

## Why invest in carbon assets?

- ▶ **Market-based environmental regulations are rapidly developing around the world to fight climate change**

The European carbon market launched in 2005 is expected to reach a total value above USD 60bn in 2007. The international carbon market developed under the Kyoto Protocol exceeded USD 5bn in 2006 and will double in 2007. Several US States are expected to implement carbon cap-and-trade schemes by 2010.
- ▶ **Carbon assets are volatile, alternative and de-correlated**

Carbon assets are new and hence volatile (annual volatility of European carbon market is above 40%). Their price is affected by diverging fundamentals (regulation, oil and gas prices, weather), but is not correlated to equities, bonds nor other commodities. They represent an innovating allocation of alternative asset.
- ▶ **Carbon assets are difficult to originate and manage**

Carbon assets bear several risks (counterparty, technology, regulation, market). Project-based emission reductions in particular are difficult to harness and hence better managed by experts.
- ▶ **Highly ethical investment**

Carbon assets are a genuine environmental currency, granted as a reward for emission reductions actually performed by investments in sustainable development projects around the world (renewable energy, energy efficiency, etc.).

## Why invest with Natixis?

- ▶ **Natixis is a solid partner**

Natixis is the 14<sup>th</sup> largest asset manager globally (EUR 620bn of assets under management), and one of the top 15 Euro zone banks with EUR 16bn total equity and EUR 7.3bn net banking income. With nearly 23,000 employees, Natixis operates in 68 countries. It is rated AA by S&P.
- ▶ **A robust experience in managing environment and infrastructure funds**

Natixis Environnement & Infrastructures (Natixis E&I) – a wholly owned subsidiary of Natixis and registered by the French Financial Authorities (AMF) – is an alternative asset manager specialized in environment and infrastructure assets. Natixis E&I currently has EUR 700m of assets under management across 4 funds, including the forerunner European Carbon Fund (ECF).
- ▶ **Leveraging on the success of ECF**

ECF was launched with several large financial institutions in 2005 as a pilot closed-end carbon fund. With a capital of EUR 142.7m, ECF structured over 40Mt and invested in 25Mt of high quality project-based carbon assets around the world, The audited NAV as of June 2007 was established at 170 versus 100 at inception.

## Duplicate the successful strategy of ECF, Introducing:



European Kyoto Fund

- ▶ **EKF: a long-term profitability**

The fund's objective is to generate a total return in the long run through investment in carbon and carbon-related assets globally. With a 5 year lock-up, EKF is expected to return a 15%-20% p.a. net IRR to its investors.
- ▶ **EKF: a sound investment strategy**

EKF investment strategy comprises 3 legs aiming at building a less volatile than the market exposure to global carbon markets: 1) build a long-bias exposure to illiquid carbon assets (mainly project-based assets), 2) invest in indirect carbon assets (equity, portfolio, projects), 3) thrive on market events (regulation, weather), volatility, arbitrate discrepancies between assets.
- ▶ **EKF: an experienced carbon finance team**

The carbon finance team of Natixis E&I benefits from a high level of recognition in the global carbon market. It is known for its capacity to originate quality project-based carbon assets from emerging markets, as well as structuring and leading large carbon syndications.
- ▶ **EKF: a regulated fund applying robust risk management**

Under the regulatory framework of a Luxembourg Special Investment Fund (SIF), EKF will implement and enhance ECF risk management approach based on portfolio diversification and VaR monitoring.

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# 2007 Carbon Fund Term Sheet



<b>Legal form</b>	Luxembourg Specialised Investment Fund (SIF, Luxembourg Law of 13 February 2007), constituted under the form of a public limited company with variable share capital (SICAV, Société d'Investissement à Capital Variable).
<b>Supervisory authority</b>	Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg.
<b>Investment targets</b>	All types of existing and future carbon assets (both listed on exchanges and unlisted), and more generally any other instrument providing a direct or indirect exposure to carbon assets (including but not limited to equity, quasi-equity and debt in listed and non-listed entities active in the carbon markets).
<b>Initial size</b>	Target size is EUR 500m with a minimum of EUR 200m. The investment in the fund will be made under the form of irrevocable commitments, expected to be drawn down during the first 3 years.
<b>Closing</b>	Initial closing in December 2007, and final closing in June 2008.
<b>Maturity/fund duration</b>	The fund will terminate in the first quarter of 2013 unless a majority of its shareholders decide otherwise (extension of the lock-up period accordingly).
<b>Target investors</b>	Natixis has agreed to invest EUR 50m and underwrite an additional EUR 25m. The balance is to be raised from approximately 10-20 specialised investors only (mutual funds, insurers, alternative asset managers, funds of funds, family offices).
<b>Minimum subscription</b>	Minimum amount of commitment per investor is EUR 20m.
<b>Liquidity and lock-up</b>	5 year lock-up period (until end of 2012), in line with the features of the underlying global carbon market. Possible extension of the lock-up period upon continuation of the fund post-2012.
<b>Valuations</b>	NAV will be calculated at least quarterly (possibly monthly).
<b>Distribution policy</b>	1/3 of annual net income of the fund is intended to be distributed annually to shareholders starting from the first year if possible (2/3 of the net income will be reinvested and may be distributed at investment manager's discretion).
<b>Fee structure</b>	Structuring and placement fee: 2% of capital commitments raised up to EUR 300m, and 1.6% above. Custody and global administration fees: will be capped at 0.2% of shareholders' total capital commitments. Management fee: Base management fee: 1.8% of capital commitments in the first 2 years (and subsequently of fund's NAV) up to EUR 250m, and 1.2% above. Performance management fee: 20% of the fund's total realized performance per annum subject to an 8% hurdle including a portion paid annually, and including a carried interest for the benefit of the investment management team.
<b>Profitability</b>	Expected annual IRR: 15-20%.
<b>Corporate governance</b>	Traditional one-tier structure governed by a board of directors comprising 5 directors (2 – including the President – initially appointed by Natixis for 5 years, 2 representatives of other shareholders and 1 independent).
<b>EKF Investment manager</b>	Natixis Environnement & Infrastructures (NEI, licensed by Autorité des Marchés Financiers) will be appointed by the fund's board of directors as Investment Manager. NEI will be granted the management of the fund's assets, including investment, disinvestment, and portfolio management decisions and implementation.
<b>Management team</b>	The existing carbon finance team of NEI will be expanded, as transactions for both ECF and EKF will be conducted by the same team of carbon market professionals.
<b>Custodian</b>	CACEIS Bank Luxembourg will be entrusted with the safekeeping of cash and fund's assets.
<b>Administrative agent</b>	CACEIS Bank Luxembourg will be appointed central administrative agent of the fund.
<b>Strategy advisor</b>	A scientific advisory committee, comprising environmental and public policy personalities and experts, will be appointed to advise the board of directors on the fund's global strategy.
<b>Conflict of interest policy / Compliance</b>	Because NEI is also the investment manager of ECF, NEI will put in place policies and procedures to prevent conflict of interest from arising from its management of the two carbon funds. More generally, all compliance and vetting procedures are handled or controlled by the compliance department of Natixis.
<b>Risk management</b>	A proprietary value-at-risk model developed by NEI will be used to adequately measure the maximum risk (which shall be equal to the amount of capital used) associated with each transaction and with the fund's global portfolio.



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