

NextEnergy Capital
ESG Disclosures

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Table of Contents

NextEnergy Capital – ESG Processes	1
A. Sustainability Framework - Overview.....	1
B. Principal Adverse Impacts.....	2
Identification and prioritisation	2
Consideration of principal adverse impacts occurs throughout the investment process	3
Adverse sustainability impacts and indicators – pre-investment	4
(i) ‘No-Go’ Risks	4
(ii) Adverse Sustainability Impacts and Indicators.....	5
Adverse sustainability impacts and indicators – post-acquisition	7
Actions taken in respect of principal adverse sustainability impacts	8
C. International Standards	9
D. Integration of Sustainability Risks into Remuneration Policy.....	10
Fund-Specific Disclosures	11
E. NextPower III LP.....	11
Investment strategy	11
Extent to which investments are environmentally sustainable	11
Due-Diligence.....	13
Monitoring Sustainable Investment Objectives	14
Engagement.....	14
F. NextEnergy Solar Fund Limited.....	15
Investment Strategy	15
Extent to which investments are environmentally sustainable	15
Due Diligence.....	17
Monitoring Sustainable Investment Objectives	18
Engagement.....	19
G. NextPower II LP.....	21
H. NextEnergy Renewables Limited	22
Investment Strategy	22
Sustainable Investment Objective.....	22
Investment Decision-Making Processes.....	22
I. NextPower UK ESG Fund.....	25
Investment Strategy	25
Extent to which investments are environmentally sustainable	25
Monitoring Sustainable Investment Objectives	26
Engagement.....	26

NextEnergy Capital – ESG Processes

NextEnergy Capital Ltd and its subsidiary NextEnergy Capital IM Limited¹ (together “NEC”) are a leading investment and asset manager in the international solar sector. NEC’s mission is to generate a more sustainable future by leading the transition to clean energy. NEC specialises in investments in renewable energy and energy transition (with a focus on solar photovoltaic (“PV”) energy) and considers that this specialism enables NEC to accelerate the achievement of NEC’s mission. Together, these ambitions guide NEC’s sustainability framework. NEC and the funds it manages are committed to managing investments in a sustainable manner, generating value for the environment and society. Beside the goal to increase access to clean energy, NEC additionally seeks to address other environmental, social, and human rights matters.

Guided by its sustainability framework and by the principles set out in NEC’s sustainable investment policy (“Sustainable Investment Policy”), NEC has integrated the consideration of sustainability risks and opportunities throughout the investment process. The Policy is signed off by NEC’s CEO, reviewed regularly, and publicly available on the NEC website.²

A. Sustainability Framework - Overview

NEC’s mission is to generate a more sustainable future by leading the transition to clean energy. This mission guides NEC’s sustainability framework, which is founded on three pillars of biodiversity, climate change and human rights, and is aligned with the UN Sustainable Development Goals (“SDGs”)³. Together with various stakeholders, NEC has undertaken a materiality mapping to determine which SDGs (and the relevant targets associated with these) are most relevant to its activities.



Figure 1 - NEC’s Sustainability Framework

¹ NextEnergy Capital Ltd (“NEC Ltd”) and NextEnergy Capital IM Ltd (“NEC IM”) are both designated as Alternative Investment Fund Managers (each an “AIFM”) under the Alternative Investment Fund Management Directive (2011/61/EU). NEC IM is the AIFM of NextPower II LP, NextEnergy Solar Fund Limited and NextEnergy Renewables Limited. NEC Ltd is the AIFM for NextPower III LP and NextPower UK 1 LP and NextPower UK 2 LP.

² Available at: <https://www.nextenergycapital.com/sustainability/sustainable-investing/>

³ United Nations Department of Economic and Social Affairs – Sustainable Development, *The 17 Goals*. Available at: <https://sdgs.un.org/goals> (Last accessed: 05 March 2021).

Under the Sustainable Investment Policy, environmental, social and governance (“ESG”) factors are considered throughout the investment process, from specifying a category of excluded activities during the project selection phase (“No-Go” activities), to initial screening and full due-diligence on funds, assets, sites and counterparties during the pre-acquisition phase. ESG clauses are additionally included into the financing documentation and key contracts with NEC’s counterparties, including but not limited to the share purchase agreement (SPA), agreements with the engineering, procurement and construction contractors (“EPC Contractors”), the operation and maintenance contractors (“O&M Contractors”) and the master service agreement with the asset manager. Where applicable, an ESG action plan (“Action Plan”) is adopted. The Action Plan is agreed during the negotiation phase and enables any gaps to be filled that may exist between the standards NEC seeks to uphold and those of the project and its various counterparties. Finally, during the ownership phase NEC will ensure that any mitigation measures identified in any Action Plan are implemented and reported on by the asset manager.

The sections below outline NEC’s current process under the Sustainable Investment Policy. Further information on the due-diligence processes adopted in respect of each of NEC’s funds is set out in the relevant fund-specific disclosures below (sections E-I).

The principles of the Sustainable Investment Policy apply to investments in both development projects and in secondary market acquisitions by NEC. However, while ESG integration processes have been established for secondary market acquisitions, NEC is working on expanding its processes to also ensure such integration for development projects.

Since 2019, NEC has published an annual SDG report, which reports on NEC’s implementation of the sustainability framework and its contributions to selected SDGs and targets considered material to NEC’s business and mission.⁴

B. Principal Adverse Impacts

Identification and prioritisation

NEC considers adverse impacts on environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters during the investment decision-making process.

As described above, the overarching focus of NEC’s sustainable investment efforts is determined by the Sustainable Investment Policy. In line with the Sustainable Investment Policy, NEC is an active member and supporter of several initiatives and groups whose values and processes underpin NEC’s sustainable investment ethos; these include:

1. UN Sustainable Development Goals⁵ – NEC’s sustainability framework is centred around a number of SDGs (as identified in Figure 1). These SDGs have been selected as material to NEC’s business, further to a process of materiality mapping, which determined whether they represent a risk or an opportunity to the business and to the sector more broadly;
2. UN Principles for Responsible Investment (“UNPRI”)⁶;

⁴ For the 2019 and 2020 reports, see <https://www.nextenergycapital.com/sustainability/transparency-and-reporting/>

⁵ United Nations Department of Economic and Social Affairs – Sustainable Development, *The 17 Goals*. Available at: <https://sdgs.un.org/goals> (Last accessed: 05 March 2021).

⁶ Principles for Responsible Investment, *What are the Principles for Responsible Investment?*. Available at: <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment> (Last accessed: 05 March 2021).

3. Institutional Investors Group on Climate Change (“IIGCC”)⁷; and
4. Task Force on Climate-Related Financial Disclosure⁸.

NEC is additionally guided by compliance with national standards and, where applicable, international standards such as the Equator Principles⁹ and the International Finance Corporation’s Performance Standards (“IFC Performance Standards”)¹⁰.

NEC’s materiality assessment for determining the ESG factors it considers throughout its investment decision-making are determined through stakeholder engagement and by reference to best practices. NEC thus discusses the NEC approach with a set of selected stakeholders, including the UNPRI, IIGCC, the Solar Trade Association, the Business and Human Rights Resource Centre and other industry bodies, consultants, NGOs and, where applicable, with investors. The objective of this regular stakeholder engagement is to continue to evolve and enhance NEC’s investment approach.

Consideration of principal adverse impacts occurs throughout the investment process

The exact due-diligence scope for any given investment is determined by country and region-specific considerations, the potential risks associated with the specific counterparty and project, and by the risks inherent to the sector. At a general level, NEC’s consideration of sustainability factors is integrated throughout NEC’s investment process: from an ESG screening during the initial project selection, to a subsequent ESG due-diligence and assessment during the pre-acquisition phase, providing input and making recommendations for the investment decision, carrying out ESG monitoring and reporting during the ownership phase and, finally, divestment.



Figure 2 - NEC's Sustainability Framework

⁷ Institutional Investors Group on Climate Change, website: <https://www.iigcc.org/> (Last accessed: 05 March 2021).
⁸ Task Force on Climate-Related Financial Disclosures, website: <https://www.fsb-tcfd.org/recommendations/> (Last accessed: 05 March 2021).
⁹ The Equator Principles Association, *The Equator Principles*. Available at: <https://equator-principles.com/> (Last accessed: 05 March 2021).
¹⁰ International Finance Corporation World Bank Group, *Performance Standards*. Available at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards (Last accessed: 05 March 2021).

Under the NEC sustainability framework, an ESG screening seeks to identify an initial set of ESG risks and is conducted by the NEC ESG Team. The findings from this screening are used to inform the scope of any further ESG due-diligence, which is conducted by the ESG Team alongside external ESG consultants as appropriate.

This integrated ESG assessment enables NEC to identify and manage potential ESG risks and opportunities and address any gaps between a counterparty or project's standards, and those which NEC seeks to uphold (as outlined above). NEC considers that integrating ESG principles into the investment process is critical to maximising the positive impact of the NEC investment strategy.

Adverse sustainability impacts and indicators – pre-investment

NEC considers the following potential sustainability impacts and indicators throughout the investment process. The relevant risks and opportunities assessed may vary from investment to investment, depending on the geographical context and the potential risks associated with the relevant counterparty or project, the risks inherent to the relevant sector, and the risks related to the individual fund. Further information on the integration of sustainability risks by each individual fund managed by NEC is set out in sections E-I below.

Impacts have been prioritised and are considered throughout the different phases of the due-diligence process, so as to ensure their timely consideration.

(i) 'No-Go' Risks

NEC has designated certain matters as 'No-Go' and these will be considered during the initial ESG screening stage of the process. The confirmed presence of such risks means that NEC will not invest in the relevant solar plant:

- **Impacts on areas with high biodiversity value:** Where the investment would risk impacting on areas with high biodiversity value, including UNESCO World Heritage Sites, unless there is prior consensus with both the government authorities and UNESCO that any such operations will not adversely affect the site's Outstanding Universal Value, or habitats and species listed on the Red List of the International Union for Conservation of Nature (IUCN);
- **Modern slavery, such as forced labour and human trafficking, or child labour:** Where an initial review of the project and the various counterparties, based on independent reports and/or media coverage suggests there is a potential risk of modern slavery and or human rights violations, such as forced or child labour and human trafficking; and
- **Impact on minorities and Indigenous People:** Investment opportunities that risk impacting on Indigenous People¹¹ and minorities, whereby NEC expects that meaningful consultation is carried out and that Free Prior and Informed Consent ("FPIC")¹² is sought – Where no FPIC was sought, this will be a No-Go risk, otherwise the risk will be further assessed by way of an enhanced due-diligence process, in line with the higher risk impacts identified in (ii) below.

¹¹ NEC refers to the definition of Indigenous People given in the International Finance Corporation's ("IFC") Performance Standard 7. International Finance Corporation World Bank Group, *Performance Standards*. Available at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards (Last accessed: 05 March 2021).

¹² For further information on FPIC, see: United Nations Human Rights Office of the High Commissioner, *Free, Prior and Informed Consent of Indigenous People* (September 2013). Available at: <https://www.ohchr.org/Documents/Issues/ipeoples/freepriorandinformedconsent.pdf> (Last accessed: 05 March 2021).

(ii) Adverse Sustainability Impacts and Indicators

Alongside a consideration of the No-Go risks, the following impacts are included as part of the ESG screening and due-diligence:

ESG screening

- **Risks relating to environmental permits/compliance:** Whether permits, environmental or land-related licences, or conditions arising from environmental and social impact assessments (where applicable) for the specific asset have been obtained and any conditions or issues have been addressed;
- **Supply chain risks:** NEC will consider the identity of module, inverter, and battery suppliers and their supply chain, including but not limited to the mining companies from which materials are sourced. Where NEC selects these suppliers, NEC requires them to submit a due-diligence questionnaire that covers supply chain issues. Where other parties, such as the EPC and/or O&M Contractor(s) have already selected these suppliers, NEC ensures that the EPC and O&M Contractor(s) have processes in place to select suppliers which take into account environmental, social and governance factors and, if so, what factors are considered;
- **Risks relating to human rights and land acquisition:** Land acquisition that requires involuntary resettlement, whereby NEC expects that meaningful consultation is carried out according to applicable international standards. NEC will seek confirmation from the seller whether there has been, or there may be resettlement or relocation of any communities to construct and operate the target, or whether there has been any livelihood displacement and, if so, what processes were used and whether such processes complied with IFC Performance Standard 5¹³;
- **Risks relating to community engagement:** NEC will consider whether the seller has community engagement processes, internal and external grievance mechanisms or community investment plans in place;
- **Risks relating to external grievance mechanisms:** NEC will consider whether the EPC and/or O&M Contractors have internal and external grievance mechanisms in place, to track and respond to stakeholder feedback and concerns;
- **Risks relating to labour:** Whether the seller/target/EPC Contractor and other contractors comply, or sufficiently comply with national employment regulations and applicable fundamental ILO Conventions;
- **Risks relating to governance:** NEC will require details of the composition of the seller's and target's boards and how this composition is determined, alongside information relating to any violations of duties by directors; and
- **Risks relating to anti-corruption and anti-bribery:** Risk of corruption, money laundering and bribery, based on a country macro-analysis and the track record of counterparties, whereby NEC expects that business integrity standards are upheld. NEC will here consider whether there are formal written anti-corruption, anti-bribery, and anti-money laundering policies in place on the part of the seller and risk assessments carried out by the relevant target.

¹³ International Finance Corporation World Bank Group, *Performance Standards*. Available at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards (Last accessed: 05 March 2021).

ESG due-diligence

- **Environmental risks:** Whether the seller has a sustainability or environmental health and safety (“EHS”) policy in place, which reflects best practices and industry standards, whether the EPC and/or O&M Contractor manage related risks on site, and whether any EHS policies are in place at asset level and how environmental and social issues are managed at the site;
- **Environmental risks:** Whether any environmental and social impact assessments or similar have been prepared in accordance with international principles;
- **Environmental risks:** Whether the seller or target have been in breach of any environmental regulations, licences, consents or permits;
- **Climate change risks:** NEC will consider whether the seller or target have conducted climate change risk assessments to consider whether the target leads to increased climate risks or will hamper adaptation elsewhere;
- **Biodiversity risks:** Whether the target has identified biodiversity risks and whether an action plan to mitigate such risks is in place;
- **Risks relating to circular economy:** NEC will seek confirmation that the PV panels and associated components have been designed and manufactured for high durability, easy dismantling, refurbishment, and recycling;
- **Risks relating to land use:** NEC will consider whether environmental liability reports have been produced or whether significant impacts have been created by the target, on which the local community depends, relating, in particular, to water availability and quality;
- **Risks relating to resource efficiency (energy efficiency & water):** NEC will seek confirmation of the target’s primary energy and water sources, any measures to monitor or reduce consumption, as well as the level of water and energy consumption by the target;
- **Risks relating to waste:** NEC will consider the waste management mechanisms in place at the site, including the management and disposal of exhausted solar panels;
- **Supply chain risks:** NEC will assess due-diligence carried out on module and inverter suppliers in respect of their management of ESG risks;
- **Risks relating to human rights policies:** Whether the seller has a human rights policy or statement in place;
- **Risks relating to labour and working conditions:** Confirmation from the seller that it does not have any track record of child and forced labour and that it complies with national employment regulations and core ILO Labour Conventions;
- **Risks relating to labour and working conditions:** Whether the seller or target have implemented procedures and or policies to identify and prevent slavery, servitude, forced and compulsory labour, human trafficking and other human rights abuses on the part of any contractors and sub-contractors;
- **Risks relating to community engagement:** NEC will assess the seller’s internal grievance mechanisms and the level of grievances filed;

- **Risks relating to anti-corruption, anti-bribery and anti-money laundering:** NEC will review of policies and procedures in place in the seller and target for anti-corruption, anti-bribery and anti-money laundering training, reporting of incidences of such activities, and its due-diligence policies to identify any such activities within any prospective business, suppliers, sub-contractors etc. of the target; and
- **Diversity risks:** NEC considers information on the EPC/O&M Contractor's gender and nationality compositions on their boards and in managerial positions and staff.

In the context of investments by NEC's newest fund, NextEnergy Renewables Limited, whereby investments can be in third party funds: NEC intends to perform due-diligence on a given funds' commitment, capacity and track record in relation to the above factors. Additionally, NEC intends that the due-diligence will include an analysis of such funds' compliance with the EU Sustainable Finance Disclosure Regulation ("SFDR"¹⁴) and alignment with the EU Taxonomy Regulation¹⁵.

Adverse sustainability impacts and indicators – post-acquisition

NEC is conscious that the impact of investments requires assessment not only during the pre-investment phase, but that monitoring is also required during the lifetime of the investment or the ownership of the asset.

NEC conducts monitoring of and reports on the impacts of its investments at two levels post-acquisition:

- Portfolio level:** NEC reports annually on its portfolio's contribution to specific ESG Key Performance Indicators ("KPIs") based on the SDGs which are considered material to NEC and its sustainability framework. These reports are available on the NEC website.¹⁶

Additionally, NEC is in the process of expanding the KPIs that are monitored and reported on, so as to include those required under the draft Regulatory Technical Standards of the European Supervisory Authorities on the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector (RTS).¹⁷ It is expected that these will be in place by the end of 2021.

The totality of these KPIs represents impacts that are material to the solar sector and generally fit into NEC's sustainability aspirations and framework, including those identified by the SFDR and associated rules and guidance.

- Asset specific:** The ESG Team works alongside the portfolio manager to implement any Action Plan that was agreed to as part of the approval process for a given investment; an ESG consultant or the O&M contractor (where the O&M Contractor has internal ESG capabilities and resources) will be responsible for the implementation of any given Action Plan. Action Plans vary from asset to

¹⁴ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019, p.1-16.

¹⁵ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.6.2020, p. 13-42.

¹⁶ See <https://www.nextenergycapital.com/sustainability/transparency-and-reporting/>.

¹⁷ Per the Final Report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088 dated 2 February 2021, Available at: <https://www.esma.europa.eu/press-news/esma-news/three-european-supervisory-authorities-publish-final-report-and-draft-rts>.

asset and can include biodiversity, climate change, water management, operational health and safety, grievance and community engagement matters amongst others.

The impacts considered post-acquisition are therefore two-fold: those monitored across the whole portfolio through various ESG KPIs; and the specific impacts set out in a given Action Plan, as identified during the ESG assessment pre-acquisition. The monitoring and reporting on the progress of the implementation of any Action Plan and on any applicable ESG KPIs is managed by the portfolio manager and the asset manager.

Actions taken in respect of principal adverse sustainability impacts

Pre-Investment

During the pre-investment phase, NEC engages in the ESG screening and ESG due-diligence process to identify potential risks to the project and to NEC; where sustainability risks and impacts are identified, NEC proposes appropriate mitigation measures, which seek to mitigate such risks through the adoption of an Action Plan, or by including conditions precedent and/or representations and warranties in the binding offer for the relevant investment.

In the event that 'No-Go' impacts are identified during the initial screening process, these proposed investments are escalated to the investment committee for the relevant fund and it is recommended to that investment committee that NEC does not invest.

Further to the ESG screening, additional due-diligence is conducted by the ESG Team and, where relevant, by an ESG consultant. The ESG consultant's scope of work will be determined by the stage of the project and the risks identified during the initial screening process. The relevant consultant will prepare a report outlining the key risks and presenting any Action Plan to fill in any gaps between the project, its contractors, and the standards which NEC seeks to uphold.

The impacts identified in the course of the ESG screening and due-diligence are further considered by NEC's ESG Team, using the documentation provided by the relevant parties. Where necessary, more detailed investigations will be carried out by the NEC ESG Team through further information gathering from the seller, the legal and the technical advisors and/or a site visit by the appointed ESG advisor and/or the NEC ESG Team.

Where non-compliance or gaps with national and/or international standards, as set out in the Sustainable Investment Policy, are identified in the process of the ESG screening and due-diligence, an Action Plan is prepared, which is to be implemented either pre-or post-acquisition (depending on the nature of the mitigative actions and the risks they seek to address). In addition, contractual obligations may be included in the financing documentation to aid the implementation of any Action Plan. The NEC ESG Team will subsequently prepare an ESG memo, which sets out the relevant risks and opportunities identified and the recommendations for mitigating such risks. This memo accompanies the investment proposal to be considered by the relevant investment committee. The memo may recommend that the investment committee may invest, does not invest, or suggest conditions for investment, such as the implementation of the relevant Action Plan to bring the relevant investment in line with NEC's standards.

Where necessary, NEC engages with business partners to mitigate identified risks and encourages them to improve their standards and practices.

Ownership Phase

The implementation of any Action Plan (to the extent these were not conditions to closing), post-acquisition, is transferred to NEC's portfolio manager, and to the asset manager, Wise Energy. Wise Energy will be responsible for the implementation, monitoring and reporting during the ownership and operational phases of any project. At present, Wise Energy's reporting includes an update on the progress of a given Action Plan and performance metrics including aggregate monthly asset/SPV electricity output and generation, alongside other key technical, financial and commercial information.

As set out above, the intention is that Wise Energy will in future additionally monitor the investments against several KPIs during the ownership phase. The frequency of reporting depends on the obligations of each fund towards its limited partners.

Separately, NEC has commissioned a number of independent reports to report on specific ESG factors, both at the group level and fund level. These can be found on the NEC website.¹⁸

Likely impacts of sustainability risks on the financial returns of financial products

NEC's consideration of the impact of environmental, social or governance events or conditions which may have an actual or negative impact on the return of investments is mainly qualitative and is carried out by the relevant investment committees on a case-by-case basis. The investment paper presented to an investment committee pre-investment includes, among other things, a summary of the relevant sustainability risks identified and, where applicable, an Action Plan. Such Action Plan identifies what actions are needed to mitigate such risks, as well as including an indication of the costs and resources required to implement such measures; these costs are included in the financial model of the transaction, for approval by the investment committee for the relevant fund. As such, sustainability risks are comprehensively assessed as part of NEC's commitment to compliance with the Sustainable Investment Policy.

C. International Standards

NEC aligns itself with a number of national and international standards on responsible business conduct, due-diligence and reporting. These standards include the following:

1. UN Sustainable Development Goals¹⁹ – NEC's sustainability framework is centred around a selected number of SDGs;
2. UN Principles for Responsible Investment²⁰;
3. Institutional Investors Group on Climate Change – NEC is part of the IIGCC PAII Infrastructure Working Group which seeks to align investments with the goals of the Paris Agreement²¹;
4. Recommendations from the Task Force on Climate-Related Financial Disclosure (TCFD) (2017)²²;
5. International Finance Corporation Performance Standards²³;

¹⁸ See <https://www.nextenergycapital.com/sustainability/transparency-and-reporting/>.

¹⁹ United Nations Department of Economic and Social Affairs – Sustainable Development, *The 17 Goals*. Available at: <https://sdgs.un.org/goals> (Last accessed: 05 March 2021).

²⁰ Principles for Responsible Investment, *What are the Principles for Responsible Investment?*. Available at: <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment> (Last accessed: 05 March 2021).

²¹ Institutional Investors Group on Climate Change, website: <https://www.iigcc.org/> (Last accessed: 05 March 2021).

²² Task Force on Climate-Related Financial Disclosures, website: <https://www.fsb-tcfd.org/recommendations/> (Last accessed: 05 March 2021).

²³ International Finance Corporation World Bank Group, *Performance Standards*. Available at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards (Last accessed: 05 March 2021).

6. Equator Principles²⁴;
7. The fundamental ILO Conventions²⁵;
8. United Nations Universal Declaration of Human Rights²⁶; and
9. UN Guiding Principles on Business and Human Rights²⁷.

While some of these standards apply to every new investment, some may only be relevant depending on the nature and location of the investment.

D. Integration of Sustainability Risks into Remuneration Policy

NEC's remuneration policy is designed to ensure that NEC's compensation arrangements are aligned with NEC's business strategy, objectives, values and in the long-term interests of investors. The Sustainable Investment Policy forms part of NEC's strategy and the remuneration policy thus seeks to align compensation arrangements with its implementation. Members of NEC's governing body, senior management and senior staff responsible for heading portfolio, energy sales, human resources, finance, compliance, investor relations and IT all have the shared broad objective of developing and implementing NEC's sustainability framework. Moreover, those who form part of an investment committee additionally have the objective to consider and integrate sustainability risks into any investment decision.

²⁴ The Equator Principles Association, *The Equator Principles*. Available at: <https://equator-principles.com/> (Last accessed: 05 March 2021).

²⁵ International Labour Organization, *Conventions and Recommendations*. Available at: <https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang-en/index.htm> (Last accessed: 05 March 2021).

²⁶ United Nations, *United Nations Universal Declaration of Human Rights*. Available at: <https://www.un.org/en/universal-declaration-human-rights/> (Last accessed: 07 March 2021).

²⁷ United Nations, *Guiding Principles on Business and Human Rights - Implementing the United Nations "Protect, Respect and Remedy" Framework* (2011). Available at: https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf (Last accessed: 05 March 2021).

Fund-Specific Disclosures

E. NextPower III LP

NextPower III LP (“NPIII”) is a private ESG infrastructure fund established to invest in the international solar sector, specifically to fund the construction and long-term ownership of solar power plants. NPIII’s target markets comprise mainly of OECD countries and OECD Key Partner Countries. NPIII does not currently engage in development activities.

Investment strategy

NPIII’s investment strategy is focused exclusively on investments in the construction and long-term ownership of solar power projects across international markets. NPIII’s principal target markets include OECD and OECD Key Partner countries, while it also has the flexibility to invest in other high-growth markets as attractive opportunities emerge. The whole investment strategy is underpinned by NEC’s Sustainable Investment Policy.

Extent to which investments are environmentally sustainable

Sustainable investment objective

NPIII invests exclusively in solar PV assets. NPIII thereby seeks to substantially contribute to the environmental objective of climate change mitigation, within the meaning of the EU Taxonomy Regulation.²⁸

No significant harm to the sustainable investment objective

NPIII is committed to NEC’s sustainability framework, and to the implementation of NEC’s Sustainable Investment Policy, which form the basis of NPIII’s investment activities. As also recognised in the Sustainable Investment Policy, NPIII is aware that while investment in renewable energy makes a positive contribution to mitigate climate change, it is equally important that it ensures that it avoids, to the extent possible, any significant adverse impacts on other environmental, social and governance factors.

In alignment with the EU Taxonomy Regulation, NPIII’s investment decision-making process seeks to ensure that any NPIII investments not only contribute to environmental objectives, but also cause no significant harm to other environmental objectives and are conducted in accordance with minimum safeguards on matter such as human rights and labour conventions. The other environmental objectives include climate change adaption, sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

Specifically, for economic activities in solar PV energy generation to be sustainable within the meaning of the EU Taxonomy Regulation, potential significant harms to other environmental objectives include: potential impacts on ecosystems and biodiversity, potential increased negative

²⁸ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.6.2020, p. 13-42.

effects on current and expected climate, and potential impacts from the production and end-of life management of the PV systems and its components.²⁹

These are integrated into NPIII's investment decision-making process as follows:

- (i) **Transition to a circular economy:** During the initial due-diligence and screening processes, NEC considers the identity of the module suppliers, the source of the module materials and whether the PV panels and associated components have been designed and manufactured for high durability, easy dismantling, refurbishment and recycling. Additionally, NEC (or the relevant consultant) will consider the waste management processes in place for the relevant asset.
- (ii) **Climate change adaption:** Depending on the stage of the project, NEC (either through the NEC ESG Team or through an external ESG consultant) will review any environmental and social impact assessments that are required by local authorities, as well as the progress of any environmental and social management plans and the implementation of any steps proposed by such plan. In instances where such assessments have not been carried out (such as where the national regulations do not require it), NEC commissions appropriate assessments to identify the relevant risks in accordance with the Sustainable Investment Policy and applicable national or international standards (such as the Equator Principles³⁰ and the IFC Performance Standards³¹). Depending on the location of the site, NEC may additionally carry out a climate change risk assessment, through external consultants.
- (iii) **Protection and restoration of biodiversity and ecosystems:** The No-Go assessment considers whether assets are located on protected natural areas, such as land designated as Natura 2000 (or non-EU equivalent), or as a UNESCO Heritage Site, or where the investment could impact habitats and species listed on the Red List of the International Union for Conservation of Nature (IUCN). NEC also considers whether any biodiversity impact assessments have been carried out, whether any biodiversity action plans are in place, and identify potential adverse impacts on biodiversity.

Other safeguards

Moreover, NPIII ensures that investments are carried out in compliance with other safeguards, relating, in particular, to human rights matters, guided by the United Nations Universal Declaration of Human Rights and the United Nation Guiding Principles on Business and Human Rights. Human rights are one of the three pillars of NEC's Sustainability Framework: this is reflected in the designation of certain human rights matters as 'No-Go' and in human rights related due-diligence questions. Matters such as slavery, child and forced labour (all of which are No-Go risks under the Sustainable Investment Policy), risks of community displacement, and commitments to national and international human rights and labour conventions by sellers, targets, and contractors, are considered in the process of NEC's ESG assessment.

²⁹ European Commission, *Draft Annex I to the Commission Delegated Regulation (EU) .../... supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives*, Ref. Ares(2020)6979284 - 20/11/2020, at pp. 98. Available at: <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy> (Last accessed 05 March 2021).

³⁰ The Equator Principles Association, *The Equator Principles*. Available at: <https://equator-principles.com/> (Last accessed: 05 March 2021).

³¹ International Finance Corporation World Bank Group, *Performance Standards*. Available at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards (Last accessed: 05 March 2021).

Integrating risk assessments into the NPIII investment decision-making process

As part of NPIII's due-diligence processes, NEC ensures that the Sustainable Investment Policy is applied.

As set out above, NEC integrates the consideration of a range of ESG factors throughout the investment decision-making processes. Risks are identified and assessed throughout the ESG screening and due-diligence and ESG recommendations are presented to the investment committee for NPIII in an ESG memo. Investments that could fall under the 'No-Go' activities are recommended to be excluded from NEC's investment prospects.

Based on initial findings from the ESG screening, NPIII will engage independent consultants to carry out a review of the ESG commitment, capacity and track records of the project counterparties against the Sustainable Investment Policy.

Such consultants conduct an in-depth review of the policies and management systems in place on the part of sellers and EPC/O&M Contractors (where applicable), as well as their compliance track records. This process considers the adherence of counterparties to environmental policies and procedures (climate change, biodiversity, water, and waste management), community, human rights and labour commitments, their implementation of suitable sustainability, anti-corruption, anti-bribery and anti-money laundering policies, as well as their track record of ESG performance. Consultants additionally review and report on the asset, including whether relevant regulatory approvals and environmental assessments were obtained or are required (depending on the status of the relevant project) and carry out a gap analysis against national regulatory requirements, the Sustainable Investment Policy and the international standards it refers to, including the IFC Performance Standards³² and the Equator Principles³³.

The ESG review carried out by the independent consultant and the ESG Team will integrate any risks identified into an ESG report which, where applicable, sets out an Action Plan for their mitigation. Depending on the nature of the risk, the outcome of a review could be: (i) a recommendation to senior managers that the asset is not suitable for investment, typically before presenting the opportunity to the investment committee for NPIII; (ii) a recommendation to proceed with the investment; or (iii) a recommendation to proceed with the investment subject to specific actions to be implemented either before or after financial close. In the case of investments falling within options (ii) and (iii), the ESG Team will work with the investment team to include any relevant ESG obligations into the contractual arrangements, to ensure that the EPC Contractor, the O&M Contractor and the asset manager, construct, operate and manage the assets in accordance with NEC requirements and standards.

Due-Diligence

As described, NEC conducts extensive due-diligence on any potential investment in NPIII. The format and content of such due-diligence exercise will vary according to the type of the investment, the status of the plant and the plant's location.

Broadly, a standard process is followed involving legal, technical, ESG, financial, and tax due-diligence, carried out by relevant advisors to highlight any relevant corporate, property, planning,

³² International Finance Corporation World Bank Group, *Performance Standards*. Available at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards (Last accessed: 05 March 2021).

³³ The Equator Principles Association, *The Equator Principles*. Available at: <https://equator-principles.com/> (Last accessed: 05 March 2021).

environmental, community, or other related issues. The ESG due-diligence covers all aspects identified in section B above. From an ESG perspective, the due-diligence process includes the processes explained in the preceding sections.

All of NEC's proposed investments in NPIII are presented to the investment committee for the fund in the form of an investment proposal (into which any ESG report is integrated). Any key risks identified during the ESG screening and due-diligence processes are presented in a risk matrix, including, where relevant mitigation strategies.

Monitoring Sustainable Investment Objectives

At the asset level, where risks have been identified in the pre-acquisition phase, the implementation and monitoring of any Action Plan is managed by the portfolio manager and the asset manager. Responsibility for the implementation of any Action Plan will rest with the O&M Contractor, or where the O&M Contractor does not have the requisite capabilities, with an external consultant hired for such implementation. Action Plans vary from asset to asset and can include biodiversity, climate change, water management, operational health and safety, grievance, and community engagement matters, amongst others. Moreover, an Action Plan includes details of the responsibilities, costs and the timescale to address any gaps between the current operation of the project or the EPC/O&M Contractor's operations vis-à-vis the Sustainable Investment Policy.

At the portfolio level, Wise Energy provides NPIII with a monthly report which details aggregate monthly asset electricity output/generation alongside other key technical, financial and commercial information. NEC is currently working with Wise Energy to develop a range of further KPIs to be monitored and reported on during the ownership phase, so as to include those required under the draft Regulatory Technical Standards of the European Supervisory Authorities on the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector (RTS).³⁴

Each investment made under NPIII is subject to a 'Green Impact Report' (currently prepared by the Macquarie Green Investment Group), which includes a measure of the investment's positive contribution to a reduction in greenhouse gas emissions, and an indication of NEC's direct and indirect performance against other applicable UN SDGs. Such report is issued on the NPIII portfolio twice a year. This reporting sits alongside NEC's annual commissioning of a report on the whole group's performance against the selected UN SDGs which are considered material to the NEC sustainability framework.³⁵

Engagement

NEC's materiality assessment for determining the ESG factors it considers are determined through stakeholder engagement and by reference to best practices. NEC thus discusses the NEC approach with a set of selected stakeholders, including the UNPRI, IIGCC, the Solar Trade Association, the Business and Human Rights Resource Centre and other industry bodies, consultants, NGOs and where applicable, with investors. The objective of this regular stakeholder engagement is to continue to evolve and enhance NEC's investment approach.

³⁴ Per the Final Report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088 dated 2 February 2021, Available at: <https://www.esma.europa.eu/press-news/esma-news/three-european-supervisory-authorities-publish-final-report-and-draft-rts>.

³⁵ These reports are available on the NEC website: <https://www.nextenergycapital.com/sustainability/transparency-and-reporting/>.

F. NextEnergy Solar Fund Limited

NextEnergy Solar Fund Limited (“NESF”) (LEI: 213800ZPHCBDDSQH5447) is a listed solar investment fund, managed by NEC IM. NESF is currently active both in the acquisition of solar PV assets on the secondary market, as well as investing in solar PV assets that are under development (that is, at the stage of origination, project planning or construction) when acquired.

Investment Strategy

NESF’s investment strategy is focused on investing in solar energy infrastructure assets primarily located in the UK (both in the form of acquisitions on the secondary market and investments in new developments). Further information on NESF’s Investment Strategy can be found on the NESF website³⁶ and in the NESF annual report.³⁷

Extent to which investments are environmentally sustainable

NESF considers that its investments substantially contribute to the environmental objective of climate change mitigation. NESF’s investment processes seek to avoid significant harm to other environmental objectives and NESF’s activities are carried out in compliance with other safeguards, such as human rights and international labour considerations, through compliance with UK national standards.

NESF’s integration of ESG factors, including its development activities, is currently driven by compliance with all aspects of national and local UK environmental and planning regulation and solar industry best practice, as well as internal processes which seek to go above and beyond these requirements in respect of, in particular, biodiversity and supply chain risks. Moreover, NESF is in the process of integrating the Sustainable Investment Policy’s methodologies into the NESF investment decision-making processes, to further enhance and strengthen the existing consideration of ESG factors.

NESF has only engaged in one new secondary market acquisitions since the introduction of the Sustainable Investment Policy in September 2019 but has engaged in a range of development activities.

Sustainable investment objective

NESF is committed to supporting the UK governmental ambitions of bringing greenhouse gas emissions to net zero by 2050.

NESF currently invests in solar assets, and thereby seeks to substantially contribute to the environmental objective of climate change mitigation, within the meaning of the EU Taxonomy Regulation.³⁸

³⁶ See <https://www.nextenergysolarfund.com/about-us/investment-objective/>.

³⁷ See NESF Annual Report dated 31 March 2020. NESF’s annual reports are available on its website: <https://www.nextenergysolarfund.com/investor-relations/>.

³⁸ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.6.2020, p. 13-42.

No significant harm to sustainable investment objective

NESF is conscious that while investments in solar PV energy make a positive contribution to mitigate climate change, to ensure that such investments are sustainable, it is equally important that NESF avoids, to the extent possible, significant harm to other social and environmental objectives and factors and ensures that its investments are carried out in accordance with certain minimum safeguards. Other environmental objectives include climate change adaptation, sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

Specifically, for economic activities in solar PV energy generation to be sustainable within the meaning of the EU Taxonomy Regulation³⁹, potential significant harms to other environmental objectives include potential impacts on ecosystems and biodiversity, potential increased negative effects on current and expected climate, and potential impacts from the production and end-of life management of the PV systems and its components.

NESF's due-diligence and investment decision-making processes therefore seek to ensure that any risks of significant harms to other environmental objectives are avoided to the greatest extent possible (among other considerations, such as seeking to ensure its investments are carried out in accordance with other safeguards, relating in particular to human rights matters):

- (i) **Protection and restoration of biodiversity and ecosystems:** NESF has developed a Biodiversity Strategy that encompasses an approach to biodiversity that seeks to go 'above and beyond' regulatory requirements. The strategy has been introduced on certain sites (known as Exemplar Sites), with the objective to extend its application across the portfolio. An Exemplar Site consists of site-specific measures to enhance the native flora and fauna situated near or on the solar farm. These sites have also had new biodiversity management plans developed to aid the management and promotion of a biodiversity net gain over the plant's lifetime. More details are explained below and are also discussed on NESF's website.⁴⁰

A committed biodiversity budget is incorporated into the financial profile for each new investment.

Development Activities: The first stage of any development investment seeks to ensure that the location is suitable. Projects are only developed in areas where impacts on biodiversity and the community are either avoided or minimised. NESF conducts a comprehensive range of surveys to assess potential risks to the biodiversity and ecosystem of a given site. At the pre-planning stage, NESF prepares an ecology masterplan and biodiversity proposal for the mitigation of any risks identified.

Identified impacts are mitigated during the development, design, construction and operation phases, through the implementation of planning conditions (as may imposed by the relevant local council), as well as additional biodiversity measures and contractual obligations identified during the due-diligence process.

Mitigation measures are implemented before, during and/or after construction and the portfolio management team ensure both short and long-term mitigation strategies are monitored and managed throughout the lifetime of the asset. Mitigation measures to be implemented during

³⁹ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.6.2020, p. 13-42.

⁴⁰ See <https://www.nextenergysolarfund.com/esg/biodiversity/>.

the construction phase are incorporated into the construction programme and delivery for the project. This includes a landscape and environmental management plan for the site, which forms a key part of the contractors' work during construction and is subsequently adopted by the operational team post construction, for continued monitoring and management. All planning conditions imposed under the planning consent will form part of the contractors' obligations.

Secondary-Market Acquisitions: For secondary market acquisitions, NESF carries out extensive due-diligence to confirm (among other things) that the relevant project complies with any planning conditions associated with the planning consents for the project. In addition, NESF considers whether there are any additional biodiversity measures that may be required to ensure that identified potential impacts are limited and mitigated against during the lifetime of the asset. Continued monitoring and management of any outstanding or newly identified measures is handed over to the portfolio management team and NESF's asset manager, Wise Energy, following acquisition.

- (ii) **Climate change adaption:** In the context of development activities, NESF identifies climate-related risks, such as areas at risk of flooding according to the Environment Agency's datasets, during the pre-investment phase. NESF seeks to avoid areas at risk of flooding or other extreme events and conducts modelling to ensure that the project design minimises any negative flood risk and include mitigation measures. All sites are designed using a 100-year flood protection to account for projected climate-induced risks. Where relevant, further climate-related physical risk assessments for climate-induced risks other than flooding may be conducted during the pre-acquisition phase to further investigate risks identified during the due-diligence process.
- (iii) **Transition to a circular economy:** NESF has developed module framework agreements to identify and select reputable manufacturers with a proven track record of high-quality products that are manufactured for high durability, easy dismantling, refurbishment and recycling. These framework agreements integrate ESG considerations into NESF's supplier selection. Moreover, NESF, alongside NEC more broadly, has recently developed a due-diligence questionnaire for module and inverter manufacturers. This due-diligence questionnaire has been provided to NESF's selected manufacturers and is intended to assess these suppliers' consideration of ESG factors as part of their business and thereby reduce supply chain risks.

Where possible, biodegradable or recyclable materials are sourced.

Other safeguards

Moreover, NESF ensures that NESF's activities are carried out in compliance with other safeguards, relating in particular to human rights matters, guided by the United Nations Declaration of Human Rights. NESF works with counterparties to ensure that they abide by human rights related principles and may incorporate contractual protections into agreements with sellers and EPC Contractors, requiring confirmation of their respect of human rights matters, anti-slavery, anti-corruption and anti-bribery in the conduct of their business (among other factors). NESF is in the process of adopting NEC's supplier due-diligence questionnaire to evaluate suppliers' commitment and capacity to identify, manage and report on labour and human rights related risks.

Due Diligence

Sustainability risks are identified and managed through a range of technical, legal and financial due-diligence, including surveys to determine the environmental and community impact of potential development activities, as well as the integration of social and human rights compliance obligations into contracts with counterparties. NESF is additionally informed by the Solar Trade Association's

ten commitments for solar farms⁴¹ to help guide the considerations of relevant ESG risks and opportunities.

NESF conducts extensive due-diligence on any potential investment. The format and content of such due-diligence exercise varies depending on the type of the investment (i.e., whether it is a new development or a secondary market acquisition), the location of the site and the value thereof.

Development Activities

In the context of proposed development activities, NESF commissions a range of surveys to assess the viability and suitability of the location and the project; these assessments include environmental impact assessments (within the meaning of the UK planning process and where applicable), flood risk assessments, land grading surveys, topographical surveys, tree surveys, archaeological surveys and heritage surveys, depending on the relevant site. Any results are submitted as part of the planning application and impacts (if any) are incorporated into the design and overall project proposal together with a landscaping and ecology masterplan which sets out the tailored biodiversity enhancement scheme for the site.

Identified impacts are mitigated during the development, design, construction and operation, through the implementation of the planning conditions, additional biodiversity measures and community engagement, and contractual obligations by NESF. Where an impact cannot be mitigated appropriately, the investment does not go ahead.

Secondary-Market Acquisitions

In the context of an acquisition of an existing UK solar asset, a standard process is followed involving legal and compliance, technical, financial and tax due-diligence, carried out by relevant advisors to highlight any relevant corporate, property, planning, environmental or other related issues. Moreover, the investment team reviews the due-diligence carried out by the team and its advisors at the time of the site's initial development.

Any due-diligence for secondary market acquisitions includes a review of whether planning permission was granted at the time of development and the extent to which any conditions to such planning (if applicable) have been implemented.

All NESF's proposed secondary market acquisitions and matured development opportunities are presented to the investment committee for NESF, the investment manager and the NESF Board for approval. Any key risks identified during the due-diligence and screening processes are presented in a risk matrix, including, where relevant mitigation strategies. As mentioned, NESF is in the process of further enhancing these assessments through the integration of NEC's sustainability framework into the NESF investment decision-making process.

Monitoring Sustainable Investment Objectives

NESF seeks to ensure that its investments continue to contribute to the objective of climate change mitigation throughout their lifetime.

Additionally, during the lifetime of an asset, NESF works with NEC's asset management arm, Wise Energy to work on and monitor ESG factors such as GHG emission reduction associated with energy generation, biodiversity and land management, and community engagement:

⁴¹ Solar Trade Association, Solar Farms: 10 Commitments. Available at: <https://www.solar-trade.org.uk/wp-content/uploads/2015/03/STA-Revised-10-commitments-community-2015.pdf> (Last accessed 05 March 2021).

- (i) **Biodiversity:** Wise Energy manages various initiatives on behalf of NESF to improve the biodiversity across a range of UK sites. In this context, Wise engages and manages specialist consultants and monitor and analysis biodiversity annual surveys.

NESF works with NEC's dedicated biodiversity team to ensure that land management and native fauna and flora are considered throughout the investment and ownership phases. A set of proven biodiversity solutions are included within planning-controlled site proposals. NESF has additionally consulted biodiversity specialist companies to design and implement bespoke and effective measures that develop, repair and connect local wildlife, habitats and ecosystems. At present, these measures have been implemented across a number of NESF's sites and further roll-out is on-going.

Biodiversity enhancement: NEC, alongside Wise Energy, has developed a biodiversity strategy which includes site-specific measures to enhance the native flora and fauna situated near or on the relevant solar plan. Such sites (known as 'Exemplar Sites') will also have 'Biodiversity Management Plans' (BMPs) developed to aid in the management and promotion of a net gain in the biodiversity of a plant over the plant's lifetime. Such measures are in place several sites in NESF's portfolio, which have been identified as having met all planning conditions and where there is an active relationship with landowners.⁴² NEC is in the process of establishing a mechanism to measure the impact of the BMPs annually.

Separately NESF and Wise Energy have developed the so-called 'Universal Biodiversity Management Plan', which will allow non-site-specific biodiversity measures to be introduced throughout the entirety of NESF's portfolio over time. Each site may then also be subject to further, site-specific measures, all with the aim of achieving a net biodiversity gain across the portfolio through, for example, the installation of measures such as wildflower planting, bird/bat boxes and bug hotels.

- (ii) **Carbon emissions:** Wise Energy provides NESF with the amount of electricity generated by the NESF portfolio annually. These figures are used to calculate the level of CO_{2e} emissions avoided through renewable energy generation by the NEC ESG Team and the Green Investment Group.

NEC is additionally in the process of implementing further KPIs for Wise Energy to monitor during the lifetime of each of NESF's assets. These will seek to be aligned with the European Union's Sustainable Finance Disclosure Regulation⁴³ and the accompanying regulatory technical standards (once finalised and in force).

Engagement

Community and stakeholder engagement form part of NESF's investment strategy both during the development of sites as well as after the acquisition of secondary market projects. NESF has incorporated the Universal Biodiversity Management Plan for a number of sites which seeks to improve local community and stakeholder engagement and education on the benefits of transforming solar plants into ecosystem-friendly assets. Further, NESF engages, through its development partners, with local parishes and councils during the pre-planning phase to ensure the suitability of site proposals and, where possible, incorporates community feedback into the planning proposal. In the past, this has included changes to the specific land use (the loss of agricultural land due to land development), site design, landscaping strategy and its implementation. As an example

⁴² A list of sites affected can be found in NESF's Annual Report on p.41. As at March 2020, five sites had these measures implemented and a further three sites were subject to implementation throughout 2021.

⁴³ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019, p.1-16.

of this, following consultation with the local community of an NESF site, land take was reduced, and a “green corridor” introduced to enhance and integrate the site within its natural setting.

More generally, NESF recognises the importance of maintaining a high standard of business conduct and a strong and constructive relationship with NESF’s key stakeholders to deliver its strategic objectives over time and a community benefit fund is incorporated into the financial profile for each new investment.

G. NextPower II LP

NextPower II LP (“NP II”) is an Italian private equity fund focused on acquiring operating solar power projects in Italy. The fund is closed and as such no further acquisitions are envisaged by NP II.

The investment process for the assets currently held by NP II incorporated a comprehensive assessment of ESG factors, in line with NEC’s sustainability framework and objectives and the Italian environmental and social regulation and permitting process.

H. NextEnergy Renewables Limited

NextEnergy Renewables Limited (“NREN”) (LEI: 213800DDXYC7S5AVXC55, ISIN: GG00BMT64883) is NEC’s newest fund focused on investments in renewable energy and energy transition sectors.

Investment Strategy

NREN intends to invest in renewable energy and energy transition assets, projects and technologies that are well developed and have a proven track record of delivering sustainable revenues. The seed portfolio (as set out in NREN’s Prospectus) is to be invested in pre-identified funds managed by NEC.⁴⁴

NREN’s investment policy, does not restrict the renewable energy nor energy transition sectors that NREN may invest in. NEC broadly views the potential target investments as falling within the broad categories of investments in renewable energy sectors and investments in energy transition sectors.

Further detail on NREN’s investment strategy and policy can be found in its Prospectus.⁴⁵

Sustainable Investment Objective

The NREN seed portfolio is to be invested in NPIII and, as such, the investment will seek to substantially contribute to the environmental objective of climate change mitigation and/or adaptation, within the meaning of the EU Taxonomy Regulation. Please refer to the NPIII disclosure (section E above) for further information on this investment of the seed portfolio.

Thereafter, NEC intends that disclosures on the alignment of NREN’s portfolio with the EU Taxonomy Regulation⁴⁶, in line with the SFDR⁴⁷, will be made and updated appropriately. NREN will seek to ensure its investments are sustainable through the implementation of NREN’s investment strategy and by integrating the NEC Sustainable Investment Policy into its investment decision-making.

Moreover, NEC intends to monitor and report its positive contribution to climate change mitigation through Green Impact Reports validated by the Green Investment Group.

Investment Decision-Making Processes

NEC’s Sustainable Investment Policy will be integrated into NREN’s investment processes.

Due-diligence

NEC will carry out due-diligence on the manager’s track record, the fund management team, strategy, structure and the terms of investment. As part of this due-diligence process NEC will apply its expertise in the management of renewable energy projects to reviewing the existing projects of any fund in which investment is proposed and to review other projects managed by the investment

⁴⁴ NREN’s Prospectus is available on its website: <https://www.nextenergyrenewables.com/#>.

⁴⁵ *Ibid.*, see pp. 44 onwards.

⁴⁶ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.6.2020, p. 13-42.

⁴⁷ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019, p.1-16.

manager. The scope of NEC's due diligence will be driven by the sector, geography and the counterparties involved in each investment.

NEC believes that integrating ESG principles into the investment process is critical to maximise the positive impact of NREN's investment strategy. The ESG due-diligence for NREN will consist of a combination of fund-level due-diligence (such as ensuring the fund in which it is investing has the right policies in place regarding climate, human rights and biodiversity, as well as having their own internal due-diligence process and reporting mechanism in place) and asset-level due-diligence (such as each asset having the right permits and management system in place, as well as also being designed, constructed and operated according to national and/or international standard such as the IFC Performance Standards⁴⁸ and Equator Principles⁴⁹). Further information on the factors considered during the NEC ESG due-diligence are set out in sections A-D above.

Where gaps are identified as against NEC's standards, NEC will engage with its business partners to work towards mitigation and, depending on the circumstances, may engage third party consultants to assess the relevant risk, consider mitigation actions and monitor the implementation of any Action Plan.

Investment decision

Any investment proposal, where relevant, may include an Action Plan which is to be implemented either pre-or post-acquisition. Additionally, contractual obligations related to ESG factors may be included in the financing documentation to mitigate against identified ESG risks.

Should the investment proposal be approved by the investment committee, the terms of the investment will be negotiated and finalised by NEC on behalf of NREN. If the investment is being made into an NEC fund, the Board of NREN, which is fully independent of NEC, will also need to approve the terms of the investment after receiving independent legal advice. In such circumstances NREN's Board will receive advice from NREN's sponsor in relation to the applicability of the related party transaction rules under the Listing Rules.

Monitoring and reporting

In the event of the adoption of an Action Plan, the implementation of this will be monitored through the portfolio manager and the asset manager.

NEC reports on specific ESG KPIs based on a number of SDGs selected as part of the NEC sustainability framework. Moreover, NEC is in the process of expanding these KPIs to include those required under the draft Regulatory Technical Standards of the European Supervisory Authorities on the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector (RTS).⁵⁰ These KPIs represent impacts that are material to the renewable energy sector and generally fit into NEC's sustainability

⁴⁸ International Finance Corporation World Bank Group, *Performance Standards*. Available at: https://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Sustainability-At-IFC/Policies-Standards/Performance-Standards (Last accessed: 05 March 2021).

⁴⁹ The Equator Principles Association, *The Equator Principles*. Available at: <https://equator-principles.com/> (Last accessed: 05 March 2021).

⁵⁰ Per the Final Report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088 dated 2 February 2021, Available at: <https://www.esma.europa.eu/press-news/esma-news/three-european-supervisory-authorities-publish-final-report-and-draft-rts>.

aspirations and framework, including those identified by the SFDR⁵¹ and associated rules and guidance.

In terms of reporting, NEC reports on NEC's performance against identified UN SDGs annually. In future, this will include NREN's performance. At a fund level, NEC is committed to reporting on the emission reductions associated with NEC's funds' clean energy generation, using a proven and transparent methodology. To this extent, NEC will continue to work with Macquarie's Green Investment Group in order to independently measure and verify this information. An example of such green impact reporting is publicly available on NEC's website.⁵²

⁵¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019, p.1-16.

⁵² See <https://www.nextenergycapital.com/sustainability/transparency-and-reporting/>.

I. NextPower UK ESG Fund

NEC's newest fund NextPower UK ESG Fund is comprised of NextPower UK 1 LP and NextPower 2 LP (together "NPUK"), which is intended to launch in 2021. Investments in NPUK are expected to focus on ground mounted grid connected solar assets, targeting in particular, solar PV assets.

Investment Strategy

NPUK's investment strategy is intended to focus on the acquisition and construction of utility scale solar PV assets located in the United Kingdom. NPUK will focus on ground mounted grid connected solar assets and will seek to hold its investments during the entire life of NPUK (thirty years). NPUK will have the ability to co-locate some additional renewable energy technologies (e.g., battery storage) to the assets once constructed, but intends to only deploy this optionality where returns justify the deployment.

Extent to which investments are environmentally sustainable

Sustainable Investment Objective

By focusing on solar PV assets, NPUK's investments will seek to substantially contribute to the environmental objective of climate change mitigation. Moreover, through the integration of NEC's Sustainable Investment Policy, NPUK's investment processes will seek to avoid significant harm to other environmental objectives and to ensure that NPUK's activities are carried out in compliance with other safeguards, such as human rights and international labour considerations.

NEC intends that disclosures on the alignment of NPUK's portfolio with the EU Taxonomy Regulation⁵³, in line with the SFDR⁵⁴, will be made and updated appropriately as the fund commences its activities.

No significant harm to sustainable investment objective

ESG factors will be integrated throughout the investment assessment cycles, from initial project selection, through a detailed assessment during negotiation, to measuring, managing and reporting on ESG performance indicators during the operational phase. NPUK's processes will integrate the NEC sustainability framework to allow for the identification and assessment of a range of ESG risks and opportunities.

By integrating the Sustainable Investment Policy and through compliance with national and local UK planning and environmental regulation for planning consent, NPUK will seek to ensure that no significant harm to occurs to other environmental objectives, such as climate change adaption, sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems..

Other safeguards

NPUK will seek to ensure its investment activities are carried out in compliance with other safeguards, relating, in particular, to human rights matters, guided by the United Nations Universal

⁵³ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198, 22.6.2020, p. 13-42.

⁵⁴ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019, p.1-16.

Declaration of Human Rights and the United Nation Guiding Principles on Business and Human Rights. Human rights are one of the three pillars of NEC's Sustainability Framework: this is reflected in the designation of certain human rights matters as 'No-Go' and in human rights related due-diligence questions. Matters such as slavery, child and forced labour (all of which are No-Go risks under the Sustainable Investment Policy), risks of community displacement, and commitments to national and international human rights and labour conventions by sellers, targets and contractors, are considered in the process of NEC's ESG assessment.

Monitoring Sustainable Investment Objectives

NPUK's processes will seek to ensure that any actions identified as necessary for mitigating sustainability risks during the pre-investment process (through the ESG due-diligence) are appropriately implemented during the construction or ownership phases of a given project.

At the portfolio level, Wise Energy, NEC's asset manager will develop a range of KPIs to be monitored and reported on during the ownership phase, so as to include those required under the draft Regulatory Technical Standards of the European Supervisory Authorities on the content, methodologies and presentation of disclosures under the EU Regulation on sustainability-related disclosures in the financial services sector (RTS).⁵⁵

NEC intends to work with the Macquarie Green Investment Group to report on NPUK's investments' positive contribution to a reduction in greenhouse gas emissions. This reporting sits alongside NEC's annual commissioning of a report on the whole group's performance against the selected UN SDGs which are considered material to the NEC sustainability framework.⁵⁶

Engagement

NEC discusses its approach to incorporating ESG factors into NEC's investment decision-making with a set of selected stakeholders, including the UNPRI, IIGCC, the Solar Trade Association, the Business and Human Rights Resource Centre and other industry bodies, consultants, NGOs and where applicable, with investors. The objective of this regular stakeholder engagement is to continue to evolve and enhance NEC's investment approach.

Community engagement forms a key part of NEC's ongoing asset management strategy and is intended to form part of NPUK's processes.

⁵⁵ Per the Final Report on draft Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a(3), Article 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088 dated 2 February 2021, Available at: <https://www.esma.europa.eu/press-news/esma-news/three-european-supervisory-authorities-publish-final-report-and-draft-rts>.

⁵⁶ These reports are available on the NEC website: <https://www.nextenergycapital.com/sustainability/transparency-and-reporting/>.