions or underlying discount rates during the period
- Weighted average discount rate (WADR) was 10.8% in Q1 2024; 10.6% if only taking the portfolio's operational assets
- Operational assets have been valued at £761k/MW. The discounted cashflow valuation represented £699k/MW of this total while working capital, which includes cash, batteries and other equipment held for upgrades, represented the remainder

1. This is a target only and not a profit forecast. There can be no assurance that this target will be met or that the Fund will make any distributions at all

2. As at 31 December 2023 updated annually

Capital at risk. Past performance is not a reliable indicator of future performance.

Portfolio activity

York (50MW / 76MWh) was energised in January bringing the operational portfolio to 740MW / 864MWh.

Further progress has been made subsequently with Penwortham (50MW / 50MWh) energising in early May. It is currently expected that the portfolio will reach 1GWh of operational battery capacity by mid-year, and then 1.1GW with 1.7GWh of operational project capacity by the end of the year.

Project augmentations to increase battery duration[3] are also progressing well. Arbroath's augmentation was completed during April while Nevendon, Enderby and West Didsbury are expected to be completed in the near future. Further, Penwortham, having recently energised at a one-hour duration will begin its augmentation programme in early June and Melksham and Coupar Angus augmentations will follow later in the summer.

Market outlook

Q1 2024 was one of the most difficult periods for the GB Battery Energy Storage Systems (BESS) industry to date with the revenue environment being very depressed. Initiatives implemented by the Electricity System Operator (ESO), such as the change of the 15-minute rule to 30 minutes and the launch of reserve products aim to improve the utilisation of batteries in the Balancing Mechanism. The changes to date have started to have an impact and revenues for March and April increased meaningfully from depressed levels and were above those achieved in January and February[4]. For example, April's portfolio revenues were c.90% above those achieved in February[5]. The Company expects further recovery as the ESO progresses through its Balancing Programme in 2024 and 2025.

The underlying fundamentals for BESS remain strong. Rising renewable penetration and ongoing decommissioning of legacy power plants mean balancing of supply and demand in real time is getting much more challenging and make batteries essential. This is why longer term (2027+) revenue forecast assumptions provided by third-party consultants have not reduced meaningfully despite the current malaise, as it is likely to become much more expensive and difficult for the ESO to balance electricity flows with a combination of gas-fired power plants and curtailment of renewables as renewable penetration rises further.

3. Defined as the ratio of MWh (battery capacity) to MW (grid connection capacity)

4. A revenue update was provided on 24 April 2024 via RNS, and is available **here**

5. Total revenue on a sterling basis for the month

Valuation process

The Fund's valuation uses the most currently available blended third-party revenue forecasts, or curves, which can be adjusted downwards when deemed appropriate by the Board and Manager. This was considered necessary for the latest third-party curves because, in the Board and Manager's view, they do not yet fully reflect the current weak revenue environment whilst utilisation of BESS improves through the Balancing Programme until 2027.

Through 2020 to 2022, the Company's consistently outperformed revenue forecasts. In 2023, revenues underperformed third-party forecasts, particularly in the second half of the year. However, the Company is confident that the primary cause of this underperformance - the Balancing Mechanism not functioning as intended - will be addressed through systems upgrades that are underway via the Balancing Programme.

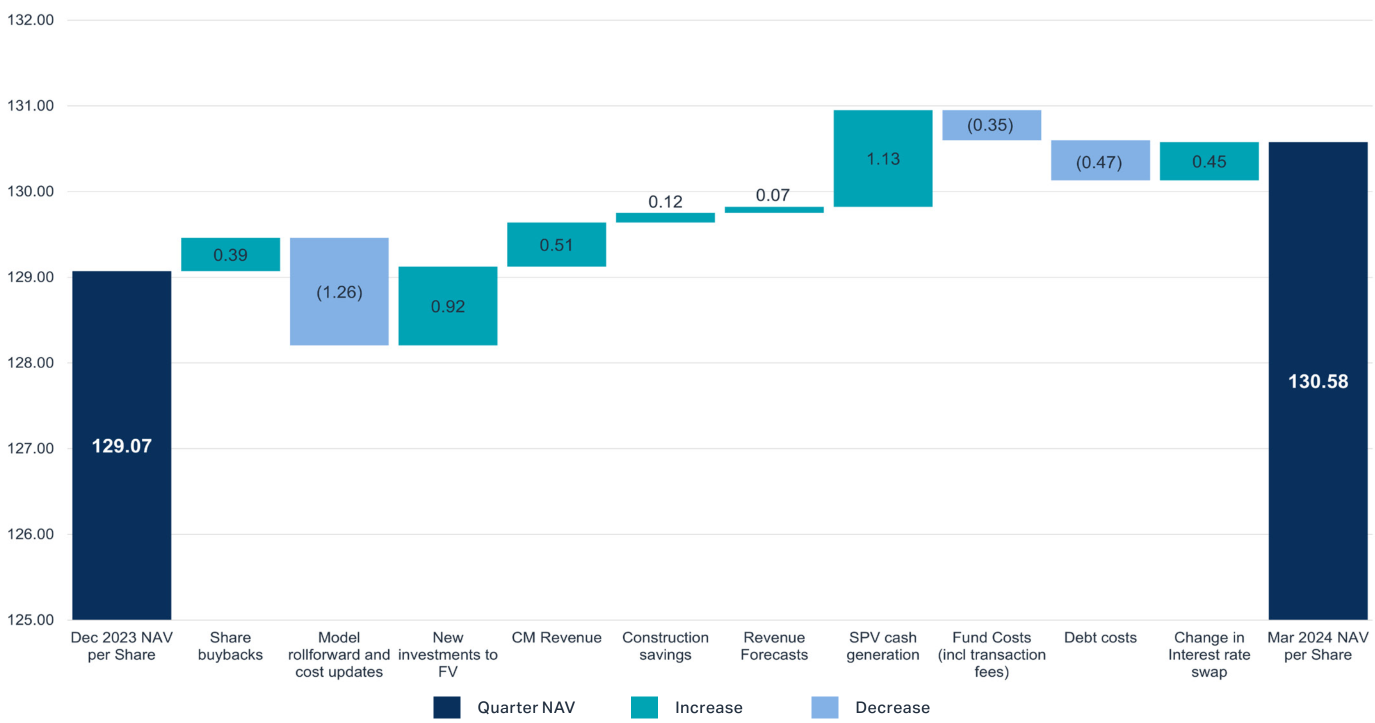
Valuations are reviewed on a half-yearly basis by the Company's Independent Valuer, Grant Thornton, who provides a rigorous 'valuation opinion' to ensure they are calculated using appropriate assumptions including, amongst other things, appropriate revenue curves and discount rates. As part of this exercise, asset values are also compared with those of market peers and available transaction data. Valuations also undergo an annual review as part of the annual audit process by the Company's Auditors BDO.

Portfolio outlook

To give the business additional headroom in the current lower revenue environment, the Company amended and restated its debt facility agreement, amending default covenant levels and cancelling £110mn of the undrawn debt facility.

During this period, the Company continues to focus on strict capital discipline, which will include no dividend payments or further share buybacks in 2024 and a focus on the completion of new and augmentation projects announced in the 2023 Annual Report. Completion of these projects will result in a near doubling of operational battery capacity, from 864MWh at the end of March to 1,696MWh by the end of 2024. This increase in capacity should provide the Fund with higher cashflow levels and provide a stable basis for paying dividends, even in a low revenue environment, during 2025.

NAV (p/share) bridge from 31 December 2023 to 31 March 2024



Source: Gresham House New Energy, 31 March 2024

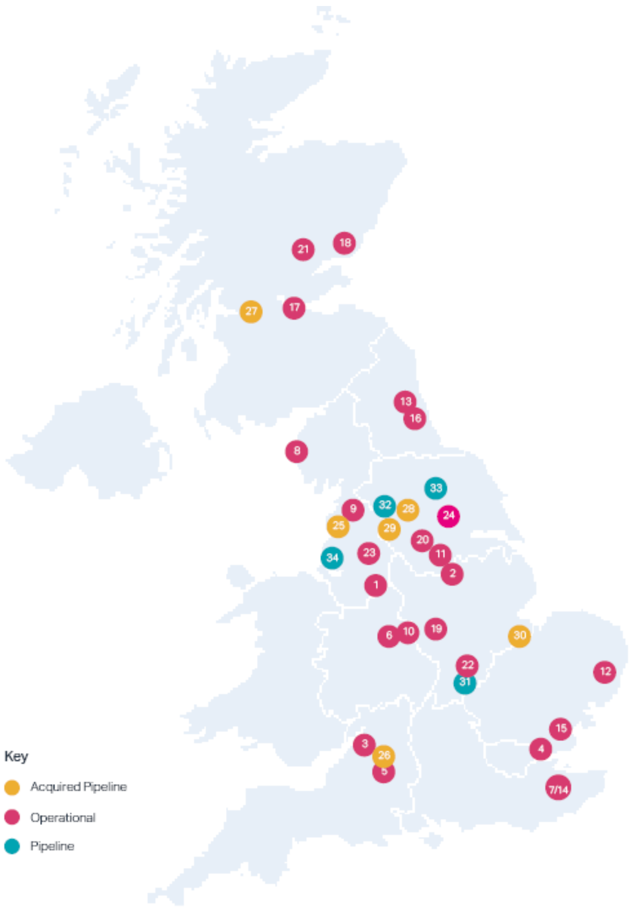
Targets may or may not materialise. Capital at risk. Past performance is not a reliable indicator of future performance.

Portfolio & pipeline

Project	Location	MW	Status
1. Staunch	Staffordshire	20	Operational
2. Rufford	Nottinghamshire	7	Operational
3. Lockleaze	Bristol	15	Operational
4. Littlebrook	Kent	8	Operational
5. Roundponds	Wiltshire	20	Operational
6. Wolverhampton	West Midlands	5	Operational
7. Glassenbury	Kent	40	Operational
8. Cleator	Cumbria	10	Operational
9. Red Scar	Lancashire	49	Operational
10. Bloxwich	West Midlands	41	Operational
11. Thurcroft	South Yorkshire	50	Operational
12. Wickham Market	Suffolk	50	Operational
13. Tynemouth	North Tyneside	25	Operational
14. Glassenbury Extension	Kent	10	Operational
15. Nevendon	Essex	10	Operational Augmentation: Q2 2024
16. Port of Tyne	Tyneside	35	Operational
17. Byers Brae	West Lothian	30	Operational
18. Arbroath	Scotland	35	Operational Augmentation: completed
19. Enderby	Leicester	50	Operational Augmentation: May 24
20. Stairfoot	North Yorkshire	40	Operational
21. Coupar Angus	Scotland	40	Operational Augmentation: Sep 24
22. Grendon 1	Northampton	50	Operational
23. West Didsbury	Manchester	50	Operational Augmentation: May 24
24. York	York	50	Operational
Total operational		**740**	
25. Penwortham	Preston	**50**	Energised: May 2024 Augmentation: October 2024
26. Melksham	Wiltshire	**100**	Target: Q2 2024 Augmentation: Oct 24
27. Shilton Lane	Scotland	**40**	Target: Q2 2024
28. Bradford West	West Yorkshire	**87**	Target: H2 2024
29. Elland 1	West Yorkshire	**50**	Target: H2 2024
Total operational or under construction		**1,067**	
30. Walpole	Cambridgeshire	**100**	Target: 2026
Total portfolio owned by the company		**1,167**	

Pipeline project	Location	MW	Status
31. Grendon 2	Northampton	50	Target: TBC
32. Thurcroft 2	South Yorkshire	85	Target: TBC
33. Monet's Garden	North Yorkshire	50	Target: TBC
34 Lister Drive	Merseyside	50	Target: TBC
Total additional pipeline not owned by the Company*		**235**	
Total portfolio and additional pipeline		**1,402**	

* Construction of additional pipeline not owned by the Company is not planned at this stage



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Portfolio manager

Gresham House Asset Management Ltd (GHAM)

As the operating business of Gresham House, GHAM manages and advises funds and co-investments across a range of differentiated alternative investment strategies for third-party clients. Gresham House is a specialist asset manager and adviser with c.£8.5bn AUM.

Source: Gresham House as at 31 December 2023.

Important information

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Before investing you should satisfy yourselves as to suitability and the risks involved, and you may wish to consult a financial adviser. It should be borne in mind that the shares of the Fund are admitted to trading on the Specialist Fund Segment (SFS) of the London Stock Exchange. The SFS is designed for highly specialised investment entities that wish to target institutional, highly knowledgeable investors or professionally advised investors only.

Past performance is not indicative of future results. The value of investments may fall as well as rise and investors may not get back the amount invested. Please contact a member of the Gresham House team if you wish to discuss your investment or provide feedback on this document.

Gresham House is committed to meeting the needs and expectations of all stakeholders and welcomes any suggestions to improve its service delivery.

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