



# NextEnergy Capital Green Finance Framework

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## 1. Overview of sustainability at NextEnergy Capital

### 1.1. Introduction

NextEnergy Capital (NEC), founded in 2007, is a subsidiary of the NextEnergy Group. NextEnergy Group is a specialist solar investment and asset manager comprising NextEnergy Capital (investment management), WiseEnergy (asset management), Starlight (asset development), NextSTEP (VC sustainability accelerator) and NextEnergy Foundation (international charity). The Group's companies cover all stages of the solar value chain, from project development to operational asset management and decommissioning, delivering exceptional performance at each stage because they are working together to pursue the same mission: to generate a more sustainable future by leading the transition to clean energy.

NEC is a leading global investment manager in the solar energy infrastructure sector. NEC refers to the solar energy and complementary technologies; including energy storage, which its business activities focus on "Solar+". NEC has built a strong track record: investing in 461 utility-scale solar projects since inception as a combination of assets under development, construction, operation, or which have been disposed of. As of February 2024, NEC has installed capacity in excess of 1.7GW<sup>1</sup> across the UK, Europe, North and South America and Asia.

NEC is the investment manager of one of the largest listed solar investment companies, NextEnergy Solar Fund (NESF), and the first truly international solar infrastructure investment vehicle, NextPower III ESG (NPIII). NEC manages an additional two private equity ESG funds – NextPower UK ESG (NPUK) and NextPower V ESG (NPV) – and sold a portfolio of operating solar projects in Italy owned by NextPower II (105 individual solar projects (c.149MW) built up over three years) in January 2022. All of NEC's funds are compliant with the requirements of the EU Sustainable Finance Disclosure Regulation (SFDR) (EU) 2019/2088 and the Taxonomy Regulation (EU) 2020/852. NEC's funds are all classified under Article 9 of the SFDR.

NextPower V is NEC's most recently-launched Article 9 fund focused on the Solar+ sector. The fund is targeting capital commitments of \$1.5 billion with a \$2 billion ceiling, and currently has a size of, \$745mn (including \$150mn in co-investment allocations)<sup>2</sup>. NPV has a pipeline from market opportunities of c.18GW, and will invest in c.4-5GW of solar.

### 1.2. Sustainability at NextEnergy Group

NextEnergy Group is committed to leading the transition to clean energy generation in a responsible manner. Being responsible is an intrinsic part of the Group as it is one of the Group's five Core Values. The Group holds itself to the highest environmental, social and governance (ESG) standards.

In 2023, NextEnergy Group conducted a review of its sustainability strategy to ensure that it remains relevant to all Group companies' business objectives – including NEC's – and that it reflects the current and future sustainability and ESG landscapes. The strategic review was undertaken with the support of an advisor, with additional external feedback sought to guarantee a robust and forward-looking approach to sustainability. The sustainability strategy sets out NextEnergy Group's commitment to sustainability, and ensures that ESG priorities are fully integrated in its development, investment and

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<sup>1</sup> Portfolio data as of 31/05/2024

<sup>2</sup> As of 29/04/2024

asset management activities. It is underlaid by a Sustainability Framework (Figure 1) focusing on; Nature, People, and Prosperity.

Further details can be found in the Group’s [2023 Sustainability Report](#).



Figure 1: NextEnergy Group Sustainability Framework

- **Nature** – NEC’s funds are classified as Article 9 under the EU SFDR since NEC’s core business centres on mitigating climate by avoiding carbon emissions. NextEnergy Group is focused on addressing climate change, promoting local biodiversity, and encouraging circularity in the solar value chain:
  - **Addressing climate change** – Supporter of the Task Force on Climate Related Financial Disclosures (TCFD), with core contribution to climate change mitigation being through the avoidance of emissions caused by fossil fuel power generation;
  - **Promoting local biodiversity** – Recognising the urgency for action to be taken to reduce the intensity and drivers of biodiversity loss as part of the Global Biodiversity Framework, and supporting the Framework by accounting for biodiversity and natural capital considerations in operations / decision-making; and
  - **Encouraging circularity in the solar value chain** – NextEnergy Group’s ESG team is working closely with NEC’s Construction and Procurement team, WiseEnergy’s Project Delivery team, and suppliers / contractors to examine end-of-life issues and understand how the Group and other companies across the value chain can support sustainable solar and energy storage.

- **People** - NEC cares about the wellbeing and human capital development of team members. We also work to sustain and grow the local communities in which our solar and energy storage assets operate through the following:
  - **Ensuring health and safety (H&S)** – NEC promotes the highest H&S standards through an H&S Management System framework which applies to the sites and workplaces the Group operates, with this approach extending to their EPC and O&M contractors, local communities and along the supply chain;
  - **Respecting and promoting human rights** – NEC’s commitment is guided by the UN Guiding Principles of Business and Human Rights, aligns with the Ten Principles of the UN Global Compact, and draws on other international principles and standards (i.e. [Human Rights Position Statement](#), [Supplier Code of Conduct](#) and NEC’s [Sustainable Investment Policy](#)); and
  - **Supporting communities** - NextEnergy Group supports social impact across its business operations, and is currently developing a Stakeholder and Community Engagement Plan to further structure their approach to community engagement, and are regularly in dialogue with the communities surrounding its assets.
- **Prosperity** – Sustained, inclusive, and sustainable economic growth is essential for shared prosperity. Resilient infrastructure and sustainable technologies are the starting points for businesses and societies to thrive. Solar energy is a key pathway towards a more prosperous future, ensuring energy and food security, creating jobs, and stimulating synergies with nature.

To further promote sustainability, NEC are signatories of the following initiatives;

- **UN Principles for Responsible Investment (UN PRI)** – signatory since 2016.
- **Solar Energy UK (SEUK)** – an active member of SEUK, the UK solar trade association with the Head of ESG, Giulia Guidi, being elected as an SEUK Board Member in 2022.
- **SolarPower Europe (SPE)** – an active member of SPE and has been collaborating closely with the association since 2022 to develop and launch the Solar Stewardship Initiative in 2024.
- **Solar Stewardship Initiative (SSI)** – the first-ever supply chain sustainability assurance scheme dedicated to the needs of the solar PV sector and its customers. NEC’s Head of ESG sits on the SSI Board.

### 1.3. Sustainability at NextEnergy Capital

As a mission-driven organisation, NextEnergy Capital pursues positive sustainability outcomes to shape a more prosperous future for people and nature. NEC’s Sustainability Policies align with the principles of international conventions, standards and guidelines, which are relevant for the solar and sustainable investment industries. NEC applies these standards to all of its investments and throughout the whole value chain of the business. NEC recognises that its role in society goes beyond safeguarding and accelerating the transition to a low-carbon economy. As such for NEC, contributing to sustainability outcomes through responsible investment means generating prosperity in a way that benefits nature and people. This is achieved by leveraging memberships with industry associations and initiatives, and the working groups for which team members hold chairing positions outlined. These include the UN Principles for Responsible Investment (UN PRI), SolarEnergy UK (SEUK), SolarPower Europe (SPE), and the Solar Stewardship Initiative (SSI), of which NEC was a founding sponsor and supporter.

The Policy applies to NEC's activities across two distinct investment areas: private equity and listed equity. It is supported by internal procedures which set out the tailored due diligence processes for NEC's funds and guide NEC's investment, procurement, and portfolio management teams on how to integrate ESG factors into the investment process – and publicly available Position Statements – which describe our principles and implementation strategies to deliver real world outcomes for global sustainability challenges. All of NEC's Sustainability Policies are available on NEC's website: [Sustainable Investing - NextEnergy Capital](#).

## 2. Overview of the Green Finance Framework

NEC's Green Finance Framework (the "Framework") enables Clean Energy to issue green debt instruments to facilitate the acquisition of assets in line with its sustainability and ESG ambitions. The Framework provides a transparent set of criteria to support the transition to a low carbon economy and support NEC's mission to generate a more sustainable future by leading the transition to clean energy.

Under the Framework, 'Use of Proceeds' instruments are able to be issued. The Framework has been developed by taking into account global best practice in sustainable finance methodologies, guidelines and taxonomies including the [LMA/LSTA/APLMA Green Loan Principles 2023<sup>3</sup>](#) ("GLP").

Loans issued under this Framework and availed by the Borrower and its subsidiaries (including but not limited to NextPower V Master Holdco S.à r.l, NextPower V Holdco S.à r.l., NextPower V UK Holdco Limited) may take the form of public transactions or private placements, in bearer or registered format, and may take the form of senior unsecured or subordinated issuances.

## 3. Use of Proceeds Financing

As referenced in the LMA GLP, the cornerstone of a green loan is the utilisation of the proceeds of the loan for eligible Green Projects (see section 3.2. below), including other related and supporting expenditures which should be appropriately described in the legal documentation of the instrument. In the case of NEC, these other related and supporting expenditures may include management fees to support with the running of the fund, subject to an appropriate threshold that has been agreed with lenders.

All designated eligible Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.

In line with the aforementioned guidelines, the Framework will adhere to the core components of the LMA Principles February 2023, outlined below, as well as the recommendation for external reviews.

1. Use of Proceeds
2. Process of Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

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<sup>3</sup> Loan Market Association (LMA), Asia Pacific Loan Market Association (APLMA), and Loan Syndications and Trading Association (LSTA) Green Loan Principles.

### 3.1. Eligible types of Use of Proceeds or Investments

Investments into assets focused on any of the eligible activities, as described in section 3.3.1 below, are permitted.

### 3.2. Eligibility criteria

NEC will determine the eligibility of acquisitions to be classified as Eligible Categories under the guidelines set out in Section 3.3. The disclosed categories align with the GLP and do not represent an exhaustive list of eligible activities that will be supported through these Green Financing criteria.




All proposed activities must:

- Align with NEC's Sustainable Investment Policy
- Contribute positively towards the SDGs

### 3.3. Eligibility categories

The following categories constitute Eligible Categories in accordance with the previously outlined principles. The business activity examples are indicative and should not be considered to be an exhaustive list.

**3.3.1. Green Categories**

GLP Categories	Eligible Green Activities	Examples	Indicative impact metrics	UN SDG contribution	EU Taxonomy activity <sup>4</sup>
Renewable Energy	<ul style="list-style-type: none"> <li>Development, deployment, maintenance and generation of energy from renewable sources including ancillary infrastructure including but not limited to development of land, transmission lines and sub-stations for each renewable energy project</li> <li>Proceeds used for the purposes of financing acquisition premiums (as well as the associated due diligence and advisor costs), construction related capital expenditures, and other costs directly associated with bringing greenfield investments into operating brownfield sites</li> </ul>	<ul style="list-style-type: none"> <li>Solar projects, including any associated equipment and components</li> <li>Battery storage systems</li> </ul>	<ul style="list-style-type: none"> <li>Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> <li>Annual renewable energy generation in MWh/GWh (electricity)</li> <li>Annual renewable energy capacity developed / acquired (MW)</li> </ul>	  	<p>4.1. Electricity generation using solar photovoltaic technology</p> <p>4.8. Storage of electricity</p> <p>7.6. Installation, maintenance, and repair of renewable energy technologies</p>

<sup>4</sup> This framework is developed to align with the LMA GLP and as such, does not seek to align with EU Taxonomy Regulation and the Technical Screening Criteria for economic activities significantly contributing to the Climate Change Environmental Objective, as outlined in Climate Delegated Act.



### 3.4 Process for Evaluation and Selection

The evaluation and selection process will be conducted by NextEnergy Group’s ESG team to ensure that the net proceeds of the Green debt instruments issued under the Framework will be used to originate loans that meet the Eligible Financing Criteria.

The responsibility for deciding whether an investment complies with NEC’s ESG criteria lies with the NEC Investment Committee, of which the Head of ESG and other senior leadership and c-suite personnel are members.

NEC’s Sustainability Policies are fully integrated into the evaluation and selection of assets from NPV, which cascades from NextEnergy Group’s Sustainability Strategy and Framework. NextEnergy Group’s ESG team works closely with the NPV’s Investment and Construction and Procurement team throughout the investment decision-making. The investment decisions consider the outcome of a due diligence process that closely evaluates the adverse ESG impacts and opportunities of all potential transactions. The due diligence process is conducted in alignment with the [IFC Performance Standards](#) and the [Equator Principles](#). The assessment informs the development of an asset-specific environmental action plan which is implemented for the construction, operation and decommissioning stages of the site. If the due diligence identifies significant exposure to environmental and social physical risk, a further in-depth review is carried out and this can involve the use of specialist third-parties or specialist third-party tools to better understand the exposure and identify appropriate mitigative and/or adaptative actions.

The findings of the ESG due diligence are summarised in an ESG memorandum (memo), and is part of the Investment Proposal for the Investment Committee to review before deciding on whether to finalise the acquisition. The memo outlines the material risks and opportunities of the specific investment, and provides details on climate change, biodiversity, and human rights/community impacts, amongst others.

All potential investments require Investment Committee sign-off before proceeding. If the investment does not meet with minimum ESG criteria, the investment does not proceed.

#### Investment Committee Members:



Figure 2: NEC Senior Management and NextPower V Investment Committee members

### 3.5. Management of Proceeds

NEC intends to allocate the proceeds from the green financing to a portfolio of eligible investments that contribute to climate change mitigation. These investments will be selected in accordance with the Use of Proceeds criteria and the Process for Evaluation and Selection process.

The Fund anticipates making a varied selection of investments, including controlling, shared control, and minority positions. All investments will be held through Portfolio Companies. Once the investments have been made less risky and start generating yields, the average holding period of ownership for each investment is expected to range between 6 and 10 years.

NEC has appointed Apex Fund and Corporate Products S.A as the depositary for the fund. The Depositary will be responsible for the safe-keeping of the Fund's investments, including fiduciary oversight, verifying ownership and keeping records of other investments, and for cash monitoring.

In carrying out its functions, the Depositary must act honestly, fairly, independently and in the interest of the Fund and the Limited Partners.

NEC will track and monitor the allocation of the proceeds using an internal tracking system. NEC does not store cash for a long period but limited to six months, beyond which the unallocated proceeds shall be utilised to repay the debt. As such all proceeds drawn down from the loan are done so with specific projects and expenditures in the pipeline. NEC intends to only draw down where an imminent purchase or investment in an eligible asset is confirmed. NEC intends to avoid keeping green proceeds sitting idle as cash for extended periods of time.

### **3.6. Reporting**

NEC will make and keep readily available reporting covering the allocation of net proceeds to the Eligible Portfolio and, wherever feasible, reporting on the impact of the Eligible Portfolio, at least at the category level. Reporting will take place annually whilst funds have been drawn down.

NEC intends to provide aggregated (portfolio) reporting for all its sustainable financing and other potential sustainable finance outstanding.

#### **3.6.1. Allocation Reporting**

The allocation report will provide:

- Total amount of acquisition and/or participation in the eligible portfolio;
- Brief description of all eligible acquisitions funded, including their location (country) and the types and sectors of the companies;
- The balance of unallocated proceeds;
- Dates of acquisition; and
- Assertions by management that an amount equal to the net proceeds of that tranche or series of financing instruments are invested in qualifying eligible portfolio (and that, until full allocation, the remainder is allocated as set out in section 3.5 'Management of Proceeds')

#### **3.6.2. Impact Reporting**

The impact report may provide reporting including but not limited to:

- Climate and other environmental related indicators (such as GHG or other emissions; energy generation, among others) of the investment financed where feasible and applicable
- Estimation of positive and adverse environmental impacts in aggregated form
- Information on the methodology and assumptions used to evaluate the impacts of investments

For example, specific impact metrics in relation to the Green categories mentioned above could be:

- Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent
- Annual renewable energy generation in MWh/GWh (electricity)
- Annual renewable energy capacity developed / acquired (MW)

NEC will, on a best effort basis, report annually on adequate relevant impact metrics where available for monitoring the investment financed on an aggregate basis at an asset level in line with the GLP.

#### **4. External Review**

NEC has engaged S&P Global Ratings to provide an external review in the form of a Second Party Opinion on this Framework and the underlying procedures, and confirm alignment with the four core components of the GLP.

S&P Global Ratings has confirmed the alignment of this Framework and the underlying assets and/or procedures with the GLP.