Annex III

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

Product Name: NextEnergy Solar Fund Limited ("**NESF**")

Legal Entity Identifier: 213800ZPHCBDDSQH5447

Sustainable Investment Objective

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

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

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

Does this financial product have a sustainable investment objective?			
☐	It will make a minimum of **sustainable investments with a social objective: 0** %	☐	It promotes E/S characteristics, but **will not make any sustainable investments**

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

<u>Sustainable investment objective pursued by the NESF</u>

NESF is a listed solar investment fund, which is currently active both in the acquisition of solar PV assets on the secondary market, as well as investing in solar PV assets that are under development (e.g., at the stage of origination, project planning or construction) when acquired.

The NESF fund sustainable investment objectives are:

- Committing to support UK governmental ambitions of bringing greenhouse gas emissions to net zero by 2050; and
- To substantially contribute to the environmental objective of climate change mitigation within the meaning of the EU Taxonomy regulation.

Together, these fund objectives contribute to the Article 9 qualification, under "economic activities that qualify as environmentally sustainable under the EU Taxonomy[3]" and more specifically, qualifies as <u>contributing substantially to climate change mitigation.</u>

- **What sustainability indicators[4] are used to measure the attainment of the sustainable investment objective of this financial product?**

Monitoring of progress against the sustainable investment objectives is primarily based on the calculation of GHG emissions and fossil fuel volume avoided by utilization of the solar assets and their output in MW. Data can be used to create forecasts or can be based on actual historic power output data to provide GHG emission and fossil fuel avoided figures.

See below for a table summarising the GHG emissions avoided by the use of NESF assets for power provision/generation.

Metric	**Units**	**2021**
GHG Avoided	$ktCO_2e$	328.7

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

[4] **Sustainability indicators** measure how the sustainable objectives of this financial product are attained.

NO_x Avoided	tonnes	296.3
SO_x Avoided	tonnes	549.7
$PM_{2.5}$	tonnes	25.2
PM_{10}	tonnes	6.2
Fossil Fuels avoided	kilotonnes oil equivalent (ktoe)	142.8
	million barrels	1.0

These numbers are based on the renewable electricity generation (GWh) related to 2021 tax year (I.e 1st April 2021 to 31st March 2022)[5].

As indicated in the table, up to 328,7ktCO2e of emissions and up to 142.8kt of oil equivalent has been avoided.

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

A robust due-diligence process captures all the relevant key risks associated with the Solar PV industry. The risks are aligned with the Do No Significant Harm (DNSH) approach of the Taxonomy (with extension beyond) and include:

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

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

From a climate change mitigation perspective, NESF substantially positively contributes to the objective by avoiding CO2e emissions to atmosphere and fossil fuel use. NESF reports the amount of CO2e avoided consistently year on year.

For more information on the NEC/NESF due-diligence process, please refer to the ESG Disclosure document on the NESF website.

[5] *The 328,700 tCO2e avoided figure provided within this report and the 31 March 2022 Annual Report is calculated based on a total generation of 774.85GWh for the year ended 31 March 2022, which includes all assets that have reached connection date (COD) at 31 March 2022. This total generation figure differs slightly (1.85GWh) from the 773GWh presented in the 31 March 2022 Annual Report, which does not include generation data from ii) assets 92-93, as those are yet to achieve Provisional Acceptance Clearance ("PAC"), and ii) rooftop assets 96-99, as these are not monitored for solar irradiation. Please refer to page 38 of the 31 March 2022 Annual Report.

- ***How have the indicators for adverse impacts[6] on sustainability factors been taken into account?***

The due-diligence process, as detailed in the Sustainability Policy and NESF ESG Disclosure document, reviews all aspects of the asset and the associated adverse impacts (including environmental, social and employee, human rights, anti-corruption etc) during the pre-investment stage. Post-acquisition of the assets, all relevant contractors are subject to separate due-diligence processes to capture and identify any potential risks.
The KPIs are utilised to track against the ongoing performance and impacts of the assets under management and their delivery is implemented by Wise Energy (an NEC subsidiary and asset manager). These indicators provide an ongoing narrative of any positive or negative impacts the assets may have on the surrounding considerations. KPIs include CO2e and fossil fuel avoided. A full set of indicators related to Principal Adverse Impact (PAI) has been developed consistently with the requirements of Table 1, Annex 1 of the Regulatory Technical Standard (RTS). The performance against these indicators will be released by Q2 2023.

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

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

For more information, please refer to the Human Rights Position Statement on NEC's website and the Modern Slavery Statement on NESF's website.

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

☒ [Yes]

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

As per the Sustainable Investing policy and other governing documents, NESF's sustainability approach is based on a four-step approach: identify, manage, report and engage. If, during a due diligence process, a PAI is identified, it is managed and reported internally to the Investment Committee for further considerations. Where possible, mitigations actions are

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

put forward through specific action plans which are implemented and monitored during the ownership phase. In addition, NESF will also report based on specific KPIs which are aligned with Table 1 of Annex I of the Regulatory Technical Standard, as well as additional KPIs aligned with material SDG.

Further details on the reporting and KPI approach can be found in the ESG Disclosure document on the NEC website.

3. What investment strategy does this financial product follow?

NESF's Investment Strategy

At a high level, NESF's investment strategy places an emphasis on four key areas:

- **Investment:** NESF seeks to own a broad range of large-scale solar energy infrastructure assets, primarily located in the UK but with up to 30% of its gross asset value (the "Gross Asset Value" or "GAV") in other OECD countries, that generate reliable cash flows over their useful lives (typically, at least 25-40 years from energisation).

- **Asset management:** NESF seeks to enhance the returns from its assets through effective asset management, including controlling costs, delivering operational efficiencies, extending their useful lives and executing short and medium-term electricity sales hedges to mitigate power price risk.

- **Financing:** NESF seeks to optimize the risk-adjusted returns to its ordinary shareholders by funding its activities through an appropriate mix of shareholder equity and debt, subject to debt being capped at 50% of GAV.

- **Risk management:** NESF seeks to actively manage potential risks, including maintaining a diversified exposure by location, third-party suppliers, service providers and other commercial counterparties to improve the resilience of the Company's portfolio and contributing to its long-term sustainable success.

Implementation of NESF's Investment Strategy

NESF seeks to achieve its investment objective by investing predominantly in solar PV assets located in the UK. No more than 30% of NESF's GAV (calculated at the time of investment) may be invested in solar PV assets that are located outside the UK. Investments in solar PV assets outside the UK will be made in OECD countries that the Investment Manager and Investment Adviser believe have a stable solar energy regulatory environment and provide investment opportunities with similar, or better, investment characteristics and returns relative to investments in the UK, although NESF may acquire an interest in solar PV assets located in non-OECD countries where those assets form part of a portfolio of solar PV assets in which NESF acquires an interest and where NESF's aggregate investment in any such assets is, at the time any such investment is made, not greater than 3% of the GAV.

NESF intends to continue to acquire solar PV assets that are primarily ground-based and utility-scale and which are on sites that may be agricultural, industrial or commercial. NESF may also acquire portfolios of residential or commercial building-integrated installations. NESF targets solar PV assets that are anticipated to generate stable cash flows over their asset lifespan.

NESF typically seeks to acquire sole ownership of individual solar PV assets through SPVs but may invest in solar PV assets through entering into joint ventures, acquiring minority interests or via private equity structures, provided that not more than 15% of the GAV may be invested in private equity structures (calculated at the time of investment). Where a controlling interest of less than 100% in a particular solar PV asset is acquired, NESF intends to secure controlling shareholder rights through shareholders' agreements or other legal arrangements. Where a non-controlling interest is being acquired (either directly in a solar PV asset or through a private equity structure) NESF intends to secure minority protection rights or protections through limited partnership agreements in line with typical private equity structures. Investments by NESF in solar PV assets may be either by way of equity or a mix of equity and shareholder loans.

NESF has built up a diversified portfolio of solar PV assets and its Investment Policy contains restrictions to ensure risk diversification. No single investment (or, if an additional stake in an existing investment is acquired, the combined value of both the existing and the additional stake) by NESF in any one solar PV asset will constitute (at the time of investment) more than 30% of the GAV. In addition, the four largest solar PV assets will not constitute (at the time of investment) more than 75% of the GAV.

NESF will continue, primarily, to acquire operating solar PV assets, but may also invest in solar PV assets that are under development (that is, at the stage of origination, project planning or construction) when acquired. Such assets will constitute (at the time of investment) not more than 10% of the GAV in aggregate.

NESF may also agree to forward-fund by way of secured loans the construction costs of solar PV assets where it retains the right (but not the obligation) to acquire the relevant asset once operational. Such forward-funding will not fall within the 10% development restriction above but will be restricted to no more than 25% of the GAV (at the time such arrangement is entered into) in aggregate and will only be undertaken where supported by appropriate security (which may include financial instruments as well as asset backed guarantees).

The right to forward fund, subject to the above limitations, enables NESF to retain flexibility in the event of changes in the development pipeline over time. In addition, NESF will not employ forward funding and engage in development activity in relation to the same project or asset.

A significant proportion of NEC's income is expected to result from the sale of the entirety of the electricity generated by the solar PV assets within the terms of power purchase agreements ("PPAs") to be executed from time to time. These are expected to include the monetisation of ROCs and other regulated benefits and the sale of electricity generated by the assets to energy consumers and energy suppliers (Brown Power). Within this context, NESF expects to execute PPAs with creditworthy counterparties at the appropriate time.

NESF will continue to diversify its third-party suppliers, service providers and other commercial counterparties, such as developers, engineering and procurement contractors, technical component manufacturers, PPA providers and landlords.

- **What are the binding elements of the investment strategy[7] used to select the investments to attain the sustainable investment objective?**

  NESF integrates ESG factors in investment decisions by implementing the Investment adviser's Sustainable Investment Policy[8] throughout the investment cycle, from preliminary screening and exclusion to risk management during pre-investment and ownership phases, in order to select the investments appropriate for the attainment of sustainable investment objectives.

  The Policy provides a framework for integrating NESF's analysis of potential ESG risks and opportunities which are taken into account in the decision-making process by identifying:

  1. The fund's principles;
  2. Excluded activities;
  3. Integration;
  4. Engagement; and
  5. Reporting and governance.

  NESF is solely a solar energy fund and invests in solar PV assets or enabling technologies only as described more fully in NESF's investment policy[9]. The investment policy ensures that the sustainable investment objective - substantial contribution to climate change mitigation - is always one of its priorities. As required by the Listing Rules, any material changes to NESF's investment policy would require approval by both the FCA and NESF's ordinary shareholders.

- **What is the policy to assess good governance[10] practices of the investee companies[11]?**

[7] **The investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance.

[8] Found at: https://cdn.next1.nextenergycapital.com/next/2021/04/NextEnergy-NEC_Sustainable_Investment_policy.pdf

[9] https://www.nextenergysolarfund.com/about-us/investment-objective/

[10] **Good governance** practices include sound management structures, employee relationships, remuneration of staff and tax compliance.

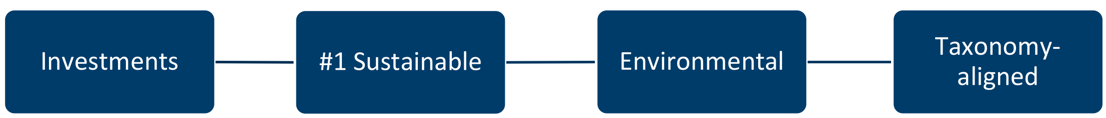
[11] The relevant legislation does not provide a definition of "investee company", however, we have interpreted this term as intended to refer to an entity in which the relevant fund intends to make an investment, or has made an investment, on behalf of its investors, which would include the SPV which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

NESF believe that corporate governance gives the Company's 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 NESF manage the Company and plays an important role in shaping the Company's long-term sustainable success and achieving our strategic objectives.

NESF's Governance Framework[12] reflects the fact that, as an investment company, the Company has no employees, its Directors are all non-executive and its day-to-day activities, including investment management and administration, are outsourced to external service providers.

4. What is the asset allocation[13] and minimum share of sustainable investments?

Asset allocation is 100% sustainable investment.



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

This is not applicable to NESF.

5. To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?[14]

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

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[12] https://cdn.nesf1.nextenergysolarfund.com/nesf/2021/06/Governance_Framework.pdf

[13] **Asset allocation** describes the share of investments in specific assets.

[14] Taxonomy-aligned activities are expressed as a share of:

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

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

a) The investment objective of climate mitigation was attained by 100% through the generation of clean energy in target with the fund's projection. In particular, the performance of sustainability indicators of GHG emissions avoided have been accounted for and reported. The objective of climate mitigation remains the core business of the fund investments and 100% of asset allocation remains investing in renewable energy infrastructure.
b) NESF invest in an economic activity that contribute to the environmental objective of climate mitigation.
c) NESF's sustainable investment objective of climate mitigation is met through a due diligence process pre-and post-investment which ensures that No Significant Harm (DNSH) is done to any other environmental objective considered material to the activity of the fund (Solar PV generation). These other objectives are climate change adaptation, biodiversity and circular economy. The due diligence also considers additional safeguard such as human rights, community engagement, labour conditions amongst others, in alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and other international convention on human rights, as per our Human Rights Position Statement.
d) NESF is in the process of measuring and reporting principal adverse impacts on sustainability factors according to Table 1 of Annex I.

- **What is the minimum share of investments made in transitional and enabling activities?[15]**

Battery storage investment- 0.7% of total investment.

6. What is the minimum share of sustainable investments with an environmental objective that were not aligned with the EU Taxonomy?[16]

0%

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

0%

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

None

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

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

[16] This relates to sustainable investments with an environmetal objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

No.

- **How does the reference benchmark[17] take into account sustainability factors in a way that is continuously aligned with the sustainable investment objective?**

  N/A

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

  N/A

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

  N/A

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

  N/A

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

- More product-specific information can be found on the website, **https://www.nextenergysolarfund.com/esg/**

Josephine Bush – Chair of NextEnergy Solar Fund Limited ESG Committee

Josephine Bush

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[17] **Reference benchmarks** are indexes to measure whether the financial product attains the sustainable objective.