PROJECT FINANCE EXCHANGE (PFX)

MARKET & MEDIA BACKGROUNDER

PROJECT FINANCE MARKET

Introduction

At any one time there are thousands of projects seeking finance across the world. At the same time there are tens of thousands of investors seeking projects to finance. Over many decades, the market became so crowded, fragmented and opaque that more people failed to identify, connect and engage with investment partners, than succeed.

Project finance deal values range from (mostly) $100m to upwards of $10bn. Many are of higher value than most IPO's on any stock exchange. The Project Finance Exchange (PFX) is now three years into its long-term mission to consolidate what has all the attributes of being a global capital market in its own right. Once fully consolidated the market will have a transactional value of $multi-trillions.

This Market & Media Backgrounder has been produced to clarify the basic attributes of the market to media and market participants alike. Also, to present how PFX is now consolidating this diverse and currently fragmented and opaque global market.

It also presents how Lloyds-of-London and other leading insurance markets are now providing A+ rated insurance Wraps on project finance transactions, elevating them to equivalence with mainstream fixed-income assets. And how borrowers are left free and clear of any financial liability whatsoever.

PFX mission statement

To create a global private capital marketplace for the promotion of and investment in projects across healthcare, hospitality, infrastructure, transport/logistics, energy and all other sectors excluding defence. Preference is given to projects that have a positive environmental and economic impact for the locality or region in which it operates.

Private Capital Market

The dominance of private capital has progressively become the default position since the turn of the century, accelerated by the banking crisis of 2008. Even before then, in 2006, the OECD had commented on the exodus of capital out of traditional mainstream banks and into entities such as those presented in the panel opposite, which were to become known collectively as the 'shadow banking' sector.

It is now widely acknowledged that, outside of retail and mainstream business banking services, so-called 'shadow banking' in all its many private debt and equity forms, now clearly overshadows traditional banking. Irony lives. What mainstream media and banking refer to as 'shadow banking', is better known by market participants as the 'private markets'.

Mainstream banks who are involved in the market do so through their own investment banking or alternative investment operations.

Global Private Capital Markets Key Data

Fund Type	**AUM**
2,000 Alternative Investment Funds	$2tn
10,000 Hedge funds	$3.2tn
7,300 Multi-/Single-Family Offices	$5.9tn
62,000 Private debt and equity funds	$5.5tn
45,000 Asset Mgrs (IAM membership)	$10tn

Estimate taken from combined physical and liquid assets of $100tn as presented by [Thinking Ahead Institute.] IAM membership does not represent all Asset Mgrs.

Total Funds/AUM: 126,000/$26.6tn

Total AUM of $26.6tn broadly reflects Cap-Gemini's Global Wealth Report (2020) of $24tn available to alternative assets and RE. **This 2020 data, along with information known to the PFX Leadership Team is the foundation on which PFX was launched**.

Family Offices

For the purposes of this research the Family Office sector was ignored. Estimates of capital available from this source vary between $2tn and $15tn.

In this there could be some duplication with the Fund Types shown above. It is a sector that is still shaking down.

Private Capital Source

19 million U/HNWI's Aggregate wealth	$74tn

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PFX pre-launch research in 2020 showed the ultimate source of the finance as 19 million Ultra- and High-Net Worth Individuals (U/HNWI's) worldwide with aggregate wealth of $74 trillion, as presented in the *Cap-Gemini 2020 World Wealth Report,* which PFX used as the bedrock investor data for its launch in 2021. Subsequently there have been many data produced by various institutions showing the continuing growth of the global U/HNWI population. The PFX Leadership Team was already aware of the huge volume of projects seeking finance through their own decades long experience.

This vast capital reserve, known in the market as 'dry powder', is finding its way into projects through over 120,000 alternative investment, hedge and private debt/equity funds, asset managers, family offices and other private capital investors, collectively known as the 'private markets', worldwide.

The market is powered by this vast lake of private capital which has grown since the turn of the century, and channelled through thousands of private capital funds, as shown above.

What separates the project finance structure from any other?

Unlike M&A, VC, Mezz or any other financing structure, the *project* finance structure is predicated on the track record and financial stability of whoever is *contracted to buy* the output from the built project.

The assets and balance sheet of the borrower come a distant second to this primary consideration. The structure, also uniquely, leaves borrowers be they a team, company or government agency free and clear of any financial liability whatsoever.

Over many decades, project finance has evolved far away from, and bears no relation to, its 1950's post-WWII origins. Then, it was developed by leading institutions to finance the construction and, often, re-construction of large-scale industrial and infrastructure projects.

Now, this vastly evolved structure, powered overwhelmingly by the private markets, finances projects across renewable energy, hospitality, healthcare, infrastructure and many other sectors worldwide, with deal values mostly $100m to $10bn+.

To clarify, project finance is investment against revenues from a yet-to-be-built asset, from which mainstream institutions are precluded by their own regulations. Currently, the market is dominated by the private markets delivering the long-term, risk-mitigated returns their U/HNWI and other private capital investors seek. These include:

- **Alternative investment funds**
- **Asset Managers**
- **Corporate Lenders**
- **Hedge funds**
- **Investment banks**
- **Multi-/Single-Family Offices**
- **Private debt/equity funds**
- **Structured finance specialists**

Recent changes to legislation in some jurisdictions are designed to encourage mainstream institutions into the market, although this will take time to wash through as they assess the opportunity.

Project finance structure | No financial liability

PFX defines the project finance structure as '*Investment predicated on the track record and financial stability of whoever is contracted to buy the output from the built project, with those same criteria applying to contractors and other counterparties to the project*'.

It is these factors on which investors lend into a project. Whilst the experience and credibility of the project principals be they a team, company, local or national government agency is important and relevant, their assets and balance sheet are less so. The investment/lending decision rests on the above definition.

An example would be a $500m waste-to-energy (W2E) plant being built by a municipality or private company. They have to show that they have secured grid connectivity, environmental, construction and other permits and, most important, a Power Purchase Agreement (PPA) with the grid into which the energy is going to be sold.

Also, they need a credible, signed (possibly subject to finance) agreement with their EPC (Engineering, Procurement and Construction) and other contractors. There are many other considerations on which PFX provides guidance in preparation for listing on PFX.

Provided all this documentation and other matters are confirmed the investor will ask the project principals to arrange an insurance Wrap (see below) for the project. Once this is confirmed the investor will establish a Special Purpose Vehicle (SPV) through which the investment and everything related to it will be transacted. **This leaves the project principals free and clear of any financial liability, whilst still owning the asset.**

This means that the municipality will not have to turn to its taxpayers for payment or even underwriting of the debt, nor will a company need to burden its shareholders.

Insurance Wrap

Most notably, over the past decade, Lloyds of London and other leading insurance markets have entered the market by endowing their A+ ratings on projects by backing comprehensive insurance Wraps supporting individual projects. This provides equivalence to mainstream illiquid fixed-income assets for private capital investors (although some structures offering liquidity are becoming available).

Whilst many engineering, design, construction and other project counterparties offer their own performance guarantees and insurances, the insurance Wrap assembles a series of interlinked policies across every aspect of the project. These range from construction site security thru contractors' performance and off-take agreements to political risk.

Wraps are issued to the direct benefit of the lender. For borrowers, there is an initial underwriting 'set-up' cost which can vary between £10,000 and c£30,000 depending on the complexity of the project. Once the policies are assembled the annual premiums are added to the loan. Lenders are happy with this arrangement as they are, in effect, protecting their own investment.

MARKET CONSOLIDATION

Introduction

Project finance is now becoming recognised as its own unique investment structure separate to M&A, Mezz, VC or any other. It is only over the past two decades that the investors, the 'private markets', have actually emerged as a buy-side tangible entity in their own right. However the sell-side, projects and their principals, have faced a market infested with joker-brokers (some presenting themselves as very credible) and 'investors' which are, in reality, often very sophisticated advance fee fraudsters (LinkedIn is their happy hunting ground).

There are also a few professionals such as accountants, lawyers and consultants of various disciplines who present themselves as being able to prepare clients for project financing, and then introduce them to genuine investors.

In reality they broadcast the executive summary, prospectus, offering or whatever they prefer to call it across their entire networks. The net result is that the project becomes worthless to investors, at the same time creating endless broker chains, which investors avoid at all costs. Countless transactions have been terminated through brokers arguing over fees.

Also, investors have always had to deal with submissions coming to them in wildly different formats, with the project principals and their advisors having no idea of what the investors actually need to make an in principle decision.

PFX has introduced stringent intake standards and SOP's for project principals which 'steer' them into producing comprehensive Executive Summaries (ES) with which investors can work. These are supported by properly structured data-rooms providing the 'full deck'.

Investors are only registered after PFX due diligence, which declines all potential fraudsters. They are notified of opportunities that match their market sector, deal value and regional preferences prior to listing. They are provided with previews of the ES. Once listed, the opportunities, with no identifying information disclosed, is made available the wider investor market, which continues to grow the PFX investor community.

Origination/Intake SOP's

PFX takes great care in listing only viable projects meeting our stringent 'submission ready' requirements. We recognise that only the investor along their underwriters, lawyers and other counterparties can say when a project is 'shovel ready'.

Our standard operating procedure for intake of new projects is:

- Whether through a professional advisor, a PFX Regional Manager or directly the client is provided with our **Stage 1 Intake Form**. This is returned, along with the project's ES, to PFX.
- If PFX considers the project to be viable (ES's usually need extensive additional work) a conference call is set up to get a full picture of the project, its principals, contractors and other counterparties. If all goes well the client is then sent our Stage 2 Intake Form.
- The **Stage 2 Intake Form** (PFX copyright, p/w protected) asks for substantially more information covering control over land (owned, leased, optioned etc); off-take/PPA/feedstock agreement(s); EPC (Engineering, Procurement and Construction) contractors; specialist contractors etc. Also, a full guide to assembling and organising their data-room.
- The Stage 2 Intake Form will tell us how advanced the project is towards being 'submission ready'. Where further work and support is required, PFX invests its time and resources to bring it up to the required standard. Integral to this is the **PFX Listings Worksheet** (PFX copyright, p/w protected).
- At this stage the client is provided with the PFX Engagement Agreement, NCNDA and AML forms to complete and return.
- The PFX listings worksheet 'steers' the client into producing a comprehensive ES that investors can work with. This, along with the structure we provide for the data-room is a key step in consolidating the market by establishing benchmark SOP's.
- When it has become clear during the listing process that there are no hidden 'tripwires', the PFX investor liaison team is notified of the pending listing. At that stage they can start assessing which investor they think most appropriate to the opportunity.

Opportunity Distribution

Integral to its market consolidation mission, PFX has added a 'media layer' to the traditional intermediary business model. Any exchange, anywhere in the world be it stocks, bonds, commodities or anything else is essentially an information exchange. PFX follows this core principle that when you release the flow of information, the flow of capital naturally follows.

As PFX scales up, it is this bedrock operating model that underpins how we will continue to consolidate this huge, global, $multi-trillion dollar market.

Visitors to the PFX site can search the current listings by market sector, world region and deal value. If they identify an opportunity they wish to pursue they can download the PFX Investor User Guide from the ['Investors' zone](). This explains how PFX works and how they can benefit from registering with PFX. All interested investors are required to register with PFX as this enables proper due diligence and keeps fraudsters and scammers out of the PFX investor community. PFX investor due diligence has evolved into a very effective tool which now declines more than 20% of all investor registration applications.

Investors are asked to complete an initial registration form which will prompt a senior executive from the PFX Investor Liaison team to respond within three working days, after initial due diligence. However, this should only be done after the PFX Investor User Guide has been read.

Investor Engagement

PFX registered investors are notified of upcoming opportunities in accordance with their pre-advised market sector, deal value and regional preferences. Experience has shown that these preferences can often be nuanced, and meaningful relationships with investors have been developed based on these deeper understandings of their preferences.

If an investor is interested in an opportunity at pre-listing stage they can discuss it with their Investor Liaison executive, but there is no introduction to the project principals until the listing is finally uploaded. Only at this stage can we be sure that all 'submission ready' criteria have been met and that the project is prepared in every respect to present to investors.

The SOP's and structures that PFX have put in place on both the buy- and sell-sides of the market overcome the broker-chain, fraud/scam, fragmentation and other issues that have afflicted and impeded the growth of the global project finance capital market for decades.

Further information:

- For interviews with the PFX CEO (USA) or Chairman (UK) please contact media@projectfinanceexchange.com in the first instance. We will respond within 48 business hours.
- There is a comprehensive FAQ zone at the site.
- **Further information is available on the PFX LinkedIn company page:**

From PFX Op-Ed in *Private Debt Investor* | Feb 2021

"… the first recorded project financing was in 1299 when an Italian merchant bank, the House of Frescobaldi, funded a silver mine in Devon, England with the loan repaid with the output from the mine. In itself, the very manifestation of 'project finance'."

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