

AQUILA EUROPEAN RENEWABLES INCOME FUND PLC

Summary

The Aquila European Renewables Income Fund plc (the Company) promotes environmental characteristics, fulfilling the requirements of Article 8 of the Sustainable Finance Disclosure Regulation¹.

The Company does not have sustainable investment as its objective sustainable investment. However, the Company intends to invest at least partially in sustainable investments. The environmental characteristics promoted by the Company are focussed on renewable energy. The Company invests in assets the Investment Adviser has identified as renewable energy infrastructure investments as defined in the "Environmental or social characteristics of the financial product" section below.

The Company will invest predominantly in operating renewable energy assets which are expected to generate renewable energy output for at least 25 years from their relevant commercial operation date.

All elements of the strategy to invest in renewable energy assets are binding on the Company, as these are set out in the investment policy of the Company. After an investment has been successfully made, or with regard to the existing portfolio, ongoing monitoring is carried out both at portfolio level and at asset level by the responsible risk management functions. The aim of ongoing monitoring is to identify, monitor and minimise sustainability risks over the entire term of the investment. The Investment Adviser has a structured screening, due diligence and investment process.

As a result of the focus of the Company on renewable energy investments, it will hold sustainable investments as defined in SFDR. These investments, the proportion of these investments and, as such, the description of how these investments contribute to a sustainable investment objective, will change over time.

All assets are assessed with regard to their sustainability as part of the due diligence process to ensure that, while promoting sustainable investment in the area of renewable energy, the principle of "do no significant harm" is taken into account.

The environmental characteristics of the Company are monitored on a continuous basis throughout the lifecycle of investments, including:

- Ongoing monitoring of the internal and external environment and ESG relevant developments; both at the portfolio level and on the asset level.
- Annual reporting including ESG aspects to the investment committee

The Investment Adviser has a structured screening, due diligence and investment process. This process is designed to ensure that investments are reviewed and compared on a consistent basis. Execution of this process is facilitated by the team's deep experience in energy infrastructure investing. This takes the form of both screening & Pre-investment due diligence and internal due diligence as further explained in the "Due Diligence" section below.

No sustainable investment objective

The Company does not have sustainable investment as its objective sustainable investment. However, the Company intends to invest at least partially in sustainable investments and promotes environmental or social characteristics. Detailed disclosure on the Fund's sustainability credentials are set out further below.

Environmental or social characteristics of the financial product

The environmental characteristics promoted by the Company are focussed on renewable energy. The Company invests in assets the Investment Adviser has identified as renewable energy infrastructure investments. These are defined as for the purposes of the Company as:

- I.) wind, photovoltaic and hydropower plants that generate electricity through the transformation of the energy of the wind, the sunlight and running water as naturally replenished resources, and/or any portfolio thereof; and
- II.) non-generation renewable energy related infrastructure associated with the storage (such as batteries) and transmission (such as distribution grids and transmission lines) of renewable energy, in each case either already operating or in construction/development.

¹ 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

There are significant number of sustainability indicators which may be used in respect of any particular investment and full details of the measures the Investment Adviser may use are set out in the ESG policy. For the Company, the Investment Adviser will, as relevant for each investment, consider:

- Greenhouse gas emissions reduced and/or avoided
- Total energy production from renewable and non-renewable sources

Investment Strategy

The investment strategy used to attain the environmental or social characteristics promoted by the Company is detailed in the Company's investment policy and further explained in detail in the "What environmental and/or social characteristics are promoted by the financial product?" section above.

The Company will invest predominantly in operating renewable energy assets which are expected to generate renewable energy output for at least 25 years from their relevant commercial operation date.

All elements of the strategy to invest in renewable energy assets are binding on the Company, as these are set out in the investment policy of the Company. After an investment has been successfully made, or with regard to the existing portfolio, ongoing monitoring is carried out both at portfolio level and at asset level by the responsible risk management functions. The aim of ongoing monitoring is to identify, monitor and minimise sustainability risks over the entire term of the investment. The Investment Adviser has a structured screening, due diligence and investment process. This process is designed to ensure that investments are reviewed and compared on a consistent basis. Execution of this process is facilitated by the team's deep experience in energy infrastructure investing.

The Investment Adviser puts an emphasis on the demonstration of strong governance during the due diligence process. In doing so, the respective regional specifics of the assets are taken into account.

Additional information on how the Investment Adviser integrates sustainability into its investment process to ensure that it is applied on a continuous basis, and in particular its approach to due diligence and ongoing monitoring of investments, can be found at www.aquila-capital.com.

Proportion of investments

As explained in the investment policy of the Company, the Company invests predominantly in a diversified portfolio of

renewable energy infrastructure assets, encompassing a wide range of environmental standards, and including a mix of wind, solar and hydro technologies. Investments will be made either directly, through its subsidiaries or through funding of a third-party developer and the Company may use a range of investment instruments in the pursuit of its investment objective, including but not limited to equity, mezzanine or debt investments. The Company's portfolio will comprise no fewer than six renewable energy infrastructure investments. The Company may also invest in a limited number of assets in construction/ development.

As a result of the focus of the Company on renewable energy investments, it will hold sustainable investments as defined in SFDR. These investments, the proportion of these investments and, as such, the description of how these investments contribute to a sustainable investment objective, will change over time. These investments contribute to sustainable investment by focussing on renewable energy and in particular assets which are expected to generate renewable energy output for at least 25 years from their relevant commercial operation date.

All assets are assessed with regard to their sustainability as part of the due diligence process to ensure that, while promoting sustainable investment in the area of renewable energy, the principle of "do no significant harm" is taken into account. The investment decision is always based on the inclusion of sustainability criteria. If it becomes apparent that an investment under consideration could cause significant harm to the sustainable investment objectives or there is no clear means to mitigate and improve the sustainability characteristics of an investment, the Company may not commit to that investment.

To the extent that the Company is not fully invested in renewable energy infrastructure assets, it may hold cash for liquidity purposes and not for the attainment of the environmental characteristics of the Company. Minimum ESG safeguards will be applied by ensuring that cash is held across various well rated institutions.

In addition, the Company does not intend to use hedging or derivatives for investment purposes but may from time to time use derivative financial instruments such as futures, options, futures contracts and swaps (collectively "Derivatives") to protect the Company from fluctuations of interest rates or electricity prices. The Derivatives will not be used as a means to promote the environmental characteristics of the Company, but the Company does consider minimum ESG safeguards, including that the Derivatives must be traded on a regulated market or by private agreement (OTC) entered into with first class financial institutions or reputable entities specialised in this type of transactions.

Monitoring of environmental or social characteristics

The environmental characteristics of the Company are monitored on a continuous basis throughout the lifecycle of investments, including:

- Ongoing monitoring of the internal and external environment and ESG relevant developments; both at the portfolio level and on the asset level.
- Annual reporting including ESG aspects to the investment committee
- Ad-hoc reporting in case any material and urgent issues are identified in the monitoring process
- Quarterly risk reporting, including on ESG aspects

Methodologies

The methodologies to measure the attainment of the social or environmental characteristics promoted by the Company are described in detail in both the “monitoring of environmental or social characteristics” and “due diligence sections of this disclosure.

Data sources and processing

The Investment Adviser uses only internal data, collated through its detailed due diligence exercise and ongoing monitoring of all investments.

Limitations to methodologies and data

Available ESG and sustainability data has its limitations, particularly in the asset classes in which the Company invests. The Investment Adviser regularly reviews its metrics, and continuously seeks to improve transparency, disclosure and data provision in relation to the Company, using where relevant international benchmarking standards.

Due diligence

The Investment Adviser has a structured screening, due diligence and investment process. This process is designed to ensure that investments are reviewed and compared on a consistent basis. Execution of this process is facilitated by the team’s deep experience in energy infrastructure investing. This takes the form of:

■ Screening & Pre-Due Diligence

The Aquila team leverages its relationships with leading developers, operators, owners and users of energy infrastructure assets as well as harnessing the Aquila Group’s

European presence and proprietary information flows to identify investment opportunities. Through analysis of market sectors and geographies, the team seeks to develop a comprehensive base of knowledge of renewable investment technologies across continental Europe and the Republic of Ireland. Investment opportunities are initially analysed by the investment team of the Investment Adviser. The goal is to determine the key characteristics and value drivers of the asset or company: duration and price level of remuneration schemes / offtake agreements/concessions, expected life of asset, track record of project developer and EPC contractor, stability of regulatory framework, visibility into future performance, barriers to entry, correlation of cash flows to inflation, and resilience within the economic environment. Finally, expected returns and the ability to close successfully on the investment are assessed. At this stage consideration is also given to the contribution of each potential investment to the portfolio in terms of diversification.

The investment team is also able to draw upon the experience of its asset management experts to enhance its understanding of the investment opportunity and identify further value creation potential. The investment team will also liaise with the risk management and structuring teams to ensure critical assumptions have been identified and preliminarily analysed. Once the investment team has developed a sufficiently detailed view of the opportunity and the associated risks and merits, it prepares a short investment proposal and brings the opportunity to Aquila’s investment committee for the first formal review. If the investment committee decides to proceed, the investment team often seeks to enter into a non-binding term sheet with the seller.

■ Internal Due Diligence

The internal deal team typically comprises a combination of investment managers, analysts, an asset manager, internal legal counsel, a risk manager, tax and structuring expertise, a member of the valuation team and a compliance officer. The risk management team carries out an assessment of the opportunity, reviewing project stage, geographical location, regulatory environment, technology in terms of maturity and quality of manufacturers/components and eventually ensuring that return expectations appropriately reflect the opportunity’s risk profile. Additionally, the risk management professionals will check whether the opportunity falls within the Company’s Investment Policy and whether if it poses the risk of breach of the Investment Restrictions.

Engagement policies

Engagement with involved parties in the investment process is an important element of the Investment Adviser's approach and is considered to be a useful risk mitigation tool.

Designated Reference Benchmark

Currently (as of March 2021), no index is designated as a benchmark for determining the attainment of the sustainability characteristics of the Company.