Statement on principal adverse impacts of investment decisions on sustainability factors

Statement on principal adverse

Financial market participant: NextPower III LP, 213800IV1PUWYWMD5740 on behalf of NextEnergy Capital Limited

Summary

NextPower III LP, 213800IV1PUWYWMD5740, considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of NextPower III LP (the "Company").

This statement on principal adverse impacts on sustainability factors covers the reference period from 1st Janury 2023 to 31 December 2023, in line with the financial reporting year.

The tables below contain the principal adverse impacts required by regulation and material considered by the Company. The results show limited adverse impacts in line with the sustainable investment objective. The significant increase in scope 3 emissions is due to reporting on the supply chain emissions of constructed solar energy plants during this reporting cycle. The supply chain emissions took into account the cradle-to-gate plus transport and installation processes of solar panels.

The portfolio's structure heavily relies on third-party providers, particularly operations and maintenance contractors, for its activities. Consequently, the company depends on data supplied by these entities. During the current reporting period, estimations were still employed where operational data from operations and maintenance contractors was not available. Efforts have been made to improve the accuracy and transperancy of data, which resulted in overall improved quality of data provided by the operations and maintenance contractors.

Overall the principal adverse indicators reflect the positive nature of the sustainable investment objective and provide targeted areas for improvement in the future which the Company is actively engaged in addressing. The nature of the PAI are designed to be negative in isolation. However, to review the fund's positive attributions, please refer to the ESG report https://www.nextenergycapital.com/sustainability/transparency-and-reporting/group-level-reporting/tcfd-reports/

Description of the principal adverse impacts on sustainability factors

See descriptions below table: Table 1

Indicators applicable to investments in investee companies

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Unit	Explanation	Actions taken and actions planned and targets set for the next reference period
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS							
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	0	0	tCO2e	The investee companies are SPVs that hold solar PV projects. The construction and operation of these are outsourced to third parties so no scope 1 emissions are incurred.	NA
		Scope 2 GHG emissions	952.28	1,444.00	tCO2e	Scope 2 emissions related to purchased import electricity. These emissions reflect non-renewable electricity imported, a significant portion of the portfolio imports renewable energy and does not incur emissions. NPIII emissions from electricty are lower than the previous reporting period, because for the current period NPIII debt was accounted for resulting in lower emissions.	Import data will continue to be collected, options for sourcing more renewable energy are being explored.
		Scope 3 GHG emissions	71,166.32	135.00	tCO2e	Scope 3 emissions for this reporting cycle include supply chain emissions, which were estimated by working out an emission factor that includes the cradle-to-gate plus transport and installation processes of solar panels. This applies to sites under construction that reached first generation during the period. Data was not available in the prior period but a detailed supply chain study enabled these emissions to be calculated in the current year. Scope 3 is subject to a large degree of estimation uncertainty. Data provided from suppliers was incomplete (did not cover the full portfolio). Estimations were formed using the data that was provided as a proxy. Although transparency regarding the data used to form estimates improved compared to the previous cycle this year, the level of transparency remained limited. As a result, the level of accuracy cannot be established. Procedures were undertaken to analyse the data, this took correlation of responses from different proivders into account. Where possible, anomalies were queried, and improvements to quality were made with additional information.	The investment advisor and asset manager are actively engaged in improving data quality from suppliers.
		Total GHG emissions	72,118.61	1,579.00	tCO2e	GHG emissions are calculated in accordance with the GHG Protocol using DEFRA emission factors. As noted above, coverage of scope 3 emissions was limited in the current year.	NA
	2. Carbon footprint	Carbon Footprint	98.86	5.14	tCO2e per €M	The movement in carbon footprint is due to the increased data coverage in scope 3 emissions, mainly from the coverage of supply chain emissions.	The investment advisor and asset manager are actively engaged in improving data quality, completeness, and availability.
	3. GHG intensity of investee companies	GHG intensity of investee companies	7,572.97	29.30	tCO2e per €M	The movement in carbon footprint is due to the increased data coverage in scope 3 emissions, mainly from the coverage of supply chain.	The investment advisor and asset manager are actively engaged in improving data quality, completeness, and availability.
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	0	0		The investment strategy is focused on assets that produce renewable energy.	NA

	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	0.306%	0.44%	%	The portfolio produces renewable energy, electricity generation is exponentially larger than electricity consumed.	The strategy will continue, options for sourcing renewable import electricity are being explored.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	0	0	GWh per €M	Renewable energy is not considered a high impact climate sector.	NA
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0%	0%	%	The Company undertakes environmental assessments before sites are constructed. There is an active biodiversity program in place to improve the performance of sites.	Biodiveristy improvements will continue as part of the overall ESG strategy.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0	0	tonne per €M	It's considered best practice to avoid emitting nitrates, phosphates, and pesticides during operations. Contractors responsible for operations and maintenance are advised from using harmful chemicals during the module cleaning process.	NA
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	0	0	tonne per €M	No hazardous wastes were produced during the reporting period.	NA

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	0%	%	The Company applies these policies, with a particular focus on supply chain. The investee companies themselves are SPVs holding assets and have no employees.	NA
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/ complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	0%	%	The Company applies these policies, with a particular focus on supply chain. The investee companies themselves are SPVs holding assets and have no employees.	NA
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	0	0		The Company has no employees. It invests in SPVs which hold solar assets. The operations are outsourced to third-party contractors.	NA
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	4%	6%	%	Investee companies are SPVs holding assets, these are not operational trading companies.	NA
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0%	0%	%	Investments are all in solar PV projects.	NA

Other indicators for principal adverse impacts on sustainability factors

Table 2

Additional climate and other environment-related indicators

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact 2023	Impact 2022	Unit	Explanation	Actions taken and actions planned and targets set for the next reference period
Indicators applicable to investments in investee companies							
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS							
Water, waste and material emissions	6. Water usage and recycling	1. Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies	3,382.52	352.00	m3 per €M	Best efforts were made to obtain this data; however, in the prior year, suppliers provided incomplete information. In the current year, an estimation methodology has been developed with significant inputs from the portfolio to address this issue.	Opportunities for recycling water are being explored, as are alternatives to using water.
		2. Weighted average percentage of water recycled and reused by investee companies	0%	0%	%		
	7. Investments in companies without water management policies	Share of investments in investee companies without water management policies	0%	0%	%	Coverage for this indicator is limited.	Actively engaging with suppliers to provide more data and improve quality.

	8. Exposure to areas of high water stress	Share of investments in investee companies with sites located in areas of high water stress without a water management policy	0%	0%	%	Coverage for this indicator is limited for sites located in high water stress areas in the current year.	Actively engaging with suppliers to provide more data and improve quality.

Table 3

Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact 2023	Impact 2022	Unit	Explanation	Actions taken and actions planned and targets set for the next reference period
		Indicators applicable to investments in investee companies					
Social and employee matters	1. Investments in companies without workplace accident prevention policies	Share of investments in investee companies without a workplace accident prevention policy	0%	0%	%	The investee companies are SPVs with no employees.	NA
	2. Rate of accidents	Rate of accidents in investee companies expressed as a weighted average	0	0		No accidents reported in the year.	NA
	3. Number of days lost to injuries, accidents, fatalities or illness	Number of workdays lost to injuries, accidents, fatalities or illness of investee companies expressed as a weighted average	0	0		No accidents reported in the year.	NA
	4. Lack of a supplier code of conduct	Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour)	0%	0%	%	The investee companies are SPVs to hold assets but suppliers are subject to procurement policies from the ultimate parent. When opportunities arise to re-tender O&M contracts, as part of the process, the company aims to ensure new O&Ms adhere to the supplier Code of conduct.	NA

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

a) NextEnergy Capital Limited has a set of Sustainability Policies publicly available on its website, signed by the most senior member of the company and regularly reviewed.
b) The NextEnergy Capital ESG team is responsible for the implementation of these Policies for this financial product. Details of such policies and procedures are disclosed in the SFDR ESG Disclosure Document, available on the website.
c) The indicators in Table 2 and 3 have been assessed based on their materiality. That is the likelihood and severity of occurrence. This process included an assessment of the asset lifecycle, from supply chain through operational life and end of life.
d) The assessment is inherently judgmental in nature which incorporates a margin of error. Feedback from stakeholders will be taken into account when reviewing this selection and amendments made in future reporting cycles if required.
e) Data is challenging on a number of metrics because it is primarily provided by third party operations and maintenance contractors. Additional data was available from the asset manager.

Data received from third-party contractors was assessed for quality. Anomalies were queried with providers. Estimates were used on data gaps using the data that was available as a proxy (converting this into an intensity metric and applying to relevant activity).

Engagement Policies

The investments are infrastructure assets. Engagement is primarily focused on operations and maintenance contractors to adopt more efficient and sustainable operations (using less fuel and less water are focus areas).
Supply chain is the other major area of focus for new sites under construction or parts for repairs. The engagement focus is on human rights and climate risk.

Reference to international standards

As an Article 9 fund with a sustainable investment objective the UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises are adhered to.
a) Indicators 10 and 11 in Table 1 are key to ensuring compliance with these frameworks.
b) As there is direct control over the infrastructure assets full coverage can be obtained. Extensive work is undertaken to collect data from contractors and suppliers but this has inherent limitations in completeness and accuracy.
c) Climate scenarios are not used in the indicators but they are considered as part of the TCFD reporting, publically available.
d) Climate scenarios are not used.

Historical comparison

Greenhouse gas emissions for this reporting cycle included supply chain emissions, which were estimated by working out an emission factor that includes the cradle-to-gate plus transport and installation processes of solar panels. This applies to sites under construction that reached first generation during the period. Hence explaining the significant increase in the total greenhouse gas emissions. Additionally, in an attempt to improve data quality and accuracy, more comprehensive data was collected from the O&Ms that cover a larger portion of the activities they carry out.