

Information Pack

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125% Tax deductible. Moderate risk. ESG impact.

Fund 1: R200 million Now open for investment

The returns profile has been further enhanced following the announcements by the Minister of Finance in the Budget Speech on 22 February 2023.

The first private equity fund that entitles taxpayers (individuals, trusts, companies, pension funds) to invest in a portfolio of renewable energy-producing assets, and benefit from the SARS-approved enhanced 125% Section 12BA tax allowance.

Fund Investment Mandate

To own and operate a portfolio of renewable energy-generating assets, that sells the electricity generated to creditworthy counterparties (sectional title complexes, industrial and commercial companies), that are bound by long-term power purchase agreements.

Minimum investment: R100,000

No maximum investment

Fund term: 10 years

Experienced management team

Regulated by the FSCA

Shariah-compliant

Investing in the Fund

Your tax benefit as an investor

Taxpayers who invest in the Fund are entitled to claim the 125% Section 12BA tax deduction on the full amount invested. The tax deduction is applicable to each taxpayer, and is to be claimed in his/her personal respective tax return.

The tax incentive of 125% will only be available for installations that generate electricity for the first time between 1 March 2023 - 28 February 2025.

Why invest now?

Each project takes approximately 3-4 months to implement. Therefore, all funds need to be invested, and to be deployed as soon as possible so that the installations become energy-producing in the 2024 tax year.

The Fund has a pipeline of projects ready for deployment, that will become energy-generating by 28 February 2024, entitling you to claim the 125% tax deduction in the current tax year.

Your Section 12BA tax deduction will shield your taxable income from all sources (salary, interest, rentals, capital gains tax, etc), including income distributions received from the Fund.

Bi-annual distributions of profits

The Fund will generate ongoing profits from the sale of electricity, which will be distributed to investors bi-annually in March and September each year.

- Average annual yield: 14,22% p.a. on your investment amount
- Average annual yield: 32,51% p.a on risk capital invested
- First distribution: September 2023

The risk capital: 43,75% of the amount invested for individuals and trusts, and 66,25% for companies

Exiting at the end of the 10-year Fund term: 18% IRR

At the end of the 10-year Fund term, the portfolio of energy-generating assets will be disposed of into the active institutional market for moderate risk, high-yielding, long-term investment instruments.

This realisation and return of capital is projected to equal the amount of your gross investment into the Fund.

The total internal rate of return (IRR) on investment is projected at 18%, net of fees and taxes on risk capital over the 10-year term.

Should you require to exit before the end of the Fund term, the Fund Manager will endeavour to repurchase your investment at an appropriate discount at the time, subject to working capital requirements.

Fees

Set-up fee

A set-up fee of 1% (once off) on capital raised payable to the Fund Manager.

Management fee

A management fee of 2% per annum payable to the Fund Manager on the capital invested.

Performance fee

The Fund Manager will earn a performance fee of 20% on all distributions after returning 110% of risk capital to investors.

PIONEERED BY GROVEST

The Fund is administered by Grovest, the pioneers of Section 12J, that operationalised the first fund in 2014.

Today, Grovest is the largest administrator of Section 12J funds, with over R3.5 billion in assets under administration. The Section 12J market grew to over R12 billion when the sunset clause was reached in June 2021.

The Twelve B Green Energy Fund structure is a great alternative to Section 12J, with similar benefits.

Project installations & technology

Installations are contracted to approved third party engineering, procurement and construction (EPC) companies. Operations and maintenance is contracted to approved O&M parties.

Installations incorporate the latest technology in solar panels, inverters, and battery storage, supported by proprietary software to manage and minimise energy utilisation.



Photographs of current energy-producing installations



ESG investing, also referred to as impact or sustainability investing, is socially responsible investing that prioritises impact on the environment and the planet alongside financial returns.

Green energy has become an absolute necessity in South Africa due to the absence of reliable electricity supply.

Play your part in contributing to a more sustainable future and enhance your investment returns.

We invite savvy investors seeking superior returns at moderate risk, minimise their tax obligation, and contribute to a greener future to join us as we pioneer this asset class.

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Twelve B Fund Managers Proprietary Limited (Registration No. 2022/832884/07) is an approved juristic representative of Black Mountain Investment Management Proprietary Limited (Registration No. 2018/230022/07) an authorised Financial Services Provider under the FAIS Act (FSP No 49908).

Twelve B Green Energy Fund 1

Forecasted Cash Flows in the hands of a Limited Partner (Individual) paying tax at the marginal rate



			Years										
			0	1	2	3	4	5	6	7	8	9	10
Investment			(1 000 000)										
12B Tax allowance (125%)	1,2	45%	562 500										
Risk Capital			(437 500)										
Organisational Expenses		1%		(10 000)									
Gross Distributions to Partner				134 599	145 156	156 541	168 820	182 063	196 346	211 749	228 362	246 280	265 604
Management fees		2%		(20 000)	(20 000)	(20 000)	(20 000)	(20 000)	(20 000)	(20 000)	(20 000)	(20 000)	(20 000)
Sale of future cash flows (Y11 - Y20)	3,4												1 132 060
Performance fees paid to Manager	5			0	0	0	(6 773)	(32 413)	(35 269)	(38 350)	(41 672)	(45 256)	(275 533)
Cashflows before Tax			(437 500)	104 599	125 156	136 541	142 047	129 651	141 077	153 400	166 690	181 024	1 102 131
Tax Payable by Limited Partner	6,7	45%		(47 069)	(56 320)	(61 443)	(63 921)	(58 343)	(63 484)	(69 030)	(75 010)	(81 461)	(460 303)
Cashflows after Tax in hands of Partner			(437 500)	57 529	68 836	75 098	78 126	71 308	77 592	84 370	91 679	99 563	641 828
Cash Yield													
Before Tax		Ave											
Average Annual Yield (Gross Investment)	8	14,22%	-	10,46%	12,52%	13,65%	14,20%	12,97%	14,11%	15,34%	16,67%	18,10%	110,21%
Average Annual yield (Risk Capital)	8	32,51%	-	23,91%	28,61%	31,21%	32,47%	29,63%	32,25%	35,06%	38,10%	41,38%	251,92%
After Tax													
Average Annual Yield (Gross Investment)	8	7,82%	-	5,75%	6,88%	7,51%	7,81%	7,13%	7,76%	8,44%	9,17%	9,96%	64,18%
Average Annual Yield (Risk Capital)	8	17,88%	-	13,15%	15,73%	17,17%	17,86%	16,30%	17,74%	19,28%	20,96%	22,76%	146,70%
IRR on Risk Capital													
Before Tax		32,15%	(437 500)	104 599	125 156	136 541	142 047	129 651	141 077	153 400	166 690	181 024	1 102 131
After Tax		18,12%	(437 500)	57 529	68 836	75 098	78 126	71 308	77 592	84 370	91 679	99 563	641 828
Times money on Risk Capital													
Before Tax		5,5											
After Tax		3,1											

Notes:

1. Assumes partner is an individual paying tax at the marginal rate.
2. Assumes solar kit starts producing energy at the beginning of year 1.
3. Assumes selling the future cash flows at a discount rate of 13,5%.
4. Assumes replacement of battery at end of year 10.
5. 20% performance fee paid to manager on excess returns above 110% of risk capital.
6. Assumes distributions in hands of partner are taxed at the marginal rate.
7. Tax calculation in year 10 includes recoupment and capital gains tax on the sale of solar equipment and future cash flows.
8. Calculation excludes year 10 (exit) values.

This document includes forward-looking statements which have been based on current expectations and projections about future results, which although the Fund Manager believes them to be reasonable are not a guarantee of future performance. Actual results may differ materially from those made or suggested by the forward-looking statements contained herein. The partnership agreement to be entered into between the general partner and the investor sets out the detailed terms and conditions governing the investment. Investors should seek advice from their financial advisor, attorney, accountant, banker or other professional advisor.

Twelve B Green Energy Fund

Frequently Asked Questions

1. What is Section 12B?

Section 12B of the South African Income Tax Act entitles taxpayers to claim an accelerated wear and tear allowance on assets owned and brought into use by the taxpayer for trade in generating various forms of renewable electricity.

For the period 1 March 2023 to 28 February 2025, the Section 12BA allowance has been increased from 100% to 125% and no maximum cap on the output of the solar installation.

2. What's an example of how the Section 12BA tax deduction works?

A: Investor invests R100,000 in May 2023.

The full amount is invested into the solar kit that starts generating energy in July 2023.

The investor can deduct 125% i.e. R125,000 from their taxable income for the year ended February 2024.

B: Investor invests R100,000 in May 2023.

Only R70,000 is invested into the solar kit that starts generating energy in the year ended February 2024.

The investor can deduct R87,500 ($70,000 \times 125\%$) from their taxable income for the year ended February 2024. The balance of R37,500 ($30,000 \times 125\%$) can be deducted from taxable income in the following tax year when the balance of the solar kit comes into operation.

PLEASE NOTE: The adjusted tax incentive will only be available for installations that generate electricity for the first time between 1 March 2023 - 28 February 2025.

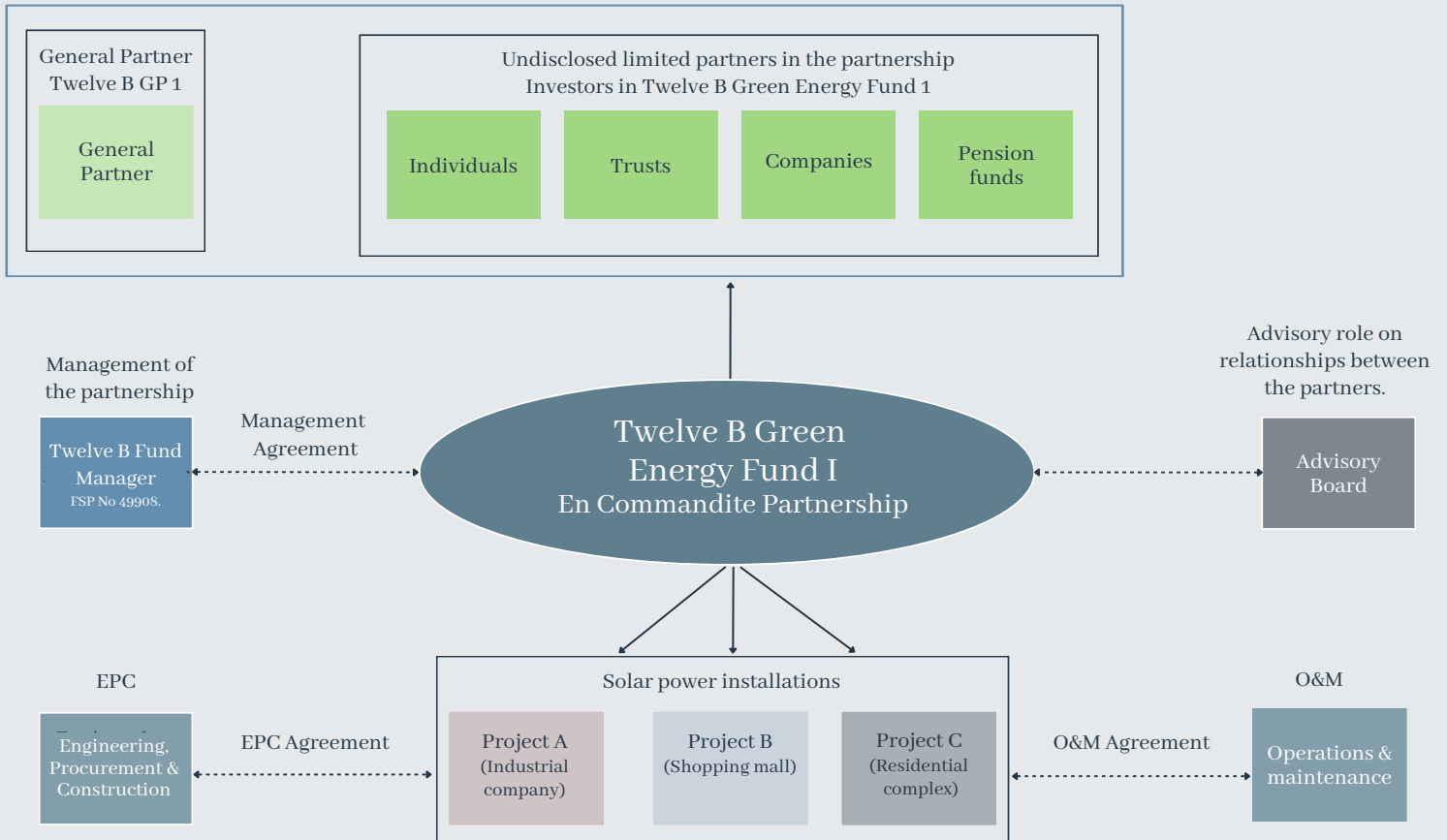
3. What is the Twelve B Fund Investment Mandate?

To own and operate alternate energy-generating assets, and sell the electricity generated to a portfolio of creditworthy counterparties (sectional title complexes, industrial and commercial installations) bound by long-term power purchase agreements.

4. Who can invest in the Fund and qualify for the Section 12BA tax allowance?

Individuals, trusts, and companies can invest into the Fund. Pension Funds are also permitted to invest in the Fund as governed by Regulation 28 of the Pension Fund Act.

5. What does the investment structure of the Fund look like visually?



6. What is the investment structure of the Fund?

The Twelve B Green Energy Fund is structured as an en commandite partnership. The en commandite partnership structure is most commonly used by private equity Fund Managers in South Africa.

It comprises two categories of partners:

- Undisclosed limited liability partners – the investors into Twelve B Green Energy Fund
- The general partner: Twelve B GP 1 (Pty) Ltd

The two categories of partners enter into a partnership agreement that co-own the assets in which the Fund invests.

Investors contribute a fixed sum in exchange for a percentage share in the partnership. The liability of the investors is limited to their capital contribution into the Fund.

The net income earned by the partnership is distributed to the investors in accordance with the ratio of ownership as set out in the partnership agreement.

7. What is a limited partner (LP)?

A limited partner (investor) comprises an individual, trust, company, or pension fund who contributes capital into the partnership. The investor's liability is limited to the amount of his/her investment into the Fund.

8. What is a general partner (GP) in Twelve B Green Energy Fund?

The general partner is in ultimate control of the Fund. It appoints the Fund Manager to manage the Fund on a day-to-day basis on its behalf.

The GP's liability is unlimited in relation to the partnership.

9. What is a Deed of Adherence?

A Deed of Adherence is a supplementary legal document that is used to bind an investor to the partnership agreement.

10. What is a PPA?

A power purchase agreement (PPA) is a long-term electricity supply agreement between the partnership, being the energy producer and an offtaker.

The PPA sets out the amount of electricity to be supplied, the initial pricing, the annual escalations, and penalties for non-compliance.

11. What is an offtaker?

An offtaker is a consumer of the electricity generated by the solar assets deployed at the premises of the offtaker.

Offtakers may be sectional title complex, industrial or commercial installations.

12. How long is the Fund term?

Ten years.

13. What is the planned size of Fund 1?

Fund 1 is raising R200 million only. This will be on a first come, first serve basis.

The Fund has a pipeline of projects ready for deployment that will become energy-generating by 28 February 2024, entitling you to claim the 125% tax deduction in the tax year.

14. As an investor, what are my expected returns?

The Internal Rate of Return (projected IRR): \approx 18% (net of fees and taxes on risk capital).

Distribution policy:

Investors will receive bi-annual distributions from the profits of the sale of the electricity:

- First distribution - September 2023.
- Average annual yield: 14.22% p.a. on your investment amount
- Average annual yield: 32.51% p.a on risk capital invested

15. What is the internal rate of return (IRR)?

The IRR is a metric used to estimate the return on the investment having taken into account the time value of money.

16. What is the difference between a distribution and a dividend?

- A dividend is paid by a company as a share of profits to the shareholder as a consequence of him/her owning shares in a company.
- A distribution is a share of the profits paid to a partner as a consequence of him/her being a partner in a partnership agreement.
- Dividends are subject to dividends withholding tax after having paid company tax of 27%.
- Distributions are paid directly to the partner and are taxed directly in the partner's hands.

Given that the Twelve B Green Energy Fund is a partnership, investors receive distributions.

17. What are income distributions?

The profits of the partnership which have been generated from the sale of electricity, net of costs, are distributed to investors bi-annually in March and September each year.

The first distribution will be in September 2023.

18. What is a running yield?

It is the cumulative annual distributions of the Fund to investors as a percentage of investors' capital contribution.

19. Will my investment be deployed into a specific energy asset?

No, funds will be deployed into a portfolio of energy-producing assets. It is anticipated that the Fund will invest in approximately 30 projects.

20. How do I treat the Section 12BA deduction and income distributions received from the Fund in my income tax return?

Once the financial statements of the Fund have been audited by the Fund's auditors, a detailed tax summary will be sent to each investor.

This summary will confirm the amount of the Section 12BA deduction as well as his/her share of profits that should be included in your tax return for the tax year ended February each year.

21. Can an investor carry forward his Section 12BA allowance to successive tax years?

Yes it may be carried forward to the successive year and set off future taxable income.

22. What is the risk profile of an investment into the Fund?

The investment risk profile is moderate.

The funds will be deployed into a portfolio of solar projects in different locations, with different offtakers. Each project will be bound by a long-term PPA which sets out the amount of electricity to be supplied, the initial pricing and the annual escalations.

All solar equipment is covered by an all-risks insurance policy for lightning, floods, theft, etc.

Counterparty risk is mitigated as the solar equipment is movable and can be moved to another site if required.

23. What are the risks of this investment?

- Non-payment by offtakers. However, the portfolio is made up of a number of offtakers, so each offtaker will only represent a small portion of the Fund. One can also repurpose the solar kit for another offtaker at an alternate site.
- Helioscope projections are utilised to size solar equipment to ensure that energy production is matched to usage.

24. Is the Fund regulated?

Yes, it is regulated by the Financial Sector Conduct Authority (FSCA).

25. Who is the Fund administrator?

The Fund is administered by Grovest, the pioneers of Section 12J, who operationalised the first Section 12J Fund in 2014. The Section 12J market grew to over R12 billion when the sunset clause was reached in June 2021. Today, Grovest is the largest administrator of Section 12J Funds, with over R3.5 billion in assets under administration.

26. Is the initial capital investment paid back to me after the 10-year period?

Yes it is. This amount is determined at the time of exit based on the selling price of the portfolio.

27. What happens to my share in the partnership when the interest is sold to a third party after 10 years?

You are deemed to have exited your investment once the portfolio is sold to a third party.

28. What happens when the Fund term is reached?

At the end of the 10-year Fund term, the portfolio of energy-generating assets will be sold into the active institutional market for moderate risk, high-yielding, long-term investment instruments.

To enhance investor returns, the Fund term may be extended for a further two years, at the discretion of the Fund Manager.

29. Can I redeem my investment before the Fund term?

In the unplanned circumstance of exiting early, the investor will need to request this from the Fund Manager.

Subject to the working capital requirements of the Fund, the Fund Manager may repurchase your investment at an appropriate discount at the time.

The earlier the exit, the higher the discount will be.

At any point in the 10-year term, an investor may sell their partnership interest to a third party.

30. What are the tax consequences of redeeming my investment?

If an investor disposes of their investment before the end of the Fund term, or at the end of the Fund term, the investment will be subject to a portion of the recoupment of the value of the solar assets at the time of disposal and is to be included in the investor's tax return in the year in which the investment is sold.

31. What are the fees to invest in the Fund?

Set-up fee:

A set-up fee of 1% (once off) of capital raised is paid to the Manager.

Management fee:

A management fee of 2% per annum is paid to the Manager on the capital invested. This fee is paid quarterly in arrears.

Performance fee:

The Manager will earn a performance fee of 20% on all distributions after first returning 110% of risk capital to investors.

32. How is the Fund Shariah-compliant?

All monies received from Shariah investors will be invested into a Shariah-compliant bank account until deployed into qualifying assets.

33. How does Twelve B select investments for the Fund?

All projects are approved by an experienced Investment Committee before they are implemented. The Investment Committee will select a diversified portfolio of projects to mitigate for concentration risk.

The Investment Committee will consider investments based on the following:

- The offtaker must be credit-worthy with historic electricity invoices to validate usage.
- The offtaker must enter into a long term power purchase agreement.

34. How are prospective projects sourced?

The projects emanate from various sources including engineering, procurement and construction contractors (EPCs), operations and maintenance contractors (O&M), with whom the Fund has an association, or perhaps the offtakers themselves.

In the current environment and severe crisis in the availability of electricity in South Africa, it is self-evident that there will be numerous projects which require Funding.

Projects also emanate from word of mouth, landlords, managing agents, and property developers.

35. What is the current investment pipeline?

The Fund will be investing in a portfolio of renewable energy projects focused on sectional title complexes and select commercial and industrial installations. These installations incorporate the latest technology in solar panels, inverters, and battery storage.

These are spread across various sectors - multi-family residential, retail, and industrial offtakers. They are also geographically spread across South Africa.

Currently, the team has approximately R80 million of potential deals in the pipeline.

36. What are the minimum and maximum investments in the Fund?

The minimum investment is R100,000. There is no maximum investment amount.

37. What is the difference between Section 12B allowance and Section 12J allowance?

SECTION 12J	SECTION 12B
Fixed capital structure.	<i>En commandite</i> partnership structure
Investments can be deducted from taxable income in the tax year in which the investment was made.	Investments can be deducted from taxable income in the tax year when energy is generated.
5-year holding period.	No holding period.
Limited to R2.5 million p.a. for individuals and trusts; and R5 million p.a. companies.	No limit on investments.
Capital gains tax.	No capital gains tax.
Can be high risk.	Moderate risk.

Not tax efficient.

Tax efficient due to flow-through principle.

LPs can only hold up to 20% of the Fund

Unlimited investment holding in Twelve B Green Energy Fund 1

38. What is ESG?

Environmental, social, and governance (ESG) investing is a form of socially responsible investing that prioritises financial returns alongside impact on the environment and the planet.

Green energy has become an absolute necessity due to the ongoing lack of reliable electricity and energy supply in South Africa.

Twelve B Green Energy Fund is an ESG investment committed to sustainability.

If you have any other questions, please contact us: info@twelveb.co.za | 011 262 6433