

## EU SFDR AND EU TAXONOMY – FAQ

### NextEnergy Capital

#### ***Is EU Regulation 2019/2088 (known as the Sustainable Finance Disclosure Regulation or SFDR) applicable to NextEnergy Capital?***

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the “Sustainable Finance Disclosure Regulation” or “SFDR”) sets out sustainability disclosure requirements and aims to address the following objectives:

- increasing transparency of sustainability-related disclosures and;
- to increase comparability of disclosures for end investors.

The SFDR aims to reduce information asymmetries with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment, by requiring financial market participants and financial advisers to make pre-contractual and ongoing disclosures to end investors.

NextEnergy Capital Ltd (“NEC Ltd”) and NextEnergy Capital IM Ltd (“NEC IM”) (together “NEC”) are both designated as Alternative Investment Fund Managers (each an “AIFM”) under the Alternative Investment Fund Management Directive (2011/61/EU, “AIFMD”). NEC IM is the AIFM of NextPower II LP, NextEnergy Solar Fund Limited and NextEnergy Renewables Limited. NEC Ltd is the AIFM for NextPower III LP and NextPower UK 1 LP and NextPower UK 2 LP.

The SFDR imposes obligations on what it defines as ‘financial market participants’. Financial market participants include AIFMs, as defined in Directive 2011/61/EU (“AIFMD”). NEC, which are non-EU investment managers will be caught by the SFDR where they market alternative investment funds (“AIFs”) into the EU, under so-called national private placement rules. In any event, compliance with the SFDR represents best practice and NEC considers itself a proponent of best practice.

#### ***Is NextEnergy compliant with the SFDR?***

The SFDR is to be implemented in various phases. The first Level One obligations came into force on 10 March 2021. In the run up to that date, NEC conducted a compliance exercise which culminated in various changes including in respect of it and its funds’ websites, pre-contractual disclosures and disclosures to investors. NEC will continue to monitor compliance and is working towards compliance with the Level One obligations which are yet to come into force, together with the Level Two obligations which are yet to be finalised and in force.

### ***What is the timeline for NEC and the funds it manages to continuing to comply with the EU SFDR?***

The first obligations under the SFDR came into force on 10 March 2021. Going forward, there are various future deadlines for compliance. The next SFDR obligations apply from 2022 and, at present, the (as yet unfinalised) Regulatory Technical Standards are due to come into force from 1 July 2022.

NEC's dedicated ESG team continues to work to ensure that NEC's disclosures and processes along with those of its funds are in alignment with the EU ESG obligations as they come into force and to monitor compliance thereafter.

### ***Is NEC's activity aligned with the EU Taxonomy?***

The Taxonomy Regulation sets out a taxonomy, a common classification system for economic activities. The Level One text applies in part from 1 January 2022 with other provisions coming into effect later and with Regulatory Technical Standards having been published in draft in October 2022. NEC will ensure compliance with the Taxonomy Regulation and RTS as their obligations come into force.

## **NextEnergy Solar Fund (NESF)**

### ***Is NESF compliant with the SFDR?***

The SFDR is to be implemented in various phases. The first Level One obligations came into force on 10 March 2021. In the run up to that date, NEC conducted a compliance exercise which culminated in various changes in respect of the websites, pre-contractual disclosures, disclosures to investors for each of its funds, including NESF. NEC will continue to monitor compliance and is working towards compliance with the Level One obligations which are yet to come into force, together with the Level Two obligations which are yet to be finalised and in force.

### ***Is NESF classified under Art. 8 or Art 9 of the SFDR?***

We concluded that NESF can be classified under Article 9 (financial products that "have a sustainable investment objective"). The fund is committed to report on its carbon emission reduction on an annual basis, and it has done so [since 2019](#).

### ***What reporting template will NESF be using under the SFDR?***

Pre-contractual disclosures on ESG matters will be presented in the format set out by Annex III of the Regulatory Technical Standards. Periodic reports on ESG matters will be presented in the format set out by Annex V of the Regulatory Technical Standards.

### ***What ESG KPIs will NESF report on?***

In accordance with the SFDR, NESF will report on the KPIs contained in Annex 1 of the Regulatory Technical Standards (once finalised).

### **What % of NESF portfolio is aligned with the EU Taxonomy?**

NESF's portfolio is 100% aligned with the EU Taxonomy. All investments are in either solar PV, co-located battery storage and standalone battery storage assets. This equates to full alignment as they:

1. substantially contribute to climate change mitigation through a) generating and storing renewable energy, and b) establishing energy infrastructure required for decarbonising energy systems;
2. meet the criteria of "Doing No Significant Harm" (DNSH) by the implementation of the [Sustainable Investment Policy](#) and underlying [ESG due diligence](#);
3. meet "minimum safeguards" as explained in both our [Sustainable Investment Policy](#) and [Human Rights Position Statement](#).

### **Next Power III (NPIII)**

#### **Is NPIII compliant with the SFDR?**

The SFDR is to be implemented in various phases. The first Level One obligations came into force on 10 March 2021. In the run up to that date, NEC conducted a compliance exercise which culminated in various changes in respect of the websites, pre-contractual disclosures, disclosures to investors for each of its funds, including NPIII. NEC will continue to monitor compliance and is working towards compliance with the Level One obligations which are yet to come into force, together with the Level Two obligations which are yet to be finalised and in force.

#### **Is NPIII classified under Art. 8 or Art 9 of the EU SFDR?**

We concluded that NESF can be classified under Article 9 (financial products that "have a sustainable investment objective"). The fund is committed to report on its carbon emission reduction on an annual basis, and it has done so [since 2019](#).

#### **What reporting template will NPIII be using under the EU SFDR?**

Pre-contractual disclosures on ESG matters will be presented in the format set out by Annex III of the Regulatory Technical Standards. Periodic reports on ESG matters will be presented in the format set out by Annex V of the Regulatory Technical Standards.

#### **What ESG KPIs will NPIII report on?**

In accordance with the SFDR, NPIII will report on the KPIs contained in Annex 1 of the Regulatory Technical Standards (once finalised).

#### **What percentage of NPIII's portfolio is aligned with the EU Taxonomy?**

NPIII's portfolio is 100% aligned with the EU Taxonomy: all investments are in solar PV assets globally and: 1) it substantially contribute to climate mitigation by generation of solar PV energy 2) it meets the criteria of Doing No Significant Harm (DNSH) by the implementation of the [Sustainable Investment Policy](#) and underlying ESG due diligence and 3) it meets "minimum safeguard" as explained in the [Sustainable Investment Policy](#) and [Human Rights Position Statement](#).

For completeness, NPIII has the ability to hold cash although this is not the commercial intention of the Fund given we use a capital call process to draw down cash and then deploy this cash. The Fund

can also use derivatives for hedging and efficient portfolio management. NEC does not consider that any use of cash affects the delivery of the sustainable investment objective on a continuous basis.

## **Next Power UK ESG (NP UK ESG)**

### ***Is NPUK ESG compliant with the SFDR?***

The SFDR is to be implemented in various phases. The first Level One obligations came into force on 10 March 2021. In the run up to that date, NEC conducted a compliance exercise which culminated in various changes in respect of the websites, pre-contractual disclosures, disclosures to investors for each of its funds, including NP UK ESG. NEC will continue to monitor compliance and is working towards compliance with the Level One obligations which are yet to come into force, together with the Level Two obligations which are yet to be finalised and in force.

### ***Will NextPower UK ESG (NPUK ESG) be classified under Art. 8 or Art 9 of the SFDR?***

We concluded that NESF can be classified under Article 9 (financial products that “have a sustainable investment objective”). The fund is committed to report on its carbon emission reduction on an annual basis, similarly to what NP III has [done so far](#).

### ***What reporting template will NPUK ESG be using?***

Pre-contractual disclosures on ESG matters will be presented in the format set out by Annex III of the Regulatory Technical Standards. Periodic reports on ESG matters will be presented in the format set out by Annex V of the Regulatory Technical Standards

### ***What ESG KPIs will NPUK ESG report on?***

In accordance with the SFDR, NPUK ESG will report on the KPIs contained in Annex I of the Regulatory Technical Standards (once finalised).

### ***What percentage of NPUK ESG’s portfolio will be aligned with the EU Taxonomy?***

NPUK ESG’s portfolio is 100% aligned with the EU Taxonomy: all investments are in solar PV assets globally and: 1) it substantially contribute to climate mitigation by generation of solar PV energy 2) it meets the criteria of Doing No Significant Harm (DNSH) by the implementation of the [Sustainable Investment Policy](#) and underlying ESG due diligence and 3) it meets “minimum safeguard” as explained in the [Sustainable Investment Policy](#) and [Human Rights Position Statement](#).

## Reporting under EU SFDR: Future Timeline

NEC hired an international lawyer to undertake an independent review of our Sustainable Investment Policy and Due Diligence process to ensure it complies with the upcoming EU SFDR

