



# Ludgate Environmental Fund

## Newsletter 1: Covering Q3 and Q4 2007

This is the first newsletter of the Ludgate Environmental Fund (“LEF” or “Fund”) since its successful closing and admission to AIM in August 2007 with a total of £26.7 million raised.

This initial newsletter covers the first five month period since launch to 31st December 2007. In this period, the NAV per share of the Fund has risen from 97.3p at admission to 102.2p. Further newsletters will follow calendar quarters and the next fact sheet will be published in April 2008, covering Q1 2008.

### Key Fund & Performance Data

	Q3 2007 (as at 30 Sep 07)	Q4 2007 (as at 31 Dec 07)
Share Price (pence)	102.50	102.50
Warrants Price (pence)	8.50	9.00
Net Assets (£m)	26.27	27.32
Shares in Issue	26,735,099	26,735,099
NAV per Share (pence)	98.27	102.19
Market Capitalisation (£m)	27.40	27.40
Exchange	London - AIM	
Admission Date	2nd August 2007	
Currency	GBP	
ISIN Number - shares	JE00BIYW3102	
ISIN Number - warrants	JE00BIYW3L02	
Reuters RIC Code - shares	LEF.L	
Reuters RIC Code - warrants	LEFW.L	
Bloomberg code - shares	LEF LN	
Bloomberg code - warrants	LEF WLN	

### Investment Portfolio

Ludgate Investments Ltd (“LIL”), as Investment Adviser to LEF, has reviewed over 50 investment opportunities in the five month period since Fund launch in August 2007.

As at 31st December 2007 LIL has recommended and the Fund has either completed or committed to combined investments of £5.55 million in three companies from diverse environmental sectors. This represents 20.25% of the Net Assets of the Fund. All three are revenue generating companies requiring additional development capital for expansion of their businesses.

Company	Sector	Investment	% LEF Assets
Hydrodec Group PLC	Specialist Oils Recycling	£3.0m (CULS)	10.95
		£0.5m (Ords)	1.82
Emergya Wind Technologies B.V.	Wind Turbine Manufacturing	€2.0m (£1.44m) (Loan Notes + Warrants)	5.36
STX Services B.V.	Environmental Product Broking / Trading	€0.19m (£0.14m) (Ords)	0.49
		€0.60m (£0.45m) (Convertible Loan)	1.63



## 1. Hydrodec Group PLC (“Hydrodec”)

On 7th November LEF announced that it had led a £13.8m investment round into Hydrodec, an AIM listed company, to fund its expansion into the US. LEF invested £3.0m and several other Fund investors co-invested alongside LEF. This marked the first investment by LEF.

The overall funding of £13.8m was completed through the placing of fixed rate convertible unsecured loan notes (“CULS”) in Hydrodec. The CULS have a five year term with a conversion price of 19p. The CULS pay interest semi-annually in arrears at a rate of 8% p.a.

LEF’s investment of £3.0m is convertible into 15.79 million new ordinary shares and this represents 5.93% of the Company’s enlarged issued share capital, assuming that all the CULS are converted into ordinary shares.

On 7th December LEF announced a further investment of £500,000 in ordinary shares of Hydrodec through the purchase of 2,500,000 shares at a price of 20p per share. Following this new investment, the Fund currently holds 6.86% of the Company’s share capital assuming full conversion of all the CULS. This further investment into Hydrodec was made following the announcement of a major contract win for supplying its Superfine transformer oil to Turkey.

Hydrodec’s technology is a patented sustainable oil refining process that takes existing spent oil as feedstock to produce new specialty oils thus creating a virtuous “green” cycle. The process is closed loop and produces no harmful emissions. It can indefinitely return “as good as new” oil (“Superfine”) to utilities and transformer manufacturers (who supply the utilities) and at the same time removes their lifetime stewardship liabilities for these harmful substances.

Hydrodec’s first commercial process re-refines the used transformer oils that insulate and cool utility transformer boxes. It currently has one operating plant in Young, New South Wales in Australia, and is now expanding into the US with the construction of production plants in Canton, Ohio and Laurel, Mississippi. The US is the largest market for transformer oil in the world.

As at 31st December Hydrodec’s share price had risen to 22.75p. LEF’s combined investment is valued at 31st December at £4.46m, an uplift of 27.3% on a total investment of £3.50m. Since then Hydrodec’s share price has risen further to 25.5p at close of business on 7th January 2008.

## 2. Emergya Wind Technologies B.V. (“EWT”)

On 17th December LEF announced that it had invested €2.0m (£1.47m) into Dutch wind turbine manufacturer and wind park contractor, Emergya Wind Technologies B.V. The investment is in two year secured loan notes with warrants attached. The loan notes have an 8% coupon and the warrants are convertible into ordinary shares of EWT based on 2008 financial performance of the company. The investment is part of a €20 million fund raising round which was led by AtlasInvest, an investment company based in Antwerp with a particular focus on renewable energy. AtlasInvest is well known to LEF and LIL.

EWT is a Dutch-based manufacturer and supplier of wind turbines and turnkey wind parks. It specialises in the development and manufacture of advanced direct-drive (gearless) wind turbines. EWT was established in 2004 by the acquisition of the intellectual property of Dutch wind turbines manufacturer Lagerwey. The current product portfolio consists of the 750 KW and 900 KW series and EWT is also developing larger wind turbines for both onshore and offshore applications.

This €20 million fundraising will allow EWT to capitalise on current global demand for wind turbines and to deliver its strongly growing order book. With wind energy currently the fastest growing commercialised renewable energy segment there is huge global demand for wind turbines and supply cannot keep up. This represents a good opportunity for smaller niche manufacturers like EWT.

EWT is considering an IPO in H2 2008 or early in 2009.



### 3. STX Services B.V. (“STX”)

On 21st December LEF announced that it had invested €192k into STX Services B.V. through the purchase of 2,432 ordinary shares at a price of €78.93 per share.

Subsequent to that LEF made a conditional commitment on the 21st December to invest a further €600k as part of a placing of €1.93m convertible loan notes (“Loan Notes”) in STX. The Loan Notes have a three year term with a conversion price of €103 per share. The Loan Notes pay interest semi-annually in arrears at a rate of 8% p.a. On 8th January 2008, LEF announced that it had completed this additional €600k investment in STX.

LEF’s additional investment of €600k is convertible into 5,825 ordinary shares of STX. Together with its initial subscription of 2,432 shares, LEF’s total holding of 8,257 shares in STX represents 19.2% of the company’s enlarged issued share capital, assuming that all the Loan Notes are converted into ordinary shares.

Based in Amsterdam, with a representative office in Prague, STX was created in 2005 as the carbon broking and environmental product division of Wallich & Matthes Holding B.V, the institutional brokerage established in 1879. STX was spun off in May 2007 as a separate business although Wallich & Matthes Holding B.V. remains the largest shareholder.

STX has mostly been active in broking and trading EU Emission Allowances (“EUAs”) but has diversified into transactions in Certified Emission Reduction (“CERs”), Voluntary Emissions Reduction (“VERs”), Biofuel Tickets, Green Certificates and Electricity Load-Profile Arbitrage. STX is active across the European markets. In addition, the company has developed into a consultant on Carbon Neutral projects.

The market in environmental products has been growing considerably and globalizing over the last two years. Rapid development in these evolving markets is expected in 2008. Transactions in EUAs and CERs are expected to increase in Phase 2 of the European Emission Trading Scheme and Green Certificates and other environmental products are projected to grow too. STX, with its experienced and entrepreneurial management and its deep knowledge of products, markets, and the regulatory environment, is well positioned to benefit from this growth.

#### The Market

The economics and value of the Environmental/Cleantech Sector continue to be driven by the key factors highlighted at the launch of LEF: the mismatch of supply and demand of natural resources, the concern over the costs of pollution and waste accumulation, the growing public awareness of environmental issues and climate change and environmental technology advances of recent years.

In terms of investment activity, according to Cleantech Investment Monitor Q3 2007 (published by Cleantech Venture Network), venture capitalists in North America and Europe invested a record US\$1.78 billion in cleantech in that quarter, bringing the year-to-date level of investment to US\$3.68 billion, a 15% increase over the same period in 2006. Cleantech became the largest venture investment sector in the US, exceeding IT and Biotechnology. Of the US\$1.78 billion invested in Q3 2007, US\$1.25 billion was invested in renewable energy generation. “Recycling and Waste” and “Water & Wastewater” were other significant contributors with the latter showing a strong upward trend. M&A activity came in at 62 transactions in Q3 2007, of which 40 were energy related, 13 were in “Recycling and Waste” and five in “Waste and Wastewater”. There were also six IPOs in Q3 2007, netting an amount raised of over US\$1.1 billion.

In the near-medium term, LEF and LIL see continuing growth in areas of renewable energy such as wind and solar power. The biofuel debate continues without clear resolution but scaleable solutions will eventually be found which do not rely on feedstocks with nutritional value or on land which can be used for growing food crops. Investment opportunities in energy efficiency technologies, recycling processes and advanced water treatment and management solutions will also rise in significance. LEF and LIL also see the area of sustainable construction and building as an area poised for considerable growth in Europe and the US where regulations and social awareness are defining new targets for energy efficiency and waste and water management for residential and commercial buildings.



## Deal Flow

Deal flow continues to be strong and the Fund Team are seeing a growing number of investment opportunities in the cleantech / environmental space. The Fund remains focused on pre-IPO and development stage investment opportunities where significant added-value can be delivered through LEF and LIL's involvement. With investments made in three companies to date, the Fund Team are currently undergoing detailed due diligence on a number of further companies, and expect to make additional investment recommendations early in 2008. LEF still expects to be fully invested within 12-18 months of its launch.

## The Fund Team

The Fund Team within Ludgate Investments has recently been strengthened with Stefan Ludgate joining as Portfolio Manager. Stefan's surname is a happy coincidence, particularly for Stefan.

Stefan has just completed his MBA at INSEAD where he conducted research on clean energy technologies in both Fontainebleau and as an exchange student at Wharton Business School. He was also President of the INSEAD Energy Club. He graduated from Cambridge in 1996 (Economics and Management) with first-class honours and then qualified as a Chartered Accountant. He worked for the Energy Group at Arthur Andersen (now Deloitte) and then moved into private equity working with Terra Firma in London, Frankfurt and Paris where he focused on real estate.

Amongst other things, he played a key role in establishing Deutsche Annington as the largest residential landlord in Europe. Stefan is bi-lingual in English and German.

## Top 100 Low Carbon Pioneers

Finally, LIL is pleased to announce that in this month's edition of CNBC European Business magazine, LEF is ranked amongst the leading lights in the environmental economy. The feature, Top 100 Low Carbon Pioneers recognises the flurry of entrepreneurial and corporate activity in the last 12 months and points out that from an investor perspective the route should be to use "a team of professional investors whose sole professional activity is to pick the winners from the losers." The article predicts that Ludgate Environmental "will soon become much larger and more mainstream". [Click here to view the article in full.](#)

## Contact details

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### **Important Information**

*Past performance is not a guide to future performance. The value of investments and the income generated from them may go down as well as up and are not guaranteed. You may not get back the amount you originally invested. Changes in rates of exchange and stock market performance may cause the value of investments to fluctuate. Where investments are made in unquoted securities or smaller companies, their potential volatility may increase the risk to the value of, and the income from, the investments. Net Asset Value (NAV) performance is not the same as share price, and you may realize returns that are lower or higher than NAV performance.*