

# NEXTENERGY SOLAR FUND

Generating a More Sustainable Future  
Sustainability Report 2022

SFDR and Taxonomy Article 9 Fund

The London Stock  
Exchange's Green  
Economy Mark



Guernsey Green  
Fund status

GUERNSEY  
GREEN  
FUND

# Generating a More Sustainable Future

## Our First Standalone Sustainability Report

As the leading specialist solar fund we always strive for excellence in both our underlying asset performance and our reporting. This first standalone Sustainability Report is part of our progressive environment, social and governance (“ESG”) strategy to increase sustainability transparency, and drive forward our ambitious best practice reporting to meet and exceed stakeholder and market expectations.

We are delighted to have recently been classified as an Article 9 fund under the EU Sustainable Finance Disclosure Regulation (“SFDR”), with a sustainable investment objective of climate change mitigation.

The United Nations Sustainable Development Goals (“SDGs”) provide reference points for progress against our high-level ESG goals and inform our high-level decisions. This report summarises our alignment with those SDGs most relevant to us and thereby acknowledges the direct and indirect impacts the fund has within the environments it operates in, in addition to measuring those impacts where possible.

We use the Green Investment Group’s (GIG) Green Analytics team to calculate our CO<sub>2</sub>e emission avoided and estimate our portfolio carbon footprint, to ensure a high standard of delivery, transparency and continuity in relation to our positive contribution to climate change mitigation.

## You may also be interested in reading:

[2022 Annual Report](#)

[TCFD Report](#)

[SDG Report](#)

[SFDR Disclosures](#)

## Contents

1	An Introduction from the Chairman
2	Our Vision
4	About Us
7	The Value of ESG
8	Our Sustainability Approach
12	Environment
23	Social
30	Governance
40	Next Steps
41	Glossary
43	Company Information

# An Introduction from the Chairman



**NextEnergy Solar Fund is a Guernsey registered investment company which is listed on the premium segment of the London Stock Exchange. It has also been awarded the London Stock Exchange Green Economy Mark, for generating over 50% of revenues from activities that contribute to environmental objectives such as climate change mitigation.**



NextEnergy Solar Fund is proud to qualify as an Article 9 fund under the EU SFDR classifications, with a sustainable investment objective at its core. Sustainability and ESG factors are at the forefront of everything that we set out to achieve: they provide a solid foundation to drive growth, whilst providing enhanced due diligence on all potential opportunities and risks.

Governments and major economies around the world continue to step up their support for renewable energy, with the UK becoming the first major economy to pass net zero emission laws, requiring all greenhouse gas emissions to be net zero by 2050. In addition to this, the war in Ukraine has shown that the world remains fragile, and that securing energy independence, security and affordability are vital.

As one of the most affordable forms of renewable energy, solar photovoltaic (PV) assets and energy storage play a huge part in the transition to clean energy and we are in an excellent position to increase NextEnergy Solar Fund's positive impact. The nature and location of our assets offer us a unique opportunity to help rebalance nature's assets, by developing our solar farms as biodiversity 'hubs'. We own 99 operating solar assets, of which 91 are in the UK and eight are in Italy, and indirectly own equity stakes in another 9 solar projects via our stake in NextPower III (as of 31 March 2022). Our expansion into UK battery energy storage will also contribute to the independence of the UK's energy supply and aid the penetration of renewables in the UK.

We remain determined to reduce the risk of human rights abuses, including modern slavery, within our supply chains through the way we do business and contract with suppliers and partners. Tracking progress and reporting impact change throughout our value chain is a crucial step in tackling climate change, driving accountability, and ultimately delivering a sustainable future for generations to come.

It is of critical importance for the global energy sector to accelerate renewable energy generation, improving the amount of clean energy consumed globally, whilst reducing the world's reliance on carbon-emitting energy sources. We look forward to continuing our leading and transparent approach in this space, helping to provide a cleaner future for tomorrow's generation.

A handwritten signature in black ink that reads 'Kevin Lyon'.

**KEVIN LYON**  
NextEnergy Solar Fund Chairman



**ROSS GRIER**  
Managing Director UK,  
NextEnergy Capital



**GIULIA GUIDI**  
Head of ESG,  
NextEnergy Capital

**Our Three Pillars**

 **Climate Change**

 **Biodiversity**

 **Human Rights**

To generate a more sustainable future, by leading the transition to clean energy.

**Our Purpose**

NextEnergy Solar Fund (NESF) provides risk-adjusted returns to its shareholders by deploying capital into utility-scale solar PV assets and energy storage.

NESF delivers value from its operating portfolio through its specialist solar investment manager and advisor, NextEnergy Capital, providing growth accretive opportunities which help increase diversification, strengthen investor returns and provide positive sustainable benefits.

Alongside NESF’s focus on value creation for its shareholders, NESF is committed to playing its part in the generation of renewable energy and the resulting avoidance of emissions from carbon-generating power plants as a result. NESF plays an important role in developing solutions that address climate change and promote biodiversity net gain, helping the UK and other countries in which it operates, transition towards a more sustainable future.

**Our Mission**

Sustainability is at the heart of NESF’s strategy, values and culture, and defines who we are and what we want to leave as our legacy. The fund is committed to ensuring that there are positive impacts on nature and local communities in the areas within which it operates, whilst leading the transition to a future of clean energy.

NESF not only delivers attractive returns to investors, it offers additional environmental value by providing secure, cost-effective, and locally scalable solar and energy storage assets.

Our approach to sustainability is built on three pillars:

- 1) Climate change**
- 2) Biodiversity**
- 3) Human rights**

Each pillar poses material challenges to NESF, but also presents real opportunities to make a positive impact. In doing so, we contribute to decarbonisation – helping to address **climate change** and generate a more sustainable future.

We champion **biodiversity** by transforming our solar farms into environmental sanctuaries that help balance nature’s assets – supporting fauna and flora, local farmers and local communities. This means we are adding to nature and local ecosystems, and developing co-benefits with the surrounding environment and communities.

We work to ensure **human rights** are strengthened throughout our own activities and in our supply chain. We address the needs of local people wherever we operate – investing in local communities, promoting climate and STEM (science, technology, engineering and mathematics) education and contributing to job creation.

# NEC ESG Experts

## NEC Managing Director for NESF



### Ross Grier

Ross Grier, UK Managing Director, oversees the UK business and is a member of the investment committee for NESF. With over a decade of experience in solar Ross has led the M&A team, deploying over £1bn of assets, delivering over 860MW of transactions across more than 90 deals to the fund. Ross also leads and is very passionate about NESF's industry leading biodiversity program.

## NEC ESG Team



### Giulia Guidi, Head of ESG

Over 20 years' in ESG and risk management in the financial sector. Giulia reports to Michael Bonte-Friedheim, CEO and Founder of NextEnergy Group. She is responsible for setting strategy and implementing the Sustainable Investment Policy across the Group. She also sits on our Investment Committee and on the Group Risk Committee.



### David Hawkins, Vice-President ESG

Over 10 years' sustainability and environmental experience in the energy sector. David is part of the ESG Team at NEC and supports Giulia, Head of ESG, in the implementation of the ESG framework across the Group's interests, along with reviewing and ensuring that all ESG regulatory matters are considered appropriately.

## NEC Biodiversity Team



### Sulwen Vaughan, Fund SPV Director

Over 30 years' business management experience. Sulwen is the SPV Director for NextEnergy Capital and reports within the Global Portfolio Management team focusing on the UK assets of the international portfolio. Sulwen joined NextEnergy Capital in 2017 and has worked to improve the biodiversity aspects of the portfolio.

Sulwen provides oversight to the NESF portfolio from an SPV level.



### Phoebe Wright, ESG Analyst

Phoebe joined the ESG Team in 2021 and is responsible for carrying out the ESG due-diligence for potential asset acquisitions across the funds. She is also involved in data collection for both internal and external reports, including NextEnergy's SDG Brochure and Green Impact Report, as well as for the UNPRI and the EU Directive.



### Hing Kin Lee, Fund Environmental Manager

With over 18 years' experience in the environmental sector, Lee is a Chartered Environmentalist and Member of the Chartered Institute of Ecology and Environmental Management. He joined NextEnergy Capital in 2022 as an Environmental Impact Manager and provides environmental governance across the portfolio, driving forward our ambitions for net positive biodiversity outcomes through nature-based solutions, ecosystem service provision and climate change resilience.

# Our Shared Mission

## NESF Board and ESG Committee

The Board of Directors of NESF oversees the fund’s strategy and activities, and it has recently established the ESG Committee to further drive the fund’s sustainability agenda.

## NextEnergy Capital

NESF is managed and advised by NextEnergy Capital (NEC). The Board adopts the same Sustainability Framework (Framework) as NEC, and NEC’s ESG Team provides us with their sector-leading expertise and advice on sustainability matters.

- NEC has been a leading player in the energy transition since the company was established in 2007
- Its activities include developing and constructing solar assets
- It currently has over \$3.1bn in assets under management across three investment vehicles
- To date, NEC has invested in more than 350 separate solar plants across 4 different continents, with a total installed capacity of over 1.4GWp.

## WiseEnergy

NESF’s solar assets are managed day to day by WiseEnergy, a leading operating asset manager in the solar sector. Through its proactive management approach, the WiseEnergy Team plays a key role in helping us deliver our mission.

- Since its foundation in 2009, WiseEnergy has provided solar asset management, monitoring and technical due diligence to over 1,400 utility-scale solar power plants;
- Currently it manages an installed capacity in excess of 1.8GWp.



# Performance Highlights

(as at 31 March 2022)

## ESG

Tonnes of CO<sub>2</sub>e emissions avoided p.a.<sup>1</sup>

**328,700**

Equivalent to UK homes powered for one year<sup>1</sup>

**216,300**

Total emissions avoided since 2015 (ktCO<sub>2</sub>e)

**1,818**

Total fossil fuel avoided since 2015

**769.1**

(tonnes of oil equivalent)

Universal Biodiversity Management Plan (UBPM) sites

**30**

Number of biodiversity exemplar sites

**6**

(2 more on the way)

Total acres of wildflowers across portfolio

**34**

Portfolio with enhanced biodiversity measures

**45%**

Community funding (through SPVs)

**£91,400**

Donated to the NextEnergy Foundation FY 21/22

**£100,000**

## Operational

Total capacity installed<sup>2</sup>

**865MW**

Total electricity generation for the year

**773GWh**

Operating solar assets<sup>3/4</sup>

**99**

Generation above budget for the year

**1.8%**

## Financial<sup>5</sup>

NAV per ordinary share

**113.5p**

Ordinary shareholders' NAV

**£668.5m**

Financial debt gearing<sup>6</sup>

**25%**

Target dividend per ordinary share<sup>7</sup>

**7.52p**

Cash dividend cover (pre scrip dividends)

**1.2x**

Total gearing<sup>8</sup>

**42%**

NAV total return per ordinary share

**22%**

Ordinary Shareholder Total Return

**11%**

1. <https://www.greeninvestmentgroup.com/assets/gig/who-we-are/our-impact-and-measurement/>.

2. Excluding share in private equity vehicle (NextPower III). Inclusion of NESF's 6.21% share of NextPower III on a look-through equivalent basis would increase total capacity by 19.2MW to 884MW.

3. Not including the \$50m commitment to private equity vehicle (NextPower III).

4. On 9 June 2022, NESF announced its 100<sup>th</sup> asset, a 181kW commercial rooftop solar power asset located on a Holiday Inn hotel in Nottinghamshire.

5. Refer to the Alternative Performance Measures on pages 114-117 of the NextEnergy Solar Fund Annual Report 2022 for calculation basis – [nextenergysolarfund.com/n esf](https://nextenergysolarfund.com/n esf).

6. Financial debt gearing excludes the £200m of preference shares.

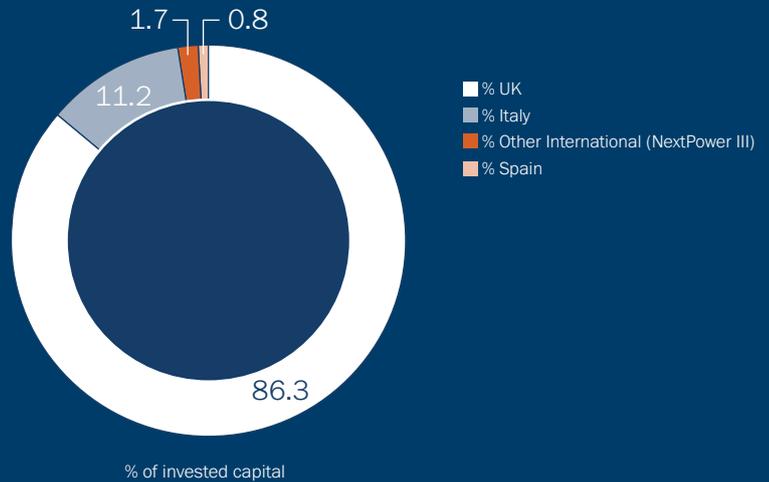
7. For the year ended 31<sup>st</sup> March 2023.

8. Total gearing is the aggregate of financial debt and £200m of preference shares. The preference shares are equivalent to non-amortising debt with repayment in shares.

# Where We Invest

NESF has invested capital across the UK and internationally: 86.3% in the UK, 11.2% in Italy, 0.8% in Spain and 1.7% through a diversified international private solar fund.

For more details about the investment across our portfolio, see our 2022 Annual Report: [🔗](#).



# Where We Operate

## Our current geographic footprint

NESF's total installed and operational capacity as at 31 March 2022 is 865MW\*, comprising 91 assets in the UK and 8 in Italy:

### Italy

Capacity  
**34.5 MWp**



### United Kingdom

Capacity  
**830.5MWp**



\* excluding NESF's share of private investment vehicle NextPower III and co-investment assets which have not yet been energised

# The Value of ESG



## In conversation with

### JOSEPHINE BUSH

Chair of our ESG Committee

**Josephine Bush, Chair of our ESG Committee, provides insights into the uncertain world around us, the value of ESG, NESF's strengths, and the challenges it faces.**

## How do you make sense of the world and NESF's place in it?

I think that certainty about the roles that businesses, financial markets and individuals play in society has been severely shaken. Organisations and individuals are asking what it means to be successful and fulfilled in an increasingly complex, uncertain world. Simultaneously, the indisputable scientific fact of anthropogenic global warming introduces a systemic risk to the global economy that must be addressed. I believe the market is responding, and that NESF can be at the heart of this response by addressing the energy 'trilemma' – how to provide energy that is affordable, sustainable and secure.

## What makes you confident that NESF can make a positive contribution?

My confidence stems from several sources: NESF's consistently strong financial and operational performance, its success in widening its geography and diversifying its asset base with recent investments in battery storage, the depth and breadth of expertise in the NESF Team, and the fund's commitment to its guiding mission of generating a more sustainable future.

NESF has made ESG core to its overarching strategy and sees it as critical to sustaining its performance in the long term. It works to enrich the biodiversity footprint of its land assets, to closely influence ESG standards in its supply chain, and to operate in ways that contribute to wider societal good.

## How do you understand and argue the case for ESG?

I see ESG as a fundamental aspect of core strategic thinking. When an organisation convenes around a shared purpose and mission, this provides the first building block of an effective ESG strategy. Underpin that strategy with authentic values, and you have a recipe for ESG success.

Specific initiatives should be bespoke – fitted to specific investment and operational objectives – so ESG strategy remains grounded in reality, delivers real economic advantages, and becomes a positive differentiator. You want both stakeholders and the communities in which the organisation operates to be fully engaged because ultimately ESG only works when these key stakeholder relationships work.

## Are you looking forward to your role as Chair of the new NESF ESG Committee?

I am delighted to be in post. I have a real passion for the environment and have worked in the green sector for many years. I see my role as a supporting one and believe I can help Giulia Guidi, Head of ESG at NextEnergy Capital, and her team, to continue the great work already ongoing, by sharing my ideas and perspectives on the market. They are a quality, forward-thinking team, so it is a real pleasure to be working alongside them.

I want to challenge constructively and encourage ambitious thinking about how NESF can deliver and evolve its ESG strategy. I start from the assumption that we can always do more. For me, that is very motivating.

## What does NESF do well and what can it do better?

When I joined the NESF Board and talked to the wider team, I was really struck by two things: first, NESF is entirely authentic in its ESG objectives; secondly, the Board and wider team think and talk ESG day in and day out, in the context of NESF's wider objectives. This connected and joined-up thinking is important.

What can NESF do better? As I have already said, there is always more we can do across our three ESG pillars – on climate change, biodiversity, and human rights.

# Our Sustainability Approach



# Our Sustainability Framework

Our Sustainability Framework (referred to as Framework moving forward) is built on three pillars: climate change, biodiversity and human rights.

Our investment process is aligned with this Framework, and is supported by our Sustainable Investment Policy, and the Position Statements on each of the three pillars. Together these documents form our Policies.

The United Nations SDGs are core to the Framework; they provide reference points against which we can measure performance against our high-level goals.

This Framework defines our sustainability approach and informs our investment decisions and operational practices.

At NESF we take a 360° approach to sustainability, starting with our three pillars as the core. We implement a bottom up approach to our Framework by measuring our impact on the three pillars by cross-referring the 17 UN SDGs and their respective targets, particularly those that are material to our business. The diagram below represents this approach and the layers of which the approach is built on.



# The Core of Our Sustainability Framework



## Three Pillars

**The three pillars of Climate Change, Biodiversity, and Human Rights, form the basis of our Framework and approach, and help us achieve and maintain our 360 degree view on sustainability.**

The pillars were selected as they drive our attention and actions on fundamental areas where we have identified the existence of the most significant ESG risks and opportunities for our fund. As a result, they allow us to ensure the most effective management of the application of the Policies and UN SDGs to our funds.

We use the pillars as a foundation to create targeted initiatives to address major considerations which can also conveniently be categorised into the Environment, Social or Governance disciplines.

## Climate Change

Climate change is a global challenge and is a risk that needs to be considered throughout all of our assets and operations, and we are keen to address and disclose on any risks and impacts it may present.

However, given our core activities where our assets are a source of clean renewable energy, we also identify this as an opportunity for NESF. We are actively contributing to climate change mitigation, through the avoidance of emissions that would otherwise be generated through fossil fuel combustion.

We support the UK Government's ambitious objective of bringing all greenhouse gas emissions to net zero by 2050 and limiting global average temperature rises to 1.5°C compared to pre-industrial levels.

## Biodiversity

Biodiversity is an issue we are individually and collectively passionate about.

We want to enhance biodiversity at all our asset sites, and are committed to lead best practice in the solar industry. From initial site selection through to decommissioning, we aim to align our practices with policies such as the UK Government's 'A Green Future: our 25-year plan to improve the environment', the objectives of the Taskforce on Nature-related Financial Disclosures (TNFD), and the relevant UN SDGs.

## Human Rights

Action on human rights links us directly to local communities. The people who work on our assets are generally our neighbours, so we also focus on engagement with local communities, contractors and suppliers.

We respect fundamental human rights principles, and operate in line with the UN Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. We oppose any form of slavery or forced labour and NextEnergy Capital publishes an annual Modern Slavery Statement on our behalf.

# ESG Risks and Opportunities

Our investments typically give rise to a consistent set of ESG risks and opportunities. We believe that by acknowledging and addressing these we are better positioned to mitigate the risks and respond to the opportunities. We manage risk through our investment and development process, from an initial screening to full due diligence, risk management, and implementation.

This includes measuring and reporting on all relevant risk factors during the asset management phase and engaging fully with relevant stakeholders.

A breakdown of our immediate ESG risks and opportunities is shown in the table below.

## Environment

### Risks

- Biodiversity and natural capital impacts
- Circular economy
- Climate risks
- Cumulative impacts
- Energy efficiency
- Land use and waste management
- Supply chain
- Water stress

### Opportunities

- Contributing to reducing greenhouse gas emission
- Dual use of land (including grazing)
- Biodiversity Net Gain
- Increasing natural capital stocks and ecosystem service provision

## Social

### Risks

- Community impacts
- Health and safety, and working conditions
- Human rights abuses
- Impacts on indigenous peoples
- Supply chain

### Opportunities

- Contributing to the development of local communities
- Contributing to social equity and a just transition
- Supporting climate and biodiversity awareness and education
- Supporting job creation

## Governance

### Risks

- Anti-corruption
- Anti-money laundering and anti-bribery legislation
- Business integrity
- Governance of ESG risks
- Supply chain

### Opportunities

- Increased transparency by adhering to the rule of law
- Identify improvement opportunities
- Improving disclosure and data quality from key suppliers

The risk associated with our supply chain is high on our agenda, and it covers all aspects of ESG. We therefore ensure that we maintain active dialogue with all our key stakeholders on this topic and address the risk not only through our own supply chain risk management approach, but also through a collective industry effort, aiming to address the issue globally and systemically.

# Environment





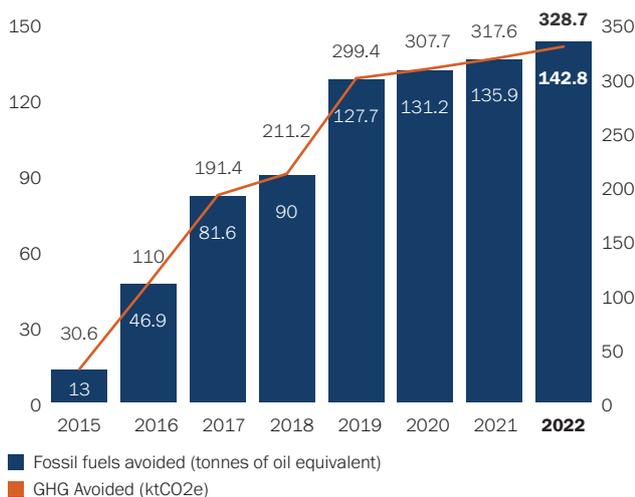
# Environment

## Climate change

**We contribute to climate change mitigation. With the independent support of the specialist consultancy Green Investment Group (GIG), we report our annual CO<sub>2</sub>e avoided emissions and, since 2021, we also provide an estimate of the overall carbon footprint associated with the lifecycle of our portfolio, including GHG Scopes 1, 2 and 3 emissions. As of this year, we will also start collecting data from our SPVs' suppliers to provide greater detail and help us assess how best to achieve net zero.**

ktCO <sub>2</sub> e avoided since IPO	Units
1,818	ktCO <sub>2</sub> e

### GHG and Fossil fuels avoided since IPO



Total fossil fuel use avoided since 2015	Units
769.1	tonnes of oil equivalent



## Looking ahead

### Scope 3

#### Emissions Challenge

As with other renewable industries, we do not emit significant amounts of emissions directly and our Scope 1 and 2 emissions figures are very low in comparison with non-renewable industries. However, our indirect emissions need to be considered and they arise primarily from our supply chain. Specifically, from the power generation requirements for the mining of the raw materials along with the associated refining, production and fabrication of essential equipment. We also consider the disposal/recycling of our asset equipment.

#### Supply Chain Transparency

One of the considerable challenges facing the solar industry (and others) is the visibility and quantification of supply chain and fabrication-related emissions, which requires transparency across different regions and countries.

### The Future

#### Increasing Transparency

We plan to carry out the following actions in the 2022/2023 financial year:

- Amend our Code of Conduct for Suppliers to further account for Scope 3 supply chain emissions by ensuring mandatory submission of required data;
- Engage with third party assurance specialists to assist with verification and guidance on quantification methodologies and approaches;
- Utilise specialist third parties to provide estimates of the product's lifecycle emissions/carbon footprint using standardised industry factors until actual assured data is available. This last action is likely to occur as part of our active involvement in the Solar Sector Initiative<sup>1</sup>.

Given the complexity of this issue and the associated geopolitics, we recognise that not all Scope 3 data will be available immediately. For the data that is not immediately available, we maintain regular contact with our suppliers, and they are regularly engaging with the necessary regulators and regional authorities to improve the situation and transparency of data.

1. <https://solarstewardshipinitiative.org/>



## Environment

### Climate change (continued)

#### Our Climate Change Risk Assessment Process

In line with our Task Force on Climate-related Financial Disclosures (TCFD) commitments, during the pre-investment phase for our assets we follow a consistent climate change risk screening process to identify sites that are at risk of flooding, drought, and other severe climate events. In addition we use data from the UK Environment Agency to inform transaction decisions.

Where relevant we have also put in place risk mitigation measures to help alleviate the risk of flooding in land adjacent to some of our sites.

We published our first TCFD Report in 2022. For more information please refer to page 39.

#### Circular Economy

We use a proven framework to ensure we only contract and work with manufacturers who deliver high-quality products with the potential for easy dismantling, refurbishment and recycling.

Sourcing biodegradable or recyclable materials means that at the end of our solar farms' operational lives there is still residual value in the components used – for example glass, silicon, steel, aluminium and copper. Selling these materials can contribute to a circular economy – one in which scarce resources stay in use for much longer – and also cover some of the costs of decommissioning.

Where possible, any solar equipment that is no longer required is repurposed within the solar industry, where it can continue generating clean renewable energy and support the wider solar community.

#### Water

Water is a precious resource and can be scarce in areas where solar PV panels are installed. We carefully identify potential for water stress during the pre-acquisition phase, by relying on the World Resources Institute (WRI) tool Aqueduct.

Our solar sites are not connected to a mains water supply. Therefore any water delivered to site during construction is monitored and quantifiable.

When a site becomes operational, the primary water requirements are for panel cleaning, with other secondary use requirements. The water is delivered by a tanker and water volume delivered is recorded. This is in line with the EU SFDR requirements, where we collect water consumption data from each of our SPVs for the reporting obligations. This allows us to establish a baseline and define further improvements, along with potential reduction targets, in the near future.

With recent climate challenges associated with water use (e.g. hosepipe bans), NESF is currently reviewing mitigation measures to responsibly source water requirements and will be able to report further next year.

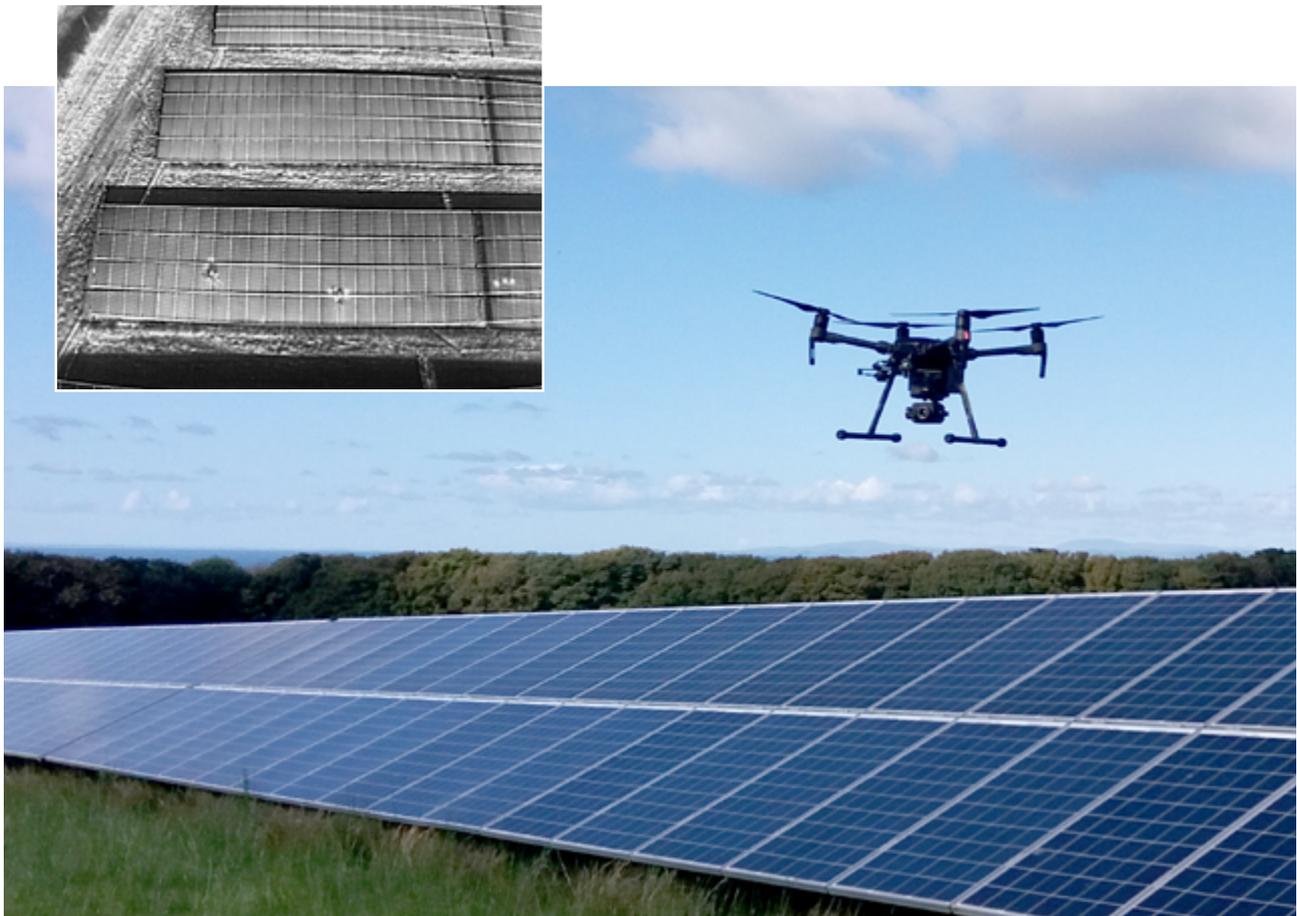


### Case study

#### Sale and re-use of replaced panels

Recently, at one of our older NESF assets, we identified an opportunity to upgrade and modernise the panels to increase efficiency and performance. The upgrade works involved the replacement of a significant number of solar panels, of which, 4MW were sold to an industry peer for reuse.





▲ Surveying 72% of our UK portfolio with drone thermography



## Case study

### Drone Thermography

We use drone thermography across our assets to monitor the health and integrity of the equipment.

By using this approach, we can identify repair needs at an increased rate, which can prolong the useful life of the asset equipment. This provides cost efficiencies, contributes to circular economy and helps to reduce the amount of waste generated.

#### What is drone thermography?

Drone thermography refers to the use of drones with advanced mounted sensors and cameras to take high quality photographic and thermographic imagery of our sites.

All objects emit infrared radiation, and the drones infrared cameras convert the infrared radiation from our asset equipment into an image showing the apparent surface temperature of an object. It has the potential to detect very small variations in temperature\* and can lead to early identification of any issues, deterioration, or defects.

### Why drone thermography?

There are many benefits to using drone thermography:

- Drone surveys allow for a complete picture of a solar site in a short period of time with no electrical isolations required;
- They support our ability to plan a preventative maintenance strategy instead of responding to faults when they occur, enhancing efficiency;
- They provide early identification of module faults or defects. The earlier we identify these issues, the more chance the module can be repaired rather than replacing the module when it fails;
- Compare flights over the same asset in different years to track any long-term module degradation;
- It allows us to review the performance of different manufacturers' equipment and inform future developments or acquisitions.

To date, we have surveyed over 72% of the UK portfolio – equivalent to 2.23 million modules and a capacity of 591MW.

\* Apparent Temperature is the perceived temperature, and considers a combination of air temperature, relative humidity, wind speed, and solar irradiation measurements



## Environment Biodiversity

**Behind our Framework there are many inspiring stories. Some are national in their ambition, others local, but they all demonstrate our passion for generating a more sustainable future and our commitment to measurable, transparent ESG initiatives and KPIs.**

### Getting to the Heart of Biodiversity

Our growing UK network of solar farms gives us an opportunity to use land in a unique way over an extended time period. We are seizing this opportunity by creating biodiversity ‘hubs’ that benefit many different stakeholders and the planet as a whole.

We are leading our industry and supporting the Global Goal for Nature’s\* targets of “nature-positive by 2030”, and “nature-recovery by 2050”, by creating stepping stones for biodiversity, establishing best practice, and introducing innovations that enhance, rather than deplete, agricultural land. Our hubs produce multiple benefits such as:

- Havens for protected species;
- Accelerators for the growth of local flora and fauna;
- Natural homes for pollinators that benefit local crops;
- Positive contribution to local authorities’ biodiversity plans;
- Innovation centres where we can try out new ideas – for example growing chamomile, which has a commercial value and also maximises light reflection from ground level onto our solar panels;
- Education centres for local people where they can learn about clean energy, biodiversity and the STEM skills needed to thrive in the energy transition;
- Local employers – recruiting everyone from ecology experts to operation and maintenance workers;
- Potential biodiversity credit trading opportunities as the offset market establishes itself, which will help businesses meet their 10% net gain obligations under the Environment Act 2021.

We are unashamedly passionate about our hubs, but also clear that they offer a way to maximise the value of our assets, secure our licence to operate in local communities and raise the bar for biodiversity enhancement on solar sites.

**Externally we enlist the help of Wychwood Biodiversity, a UK-based company working worldwide with organisations to improve biodiversity on their land, and Twig, a company that provides solar farm maintenance.**

During 2022, NextEnergy Capital appointed a new Environmental Impact Manager to our Investment Team to help us improve the way we value our natural capital. We include proven biodiversity solutions for preserving and enhancing biodiversity in our proposals for all new investments.

### Partnerships and collaboration

We work in line with applicable local, regional and national regulations, and with local councils and environmental bodies. We listen to local communities and conservation groups. We do this through many different approaches:

- We trust the expertise of both internal and external biodiversity specialists to help us design and rollout measures to address specific biodiversity issues at our sites;
- We welcome and encourage local community involvement. For example, our outreach programme engages members of the public through education on and participation in the shared benefits of solar. This supports the delivery of conservation objectives across our sites.

### Legislation and metrics

Our overall approach to biodiversity seeks to align with the UK Government’s 25 year Environment Plan. We are part of the Taskforce for Nature-related Financial Disclosures (TNFD) forum and are working towards testing and aligning with the Nature-Related Risk & Opportunity Management and Disclosure Framework, which draws upon the Natural Capital Protocol as a fundamental concept for understanding nature across our portfolio.

We acknowledge the challenge and evolving standards associated with measuring biodiversity using quantifiable metrics. In addition to using the Defra Metric, we are working with experts on establishing a number of additional indicators from which to measure change from a baseline. We plan to utilise these metrics to measure our year-on-year progress and to ensure that we are adhering to, and in many cases exceeding, the Environment Act 2021 mandatory requirement to achieve a 10% biodiversity net gain.



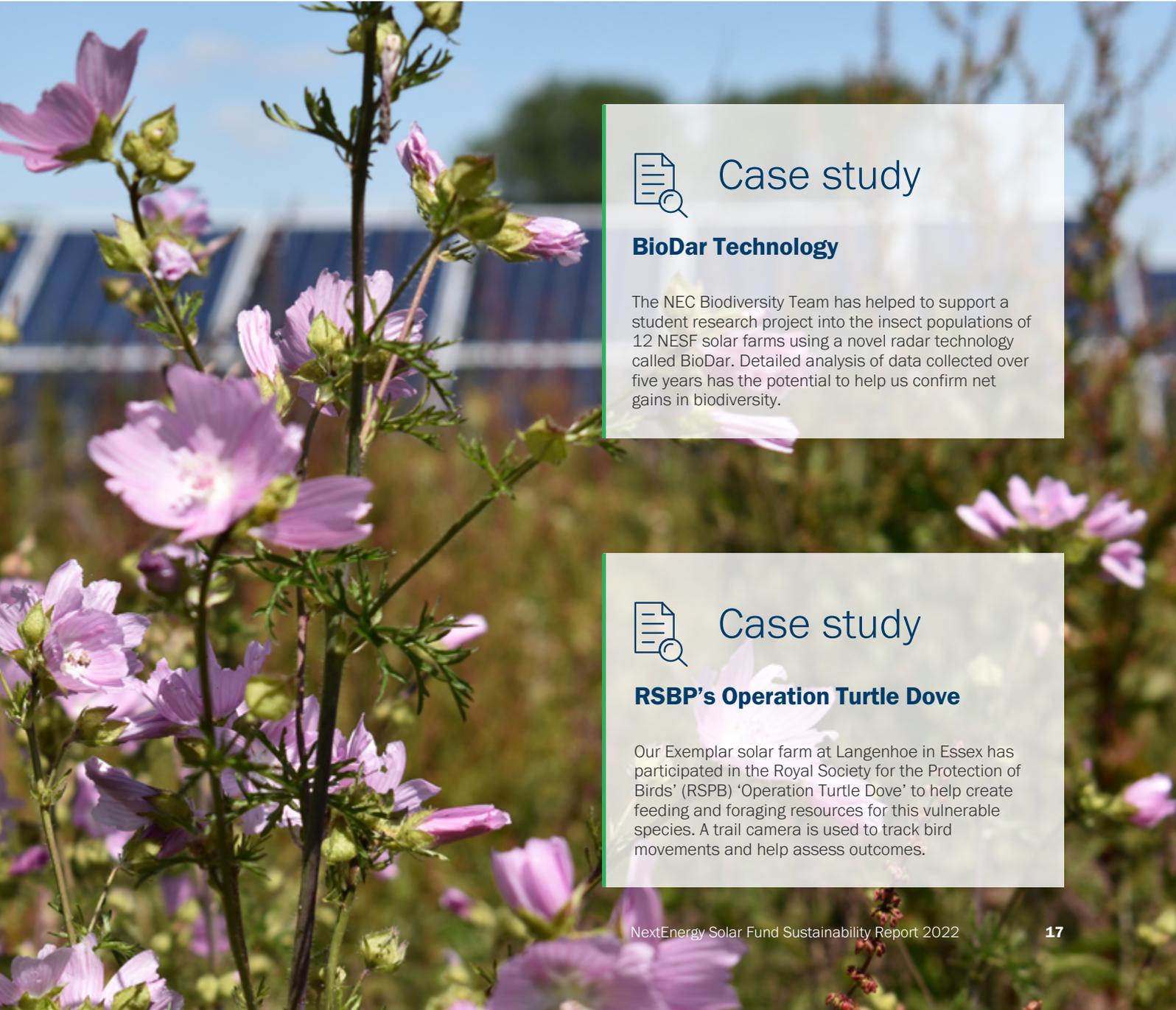
\* <https://www.naturepositive.org/>

# Engagement

## Natural Capital Best Practice Guidance

NEC's SPV Director, Sulwen Vaughan, chairs the Natural Capital Group set up by Solar Energy UK ("SEUK") – a trade association for solar generation and storage with over 300 members. The Natural Capital Group has produced Natural Capital Best Practice Guidance.

This explains how well-designed solar farms can help reverse depletion in 60% of British wildlife species (15% of which are at risk of extinction) by directly enhancing local animal habitats and wildlife, while also providing renewable, low-cost energy. The guidance reinforces our belief that investment in natural assets at our sites will help land recover from intensive farming, enable the natural environment to flourish, and build community support for our activities.



## Case study

### BioDar Technology

The NEC Biodiversity Team has helped to support a student research project into the insect populations of 12 NESF solar farms using a novel radar technology called BioDar. Detailed analysis of data collected over five years has the potential to help us confirm net gains in biodiversity.



## Case study

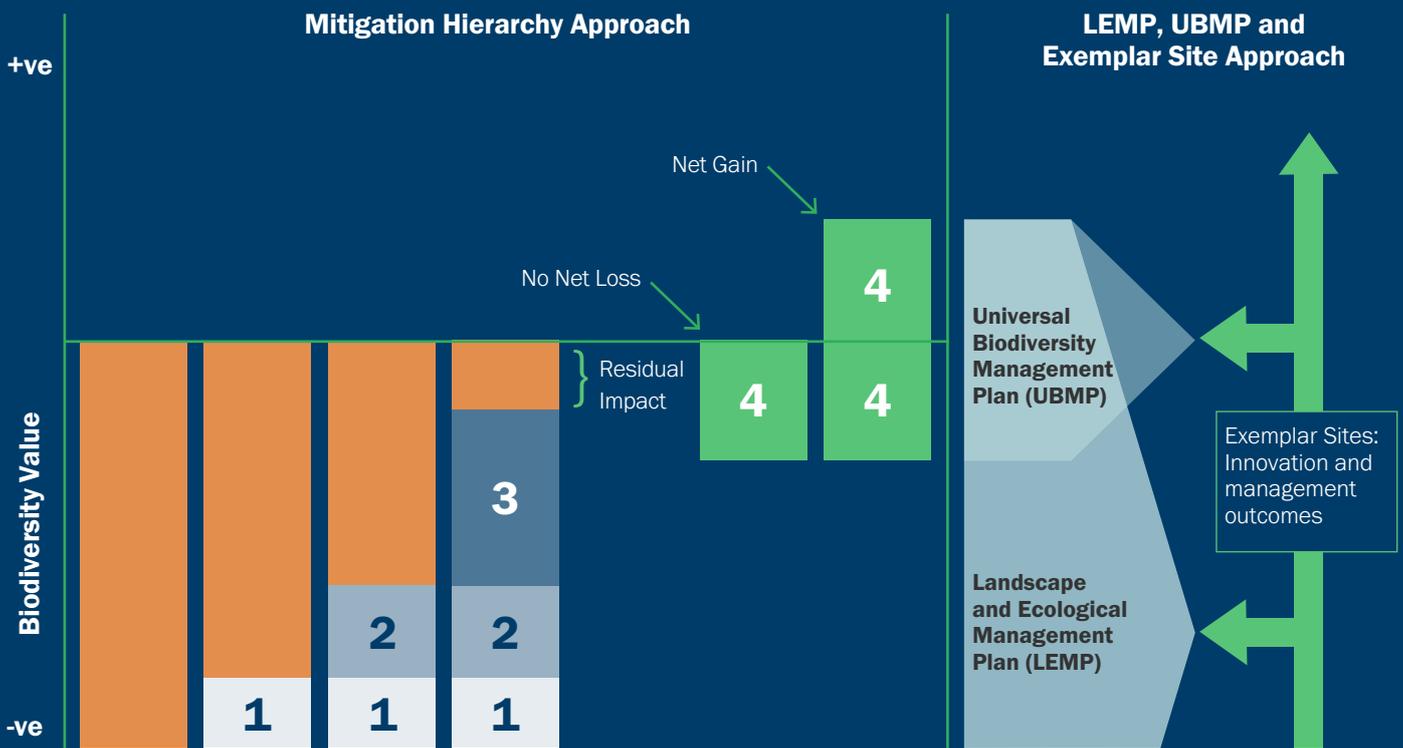
### RSPB's Operation Turtle Dove

Our Exemplar solar farm at Langenhoe in Essex has participated in the Royal Society for the Protection of Birds' (RSPB) 'Operation Turtle Dove' to help create feeding and foraging resources for this vulnerable species. A trail camera is used to track bird movements and help assess outcomes.



# Environment

## Biodiversity Methodology and Data



- Biodiversity Impact
- 1** Avoidance – measures taken to avoid potential biodiversity impacts
- 2** Minimisation – measures taken to reduce the duration, intensity, extent or likelihood of impacts that cannot be avoided
- 3** On-site restoration – measures taken to enhance or recreate habitats where avoidance or mitigation is not possible
- 4** Offset – measures taken to compensate for any residual, adverse impacts after full implementation of mitigation hierarchy

NESF understands the potential to achieve Biodiversity Net Gain on our sites and our ambition is to quantify this across our operational assets as well as our pipeline. Our approach to assessment and governance is underpinned by the mitigation hierarchy, where avoidance is the first and most important step to prevent harm to biodiversity of greatest conservation concern. Offsetting is only pursued as a last step in the mitigation hierarchy.

We apply the mitigation hierarchy principle in assessment and decision making across the investment lifecycle, from mergers and acquisitions to planning, development, construction and operational management of our assets.

NESF deploys LEMPs to manage and achieve conservation gains, whilst our UBMP programme focuses on increasing the biodiversity benefit to existing operational assets, ensuring our positive management outcomes and innovative approaches are adopted across from our Exemplar sites.

Source: adapted from BBOP, Rio Tinto & Government of Australia

### Biodiversity classifications for our sites

To further deliver on biodiversity opportunities in line with our mission, we are following two routes which are above and beyond the typical regulatory minimum expectations:

- Rolling out Universal Biodiversity Management Plans (UBMP) that contain proven methods to maximise biodiversity benefit, for implementation across multiple locations as NESF grows;
- Establishing Exemplar sites where we create bespoke and innovative biodiversity action plans that often push the boundaries of good practice.

### What is a UBMP site?

UBMPs were designed to incorporate management prescriptions with proven conservation outcomes. These could then be applied to selected sites to maximise biodiversity benefit. This scalable approach allowed us to ensure that our operational asset base would benefit from successful management outcomes demonstrated on our Exemplar sites. At present, 30 of our sites implement UBMPs, which include a range of tried and tested management prescriptions to help them prioritise biodiversity, and 15 more are due to introduce UBMPs within the next 12 months.

The actions mandated in UBMPs are designed to:

- Maximise biodiversity net gain using a scalable and low risk management approach;
- Adopt innovative management and monitoring as standard best practice;
- Be easily implemented by our approved specialist contractors;
- Maintain, build on and improve biodiversity and natural capital value across our existing operational assets.

All UBMP sites are assessed by third-party ecology advisers who help specialist contractors to implement the plan.

### What is an Exemplar site?

We have also created six biodiversity Exemplar sites, which each follow a bespoke biodiversity plan with carefully considered objectives appropriate to the local conditions.

Exemplar sites are dedicated to innovative techniques and pilot studies to increase our knowledge and evidence-base in the field of asset management, with a view to maximising the value of our biodiversity ‘hubs’ for local stakeholders.

This builds on our experience in managing solar assets to push the boundaries of ecological best-practice with an aim to identify and feedback learning outcomes, where appropriate, into LEMPs and UBMPs. Monitoring is a key part of an exemplar site to ensure research, development and innovation are evidenced and positive outcomes are adopted.

We are set to create two more Exemplar sites over the next 12 months.



## Case study

### Studying carbon sequestration

We are using our Exemplar biodiversity sites to analyse soil samples so we can understand more about the potential of our solar farms to support carbon sequestration – potentially by growing plants that fix carbon and thereby transform our sites into carbon sinks.

### Biodiversity plans in place (2019–2023)

We are always looking for opportunities to develop and deliver on our mission and that includes seeking to expand our UBMP and Exemplar site coverage as much as possible. The number of our current and planned sites can be seen in the table below:

	Total 2019-2020	Total 2020-2021	Total 2022-2023
Sites designated as Exemplars for biodiversity	4	6	8
Sites with Universal Biodiversity Management Plans	15	30	45
Sites with LEMPs (set by local authorities)	59	63	65

In all, 38% (45 sites) of our portfolio is currently either covered by a UBMP or designated as an Exemplar.



# Environment

## Biodiversity Methodology and Data (continued)

### Our Biodiversity impacts

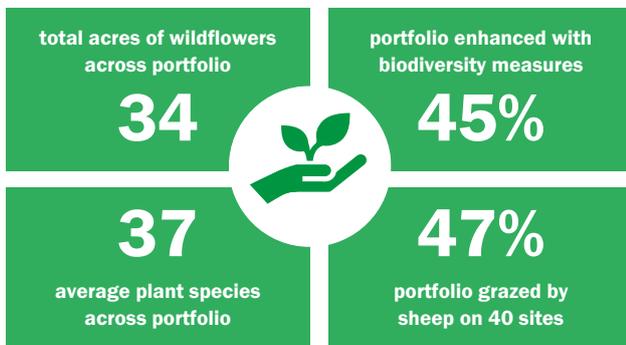
We adopt the Defra Metric to measure biodiversity net gain (BNG), which measures habitat type, quality, distinctiveness and size. We also recognise the need for faunal indicators, natural capital and ecosystem services such as pollination, water regulation, air quality, soil and community engagement to be quantified. From 2022 onwards, carbon sequestration and climate regulation will be added to the suite of metrics already measured.

### Wildflower planting and bird species

Increasing the land area covered by wildflowers can help to renew intensively farmed soil and encourage pollinator species. Increasing the number of birds and the variety of species can help to protect endangered birds and also to play a role in pollination.

### Nest boxes, hibernacula and refugia

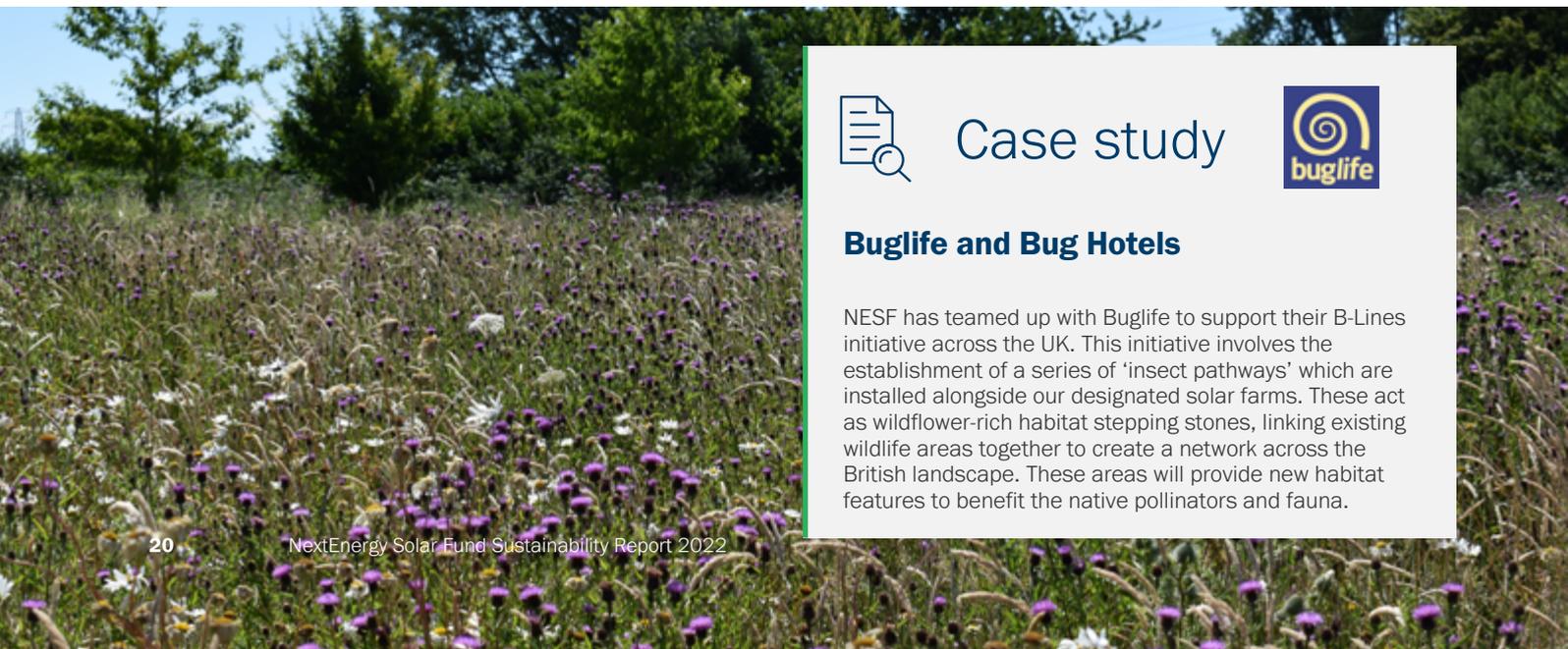
Where artificial nesting habitat and refugia has been provided, monitoring data suggests that species diversity for target species have increased. The number of red listed bird species recorded at sites with bird boxes installed has doubled over a five year period.



### Species diversity monitored at five exemplar sites

	2017	2018	2019	2020	2021
Boxted	20	27	37	32	39
Langenhoe	28	34	37	38	38
Berwick	20	26	17	15	17
Emberton	20	37	45	37	43
Burrowton	–	–	23	30	48
Average	22	31	31.8	30.4	37

Since 2020 we have planted an additional 13.84 hectares of wildflowers across our Exemplar, UBMP and Buglife portfolio, which all deliver beyond planning requirements. Data gathered at a sample of sites indicates that pollinator levels have increased relative to areas without wildflowers.



## Case study

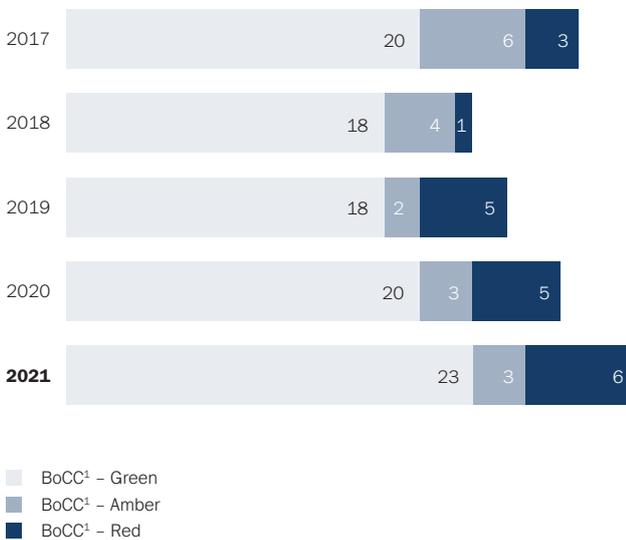


### Buglife and Bug Hotels

NESF has teamed up with Buglife to support their B-Lines initiative across the UK. This initiative involves the establishment of a series of ‘insect pathways’ which are installed alongside our designated solar farms. These act as wildflower-rich habitat stepping stones, linking existing wildlife areas together to create a network across the British landscape. These areas will provide new habitat features to benefit the native pollinators and fauna.

## Bird Species

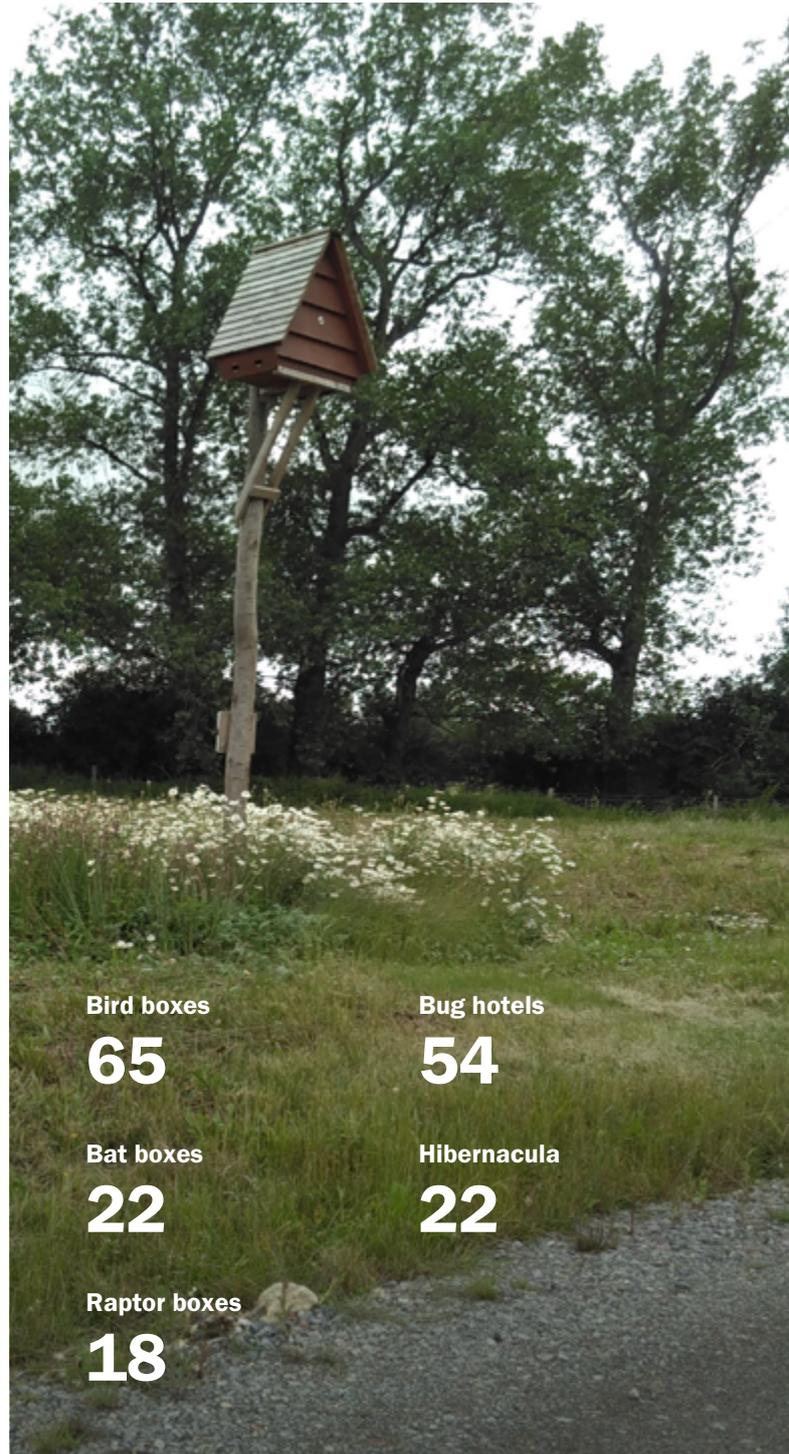
Since installing bird boxes across our UBMP and Exemplar sites, we have observed an increase in the number of bird species recorded over a five year period.



1. Birds of Conservation Concern (BoCC) is compiled by a coalition of the UK's leading bird conservation and monitoring organisations and reviews the status of all regularly occurring birds in the UK, Channel Islands and Isle of Man. The bird species that breed or over winter are assessed against a set of objective criteria and placed on the Green, Amber or Red lists to indicate an increasing level of conservation concern.

### Classifications used:

- **Red list** – birds in the UK, Channel Islands and Isle of Man in most urgent need of protection
- **Amber list** – birds whose conservation status is of moderate concern
- **Green list** – birds which are not showing moderate or severe declines



▲ Artificial habitat provisions at UBMP and Exemplar sites



# Environment

## Biodiversity Methodology and Data (continued)



### Case study

#### Grazing

Our community engagement includes collaboration with local farmers to facilitate sheep grazing on our assets (where possible and safe), ensuring that stocking densities are aligned with local conservation objectives. Overall, 47% (40 sites) of our portfolio is subject to controlled grazing by sheep.

Grazing provides measurable benefits to both local farmers and the solar assets by:

- Facilitating dual-use of land for renewable energy as well as agriculture;
- Naturally maintaining the land for conservation and for shading management;
- Providing natural capital and ecosystem service benefits such as biomass, pollination and water regulation;
- Avoiding the use of machinery and equipment, which preserves soil condition and reduces emissions;
- Minimising and reducing health and safety risks associated with using machinery on site.



### Case study

#### Natural colonisation

High species diversity has been recorded across the newly created wildflower habitats at our Burrowton site in Devon, with suitable habitat conditions attracting naturally colonising species such as southern marsh orchid to re-establish the habitat composition. This species is in decline across the UK due to intensive agriculture and draining of damp pastures.

# Social





# Social

## Respecting Human Rights

### We respect fundamental human rights principles, and operate in line with:

- UN Universal Declaration of Human Rights
- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights.

We use these frameworks to actively protect human rights in our own activities and our business relationships. We oppose any form of slavery and forced labour and publish an annual Modern Slavery Statement.

We are committed to preventing modern slavery in our own activities and those related to our business relationships,

including our supply chain. This commitment is reinforced through our Sustainable Investment Policy, Code of Conduct for Suppliers and active contribution to relevant sector-level initiatives.

We are working hard to create transparency and develop accountability for the provenance of the raw materials we require for our solar assets. Additionally, we believe that concerted and sustained action is needed to eradicate human rights abuses and improve labour practices in our supply chains.

[Our Modern Slavery Statement](#)

## ESG and Human Rights in our Supply Chain

### Our industry-leading approach

Ensuring that our high standards for ESG are mirrored in our supply chain is a key priority for us. Given the complexity of the sector's supply chain, combined with evolving geopolitical challenges, we recognise it will take time to achieve our objective in full. Most importantly, we believe that achieving greater transparency and building a more resilient supply chain requires a collective effort from the industry, including our suppliers, civil society, regulators, industry associations, expert advisers and other key stakeholders.

That is why our approach to addressing this challenge consists of a risk management approach based on due diligence (for details, refer to the call out box in this page) and a stakeholder engagement process, to advance and address global and systemic challenges collectively.

NEC's Head of ESG, Giulia Guidi, chairs the Solar Energy UK (SEUK) task group on Responsible Sourcing, and, since 2021, has been at the forefront of a collaborative industry initiative between Solar Energy UK (SEUK) and Solar Power Europe (SPE) to promote responsible production in the solar sector's supply chain.

In October 2022, following a long-term collaboration, SEUK and SPE launched the Solar Stewardship Initiative (SSI)<sup>1</sup>, with NEC being one of the key sponsors and supporters of this great initiative, as well as the coordinator of the initiative for SEUK. Through the SSI, the industry is striving to establish the right mechanisms to increase traceability of solar products, components, and raw materials. An industry-led programme like the SSI – with significant input and participation from stakeholders – remains the most effective approach to enhance transparency and sustainability in our supply chains, while building trust and product stewardship.

[Solar Energy UK Supply Chain Statement](#)

[Solar Industry Forced Labour Prevention Pledge Signatories](#)

[SolarPower Europe](#)

[NextEnergy Solar Fund Capital Human Rights Position Statement](#)

At NESF, we support the SSI and its mission and will be adopting its recommendations into our governance and approach upon release.



### What are we doing to mitigate human rights risks within our supply chain?

- The supply chain due diligence is part of the broader ESG risk management process;
- We have an obligation for all our contractors to complete ESG due diligence and abide by our Code of Conduct for Suppliers, in line with SPE and SEUK initiatives;
- Through our ESG due diligence and Code of Conduct for Suppliers, we set clear expectations regarding environmental compliance, working conditions and human rights standards;
- We assess how each of our suppliers approaches ESG issues, including, but not limited to, human rights and labour policies. An internal score is then generated that further informs the due diligence process;
- We are working with our stakeholders – NGOs, industry associations, manufacturers and human rights advisers – to find ways of improving transparency and traceability;
- We have also signed and uphold the Solar Energy Industry Association (SEIA) and the SEUK pledge against slave labour.

1. <https://solarstewardshipinitiative.org/>



# Social Community Engagement

**Community Engagement is essential to raise awareness of the benefits that solar assets can bring. Connecting with local communities in ways that are mutually beneficial is integral to our ESG approach.**

## Preacquisition and/or construction

- Before we acquire an asset, we engage closely with local parishes and councils to share our plans and make sure they are compatible with local conditions;
- Where possible, we incorporate community feedback into our proposals and use it as the basis for long-term community development plans that run throughout an asset's useful life;
- We also commit to employing people from local communities when practicable. For example, where feasible, we utilise local farmers to assist in land management requirements;
- We engage with communities to avoid the potential disturbance that construction of our assets could bring if mismanaged. Communication, learnings and agreements are incorporated in our construction and traffic planning.

## Day to day operations

We fund a number of locally beneficial and inclusive projects, including projects linked to clean energy and biodiversity, to demonstrate and increase awareness amongst the general public of the benefits that a solar asset and its accompanying clean energy and environmental approach can bring.

## Backing local activities

As part of their efforts to build enduring community relationships, our farms have made donations to provide computer equipment for village halls, camping gear for scouts and new goal posts for public playing fields.

## Enhancing education

In some locations, we actually use our solar farms as 'classrooms' in which local people – from school kids to senior citizens – can learn about our work and our relationship with the natural world.

Tracking progress and reporting impact change throughout NESF's value chain is a crucial step in tackling climate change, driving accountability, and ultimately delivering a sustainable future for generations to come.

We are very strongly committed to engaging with local communities. Our engagement and community investments include:

- Outreach work with local schools, including an education collaboration with Earth Energy Education involving 20 sites, which is set to launch in academic year 2022-2023;
- Running a community giving project with the technology platform BizGive, which links business donors with community groups seeking funding;
- Promoting skills development and employment;
- Supporting school students' curriculum studies;
- Financing a play park;
- Creating outdoor learning centres;
- Installing community lighting.

## Community funding (through SPVs)

**£91,400**

## Donated to the NextEnergy Foundation

**£100,000**



## Case study

### Promoting STEM subjects

Connecting with local communities in ways that are mutually beneficial is integral to our ESG approach. Our sites have huge potential as focal points for interactive learning about clean energy, biodiversity and the STEM skills that will be required in the energy transition. We are also acutely aware that local people are not only our neighbours, but also potential employees.

The COVID-19 pandemic had a negative impact on our community engagement activities, but we are picking them up again now.



# Social Health and Safety

All construction activities are legally obligated, through our contracting process, to adhere to the principles set out within Construction, Design and Management Regulations 2017 (CDM 2017), in accordance with Health & Safety Executive (HSE) guidelines.

Further obligations to manage and minimise the impact of construction activities are outlined within the Planning & Permitting process through documentation such as, but not limited to, the Landscaping and Ecological Management Plan, and the Biodiversity Management Plans, all of which are captured in our robust contracting process.

We work in accordance with the applicable occupational and environmental health and safety standards. These include construction and production-related industry standards, including those set out in the UK Construction, Design and Management Regulations 2015 and the International Organisation for Standardisation's requirements. All of these standards are incorporated into our main service delivery contracts with suppliers.



## ▼ NESF Whitecross asset, Sleaford, Lincolnshire





# Social NextEnergy Foundation

## Supporting the NextEnergy Foundation

The NextEnergy Foundation (NEF) is an international charity set up in 2016. Its mission focuses on supporting global efforts to reduce carbon emissions, provide clean power sources in hard-to-reach locations, and alleviate poverty across the world. This includes countries such as Uganda, Zambia, Malawi, Ukraine, Columbia, UK and Italy as examples.

NEC has pledged to give at least 5% of its profits to the charity, and in 2021 NESF made a £100,000 donation, most of which is helping to alleviate fuel-related poverty in the UK. This is being done through NEF's long-term partnership with the social enterprise Depher CIC, which is providing fuel support, food vouchers and school supplies to low-income and single-parent families in the UK.

NESF donations to the foundation have also helped to fund initiatives launched to help people during the war in Ukraine, including the shipment of medical supplies for 90 children with cancer in the St Nicolas Hospital in Lviv, the installation of solar panels on a medical vehicle on the border between Romania and Ukraine, and the preparation and distribution of 18,000 hot meals on the border between Poland and Ukraine.

Find out more about NEF's work at:

[www.nextenergyfoundation.org](http://www.nextenergyfoundation.org)



▲ Donations to Ukraine



▲ Solar water farm, Colombia



▲ Solar panels installed in schools, Malawi



# Social

## Diversity and Inclusion (D&I)

NESF has no direct employees. Therefore, to report on its position in terms of Diversity and Inclusion (D&I), we have leveraged the data points and approach aligned to the NextEnergy Group global D&I strategy.

The group established a steering committee in late 2021 to advance its D&I agenda. MPM Included, a specialist consultancy, was then engaged to carry out a baseline survey of employee diversity data globally, along with attitudes related to inclusion at work. Feedback on the latter was highly indicative of inclusion across almost all categories, with no 'red flags' highlighted in any area.

MPM Included's report was combined with data held internally to identify current strengths, and areas requiring closer attention and focus.

### Nationality

In summer 2022, NextEnergy Group was represented by 27 different nationalities, implying high linguistic & cultural diversity.

To progress the work, the HR team, with the support of senior leadership, has led the establishment of a number of workstreams. The workstreams leads will report in early 2023 on their progress towards the following objectives:

#### 1. Legal compliance and D&I literacy

- We will have a workforce with high literacy and understanding of D&I issues in the workplace, including the legal framework applicable to their location.

#### 2. Gender balance

- Improve the gender balance at senior levels in some parts of the organisation;
- Ensure a more balanced gender representation within teams.

#### 3. Cultural, religious & linguistic inclusivity

- Continue to celebrate our diversity of nationalities and grow our understanding of diverse cultures, religions and ways of working;
- Provide support and considerate accommodations where necessary for employees of the Group not working in their native language.

#### 4. Educational & socio-economic background

- Focusing on entry level and junior roles initially;
- Level the playing fields to enable those from diverse educational or less advantaged socio-economic backgrounds to obtain employment at NextEnergy Group;
- When hiring, reduce the likelihood of unconscious bias being able to affect selection decisions.

#### 5. Neurodiversity

- Provide good support for existing and new employees who are neurodiverse.

#### 6. LGBTQ+

- Offer a workplace in which all LGBTQ+ employees feel welcome, and be a visible ally for this community in the renewables sector.

# Gender at NextEnergy Group

## Breakdown by Gender

42 people



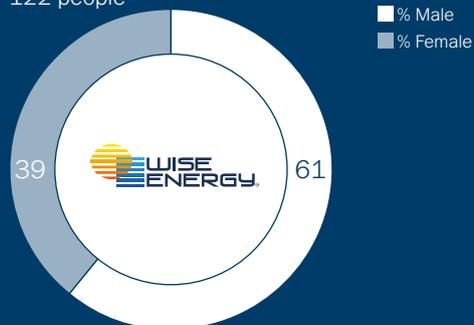
## A closer look at Gender Balance

35% of leadership roles across the Group are occupied by women. On some leadership teams, we have achieved an equal balance of men and women, or close to it. However, in certain divisions there is more work to be done to achieve more balanced representation.

We are continuing to work closely with MPM included to give this the attention and focus it requires.

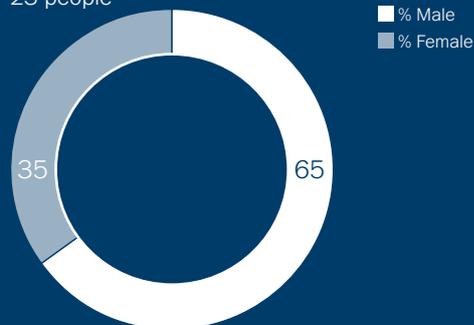
## Breakdown by Gender

122 people



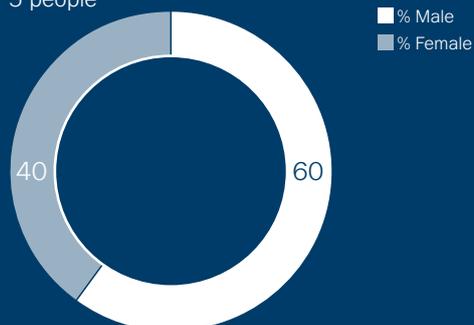
## Breakdown by Gender at Combined Leadership

23 people



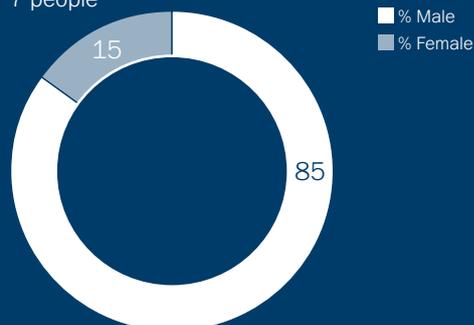
## Global Leadership Team

5 people



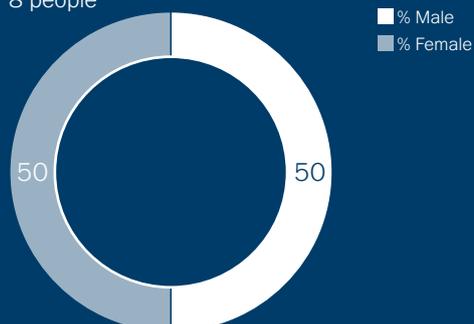
## NextEnergy Investment Leadership Team

7 people



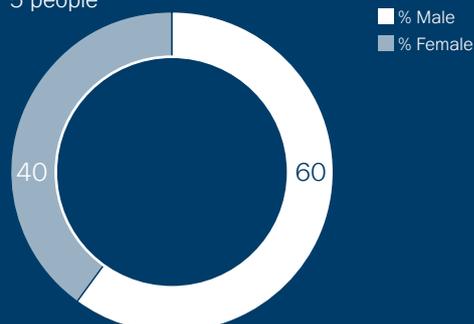
## WiseEnergy Senior Leadership Team

8 people



## Central Functions Leadership Team

5 people



# Governance



# Governance

## Our Principles and Policies

As a listed investment company, we benefit from enhanced governance and policies from both our independent board and the board of our investment manager, NEC.

Our Sustainable Investment Policy reflects our commitment to governance and is based on the UN Principles for Responsible Investment. It sets out the principles, excluded activities, integration, engagement, reporting, and governance processes related to ESG.

The Board provides oversight and strict governance to all activities across the fund, whilst the NEC Leadership Team reviews the policies used for day-to-day activities regularly to ensure they are fit for purpose.

We have recently announced a new NESF ESG Committee, which comprises of ESG experts across the independent board and is responsible for reviewing and approving changes to the NESF Policies. Where required, the NESF ESG Committee invite the NEC ESG team to attend to provide further professional support.

To support our Sustainable Investment Policy, we currently have two Position Statements – on climate change and human rights. Their purpose is to enhance the transparency of and our commitments to our three pillars. A third Position Statement on biodiversity is to be released soon.

We have also developed and implemented our Code of Conduct for Suppliers, which provides additional guidance regarding our expectations to any contractors and suppliers we work with. Together, this suite of documents represent our Sustainability Policies.

### Our policies

#### **Sustainable Investment Policy**

[NextEnergy Capital Sustainable Investment Policy](#)

#### **Climate Change Position Statement**

[NextEnergy Capital Climate Change Position Statement](#)

#### **Human Rights Position Statement**

[NextEnergy Capital Human Rights Position Statement](#)

#### **Code of Conduct for Suppliers**

[NextEnergy Code of Conduct for Suppliers](#)



# Governance

## Accountability and Governance

We believe that strong corporate governance gives shareholders and other key stakeholders confidence in the Company's trustworthiness, fairness and transparency. The practice of good governance is, therefore, an integral part of the way we manage the Company and plays an important role in shaping our long-term sustainable success in achieving our strategic objectives.

Overall responsibility for performance and management falls on the NESF Independent Board. Understanding and implementing climate risk management processes is critical to the Board, making ESG matters more important than ever to investors, society and other stakeholders.

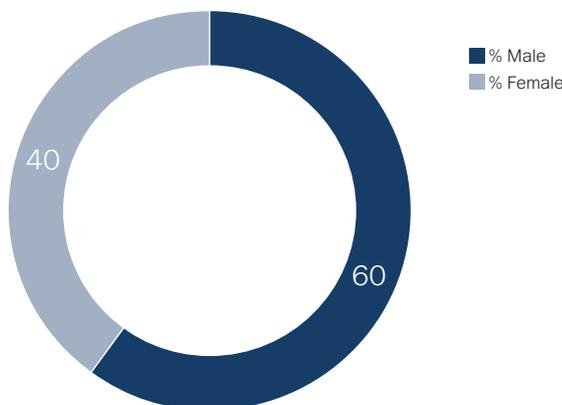
We have a dual approach to our corporate governance. The main Board currently comprises five Directors, all of whom are non-executive and independent of the Investment Manager and the Investment Adviser, who oversee all elements of governance and performance. The fund also benefits from a separate Board at its manager level, the NextEnergy Capital Investment Management Board, which oversees NextEnergy Capital's performance and provides a consistent service to us based on the direction of the NESF Board. The services provided by the Investment Manager and Investment Adviser are kept under continual review by the NESF Board.

Our culture is based on openness, trust and candour between Board members, respect for differing opinions and areas of expertise and individual and collective accountability. We believe that this culture encourages constructive and robust challenge and debate, generates strong collective wisdom, and ultimately leads to good decision making, all of which are important to the successful implementation of the Company's strategy.

We benefit extensively from NextEnergy Capital and WiseEnergy's committed teams. Its employees share a passion for our Mission and contribute a breadth of specialist skills. In particular, under Giulia's leadership, the ESG Team at NextEnergy Capital is responsible for leading on the ESG agenda, risk management, reporting and stakeholder engagement. Considering this, we enhanced our approach to ESG governance and risk by creating an ESG committee which sits at NESF Board level, alongside the fund's various other committees. The new committee, chaired by Josephine Bush, is formed of members of the NESF board and NextEnergy Capital's ESG team. The committee plays a critical role in ensuring ESG governance, increasing ESG transparency, all whilst contributing to strategy and decision-making.

We have built a strong governance framework around ESG and we aim to set the highest standards of governance and transparency and engage with partners and suppliers who do likewise. Accountability and governance responsibility for NESF's ESG risk management, reporting and stakeholder engagement fall to the newly formed ESG committee and is implemented by the NextEnergy Capital ESG Team.

### NESF Board Diversity





# Governance

## Our Investment Decision-Making Process



**We implement ESG practices right along our value chain – in our interactions with investors, employees, suppliers, service providers, partners and neighbours in local communities – and throughout the lifetime of our assets. We integrate ESG into our investment decision-making through the following four-step process:**

### 1. Identify

- Prioritise ESG from first sight of new opportunities and screen to identify any excluded activities early on;
- Undertake ESG risk due diligence – since September 2019;
- Assess compliance with legislation and best practice;
- Collaborate internally to ensure high quality EPC and O&M contractors with robust ESG credentials are selected;
- Utilise advanced modelling, site visits and detailed data to avoid sensitive areas;
- Refer due diligence outcomes to NEC's Investment Committee for final investment decision.

### 2. Manage

- ESG and Investment Teams collaborate to find ways of mitigating ESG risks – with support from third-party experts if needed;
- Risk mitigation action plans approved by NEC's Investment Committee;
- NEC and WiseEnergy ensure action plans are implemented effectively by contractors, by holding regular performance meetings to review ESG performance;
- WiseEnergy provides quarterly progress reports and supports ESG performance data gathering in addition to contractor performance review.

### 3. Report

- We report as transparently as possible on ESG matters through our website, following internationally recognised standards and best practice;
- We disclose our approach and performance through our website, annual report and investor presentations;
- This includes (but is not limited to):
  - 2021 ESG Disclosure (in compliance with EU SFDR)
  - 2022 Annex V – Periodic Disclosure and Annex III – Pre-contractual Disclosure for Article 9 Financial Products
  - Group Sustainable Development Goals Report (SDGs Report) (includes carbon emissions avoided)
  - Task Force on Climate related Financial Disclosures report.

### 4. Engage

- Engaging with our stakeholders around ESG is mutually beneficial. We learn more about their needs and concerns, while getting the opportunity to reassure them about the rigour and effectiveness of our approach;
- As NESF has no employees, we communicate with many of our stakeholders through NEC, our investment adviser, and also through our corporate brokers, Cenkos Securities plc and RBC Capital Markets Ltd;
- We always ensure that engagement happens regularly or whenever necessary and in ways that work for all participants.



# Governance

## Our Investment Decision-Making Process (continued)

**We aim to set the highest standards of governance and transparency at NESF, and to engage with partners and suppliers who do likewise.**

### Identify and Manage

We undertake due diligence in the pre-acquisition phase of every project, to identify any potential risk associated with ESG matters:

- An initial screening is issued to confirm that NESF is not entering into any excluded activities;
- Full due diligence is then undertaken to:
  - Review ESG risks and opportunities
  - Ensure alignment with the Sustainable Investment Policy.
- Depending on the initial screening, the due diligence will be carried out either by NEC personnel or by external third party specialists;
- The outcome is presented to the Investment Committee for a final decision;
- If potential risks are identified, they are discussed with the ESG Team and the Investment Team and, where relevant, external advisers. The parties agree upon the necessary mitigation measures to manage and minimise the impacts;
- Agreed mitigation items are placed into an action plan which is put forward with a high-level summary presented to the Investment Committee for approval;
- The action plan is then agreed with contractors, including EPC and O&M, and then handed over to the Portfolio Managers and WiseEnergy for management;
- WiseEnergy oversees the implementation of these measures, including biodiversity management, land management, community engagement and health and safety, amongst others.

### Excluded activities

We do not invest in:

- Areas of high biodiversity
- Areas of high landscape character value

We will not undertake activity that will impact on indigenous people or might cause the relocation of communities without their free, prior and informed consent.

Our exclusion criteria accord with international, national and local landscape designations recognised by the UK Government.

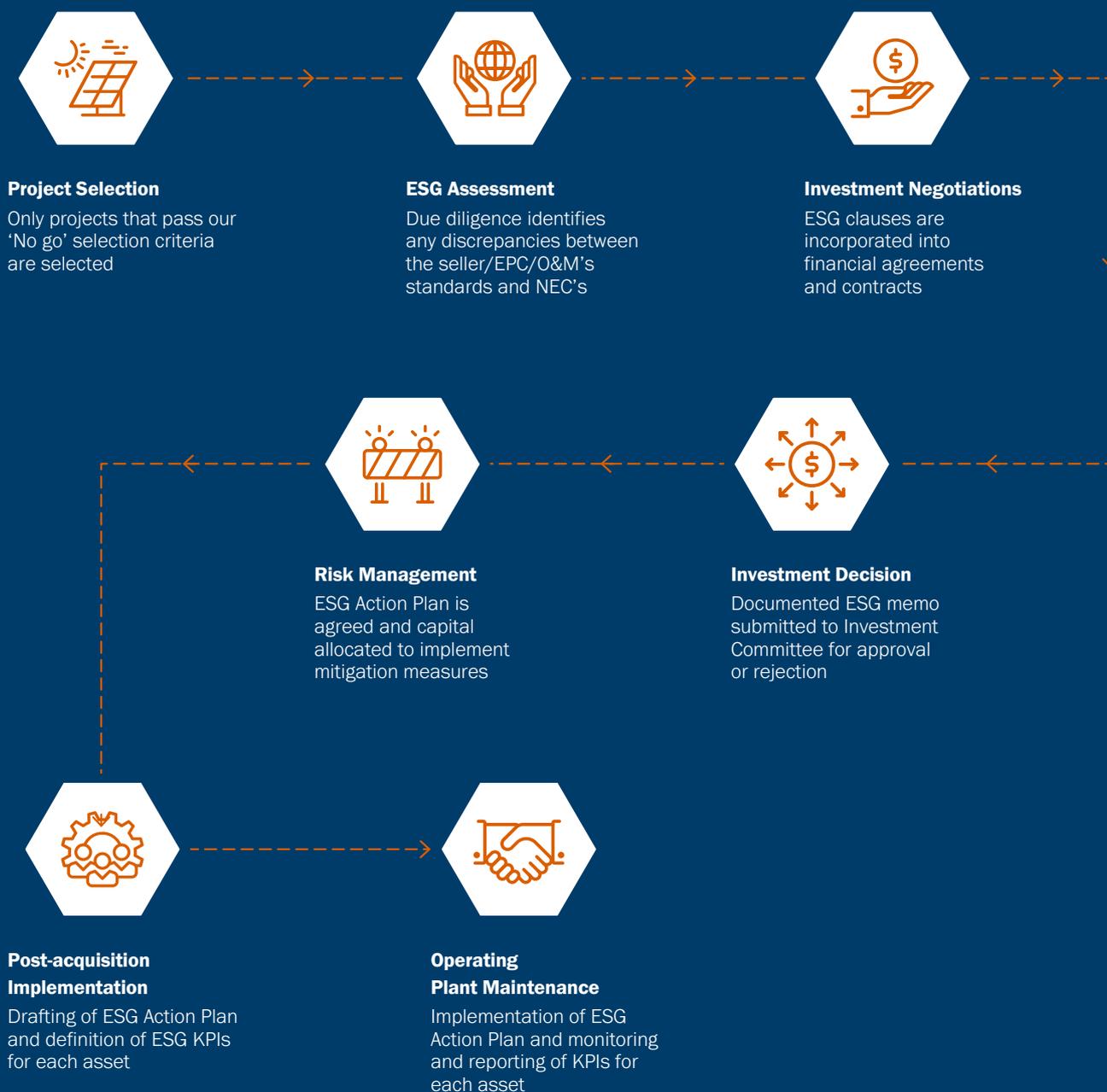
We do not knowingly invest in solar plants where there is evidence of modern slavery, including forced labour and human trafficking, or child labour.

These exclusions are set out in our Sustainable Investment Policy.

# Governance

## Integrating ESG

We integrate ESG throughout the lifetime of our assets:





# Governance

## Integrating ESG (continued)

### ESG Reporting

We report publicly on our website our risks and opportunities at both NEC and fund level:

- NEC level: Principles for Responsible investment (PRI); United Nations Sustainable Development Goals (SDG) and Sustainable Finance Disclosure Regulation (SFDR); ESG Disclosures
- Fund level: NESF Annual Report, TCFD Report, SFDR Article 9 Report and now via this, our first Sustainability Report, which going forward will be published annually.

This report covers the three pillars of our Framework – climate change, biodiversity and human rights – along with health and safety, community engagement and the circular economy. All are material to our ESG approach. The report also meets the standard of the UN’s voluntary SDG reporting guidelines.

- We aim to continuously improve the accuracy, scope and transparency of our reporting. NESF assets have various different reporting capabilities due to their ages, and we are working to bring them all to a similarly high standard.
- The specialist consultancy Green Investment Group (GIG) assists in the collation and calculation of the material SDG-related data, including carbon-related data, that we report – namely, annual CO<sub>2</sub>e emissions reductions and estimates of Scope 1, 2 and 3 carbon from our portfolio. This reporting aligns with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).
- For NEC-level reporting and specific fund-level reporting see:
  - [NextEnergy Capital level reporting](#)
  - [NESF Fund-level reporting](#)

### NESF-Level Reporting

#### Annual Report

Refer to the Sustainability and ESG section of our Annual Report.

➤ [Annual Report](#)

#### NESF TCFD

NESF has issued its first report aligned to the Task Force on Climate-related Financial Disclosures (TCFD) Report in 2022, in line with NEC’s Manager’s PRI and TCFD obligations. PRI and TCFD obligations.

➤ [NextEnergy Solar Fund TCFD Report](#)

#### EU SFDR Article 9 Disclosure

NESF complies with the requirements of the SFDR. The Company’s legal adviser has confirmed that NESF is classified under Article 9 of the SFDR, and the fund has made the appropriate disclosures under Annexes III and V of the Regulation.

➤ [NextEnergy Solar Fund SFDR Disclosure](#)

### NEC-Level Reporting

#### PRI

PRI Annual Report, prepared annually by the ESG Team and including information on governance and infrastructure, which is verified internally.

➤ [PRI Report](#)

#### UN SDGs

SDG Report, prepared annually by the Green Investment Group. The latest report, published in October 2021, includes CO<sub>2</sub>e emissions avoided for each fund since inception, and other ESG-related data.

➤ [NextEnergy Solar Fund SDG Report](#)

#### EU SFDR

The EU Sustainable Finance Disclosures Regulation for the financial services sector has been in place since March 2021. NEC’s SFDR report is prepared and verified by international lawyers.

➤ [NextEnergy Capital ESG Disclosures](#)

# Governance

## Our Stakeholders

### Engage

Engaging with our stakeholders around ESG is mutually beneficial. We learn more about their needs and concerns, and we get the opportunity to reassure them about the rigour and effectiveness of our approach.

As NESF has no employees, we communicate with many of our stakeholders through NEC, our investment adviser, and also

through our corporate brokers, Cenkos Securities plc and RBC Capital Markets Ltd.

We engage with different stakeholders in different ways – formal and informal meetings, presentations, published reports and fact sheets, digital communications, public announcements and more. We always ensure that engagement happens regularly or whenever necessary.





# Governance

## Why We Engage

### Investment Adviser – NEC

We rely on NEC’s expertise, advice and reputation to deliver our investment strategy as successfully as possible.

### Investment Manager – NEC

NEC provides vital input to ensure all NESF acquisitions and divestments support our objectives.

### Institutional and retail shareholders

We need their support and their confidence to fulfil our objectives, including diversifying our portfolio – so keeping them well informed is essential.

### Company Secretary and administrator

As NESF has no employees we rely on Ocorian, a third party administrator, to provide us with a range of key services: general administration, fund accounting, company secretarial, record-keeping and ensuring corporate compliance.

### Professional service providers and advisers

We benefit from strong, constructive relationships with trusted professional service providers, including legal advisers, corporate brokers, public relations consultants, auditors and our registrar.

### Lenders

We work hard to build strong relationships with our lenders to ensure we retain their vital credit facilities.

### Local communities

We engage with local communities and provide financial support for various initiatives that are mutually beneficial, especially those focused on biodiversity and education.

### Industry associations

We regularly engage with industry associations and leadership groups to address societal issues and to implement best practice. Our key relationships include:

- **UN Principles for Responsible Investment (PRI)** – we are a signatory to the PRI since 2016;
- **Institutional Investors Group on Climate Change (IIGCC)** – we are members of the IIGCC;
- **Solar Energy UK** – we are active members of this trade body, we attend all relevant meetings and NEC personnel chair multiple work groups;
- **Solar Power Europe** – we are active members of this trade body and attend all relevant meetings;
- **Association of Investment Companies (AIC)** – The AIC is the UK trade association for the closed ended investment industry.

### Others

- **Task Force on Climate-related Financial Disclosures (TCFD)** – Our reporting is aligned to the TCFD and we have been an active supporter since 2019;
- **Taskforce on Nature-related Financial Disclosures (TNFD)** – we are an active supporter;
- **Green Investment Group** – we work in partnership with the Green Analytics team of GIG;
- **NGOs** – we engage regularly with NGOs to gather their perspective and insights;
- **NextEnergy Foundation** – we founded and contribute to this independent charity.

Signatory to:



Member of:



Engage with:

NGOs

Aligned to:



Supporter of:



In partnership with:



Founder of:





# Governance

## Task Force on Climate-Related Financial Disclosures (TCFD)

**In line with the TCFD, we no longer see climate impacts as non-financial. We use the TCFD to guide a rigorous approach to the assessment of our material risks, including social risks.**

We also categorise these risks in line with TCFD guidance, as follows:

- Physical risks – related to changes to the physical environment from the impacts of climate change, whether acute or chronic in nature;
- Transition risks – associated with the transition to a low-carbon economy. These include political, technological, legal, market and social factors.

We support the ‘Paris Goals’ and believe renewable energy, including solar, has a key role to play in the energy transition. It can also help to meet government mandates, including the UK Government’s 2050 Net Zero target.

We are doing more than ever before to help address the climate challenge and promote transition to a low-carbon economy. And we are sharing more information about this with stakeholders – providing data and information that are accurate, independently assured and timely.

We have supported the goals of the TCFD since September 2019 and welcome its reporting framework. For the financial year ending 31 March 2022, we have also responded to the 11 recommendations set out by TCFD.

This year we have also published our first TCFD report: [NextEnergy Solar Fund TCFD Report](#)

General Classification	Physical Risks	Possible Consequences	Risk Rating
<b>Acute</b>	Increased severity and frequency of extreme weather events (hurricanes, storm surges, heat waves)	Damage to property and infrastructure resulting in environmental damage, increased capital costs (e.g. repairs, cleaning, write-offs and possible early retirement of assets), decreased power generation, worker incidents (e.g. unable to access sites)	
	Fires		
	Flooding		
<b>Chronic</b>	Changes in precipitation patterns, solar irradiation and cloudiness	Reduction of anticipated power generation, increased losses in transmission lines, increased costs associated with more frequent or intense cleaning requirements, and an increase in health and safety incidents as a result of increased changed weather conditions (e.g. heat stress associated with hot days)	
	Changes in dirt, dust, snow, atmospheric and other particles		
	Changes in mean temperatures		
	Water stress and drought	Decreased water availability leading to increased cost to clean panels and provide domestic water on site.	



Medium (Likely + Moderate)



Low (Likely + Minimal)

# Next steps

**We believe that a rigorous approach to ESG, combined with people who are genuinely passionate about generating a more sustainable future, makes NESF effective and distinctive.**

We do not believe in complacency, and we have set ourselves some bold next steps for 2023 and beyond:

## Environmental Strategy

NextEnergy Group are currently developing a new environmental strategy and framework which NESF will adopt. The first steps of the strategy will be to create an overarching Environmental Plan along with a public release of an Environmental Position statement. The Environmental Plan will detail our approach to:

- How we gather further baseline data on our existing sites to measure and quantify the change in biodiversity value. This will be done through geo-spatial techniques and data analysis
- Build our understanding on the nature-related dependencies and impacts, along with bringing our upstream and downstream value chains into the assessment
- Quantify our biodiversity net gain across our existing assets and pipeline
- How we apply the mitigation hierarchy and biodiversity controls consistently, under continuous management

## Emissions and Net Zero Strategy

NextEnergy Group are in the process of collecting Scope 1 and 2 emissions for our operations to establish an overall emissions baseline. However, as with many industries, Scope 3 emissions (from our supply chain) are expected to be the largest contributor of emissions. Therefore, we have issued enhanced due-diligence and data gathering items to key global suppliers of required solar equipment, to quantify and improve our emissions exposure in our supply chain.

The due diligence seeks to retrieve information on overall supplier emissions profiles, carbon footprints for specific equipment and supplies, improvement initiatives, traceability and how these suppliers collate and improve on their own supply chain transparency and emissions performance.

NextEnergy Capital have already issued the due diligence requests to the key suppliers and are in the process of collating received information. Following collation, they will begin to evaluate and review each of the supplier's performance and journeys toward emissions reduction.

We are currently exploring the option of adopting and utilising the SBTi approach which would form the basis of our Net Zero strategy by establishing key improvement metrics and targets.

## Solar Stewardship Initiative

As the SSI has now been publicly launched, we will continue to be at the forefront of the initiative and maintain our position within the working group.

We will be ensuring that the SSI minimum expectations have been adopted into our approach and applied accordingly. We are confident that we already align with the expectations of the SSI, but will continue to ensure our risk management system reflects its commitments (or extends past them) as the SSI continues to evolve.

## EU SFDR KPI Data Gathering

As per EU SFDR requirement, we are currently in the process of piloting a survey to our several of our O&M contractors who will provide feedback and allow us to improve on the approach.

Following the delivery of the pilot, we will be issuing the survey to all relevant O&M and EPC contractors to retrieve the required information and, where relevant, will assist in establishing a baseline. This information will then be used to generate further metrics, trend performance on a granular level and aid in identifying improvement opportunities.

## Transparency and the NESF Website

We are currently in the process of updating the NESF website, which includes the ESG section and its related reporting. All of our disclosures and reporting requirements will be captured and readily available to the public from here.

## Our Achievements

ESG at NESF is still evolving, but external recognition of what we have achieved so far is welcome. It confirms we are making progress and inspires us to continue our work to make our ESG practices even more effective and transparent.



### Guernsey Green Fund Status

We have attained this status following third-party certification by the international auditing firm Grant Thornton. Explained simply, it confirms that NESF's core objective is to achieve a net positive outcome for the environment.



### The London Stock Exchange's Green Economy Mark

We were awarded the Green Economy Mark in 2020. The Mark recognises companies that derive over 50% of their annual revenues from products and services that contribute to the global green economy.

# Glossary

**Readers may already be familiar with all the organisations, benchmarking standards and global and industry initiatives we refer to in this review; but if not, here are some useful summaries of the most important ones.**

## **Operating Asset Manager or WiseEnergy**

WiseEnergy (Great Britain) Limited and WiseEnergy Italia Srl.

## **Climate change mitigation**

Contributing to the stabilisation of greenhouse gas concentrations in the atmosphere at a level which prevents dangerous human-caused interference with the climate system. This can be carried out by avoiding or reducing greenhouse gas emissions or enhancing greenhouse gas removals, and is consistent with the long term temperature goal of the Paris Agreement.

## **CO<sub>2</sub>e**

This stands for 'carbon dioxide equivalent' and is a measure used to compare the emissions from various greenhouse gases on the basis of their global-warming potential (GWP), by converting amounts of other gases to the equivalent amount of carbon dioxide.

## **Energy storage**

Defined as either 1) deferring the final use of electricity to a moment later than when it was generated, or 2) the conversion of electrical energy into a form of energy which can be stored, this refers to: storing of such energy, and the subsequent reconversion of such energy into electrical energy or its use as another energy carrier.

## **EU Sustainable Finance Disclosure Regulation**

The EU's Sustainable Finance Disclosure Regulation (SFDR) applies to investment products. It sets strict minimum-disclosure standards to prevent greenwashing. The SFDR requires reporting organisations to disclose how sustainability risks are considered in their investment process, what metrics they use to assess ESG factors, and how they address assessment decisions that might result in negative impacts on sustainability.

## **EU Sustainable Finance Disclosure Regulation Article 9**

Funds attaining Article 9 status demonstrate that they make a positive impact on society or the environment through sustainable investment, and have a core non-financial objective. Many funds only attain Article 8 status, which confirms they promote social or environmental factors and have good governance practices.

## **EU Taxonomy Regulatory Technical Standards**

The EU Taxonomy Regulation creates a clear framework for the concept of sustainability, exactly defining when a company or enterprise is operating sustainably or is environmentally friendly. Compared to their competitors, these companies stand out positively and should benefit from higher investment.

## **GWh**

Stands for 'gigawatt hour', a unit of energy representing one billion watt hours. It is a measurement of the output of large electricity generators.

## **GWp**

Stands for 'gigawatt peak', this is a theoretical maximum output of energy capacity our assets can produce.

## **MW**

Stands for 'megawatt', a unit of power equivalent to one million watts.

## **NESF**

NextEnergy Solar Fund Limited.

## **Net Zero**

The UK Government Net Zero Strategy by 2050.

## **NextEnergy Capital**

NextEnergy Capital is part of the NextEnergy Group. It is both the Investment Manager and Investment Adviser for NESF.

## **NextEnergy Group**

The NextEnergy Group includes NextEnergy Capital (fund management), WiseEnergy (operating asset management), Starlight (asset development) and is the founder of NextEnergy Foundation.

### Paris Agreement

The Paris Agreement, often referred to as the Paris Accord or the Paris Climate Accord, is an international treaty on climate change adopted in 2015. It covers climate change mitigation, adaptation and finance.

The Paris Agreement's central aim is to strengthen the global response to the threat of climate change with the goal of keeping global temperature rise this century well below 2 degrees Celsius above pre-industrial levels, and to pursue efforts to limit temperature increase even further to 1.5 degrees Celsius.

### Scope 1, 2 and 3 emissions

Scopes are a way to categorise different kinds of carbon emissions. The term first appeared in the Greenhouse Gas (GHG) Protocol 2001. Scopes now form the basis of mandatory UK GHG reporting.

In simple terms, the three Scopes are:

- **Scope 1:** direct GHG emissions from an organisation's operations
- **Scope 2:** indirect GHG emissions produced during or as a consequence of an organisation's operations; for example, electricity consumed to heat corporate buildings
- **Scope 3:** all other emissions indirectly associated with operations up and down an organisation's supply chain; for example, emissions associated with goods and services purchased or with the use of the organisation's goods and services by its customers.

### Solar photovoltaics

The generation of electricity using energy from the sun.

### Taskforce on Nature-related Financial Disclosures (TNFD)

The TNFD framework seeks to provide recommendations and guidance on nature-related risks and opportunities relevant to a wide range of market participants, including investors, analysts, corporate executives and boards, regulators, stock exchanges and accounting firms.

The framework is being developed following the TCFD principles to be market-usable, science-based, purpose-driven, integrated and adaptive, globally inclusive, and embracing a full approach to nature-related risks and employing an integrated approach to climate- and nature-related risks.

### Task Force on Climate-Related Financial Disclosures (TCFD)

The TCFD has developed a set of recommendations that are changing the way organisations manage climate risks and opportunities. TCFD reporting provides consistent, pertinent, forward-looking information on the material financial impacts of climate change.

Since 1 January 2021, all UK premium-listed companies have been required to state, in their Annual Report, whether their disclosures are consistent with TCFD recommendations, and if not, to explain why. The UK Government is the first G20 country to make TCFD-aligned disclosure mandatory for over 1,300 of the largest UK-registered companies and financial institutions.

### United Nations Principles for Responsible Investment

The six principles of responsible investment designed/developed for investors, which suggest possible actions for incorporating ESG issues into investment practice.

### United Nations Sustainable Development Goals (UN SDGs)

The 2030 Agenda for Sustainable Development, adopted by all United Nations member states in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognise that ending poverty and other deprivations must go hand in hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

### Universal Biodiversity Management Plans (UBMPs)

A type of biodiversity management plan designed to align with the universal set of biodiversity management guidelines adopted by NESF and intended to increase net biodiversity value beyond NEC's defined minimum compliance.

# Company Information

## Company

### NextEnergy Solar Fund Limited

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Registered no.: 57739  
LEI: 213800ZPHCBDDSQH5447  
Ordinary Share ISIN: GG00BJOJVY01  
Ordinary Share SEDOL: BJOJVY0  
London Stock Exchange Ticker: NESF  
Website: [nextenergysolarfund.com](http://nextenergysolarfund.com)

## Directors

Kevin Lyon, Chairman  
Vic Holmes, Senior Independent Director  
Patrick Firth  
Joanne Peacegood  
Josephine Bush  
(all non-executive and independent)

## Investment Manager

### NextEnergy Capital IM Limited

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St Peter Port  
Guernsey GY1 2HL

## Investment Adviser

### NextEnergy Capital Limited

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## Operating Asset Manager

### WiseEnergy

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## Company Secretary and Administrator

### Ocorian Administration (Guernsey) Limited

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### Investor Relations

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### Joint broker and financial adviser

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