

### Annex III

#### Pre-Contractual Disclosure for the Financial Products Referred to in Article 9, paragraphs 1 to 4a, of Regulation (EU) 2019/2088 and Article 5, first paragraph, of Regulation (EU) 2020/852

Product Name: NextPower III (“NP III”)

Legal Entity Identifier: 213800IV1PUWYWMD5740

#### Sustainable Investment Objective

Does this financial product have a sustainable investment objective?			
<input checked="" type="checkbox"/>	Yes		<input type="checkbox"/> No
<input checked="" type="checkbox"/>	It will make a minimum of sustainable investments <sup>1</sup> with an environmental objective: 100%		<input type="checkbox"/> It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 100% sustainable investments
<input checked="" type="checkbox"/>	in economic activities that qualify as environmentally sustainable under the EU Taxonomy <sup>2</sup>	<input type="checkbox"/>	with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
<input type="checkbox"/>	in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/>	with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU taxonomy
		<input type="checkbox"/>	with a social objective

<sup>1</sup> **Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

<sup>2</sup> The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Does this financial product have a sustainable investment objective?			
<input type="checkbox"/>	It will make a minimum of <b>sustainable investments with a social objective: 0 %</b>	<input type="checkbox"/>	It promotes E/S characteristics, but <b>will not make any sustainable investments</b>

## 1. What is the sustainable investment objective of this financial product?

### Sustainable investment objective pursued by NPIII

NPIII is an investment fund focused exclusively on investments in the construction and long-term ownership of solar power projects across international markets. NPIII is actively investing in assets on the secondary market as well as those that are under development (e.g., at the stage of origination, project planning or construction) when acquired.

The NPIII fund sustainable investment objectives are:

- To substantially contribute to the environmental objective of climate change mitigation within the meaning of the EU Taxonomy regulation.

The fund's objectives therefore contribute to the Article 9 qualification, under "economic activities that qualify as environmentally sustainable under the EU Taxonomy<sup>3</sup>" and more specifically, qualifies as contributing substantially to climate change mitigation.

- **What sustainability indicators<sup>4</sup> are used to measure the attainment of the sustainable investment objective of this financial product?**

Monitoring of progress against the sustainable investment objectives is primarily based on the calculation of greenhouse gas (GHG) emissions and fossil fuel consumption avoided by the generational capacity of solar assets within the NPIII portfolio. Avoidance of GHG emissions is derived by comparing the emissions associated with the portfolio to a counterfactual (marginal grid emissions). The table below provides an overview of the annual performance of the portfolio in terms of GHG avoided, as well as other emissions to air and fossil fuel consumption avoided during the Reporting Period (2021).

<sup>3</sup> Regulation (EU) 2020/852 of 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.

<sup>4</sup> **Sustainability indicators** measure how the sustainable objectives of this financial product are attained.

<b>Metric</b>	<b>Unit</b>	<b>2021</b>
<b>GHG Avoided</b>	ktCO <sub>2</sub> e	189
<b>NO<sub>x</sub> Avoided</b>	tonnes	303
<b>SO<sub>x</sub> Avoided</b>	tonnes	738
<b>PM<sub>2.5</sub></b>	tonnes	35
<b>PM<sub>10</sub></b>	tonnes	6
<b>Fossil Fuels avoided</b>	kilotonnes oil equivalent (ktoe)	69

These numbers are based on the renewable electricity generation (GWh) related to 2021 calendar year (i.e 1<sup>st</sup> Jan 2021 to 31<sup>st</sup> Dec 2021). As indicated in the table, up to 189ktCO<sub>2</sub>e of emissions and up to 69kt of oil equivalent has been avoided.

- How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?

NPIII's investment decision making process ensures that investments do 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 matters such as human rights and labour conventions. A robust due diligence process captures all the relevant key risks associated with each acquisition. The risks are aligned with the Do No Significant Harm (DNSH) approach of the Taxonomy (with extension beyond) and include:

- Climate change;
- Circular economy;
- Biodiversity and ecosystems.

In the event that any risks are identified, they are captured/recorded and either mitigated against or the transactions can be halted and not progressed.

From a climate change mitigation perspective, NPIII substantially positively contributes to the objective by avoiding CO<sub>2</sub>e emissions to atmosphere and fossil fuel use. NPIII reports the amount of CO<sub>2</sub>e avoided consistently year on year through a publicly available report prepared independently by the Green Investment Group. The report is called the Green Impact Report.

For more information on the NextEnergy Capital/NPIII due-diligence process, please refer to the ESG Disclosure document on the NextEnergy Capital website.

- *How have the indicators for adverse impacts<sup>5</sup> on sustainability factors been taken into account?*

The due-diligence process, as detailed in the Sustainability Policy and NextEnergy Capital ESG Disclosure document, reviews all aspects of the asset and the associated principal adverse impacts (PAI) (including environmental, social and employee, human rights, anti-corruption etc) during the pre-investment stage. Prior to and post-acquisition of the assets, all relevant contractors are subject to ad-hoc due diligence to capture and identify any potential risks.

Specific KPIs have been defined to track performance and impacts of each asset under management and they are tracked by WiseEnergy® (a NextEnergy Capital subsidiary and asset manager) and reported to the fund. These indicators provide an ongoing narrative of any positive or negative impacts the assets may have on the surrounding considerations. KPIs include CO2e and fossil fuels avoided. A full set of indicators related to PAI has been developed consistently with the requirements of Table 1, Annex 1 of the Regulatory Technical Standard (RTS). The performance against these indicators will be released by Q2 2023.

- *How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?*

NextEnergy Capital/NPIII has a strong Sustainable Investment Policy and Human Rights Position Statement aligning with the associated requirements of OECD Guidelines for Multinational Enterprises and the UN Guiding Principles. NPIII policies require NPIII to perform due diligence on both its own activities and its business relationships with the objective of acting upon any findings.

For more information, please refer to the Human Rights Position Statement on [NextEnergy Capitals website](#).

## 2. Does this financial product consider principal adverse impacts on sustainability factors?

☒ [Yes]

Principal Adverse Impacts (PAI) are considered throughout all stages of the investment process.

As per the Sustainable Investing policy and other governing documents, NPIII's sustainability approach is based on a four-step approach: identify, manage, report and engage. If, during a due diligence process, a PAI is identified, it is managed and reported

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<sup>5</sup> **Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

internally to the Investment Committee for further considerations. Where possible, mitigations actions are put forward through specific action plans which are implemented and monitored during the ownership phase. In addition, NPIII will also report based on specific KPIs which are aligned with Table 1 of Annex I of the Regulatory Technical Standard, as well as additional KPIs aligned with material SDG.

Further details on the reporting and KPI approach can be found in the ESG Disclosure document on the [NextEnergy Capital website](#).

### 3. What investment strategy does this financial product follow?

#### *[NPIII's Investment Strategy](#)*

- *What are the binding elements of the investment strategy used to select the investments to attain the sustainable investment objective?*

ESG factors are embedded within the investment strategy of NPIII in order to appropriately select investments for the attainments of sustainable investment objectives.

The binding elements can be summarised as follows:

**Technology:** NPIII focuses primarily on the solar sector but has the opportunity to invest up to 10% of Total Commitments in other renewable energy technologies, and intends to use the flexibility only when such other technologies are acquired in conjunction with solar PV plants.

**Geography:** The Fund invests in solar plants based in OECD countries, with no more than 20% of commitments invested in any country other than OECD. The only non-OECD geography at present is India, this is due to the fact we have had a presence there since 2018. NPIII is not planning on investing in any other non-OECD geographies.

**Financing:** The Fund is building a diversified portfolio that, when fully invested, will comprise an estimated 50-150 individual solar PV plants, with an aggregated generating capacity of 2-2.5GW. The Fund's financial exposure to assets under development will not constitute more than 10% of its Total Commitments in aggregate value.

**Sourcing:** The Fund derives pipeline sourcing advantages as a result of its significant global footprint. Since the COVID-19 pandemic, competition in the market has decreased. NPIII also benefits from Project Sourcing Agreements (PSAs) with credible counterparties established by NextEnergy Capital.

- *How is that strategy implemented in the investment process on a continuous basis?*

Under the Sustainable Investment Policy, ESG factors are considered throughout the investment process, including an ESG screening during the initial project selection and a subsequent full ESG due diligence and assessment during the pre-acquisition phase. In

addition, the dedicated ESG team provides input and makes recommendations regarding the investment decision, carries out ESG monitoring and reporting during the ownership phase and, finally, the divestment phase.

NextEnergy Capital monitors and reports on the impacts of its investments at both the portfolio level, which includes annual reports on NextEnergy Capitals portfolio's contribution to specific ESG KPIs, and at the asset-specific level, where the ESG team works alongside the portfolio manager to implement any Action Plan that was agreed to during the investment approval process. This ensures the implementation of NextEnergy Capitals sustainable investment strategy throughout the entire investment process.

- ***What is the policy to assess good governance practices of the investee companies?***

The practice of good governance is an integral part of the way NPIII executes its investment strategy and plays an important role in shaping the Fund's long term sustainable success and the achievement of the Group's strategic objectives. The NextEnergy Capital Advisory Board includes high profile professionals with energy, financial and environmental backgrounds and advise the management team at NPIII to implement and uphold the best governance practices.

At the investment level, NPIII is committed to ensure that it and its business partners are transparent and fair in their dealings. The Fund takes into full account business integrity, anti-corruption and anti-money laundering legislation and rules in each jurisdiction in which it owns and operates assets. For every acquisition, due diligence questionnaires are sent to all involved counterparties (sellers, contractors, and suppliers), and they are screened for AML purposes. During Investment Committees, the Head of ESG is present to ensure ESG-related investment objectives are consistently upheld across the portfolio. Post-acquisition, all contractors are required to abide by our Supplier Code of Conduct and must agree to provide data on ESG KPIs on annual basis to align with EU SFDR requirements.

- ***Where can I find further details on the investment strategy?***

Further details on NPIII's investment process can be found on the Sustainable Investing page on the [NextEnergy Capital website](#).

#### 4. What is the asset allocation<sup>6</sup> and minimum share of sustainable investments?

Asset allocation is 100% sustainable investment.



How does the use of derivatives attain the sustainable investment objective?

This is not applicable to NPIII.

#### 5. To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?<sup>7</sup>

The NPIII fund is 100% aligned with the EU Taxonomy and the climate mitigation objective is being continually achieved through the GHG emissions avoidance and fossil fuel avoidance.

- a) The investment objective of climate mitigation was 100% attained through the generation of clean energy. In particular, the performance of sustainability indicators of GHG emissions avoided have been accounted for and reported. The objective of climate mitigation remains the core business of the fund investments and 100% of asset allocation remains investing in renewable energy infrastructure.
- b) NPIII invests in an economic activity that contributes to the environmental objective of climate mitigation.
- c) NPIII's sustainable investment objective of climate mitigation is met through a due diligence process pre-and post-investment which ensures that No Significant Harm (DNSH) is done to any other environmental objective considered material to the activity of the fund (Solar PV generation). These other objectives are climate change adaptation, biodiversity, and circular economy. The due diligence also considers

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<sup>6</sup> **Asset allocation** describes the share of investments in specific assets.

<sup>7</sup> Taxonomy-aligned activities are expressed as a share of:

- (i) **turnover** reflecting the share of revenue from green activities of investee companies;
- (ii) **capital expenditure (CapEx)** showing the green investments made by investee companies, e.g. for a transition to a green economy; and
- (iii) **operational expenditure (OpEx)** reflecting green operational activities of investee companies.

The relevant legislation does not provide a definition of “*investee company*”, however, we have interpreted this term as intended to refer to an entity in which the relevant fund intends to make an investment, or has made an investment, on behalf of its investors, which would include the SPV which owns each asset.



additional safeguards such as human rights, community engagement, and labour conditions, amongst others. The due diligence is in alignment with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and other international convention on human rights, as per our Human Rights Position Statement.

d) NPIII is in the process of measuring and reporting principal adverse impacts on sustainability factors according to Table 1 of Annex I.

- What is the minimum share of investments made in transitional and enabling activities?<sup>8</sup>

0% (i.e. not currently investing in batteries storage)

6. What is the minimum share of sustainable investments with an environmental objective that were not aligned with the EU Taxonomy?<sup>9</sup>

0%

7. What is the minimum share of sustainable investments with a social objective?

0%

8. What investments are included under “#2 Not sustainable”, what is their purpose and are there any minimum environmental or social safeguards?

None

9. Is a specific index designated as a reference benchmark to meet the sustainable investment objective?

No.

- How does the reference benchmark<sup>10</sup> take into account sustainability factors in a way that is continuously aligned with the sustainable investment objective?

N/A

- How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?

N/A

- How does the designated index differ from a relevant broad market index?

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<sup>8</sup> **Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective, while **transitional activities** are activities for which low-carbon alternatives are not yet available and that have greenhouse gas emission levels corresponding to the best performance.

<sup>9</sup> This relates to sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

<sup>10</sup> **Reference benchmarks** are indexes to measure whether the financial product attains the sustainable objective.



N/A

- Where can the methodology used for the calculation of the designated index be found?

N/A

10. Where can I find more product specific information online?

- <https://www.nextenergycapital.com/sustainability/>