

Principal Adverse Sustainability Impacts Statement (Article 4)

EU Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (“SFDR” or the “Regulation”) applied from 10 March 2021. The Regulation requires financial market participants such as Capital Dynamics (the “firm”) to provide information to investors with regards to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment.

As set out in more detail within this Principal Adverse Sustainability Impacts Statement, the firm considers principal adverse impacts of investment decisions on sustainability factors. Therefore, this Principal Adverse Sustainability Impacts Statement specifically addresses the obligation in Article 4(1)(a) of the Regulation:

“Financial market participants shall publish and maintain on their websites:

(a) where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to those impacts, taking due account of their size, the nature and scale of their activities and the types of financial products they make available.”

Capital Dynamics notes that pursuant to the Regulation, the EBA, EIOPA and ESMA (the “ESAs”) are mandated to develop regulatory technical standards with respect to climate and other environment-related adverse impacts, and with respect to social and employee matters, respect for human rights, anti-corruption and anti-bribery matters (the “RTS”).

Capital Dynamics notes further that as of the date of this Policy, the ESAs have published a final draft of the RTS, but they remain subject to adoption by the European Commission. Notwithstanding this, where adverse impacts are considered in respect of one of the firm’s products, the firm will apply the standards as set out in the draft RTS as of the date of this Policy and will take ongoing advice to monitor and update its policies where necessary due to any change in the RTS upon adoption by the European Commission.

Capital Dynamics will also monitor the development and adoption of the any further RTS and consider, where appropriate on a product-by-product basis, the adoption of those standards to be set out in such RTS.

More information related to the firm’s responsibilities under the SFDR, and the firm’s approach to ESG (Environmental, Social, and Governance factors) and Responsible Investment in general, can be found [here](#), including:

- Sustainability Risk Policy
- Remuneration Policy (Sustainability Risks)
- Responsible Investment Policy
- Modern Slavery Act Statement
- Responsible Investment Annual Report 2019-20

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- TCFD Disclosure Report 2020

Sustainability Factors

“Sustainability factors” are defined in Article 2 (24) of the Regulation as: *“environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters”*.

Adverse Sustainability Impacts Statement

Capital Dynamics has published here, in accordance with its obligations under Article 4 of the RTS, an adverse sustainability impacts statement in the format prescribed by the RTS. Capital Dynamics notes that the ESAs, in a joint supervisory statement dated 25 February 2021 (the “Joint Statement”), propose that the RTS (with respect to a firm of a size and scale such as Capital Dynamics) should apply from 1 January 2022, with reporting of adverse sustainability impacts to be completed by 30 June 2023 with respect to the first “reference period” under the RTS, such period being 1 January 2022 to 31 December 2022.

Under the Joint Statement, the ESAs also propose that a “short form” adverse sustainability impacts statement should be made until such first reference period. Capital Dynamics has therefore adopted an adverse sustainability impacts statement in the format proposed by the Joint Statement.

Summary

Capital Dynamics Limited (LEI:9845005B436E043B1A69) considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated principal adverse sustainability impacts statement of Capital Dynamics Limited.

This principal adverse impacts statement covers the interim reference period from 10 March 2021 to 31 December 2021.

Description of policies to identify and prioritise adverse sustainability impacts

As a general firm-wide policy, as part of the firm’s underwriting and due diligence process, all potential investments are evaluated based on the short-, medium-, and long-term effects across various Sustainability Factors and are formally assessed under the specified Responsible Investment criteria (as more specifically described in the firm’s Responsible Investment Policy (available [here](#)) which was last amended in August 2020).

The firm’s incorporation of ESG factors in its investment appraisal, due diligence and decision-making processes through the R-Eye™ assessment not only identifies how Sustainability Risks may impact the financial returns of a product, but identifies principal adverse impacts on relevant Sustainability Factors. Throughout the lifecycle of a product’s investment, the relevant business line’s due diligence and monitoring enable the relevant investment team to identify and manage the impact of any principal adverse impacts, or their risk of occurring, and take suitable mitigating action.

As with Sustainability Risks (as disclosed in the Sustainability Risk Policy), principal adverse impacts on Sustainability Factors are screened, monitored and measured in a manner suitable to each product within

each Capital Dynamics business line. The diligence policies with respect to these impacts are disclosed on a product-by-product basis in the relevant pre-contractual disclosures (such as the private placement memorandum or offering memorandum).

The RTS contains 14 mandatory ESG metrics ('principle adverse sustainability impact indicators'). These indicators should be gathered at portfolio investment level and aggregated at entity level (i.e. Capital Dynamics). These mandatory indicators will be included in the firm's principal adverse impacts statement for the first reference period (i.e. the calendar year 2022).

The firm is taking necessary preparations to gather, monitor and report the mandatory principal adverse impact indicators within the specified time period. The firm currently monitors so far as it is able the following principal adverse impacts on sustainability factors with respect to its Clean Energy Infrastructure ("CEI") strategy:

- Scope 1 GHG emissions of companies¹
- Scope 2 GHG emissions of companies²
- Scope 3 GHG emissions of companies³
- Share of companies active in the fossil fuel sector⁴
- Share of companies with sites/operations located in or near to biodiversity sensitive areas
- Average ratio of female to male board members in companies

The CEI team monitor the Scope 1 GHG emissions (i.e., emissions under the direct control of Capital Dynamics with respect to its premises), Scope 2 GHG emissions (i.e., indirect emissions from the energy purchased from suppliers for its offices and other premises) and Scope 3 GHG emissions (i.e., emissions generated with respect to investments in projects) by using the calculator that can be found on EPA.gov web site and report on the statistics that can be found on Capital Dynamics' web site, in quarterly performance reports, and in "Green Certificates" that are provided to investors.

¹ Measures to reduce Scope 1 GHG emissions are taken and assessed at an entity-wide level for Capital Dynamics with respect to energy consumption at its offices.

² Measures to reduce Scope 2 GHG emissions are taken and assessed at an entity-wide level for Capital Dynamics with respect to its energy suppliers. For example, in its London office, Capital Dynamics obtains electricity from a renewable energy supplier and in the US and other locations, Capital Dynamics offsets its electricity use through the purchase of Renewable Energy Credits.

³ Measures to reduce Scope 3 GHG emissions are taken with respect to the investments made by the CEI team, for example by monitoring and assessing its counterparties on projects, as well as project offtakers, for their greenhouse gas emissions.

⁴ The CEI team for example, monitors and assesses the companies that Capital Dynamics contracts with for construction and management of the clean energy projects, as well as project offtakers, for their greenhouse gas emissions.

Capital Dynamics intends to have the data verified for all UK and EU projects in 2021 and going forward by a third party consultant, Quinn & Partners (or such other reputable consultants as engaged from time-to-time). These statistics include:

- metric tons of greenhouse gas emissions avoided as well as CO2 emissions equivalent to homes' electricity use for one year;
- passenger vehicles driven for one year;
- tanker trucks worth of gasoline avoided; and
- barrels of oil otherwise consumed.

Engagement policies

With respect to the CEI business line, the firm makes direct equity investments in renewable power and energy storage projects, rather than investments in companies, but the firm does engage with its project partners and suppliers to reduce principal adverse impacts. Additionally:

- The firm conducts ESG analysis of its project offtakers to ensure that its counterparties have sound practices related to sustainability.
- For each of its projects, the firm also has independent, third-party environmental biologists visit project sites before construction and on an annual basis to evaluate the surrounding habitat and local special circumstances. In the past, the firm has had to adjust the location and size/scope of projects due to the findings in these reports.
- The firm's form EPC agreements with contractors it works with to construct and help oversee its projects include language on the Modern Slavery Act and other ESG requirements that those contractors are required to adhere to. The firm also requests data relating to diversity and inclusion for its EPC contractors.
- Each of its projects has Worker Health & Safety plans and training programs, and the firm reports on any incidents that occur at its project sites.
- The firm analyses sustainability practices of its equipment providers, helping to ensure that it purchases equipment from manufacturers that display commitments to strong sustainability practices.

References to international standards

As the firm continues to expand its responsible investment program, Capital Dynamics maintains a list of relevant responsible investment partner organizations and memberships which create potential synergies and provide valuable insights and benefits. The firm is currently a member or supporter of the following organizations:

- United Nations Principles for Responsible Investment ("PRI")

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- Taskforce for Climate and Financial Disclosures (“TCFD”)
 - Global Reporting Initiative
 - Global Real Estate Sustainability Benchmark (“GRESB”) - the ESG benchmark for real assets

With respect to the CEI business line, the CEI team makes fund-level and asset-level submissions for fund and assets that have been operational for at least one year.

The goal of the Paris Agreement is to keep warming below 2° Celsius. Capital Dynamics’ measurement of the adverse impact indicators (i) Scope 1 GHG emissions of companies, (ii) Scope 2 GHG emissions of companies, (iii) Scope 3 GHG emissions of companies, and (iv) share of companies active in the fossil fuel sector, are indicative of its commitment to contribute positively to the overall goal of the Paris Agreement. Capital Dynamics measures and mitigates energy consumption at its offices, reducing Scope 1 emissions and takes steps to obtain energy for its offices from renewable energy suppliers or otherwise offsets electricity consumption (from non-renewable sources) through Renewable Energy Credits, reducing Scope 2 emissions. The CEI team with respect to its investments in projects produce renewable, zero-carbon energy, which displaces fossil fuels and the CEI team monitors and assesses its counterparties on projects, as well as project off-takers (contributing to a reduction in Scope 3 GHG emissions of companies), for their participation in the fossil fuel sector.

As Capital Dynamics prepares to develop a methodology for selecting, monitoring and reporting on other adverse impact indicators, it shall also develop and report on the methodology and data used (including any forward-looking climate scenarios) to measure that adherence or alignment, including a description of the scope of coverage, data sources and how the methodology forecasts the future performance of projects.

Investments which are not currently on a 2-degree aligned trajectory, or are on a transition pathway to become 2-degree aligned, will warrant more scrutiny in terms of their principal adverse impacts, particularly in relation to climate and other environment-related indicators.

Review of the Policy

This Principal Adverse Sustainability Impacts Statement (Version 1) is effective as of 10 March 2021 and will be reviewed prior to 31 December 2021, for application from 1 January 2022, by the firm’s Responsible Investment Committee.