Aquila Capital

AQUILA ENERGY EFFICIENCY TRUST PLC

Summary

The Aquila Energy Efficiency Trust plc (the "**Company**") promotes environmental characteristics, fulfilling the requirements of Article 8 of the Sustainable Finance Disclosure Regulation[1] (**"SFDR"**).

The Company does not have sustainable investment as its objective, however, the Company intends to invest at least partially in Sustainable Investments (as defined in Article 2(17) of the SFDR). The environmental characteristics promoted by the Company are focussed on energy efficiency, with investments seeking to reduce primary energy consumption and reduce CO_2 emissions and in many cases deliver economic savings and other benefits to the counterparties including improved air quality. The Company invests in assets that Aquila Capital Investmentgesellschaft mbH (the "Investment Adviser") has identified as Energy Efficiency Investments (as defined below).

The Company will invest predominantly in a diversified portfolio of Energy Efficiency Investments located in Europe, with private and public sector counterparties. The Company will seek to diversify across both geographies and technologies.

All elements of the strategy to invest in Energy Efficiency Investments are binding on the Company, as these are set out in the investment policy of the Company, as set out in the prospectus dated [•] 2021. 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.

As a result of the focus of the Company on Energy Efficiency 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 energy efficiency, 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 environmental, social and governance ("ESG") relevant developments, both at the portfolio and 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 investing in energy infrastructure. This process 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.

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 energy efficiency, with investments seeking to reduce primary energy consumption, reduce CO_2 emissions and in many cases deliver economic savings and other benefits to the counterparties, including improved air quality.

The Company invests in assets that the Investment Adviser has identified as energy efficiency investments, these are defined for the purposes of the Company as investments:

I.) in the installation, in the built environment, transportation industry and other sectors of the economy, of proven technologies and solutions such as energy efficient lighting, cogeneration plants, heating, ventilation and air conditioning (HVAC) systems, efficient boilers, solar photo voltaic plants, batteries, other energy storage solutions, electric vehicles and associated charging infrastructure as well as;

[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.*

II.) in the acquisition of majority or minority shareholdings in companies with a strategy that aligns with the Company's investment objective, such as developers, operators or managers of energy efficiency projects ("**Equity Investments**"), (together "**Energy Efficiency Investments**").

There are a 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.

On behalf of the Company, the Investment Adviser will, for every project, consider the potential energy savings and energy production respectively as well as CO_2 emission savings. Total CO_2 emission savings will be calculated and the number of trees that would need to be planted to achieve an equivalent CO_2 saving will be determined. These measures could be replaced by other similar measures that are considered to be more appropriate by the Investment Adviser in certain circumstances. For the Company, the Investment Adviser will, for every project, consider the potential energy savings and energy production respectively as well as CO_2 emission savings. CO_2 savings will be added and translated into an equivalent of numbers of trees planted. These measures could be replaced by other similar measures that are considered by the Investment Adviser to be more appropriate for the particular circumstances.

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 "Environmental and social characteristics of the financial product" section, above.

The Company will invest predominantly in a diversified portfolio of Energy Efficiency Investments located in Europe, with private and public sector counterparties. The Company will seek to diversify across both geographies and technologies.

All elements of the strategy to invest in Energy Efficiency Assets are binding on the Company, as these are set out in the investment policy of the Company in the prospectus dated [•] 2021. 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 Energy Efficiency Investments located in Europe, with private and public sector counterparties.

The Company will make Energy Efficiency Investments in operational, ready-to-build or under construction assets. The Company may, when making Equity Investments, through such investments, indirectly hold investments that are in the development phase. The Company will acquire controlling and, opportunistically, non-controlling interests in Energy Efficiency Investments and 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 will hold its investments directly or through one or more SPVs and the investment restrictions will be applied on a look-through basis.

Following full investment, the Company's portfolio will comprise no fewer than ten Energy Efficiency Investments.

As a result of the Company's focus on Energy Efficiency Investments, it will hold Sustainable Investments. 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 energy efficiency and in particular assets which seek to reduce primary energy consumption, reduce CO_2 emissions and in many cases deliver economic savings and other benefits to the counterparties including improved air quality.

All assets are assessed with respect to their sustainability as part of the due diligence process to ensure that, while promoting Sustainable Investment in the area of energy efficiency, 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 Energy Efficiency Investments, 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 hedge currency, inflation, interest rates, commodity prices and/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.

Prior to the acquisition of an Energy Efficiency Investment, commercial, credit risk assessment, financial, tax, technical and legal due diligence on the relevant Energy Efficiency Investment will be undertaken by the Investment Adviser and/or third party experts (such as law firms, tax advisers etc.). For small scale Energy Efficiency Investments the due diligence scope may be limited.

In accordance with the Investment Adviser's ESG Policy, the first step of the Investment Adviser's process is to carry out due diligence on the Sustainability Risks of any potential investment. The aim of the due diligence is to identify any Sustainability Risks of proposed investment, which are recorded in a standardised form, to be subsequently taken into account in the investment decision-making process.

Depending on the underlying asset class, different risks are measured and documented on a qualitative and/or quantitative basis. If necessary, additional due diligence may also take place in order to consider specific identified risks.

The results of the due diligence are then taken into account as part of the overall investment proposal. As such, the result of the due diligence may have a significant impact on the recommendations submitted to the Board and may lead to a decision not to make a particular investment.

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 April 2021), no index is designated as a reference benchmark for determining the attainment of the sustainability characteristics of the Company.